

# Labor Market Fluidity and Economic Performance

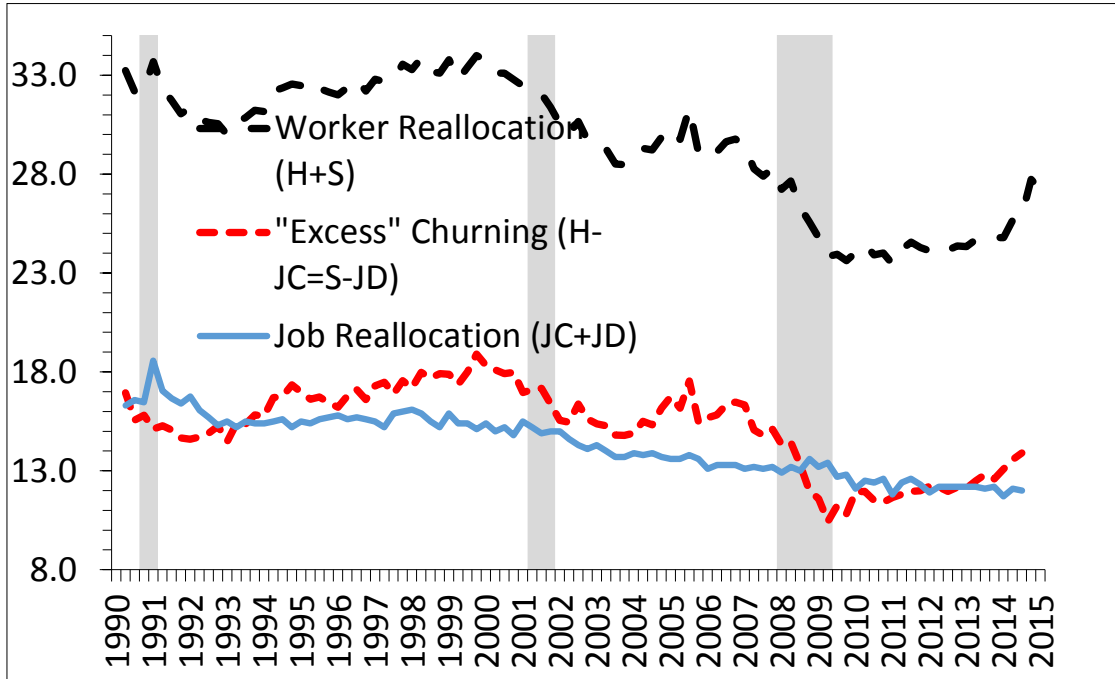
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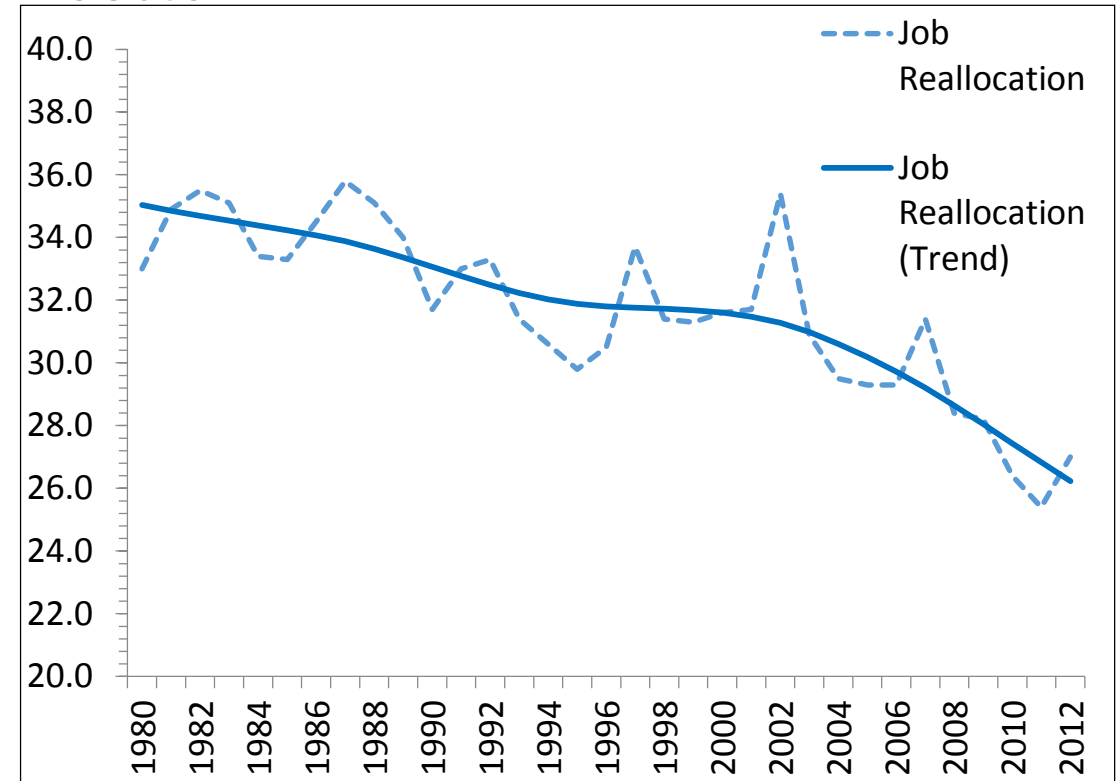
June 2015

This presentation is based on the paper “Labor Market Fluidity and Economic Performance” (co-authored with Steven Davis, University of Chicago). This work also draws on collaborative work with Ryan Decker, Henry Hyatt, Ron Jarmin, Erika McEntarfer and Javier Miranda.

