

WORK HOUR MISMATCH AND JOB MOBILITY: ADJUSTMENT CHANNELS AND RESOLUTION RATES

MICHAEL C. KNAUS and STEFFEN OTTERBACH*

This paper analyses the role of job changes in overcoming work hour mismatches (i.e., differences between actual and desired work hours). It addresses two, yet neglected, questions: (1) How do adjustments in desired work hours, additionally to adjustments in actual work hours, contribute to the resolution of these mismatches? and (2) Does the well-documented increased work hour flexibility of job movers help to actually resolve work hour mismatches? We find that job change increases the probability of resolving work hour mismatches, but far less than expected with free choice of hours across jobs. (JEL J21, J22)

I. INTRODUCTION

The literature on labor supply has developed a variety of models that differ in their treatment of dynamics, savings, households, human capital, and other aspects (Keane 2011). Regardless of the specific optimization problem, most models assume that workers are able to supply their optimal number of work hours. However, the assumption of free hours choice stands in stark contrast to the substantial work hour mismatch (i.e., overemployment or underemployment) that is frequently reported worldwide (e.g., Otterbach 2010).¹ The presence of work hour mismatch is in line with the literature on work hour

constraints. Such constraints could prevent workers from realizing their optimal number of work hours and have been discussed since the seminal work of Altonji and Paxson (1986, 1988).² A growing strand of literature investigates the consequences of the resulting work hour mismatches. These studies suggest adverse effects on health, as well as on life and job satisfaction (Bassanini and Caroli 2015; Bell, Otterbach, and Sousa-Poza 2012; Kugler, Wiencierz, and Wunder 2014; Wooden, Warren, and Drago 2009).

Recently, the importance of hours constraints in the labor market has been emphasized in the influential paper of Chetty et al. (2011). They show that work hour constraints and adjustment costs can explain the lack of bunching at kink points of the budget constraint. Such bunching should be observed in a frictionless labor

*The data used in this publication were made available by the German Socio-Economic Panel Study at the German Institute for Economic Research (DIW), Berlin. Previous versions of the paper were presented at the 29th conference of the European Society of Population Economics (ESPE) in Izmir, Turkey, the internal research seminar at the University of St. Gallen, and the research seminar at the Melbourne Institute of Applied Economic and Social Research. The authors would also like to thank the seminar and conference participants as well as Richard Blundell, Michael Lechner, Aderonke Osikominu, Arthur van Soest, Alfonso Sousa-Poza, and Mark Wooden for valuable commentary and discussion. The usual disclaimer applies.

Knaus: Postdoctoral Researcher, Swiss Institute for Empirical Economic Research, University of St. Gallen/IZA, Bonn, St. Gallen, CH-9000, Switzerland. Phone 41-71-224-2304, E-mail michael.knaus@unisg.ch

Otterbach: Postdoctoral Researcher and Lecturer, Institute for Health Care & Public Management, University of Hohenheim, Stuttgart, D-70599, Germany. Phone +49 711 459 23425, Fax +49 711 459 23953, E-mail steffen.otterbach@uni-hohenheim.de

1. For example, in the sample for Germany used in this study, only 42% of the workers report being satisfied with their hours. In total, 47% prefer to work less (overemployed)

and 11% prefer to work more (underemployed) (see also Figure 1 below).

2. The incidence of work hour constraints is widely documented and various explanations have been proposed for this labor market feature including inadequate matching (Altonji and Paxson 1988), long-term contracts and wage rigidity (Kahn and Lang 1992, 1996), work hour regulation (Rottenberg 1995), asymmetric information on worker productivity (Landers, Rebitzer, and Taylor 1996; Sousa-Poza and Ziegler 2003), job insecurity (Stewart and Swaffield 1997), adjustment costs (Chetty et al. 2011), and fixed costs of employment (Johnson 2011). A critical discussion about the orthodoxy to interpret observed work hours as labor supply is provided by Pencavel (2016).

ABBREVIATIONS

BHPS: British Household Panel Survey
SOEP: German Socio-Economic Panel