

Access to Jobs and Duration Dependence

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Abstract

While unemployment duration and job finding probability are observationally negatively related, we find that search intensity is positively correlated with unemployment duration. Based on the evidence from the CPS, we argue that the “positive duration dependence” in search intensity is the result of a selection effect: individuals with lower search intensity exit unemployment faster. We explore various possibilities to reconcile these two facts and argue that this pattern can be most plausibly accounted for by ex-ante differences in “access to jobs.” That is, some workers have a higher job finding rate regardless of their search effort, and precisely for that reason, they exert less search effort. We present a model with ex-ante heterogeneity in access to jobs and explore its implications for the design of unemployment insurance benefits. We find that optimal unemployment benefit increases with unemployment duration in stark contrast to current policies.