# Quarterly Rates of Worker Reallocation, Job Reallocation & Churn, U.S. Nonfarm Private Sector

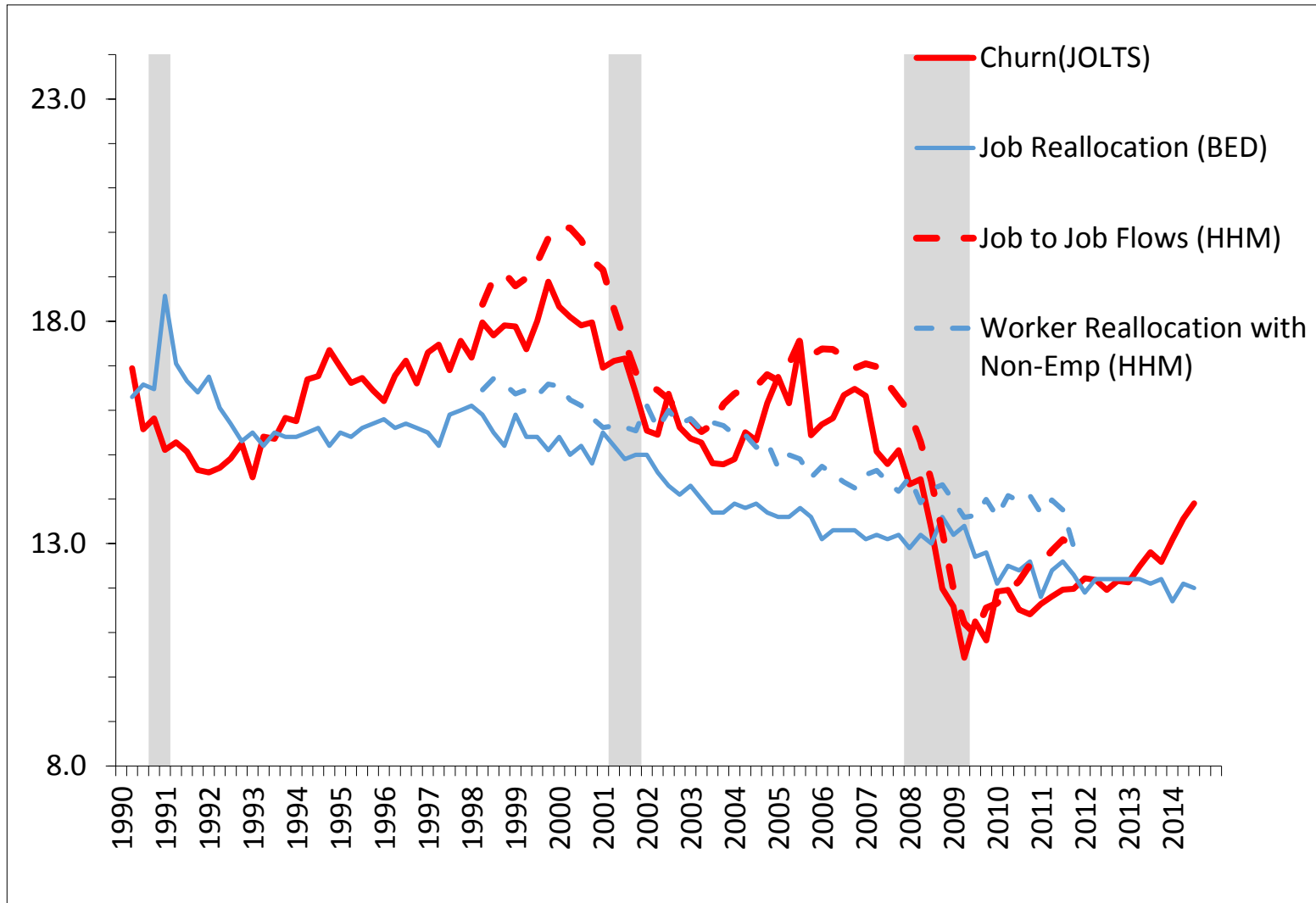


# Annual Rates of Job Reallocation Across Establishments, U.S. Nonfarm Private Sector



**Worker Reallocation = Job Reallocation + Churn**  
 (Hires + Separations) (Creation + Destruction)

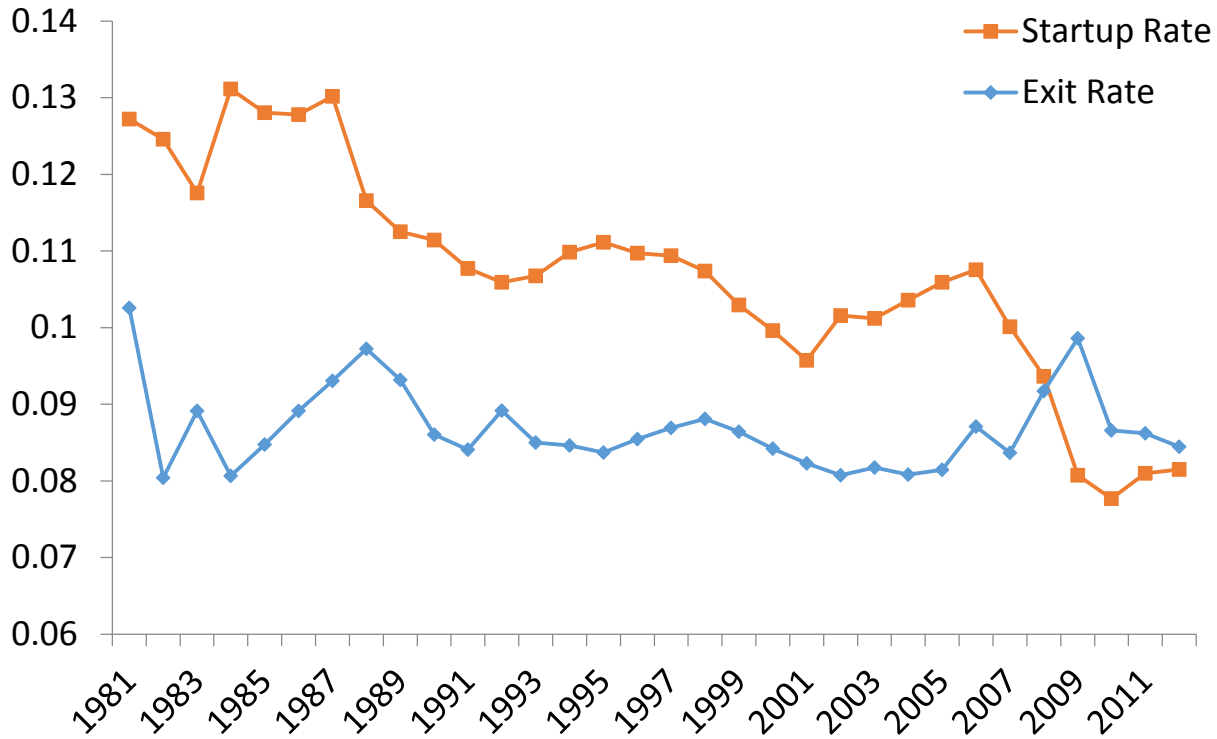
## Churn, Job Reallocation, Job-to-Job Flows and Worker Reallocation with Non-Employment All Closely Related



- Churn and Job-to Job Flows are highly correlated.
- Job Reallocation and Worker Reallocation with Non-Employment are highly correlated.

HHM: Haltiwanger, Hyatt and McEntarfer (2015)

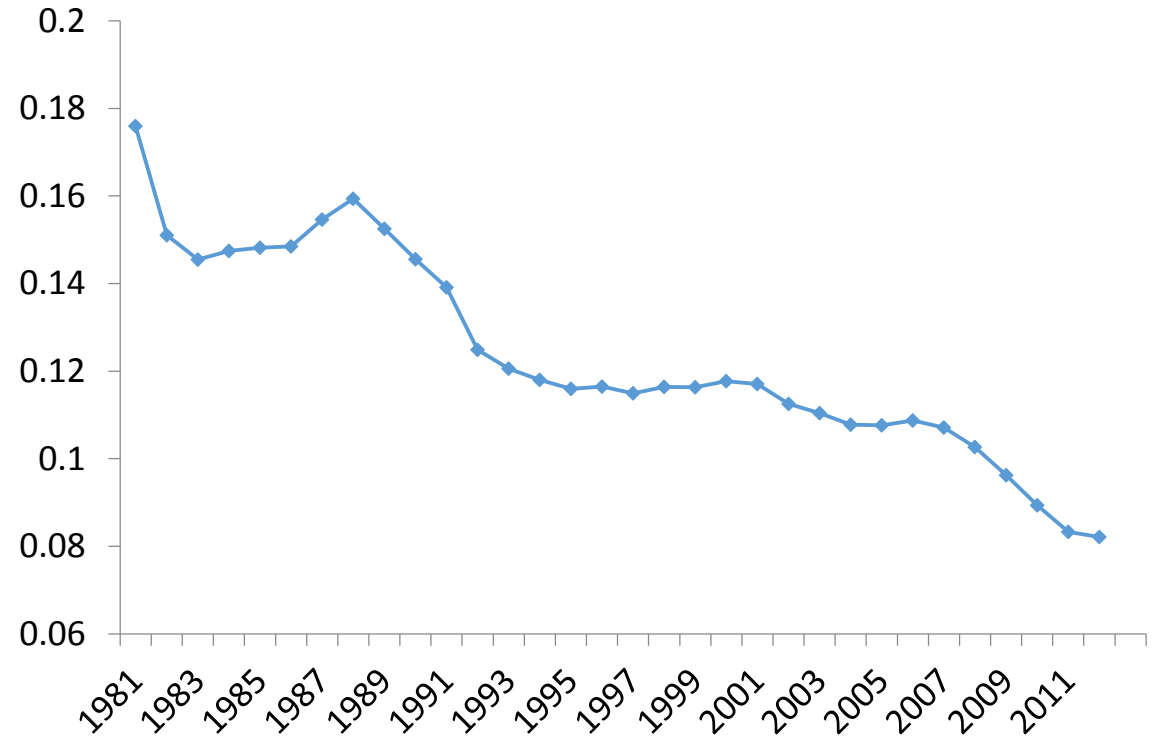
## Startup Rate in Nonfarm Private Sector, 1981-2012



Source: Annual Rates, BDS

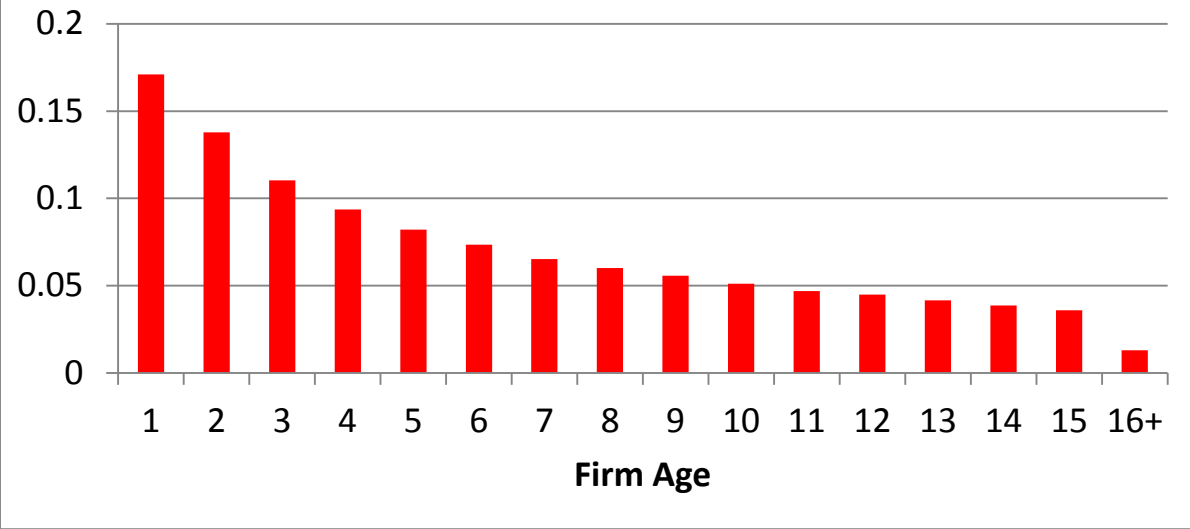
Startup rate and share accounted for by young exhibits trend decline and also substantial declines in Great Recession (without much post Great Recession Recovery)

