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Asset accumulation and short-term employment

Martin Browning [a], Thomas F. Crossley [b,c,d], Eric Smith [e,*]

[a] Department of Economics, University of Oxford, Manor Road, Oxford OX1 3UQ, UK
[b] Faculty of Economics, University of Cambridge, Austin Robinson Building, Sidgwick Avenue, Cambridge CD3 9DD, UK
[c] McMaster University, UK
[d] Institute for Fiscal Studies, UK
[e] Department of Economics, University of Essex, Wivenhoe Park, Colchester, Essex, CO43SQ, UK

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Abstract

If access to credit is limited (especially when young or unemployed) but "bad" jobs are easy to come by, then job seekers might use short term employment in undesirable jobs as a way to finance consumption during subsequent unemployed search for a "good" job. In this paper we explore this idea by building a theoretical model of job search by risk averse, debt constrained agents. In this model we characterise analytically conditions under which voluntary planned separations occur as agents cycle between accumulating assets in short term employment and unemployed search for more desirable employment.

JEL classification: D83; D91; J64

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1. Introduction

Economists have long known that entrants to the labour market exhibit high turnover (for example, Topel and Ward, 1992, and Neal, 1999). A growing literature documents the propensity of workers who lose jobs to move to temporary employment, to have subsequent separations, and to move into part-time or otherwise unsatisfactory employment. For example, Farber (1999)

* Corresponding author.
E-mail addresses: Martin.Browning@economics.ox.ac.uk (M. Browning), Thomas.Crossley@econ.cam.ac.uk (T.F. Crossley), esmith@essex.ac.uk (E. Smith).

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shows that displaced workers commonly take up temporary jobs and "involuntary" part-time jobs, and Boheim and Taylor (2002) show that jobs that follow an unemployment spell have shorter average durations than other jobs. Farber further shows that the probability of temporary or part-time work falls with time since displacement, suggesting that these arrangements are part of a transitional process back to desirable employment.[1]

How can apparently unsatisfactory employment aid the transition to more desirable jobs? One explanation for rapid turnover on labour market entry or after a job displacement is that jobs are experience goods (e.g. Topel and Ward, 1992). In this paper, we propose an alternative mechanism with different dynamics and distinct implications. Suppose access to credit is limited (especially when young or unemployed) but that "bad" jobs are easy to come by. In such an environment, job seekers might use short term employment in undesirable jobs as a way to finance consumption during periods of search for a "good" job.

To explore this idea we construct a theoretical model of job search by risk averse, debt constrained agents in an environment where "bad" jobs are readily available. In this model we characterise (analytically) conditions under which voluntary, *planned* separations can occur as agents cycle between accumulating assets in short term employment and unemployed search for more desirable employment. We refer to these separations as "planned" to emphasise that they occur without shocks to productivity or the arrival of new information (about match quality, for example).

The outline of the rest of the paper is as follows. Section 2 presents some empirical observations from an unusual survey of job losers. Section 3 introduces our theoretical approach, and places it in the context of related literature. The formal details of the model are presented in Section 4, along with our key results concerning the possibility of endogenous cycles of search and temporary employment, and the conditions under which these can occur. Section 5 presents some additional comparative statistics and Section 6 concludes.

2. Some observations

In this section we present some simple descriptive statistics from a subsample of the 1995 Canadian Out of Employment Panel (COEP). These observations serve to motivate the model we subsequently develop. We focus on respondents who experienced an involuntary separation from a firm at which they worked full-time, where they had been employed for more than a year, and to which they had no expectation of subsequent recall.

Table 1 documents short run employment outcomes of displaced workers in the 1995 COEP. Six to ten months after the loss of a good job, 33.3% are still in the spell of unemployment that began with that job loss, while 37.6% are in the first spell of employment subsequent to that job loss. The remaining 29.1% of workers are either in a subsequent unemployment spell or a subsequent employment spell and thus have had some short-term employment.

Of course, some of those in their first spell of employment may also be in a temporary job. The data allow us to look at this in two ways. First, of those in the first spell of employment subsequent to a job loss, 29.3% do not expect to be in that job for a full year. Second, a substantially overlapping 24.9% consider this job to be not as good as the job they lost. In total, about 40% of workers who lose a permanent (long tenure) job take some short-term (and unsatisfactory)

[1] Booth et al. (2002) provide a recent analysis of the general incidence of temporary jobs in the UK. These authors, and others, use "temporary job" to refer to fixed term contracts. We will use "temporary employment" and "short term employment" to refer more generally to employment spells of limited duration, including spells that end with a quit.