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# Is longer unemployment rewarded with longer job tenure? ☆



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### ABSTRACT

**Kohara, Miki, Sasaki, Masaru, and Machikita, Tomohiro**—Is longer unemployment rewarded with longer job tenure?

This paper examines whether or not a prolonged unemployment period can raise the quality of job matching after unemployment. We focus on job tenure as an indicator of a good quality job match after unemployment. We match two sets of Japanese administrative data compiled by the public employment security offices: one includes information about the circumstances of job seekers receiving unemployment insurance, and the other includes information about job seekers applying for jobs. We first show a negative relationship between unemployment duration and the subsequent job duration. Restricting the sample to job seekers who changed search behaviors in the final 59 days before expiration of unemployment insurance, we secondly show an even greater negative effect of unemployment duration on the following job duration. The importance lies not only in the duration of unemployment. If job seekers keep a high reservation wage and a low search intensity because of the benefits of unemployment insurance, and change them in response to the expiration of insurance,

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## 1. Introduction

Unemployment insurance is often analyzed in terms of its effect on job search behavior during unemployment. Search theory suggests that unemployment insurance can raise the reservation wage of job seekers, lower search efforts, lower the rates of exit out of unemployment, and thus lengthen the unemployment period. Many empirical studies support this discouraging effect of unemployment insurance on job searches. The jump up in employment around the expiration of unemployment insurance and thus prolonged unemployment duration until the expiration date is reported by many researchers, for example, Moffitt (1985), Katz and Meyer (1990), Poterba and Summers (1995), Green and Riddell (1997), Card and Levine (2000) for the U.S. results, and Carling et al. (2001), Bover et al. (2002), Lalive and Zweimüller (2004), Lalive et al. (2006), Lalive (2007), and Card et al. (2007a,b) for the European results.

A prolonged period of unemployment, however, does not always produce an undesirable result. Longer periods of unemployment may lead to a better job match. A limited number of studies have been conducted on this topic, as opposed to the abundant literature on the effect that benefits of unemployment insurance lengthen unemployment duration. Among the limited amount of research on job match quality, several papers examine the relationship between unemployment duration and wage after unemployment. A positive effect of longer unemployment on higher wage is found in Ohkusa (2004) for Japan; Gaure et al. (2008) for Norway; and Addison and Blackburn (2000) for the U.S., although the observed effects are rather small. Lalive (2007) finds no effect of extended unemployment insurance benefits on wage at post-unemployment job using Austrian social security data. Classen (1977), Van Ours and Vodopivec (2006), and Card et al. (2007a,b) suggest that there is even a lower wage after longer unemployment.

Thus, the empirical results on the effect that longer unemployment has on job match quality in terms of wage are inconsistent. Indeed, there are some difficulties in measuring job match quality by wage. A low starting wage, which is used as a measure of job quality in most empirical investigations, may not always indicate a bad match. Rather than the starting wage, subsequent wage increase after that may be an important indicator of job match quality, although wage history is seldom traced over time. In addition, workers may not place a high value on their wage. They consider many factors in addition to their wage when assessing job quality, including work environment, work satisfaction, convenience in daily life and so on.

Job stability, by contrast, measures how good the match is between workers and employers, and reflects all of these factors. Centeno (2004) shows that a generosity in benefits of unemployment insurance (hereafter, called UI) leads to longer subsequent job tenure, using data from US job seekers mainly in the 1980s and 1990s. Van Ours and Vodopivec (2006) find that longer unemployment duration has no effect on the probability of finding a permanent job in Slovenia. Card et al. (2007a,b) find no relationship between unemployment duration and subsequent job duration in Austria. In contrast, Belzil (2001) shows that in Canada longer unemployment duration reduces post-unemployment job duration because of a lower reservation wage during the search period. DellaVigna and Paserman (2005) and Paserman (2008) also show that impatient job seekers decrease their reservation wage a lot once the UI benefits came to expire, which raises the exit rates around the expiration date, and suggest that the subsequent job match quality would be lowered. Tatsiramos (2009) finds that recipients of UI benefits, compared to non-recipients, have longer unemployment and longer employment in a post-unemployment job in several European countries. Caliendo et al. (2009) report that the German unemployed who found jobs close to or after the time when their benefits are exhausted stop

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