## Share of Employment for Young (<5) Firms, 1981-2012, Nonfarm Private Sector

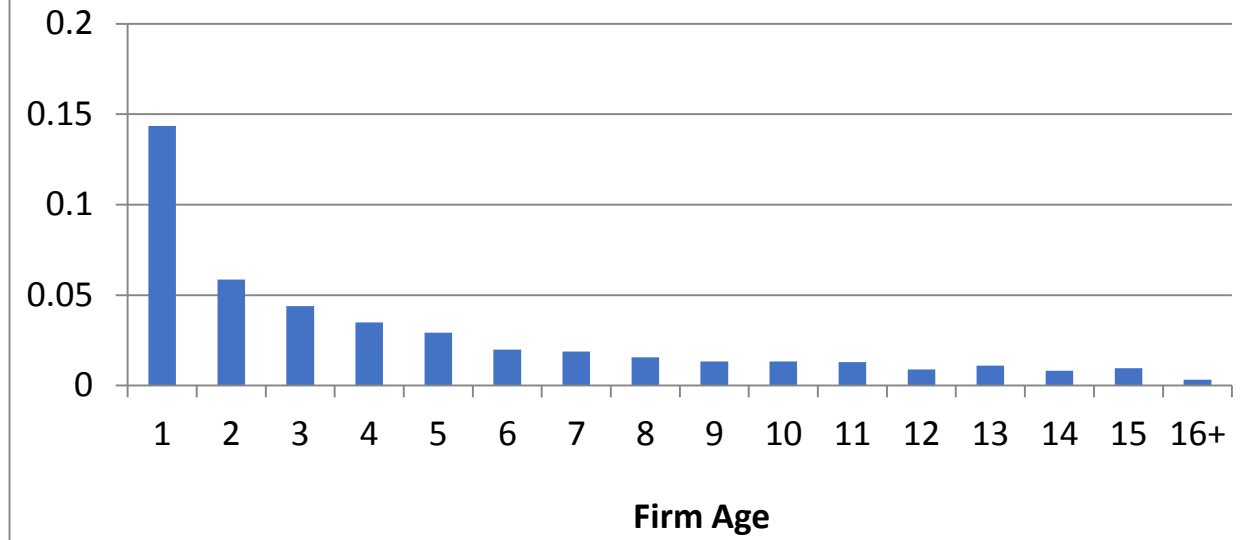


Source: Annual Shares, BDS

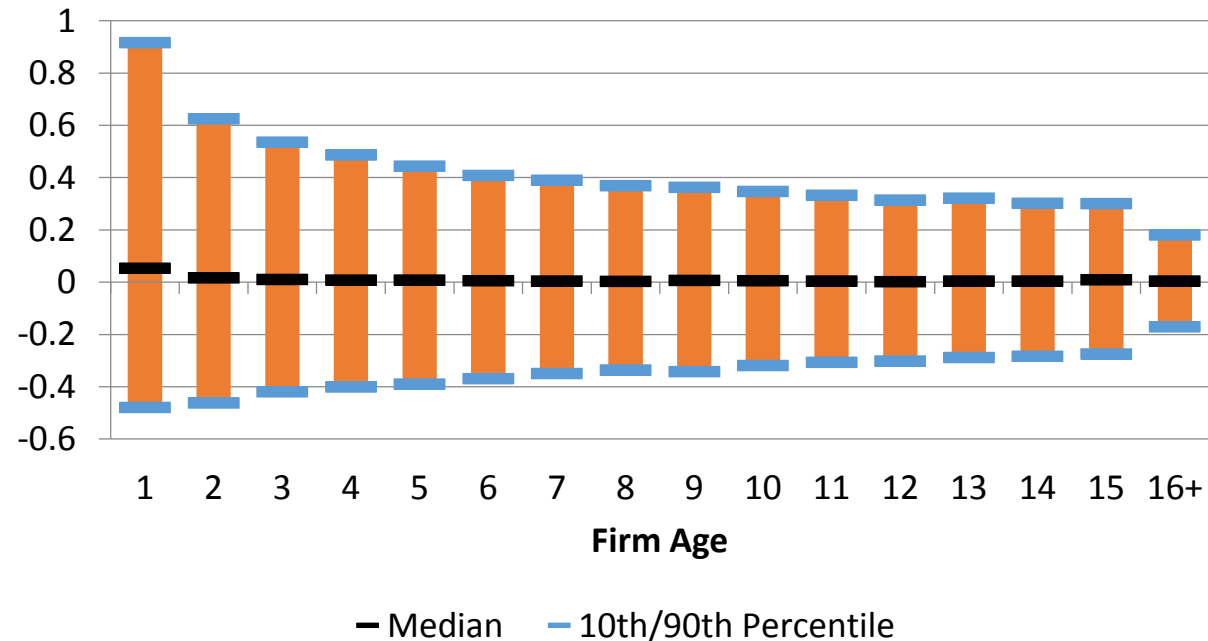
**High Exit Rates of Young Firms**



**High Mean Net Growth of Surviving Young Firms**



**Distribution of Continuing Firm Growth Rates**

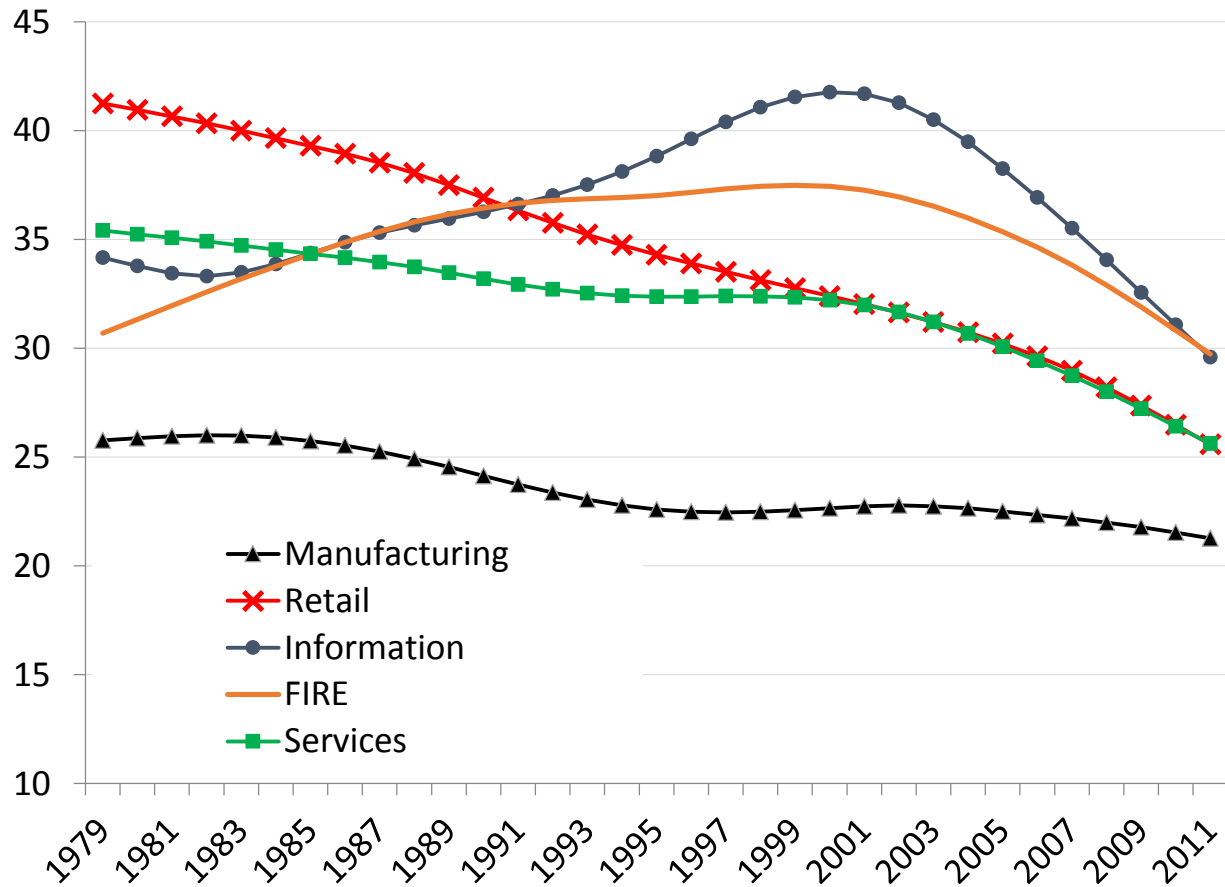


- **Strong Up or Out Dynamics and High Dispersion/Skewness of Young Firm**
- **Lower Young Firm Share implies Lower Job and Worker Reallocation**

Source: Decker, Haltiwanger, Jarmin and Miranda (2014), LBD

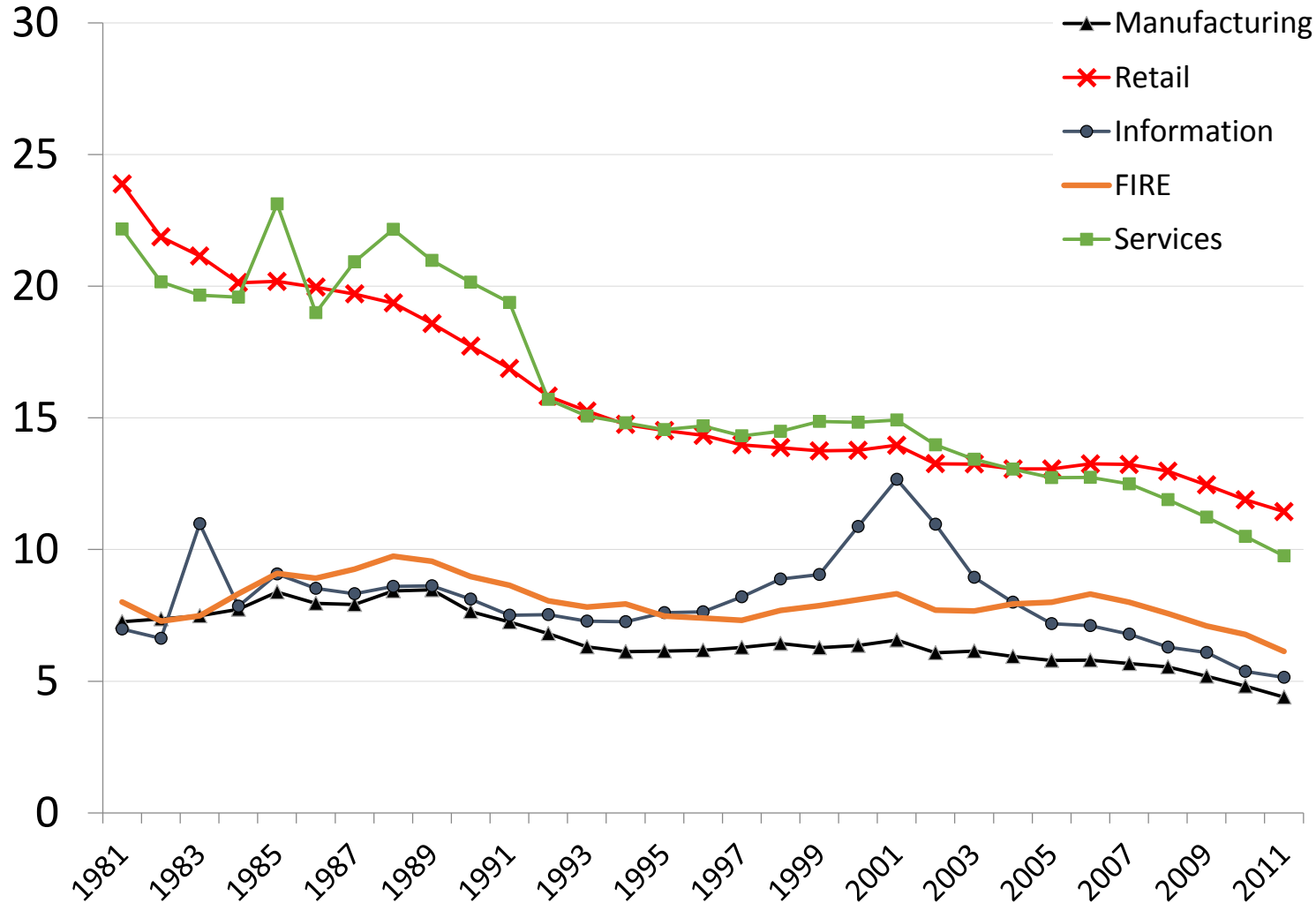
## There are some important differences in these trends across major industry sectors

