

Procrastinators and hyperbolic discounters: Transition probabilities of moving from temporary into regular employment

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Abstract

Temporary agency work (TAW) is believed to facilitate the matching between firms and job searchers, shortening the unemployment and job search duration. On the other hand, firms that hire temporary workers have less incentive to train them, which makes it difficult for low-skilled temporary workers to find better jobs in the future. This study examines the effect of TAW employment in the Japanese labor market on employment transitions, focusing on individual time preferences. Investments in one's career involve a trade-off between immediate costs and later rewards, and thus individual heterogeneity in time preferences may explain the behavioral patterns of the labor force in job searches and career choices. The results indicate that TAW employees have a tendency toward impatience and time inconsistent preferences. In addition, those who have held temporary jobs are less likely to move into regular job positions, even though the negative effect becomes smaller or statistically insignificant when time preferences are well controlled for. In contrast to the possible negative effect on transition probability, no significant wage differences are observed between those with TAW experience and those without. No difference in offered wages suggests the negative effect of TAW experience on transition into regular employment may be due to the difference in arrival rates from the demand side.

Keywords: time preferences; temporary employment; ATT estimation

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