Labor Market Fluidity and Economic Performance

By

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Main Themes and Results

1. U.S. labor markets became much less fluid in recent decades
   • Rate of job reallocation across employers fell more than 25 percent since 1990
   • Rates of worker reallocation and churn fell more than 25 percent since 2000
   • Fluidity declines hold across states, industries, firm size and age categories, and demographic groups defined by age, gender and education
   • U.S. had large job reallocation rate declines compared to other countries (limited evidence)

2. Many factors contributed to secular decline in fluidity, including:
   • Shift of activity to older firms and establishments
   • Shift of activity to larger firms and establishments in some sectors (e.g., Retail Trade)
   • An aging workforce
   • Policy developments that suppress reallocation (e.g., erosion of employment-at-will and spread of occupational licensing and certification requirements)

3. Reasons for Concern:
   • Worker and job reallocation contribute to productivity and real wage growth
   • Reduced fluidity can negatively affect employment, especially for marginally attached workers and those with limited skills

4. Key New Findings:
   • Reduced fluidity leads to large declines in employment rates for the young and less educated
   • Our findings suggest the U.S. faced serious impediments to high employment rates before the Great Recession, and it is unlikely to return to sustained high employment without restoring labor market fluidity
Quarterly Rates of Worker Reallocation, Job Reallocation & Churn, U.S. Nonfarm Private Sector

Annual Rates of Job Reallocation Across Firms and Establishments, U.S. Nonfarm Private Sector

Worker Reallocation = Job Reallocation + Churn
(Hires + Separations)   (Creation + Destruction)
Annual Job Reallocation Rates in Selected U.S. Industry Sectors

Employment Share of Firms Five Years Old or Younger
Quarterly Worker and Job Reallocation Rates by Gender, Age and Educational Attainment

Worker Reallocation Rates by Age Groups, Males

Worker Reallocation Rates by Education, Males

Worker Reallocation Rates by Age Groups, Females

Worker Reallocation Rates by Education, Females
Annual Job Reallocation Rates across Firms, Changes over Time, Selected Countries

A. Country-Level Changes from 2002 to 2009

B. Country-Level Changes from 1988 to 1996
Employment Rates by Age and Education for Selected Periods, Males

Employment rates for males with different levels of education over selected periods from 1977-1979 to 2009-2011 are shown. The graphs display the changes in employment rates by age for males with less than a high school degree, a high school degree, some college education, and college or higher education. The data points show a general downward trend in employment rates with age, with fluctuations across different periods for each educational level.
“Predicted changes” refer to the employment rate changes implied by actual changes in reallocation intensity, according to our IV regression estimates, holding fixed national and state controls for cyclical conditions, state effects, and controls for children under 18 and under 5.

**Implied Elasticities for Male Employment Rates with Respect to Worker Reallocation Rates, IV Estimates for the 1998-2011 Sample**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Less than HS</th>
<th>HS High School</th>
<th>Some Coll</th>
<th>College</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;25</td>
<td>1.36</td>
<td>0.68</td>
<td>0.53</td>
<td>0.12</td>
</tr>
<tr>
<td>25-34</td>
<td>0.49</td>
<td>0.30</td>
<td>0.15</td>
<td>0.09</td>
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<tr>
<td>35-54</td>
<td>0.32</td>
<td>0.19</td>
<td>0.08</td>
<td>0.06</td>
</tr>
<tr>
<td>55+</td>
<td>0.16</td>
<td>0.18</td>
<td>0.06</td>
<td>-0.05</td>
</tr>
</tbody>
</table>
Actual and Predicted Changes in Employment Rates Implied by Changes in Fluidity, 1998-00 to 2010-11, Males

**Less than High School**

- Age Group: <25, 25-34, 35-54, 55+
- Actual: Blue bars
- Predicted: Orange bars

**High School**

- Age Group: <25, 25-34, 35-54, 55+
- Actual: Blue bars
- Predicted: Orange bars

**Some College**

- Age Group: <25, 25-34, 35-54, 55+
- Actual: Blue bars
- Predicted: Orange bars

**College**

- Age Group: 25-34, 35-54, 55+
- Actual: Blue bars
- Predicted: Orange bars
Actual and Predicted Changes in Employment Rates Implied by Changes in Fluidity, 1998-00 to 2010-11, By State (for 30 States Covered by QWI Data)

Actual and Predicted Changes in Employment Rates Implied by Changes in Fluidity, 1987-89 to 1999-01 And 1999-01 to 2008-10, By State (All 50 States)