### Trends in the Pace of Job Reallocation by Selected Broad Sectors



- All sectors decline post 2000 but some increase pre-2000 (notably Information sector).
- Sectors with high reallocation rates like Services and Retail are also shares with rising employment shares .
- From sectoral perspective, decline is due to within sector declines (not composition effects which work in the wrong direction).

# Share of Employment at Young Firms (Less than 5) for Selected 2-digit NAICS Sectors



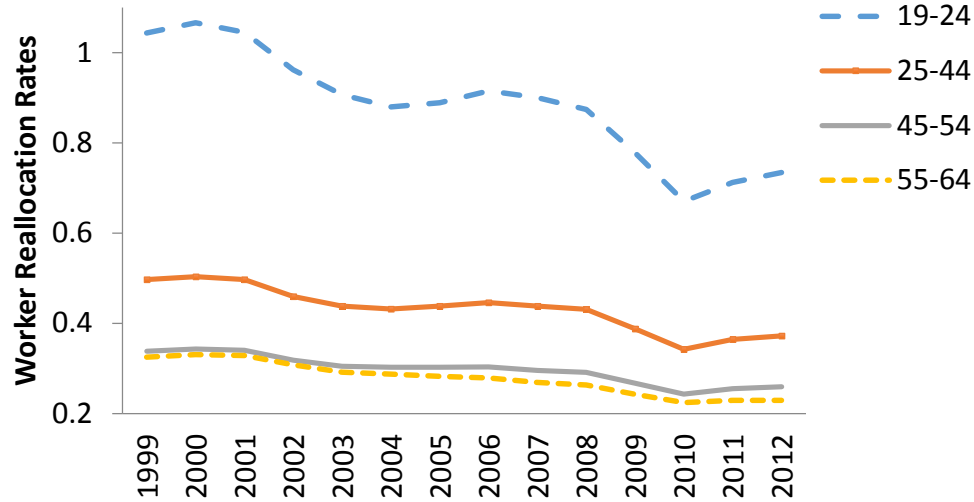
Retail and Services have largest and most pervasive declines in young-firm shares.

Young-firm share in Information rose through 2000 and declined thereafter.

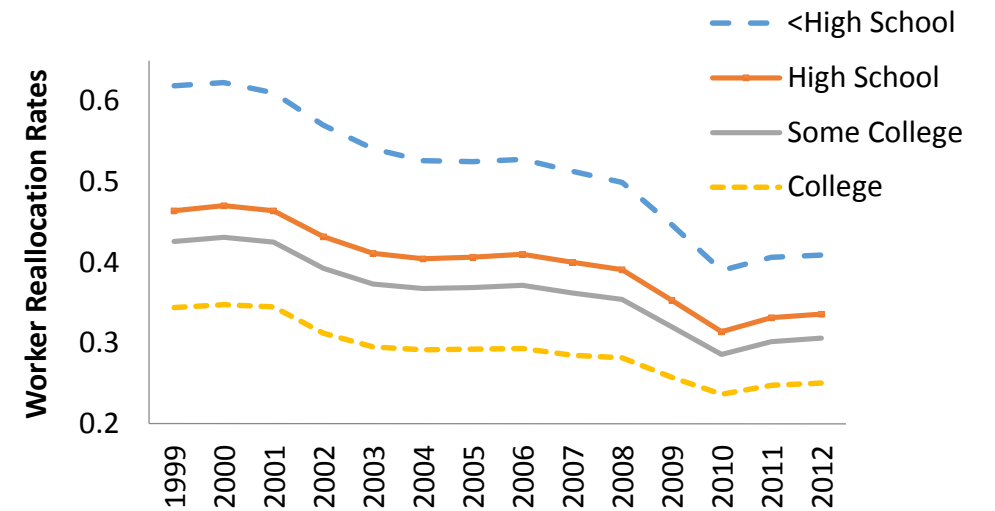
Source: Decker, Haltiwanger, Jarmin and Miranda (2015), LBD

# Quarterly Worker Reallocation Rates by Gender, Age and Schooling Attainment

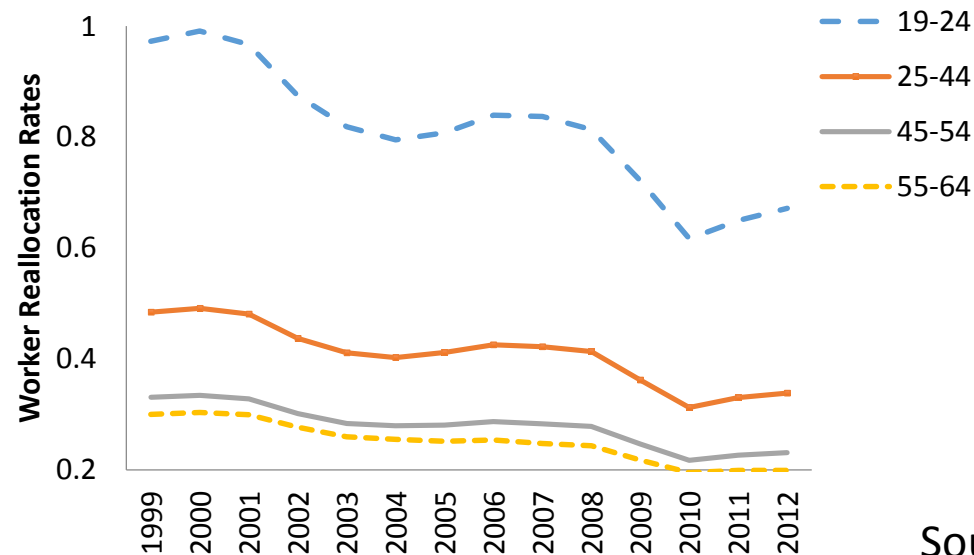
## Worker Reallocation Rates by Age Groups, Males



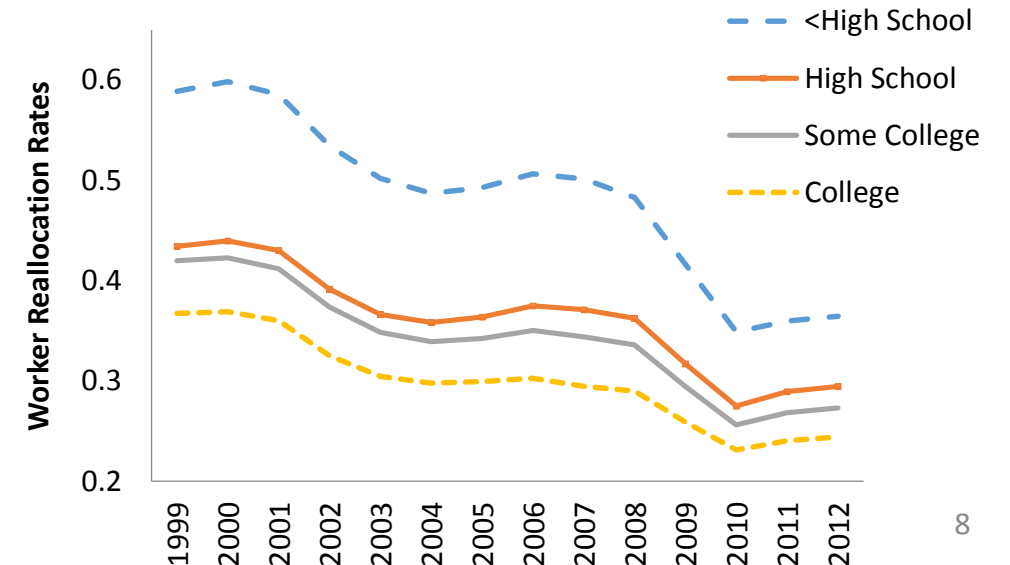
## Worker Reallocation Rates by Education, Males



