

When You Can't Afford to Wait for a Job: The Role of Time Discounting for Own-Account Workers in Developing Countries*

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[The current version of this research is available here](#)

Abstract

This paper explores a fundamental trade-off imposed by imperfect labor markets: individuals may work on their own at any time, but they can only take a potentially better-paid wage job after spending some time looking for it. First, we formalize this intuition using the standard tools of the job search framework, and we show that a sufficiently high subjective discount rate can rationalize the preference for own-account work even when it pays less than wage work. Next, we use the structure established by the theoretical model to estimate the minimum discount rate that would be consistent with the observed occupational choice of own-account workers in Brazil, given the labor market opportunities they face. In the baseline specification, we find that 60 percent of them appear to discount future consumption at rates strictly superior to the average market rates. This result suggests that (1) intertemporal considerations may be playing a relevant role in occupational choices in this context, and (2) if own-account work is only rationalizable under such high discount rates, we can classify their occupational choice as a financially constrained one. Finally, we find that the estimated discount rate lower bound is negatively associated with access to credit and positively associated with measures of food deprivation, an evidence that supports the hypothesized channel between current living conditions, time preferences, and labor market decisions.

JEL Classification: J22, J24, J31, J64.

Keywords: Self-Employment, Own-Account Work, Imperfect Labor Markets, Job Search, Developing Countries, Financial Constraints, Time Discounting.

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