## Worker Reallocation Rates by Age Groups, Females



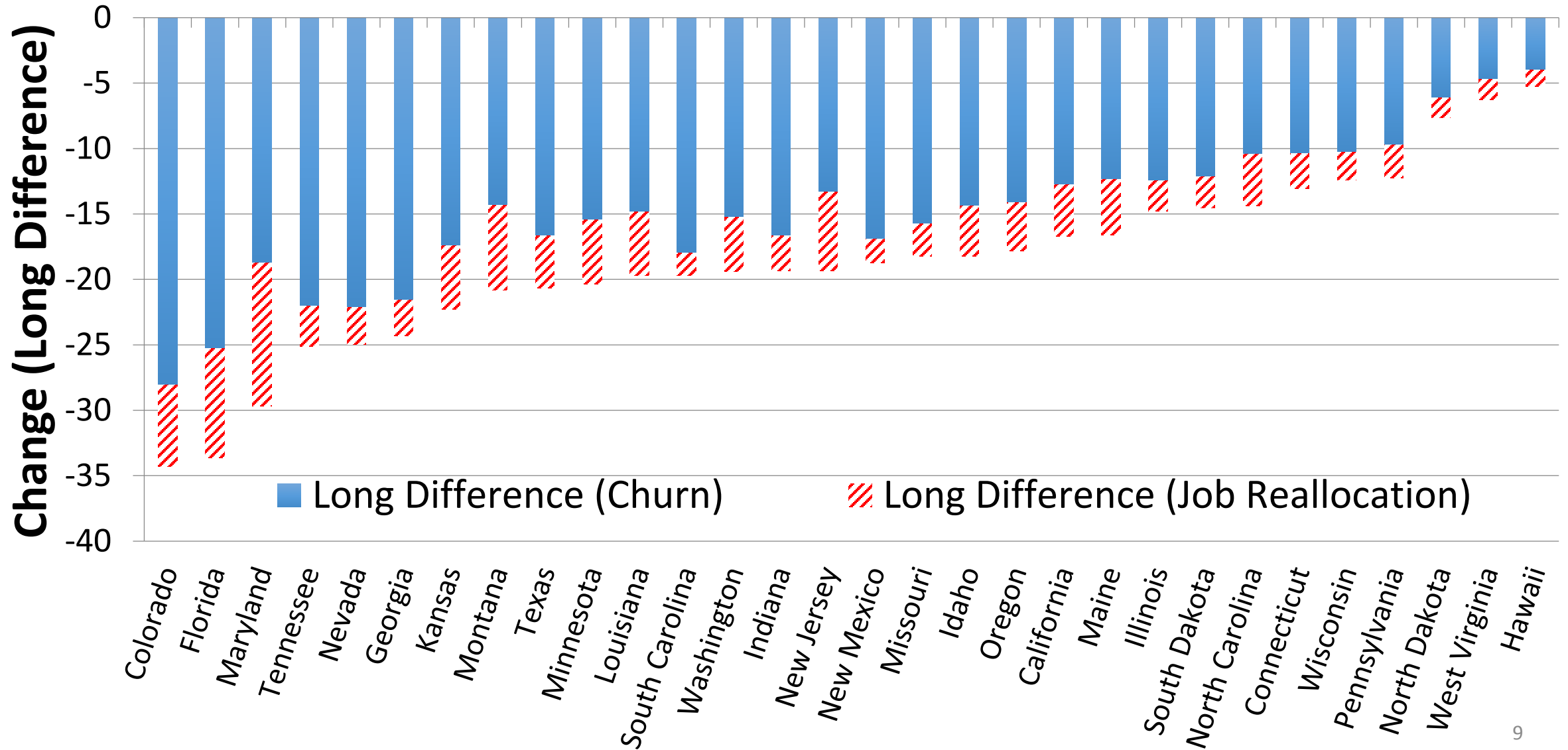
## Worker Reallocation Rates by Education, Females



Source: QWI



# Changes in Quarterly Job Reallocation, Churn and Worker Reallocation Rates by State from 1999-01 to 2010-12, 30 States Covered by QWI



# Why the Decline in Labor Market Fluidity?

- Decline in entrepreneurship and shift to older firms.
- A shift to larger businesses played an important role in retail trade.
- Shifts in the industry distribution of employment go the “wrong” way.
- Taken together, shifts in the industry, age and size distribution of employment account for about 15% of the secular drop in job reallocation
- An aging workforce contributes to the decline in worker reallocation intensity – but aging played a modest role in the 2000s.
- Institutional and Regulatory Changes also may have suppressed labor market fluidity

# Is Reduced Fluidity Cause for Concern?

## 1. Beneficial and benign aspects of reduced fluidity:

- A. Less job reallocation means fewer layoffs and smaller unemployment inflows.
- B. Reduced fluidity is partly a by-product of developments that raised productivity and improved welfare: The shift away from small, independent stores to big box retailers (e.g., Wal-Mart) raised productivity, lowered prices, and increased product selection. It also brought lower rates of reallocation.

## 2. Reasons for concern:

- A. Reallocation plays a key role in prominent theories of innovation and growth.
- B. Factor reallocation flows are an important source of medium-term productivity growth according to many empirical studies.
- C. Fluidity facilitates job mobility, wage growth and career advancement.
- D. Fluidity promotes high employment.

# The Fluid Labor Markets Hypothesis

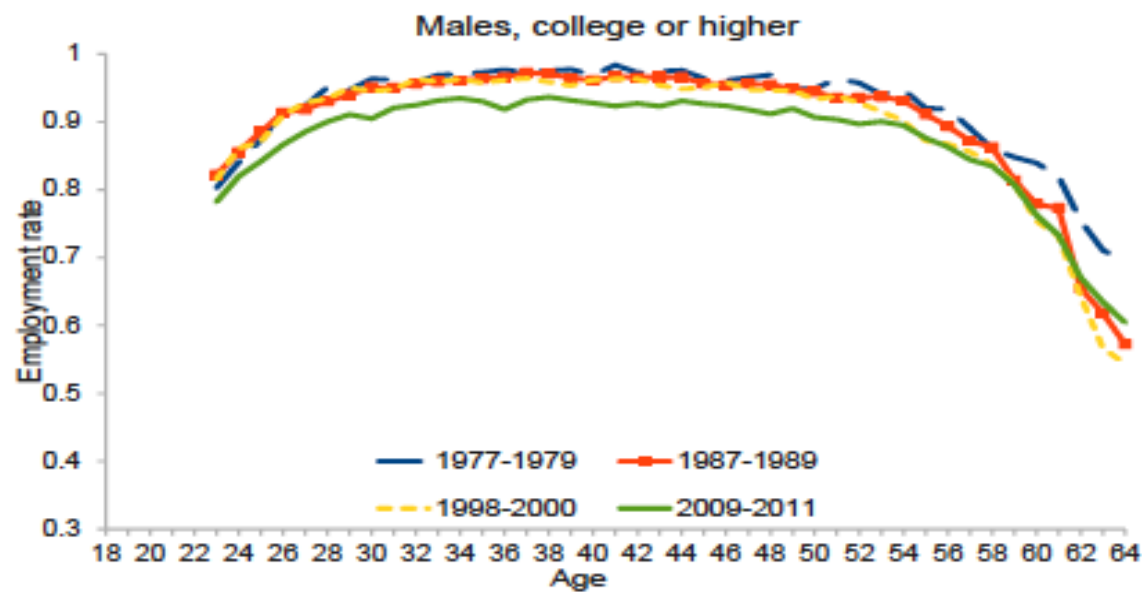
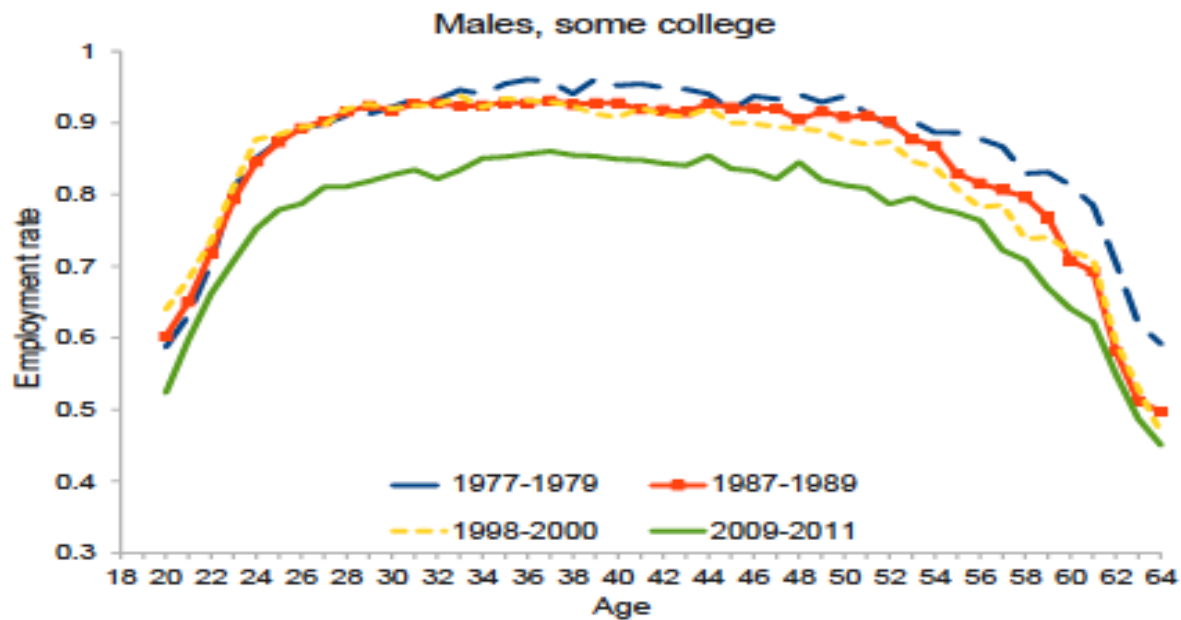
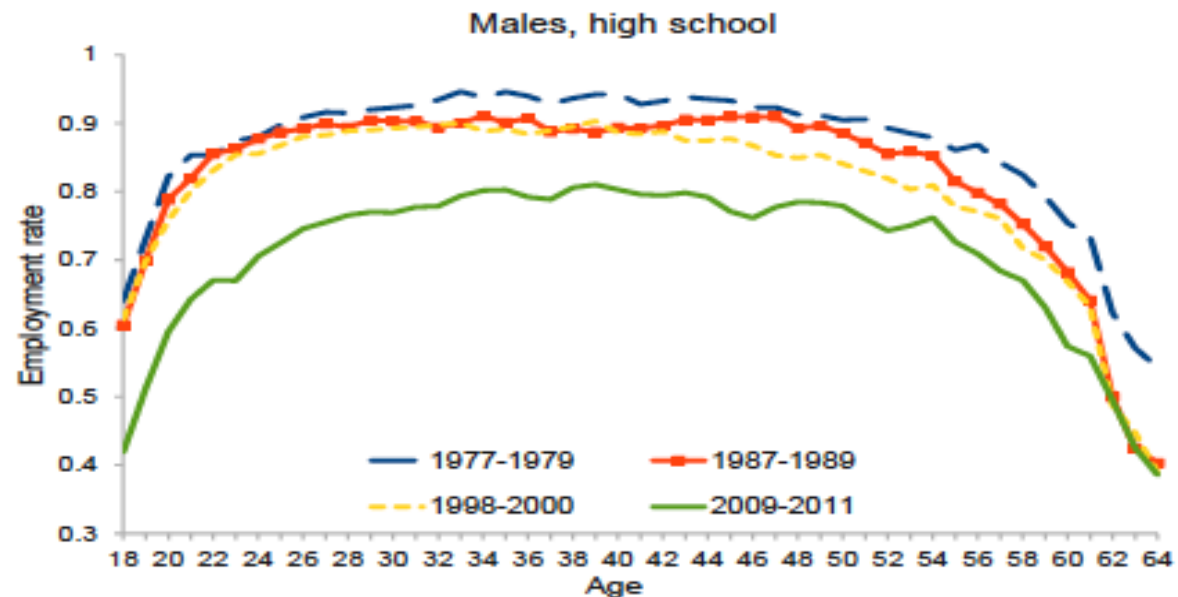
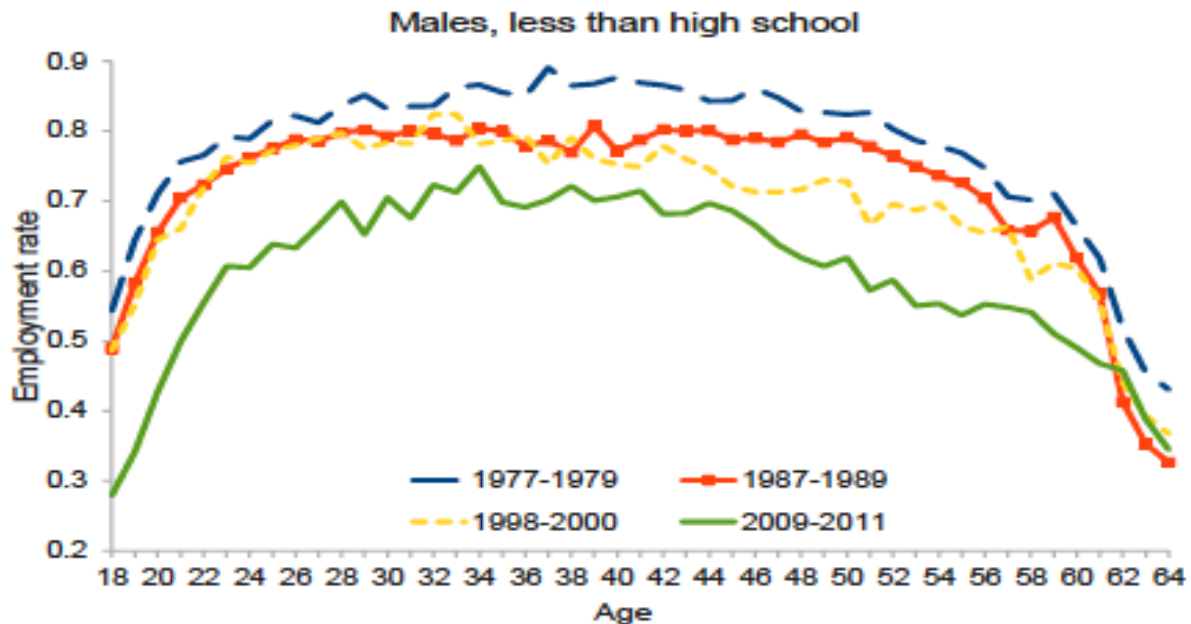
Hypothesis: Fluid labor markets promote high employment.

Mechanisms:

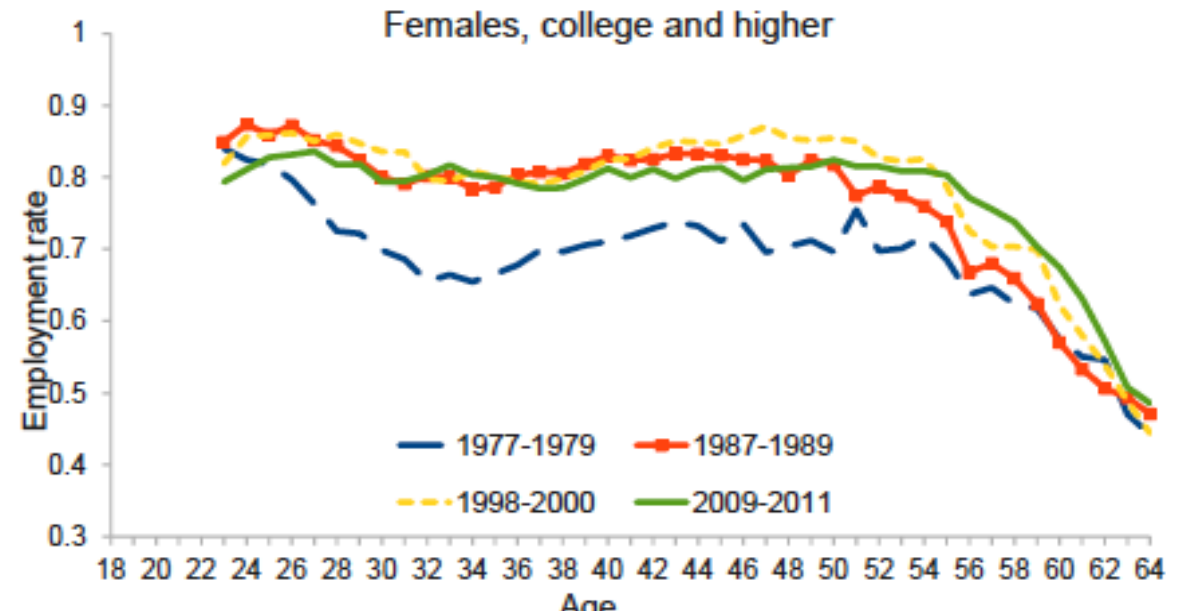
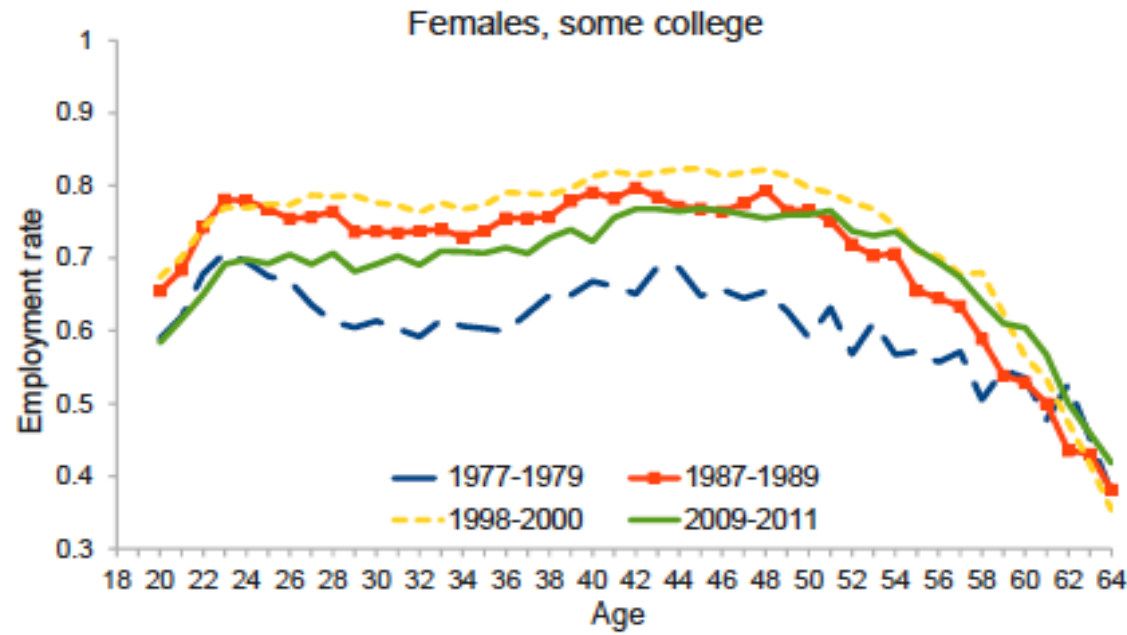
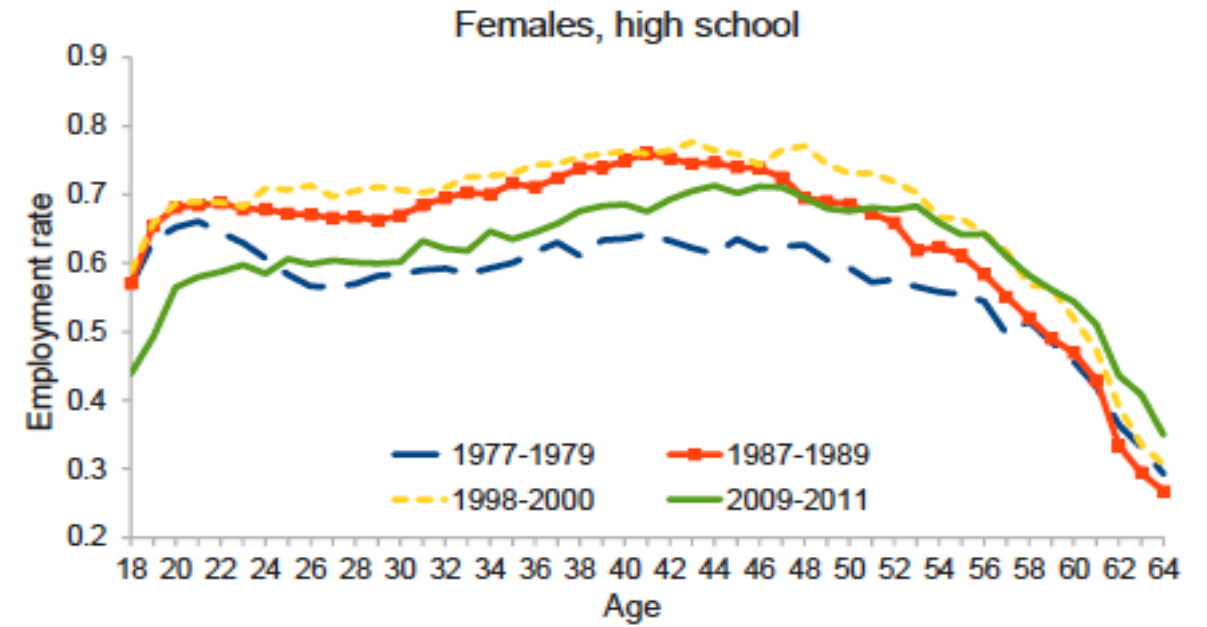
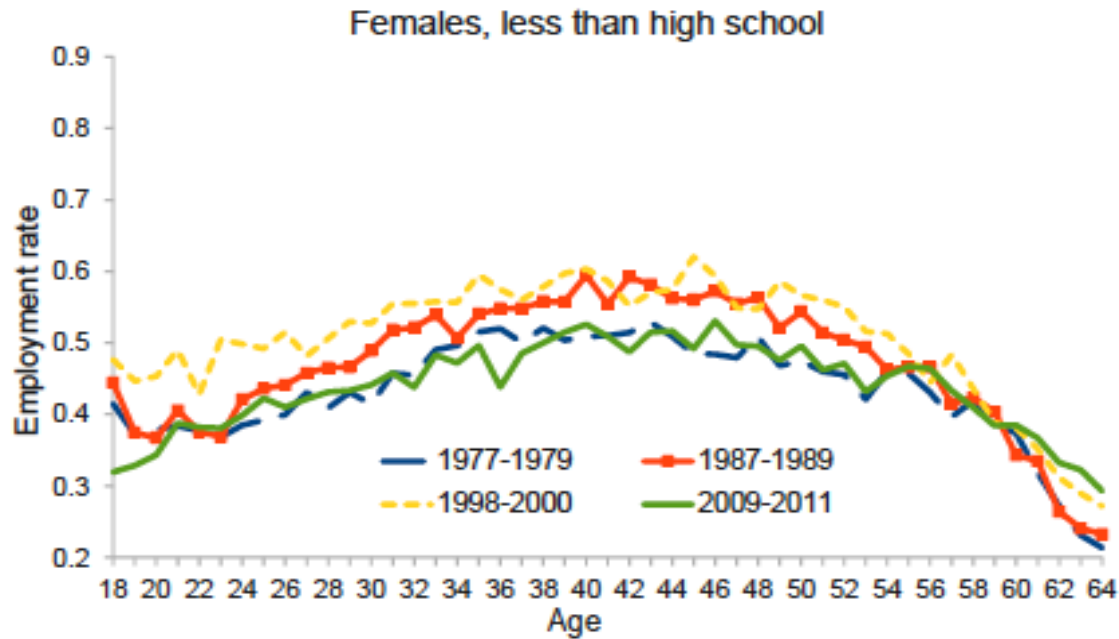
## 1. Fluid Labor Markets:

1. Increase incentives for Job Creation by firm.
  2. Offer abundant opportunities to find a job
  3. Increase the prospect of finding the “right” job to:
    1. Move up the job ladder
    2. Satisfy locational constraints
  4. The result is better opportunities and stronger incentives to accumulate market-relevant human capital, increasing earnings capacity and strengthening work attachment.
  5. Reduce discouraged workers
  6. Improve employer screening.
2. All of these effects especially relevant for marginal workers.

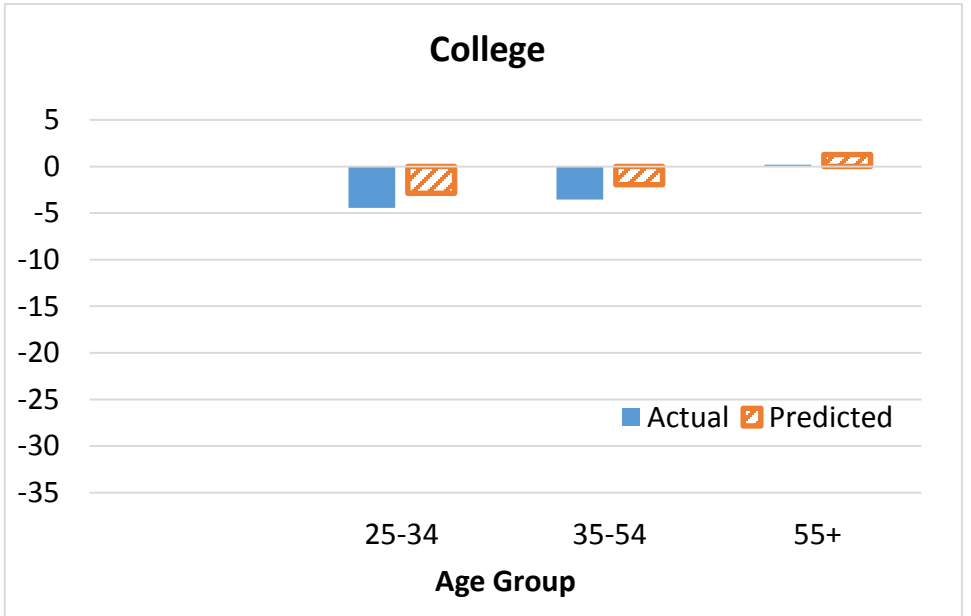
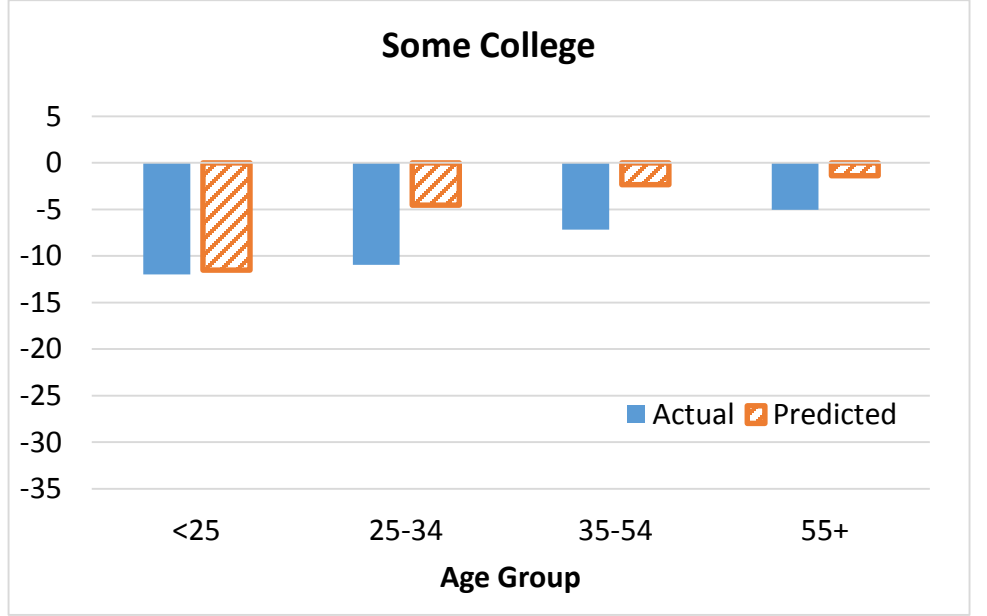
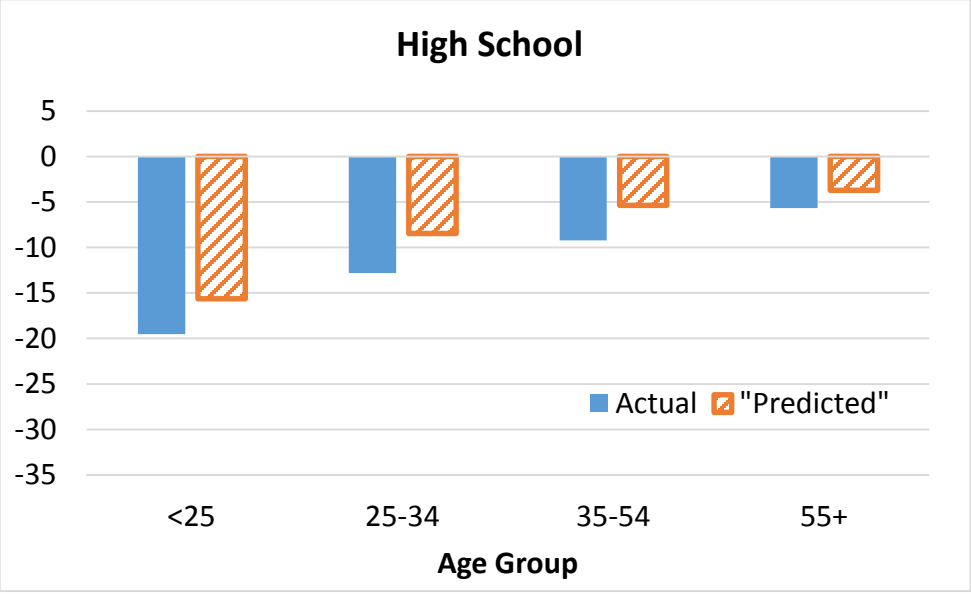
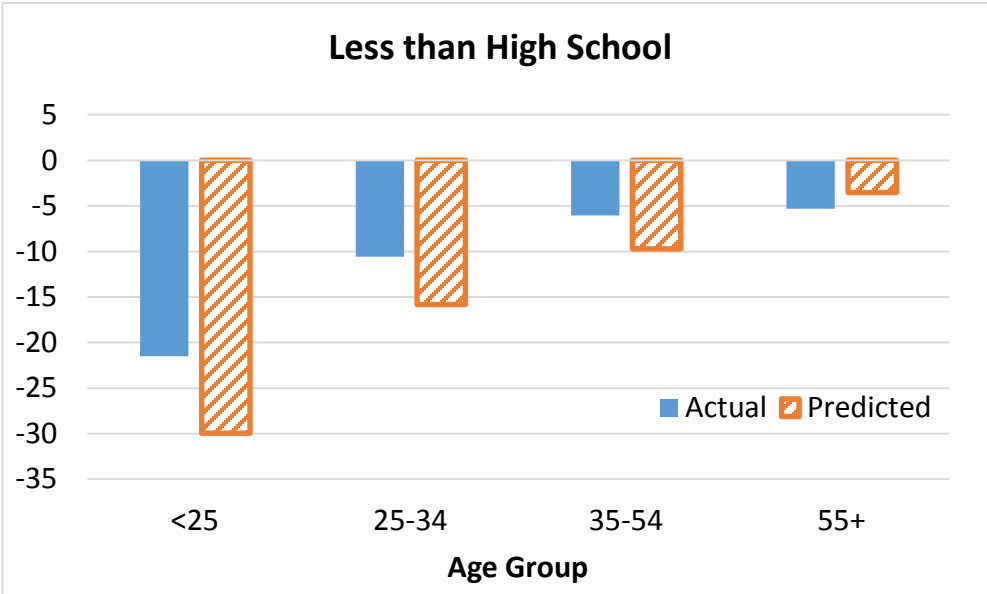
# Male Employment Rates by Age and Education for Selected Periods (CPS)



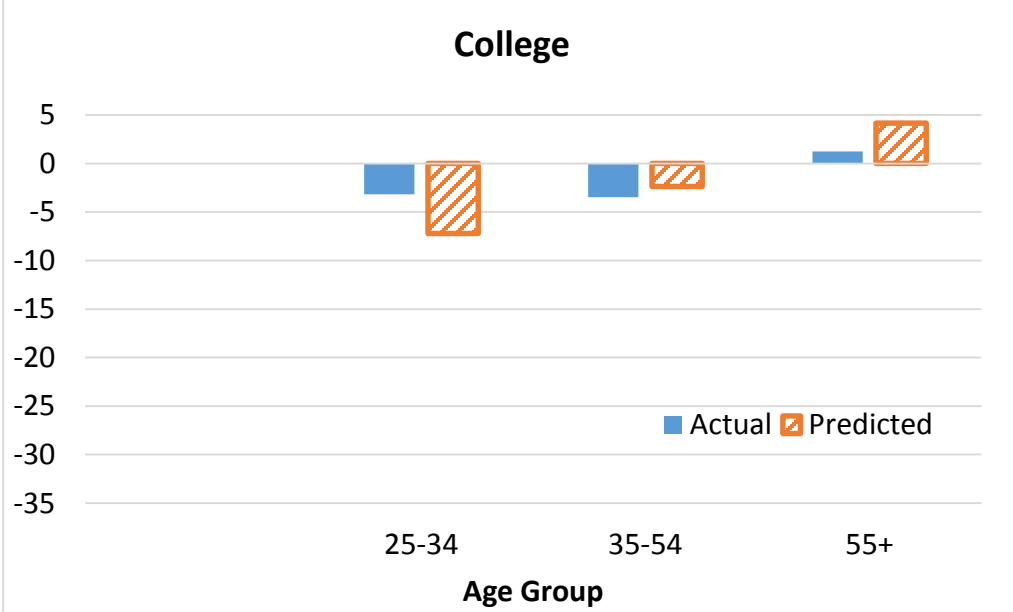
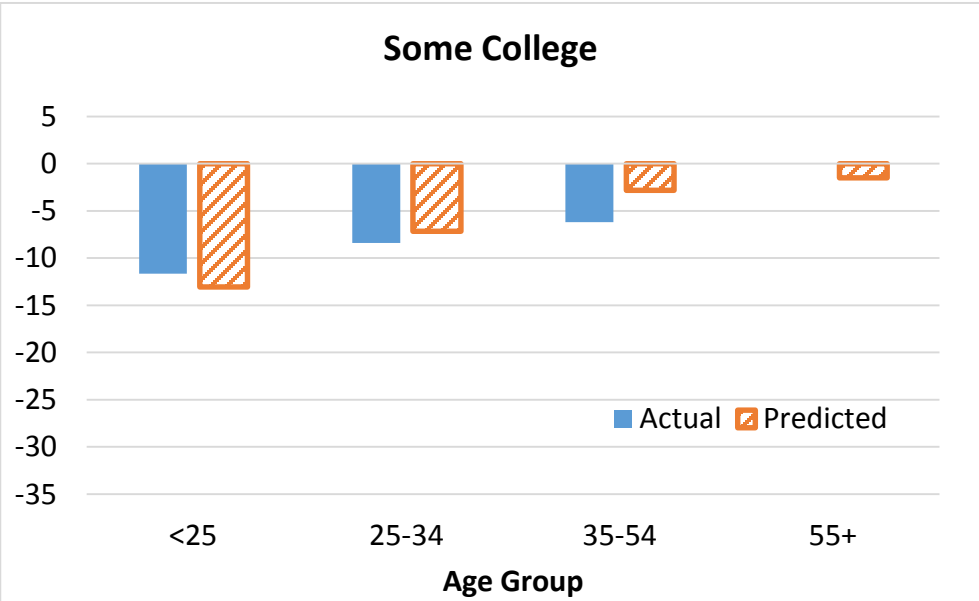
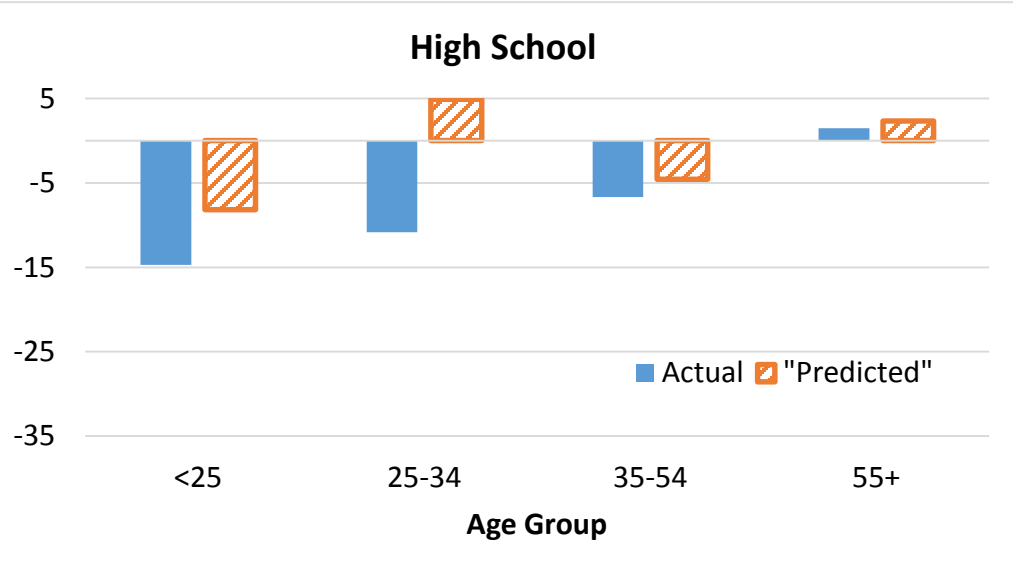
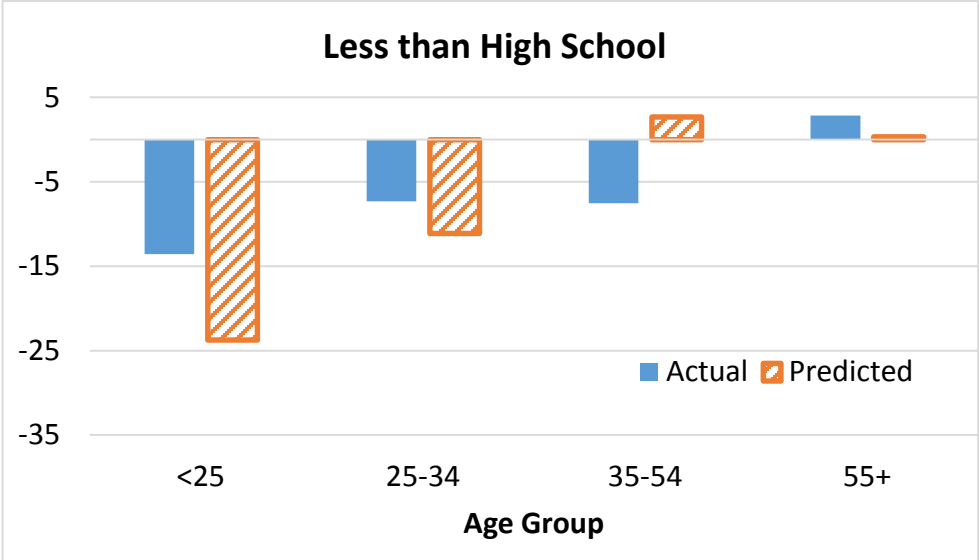
# Female Employment Rates by Age and Education for Selected Periods (CPS)



# Actual and Predicted Changes in Employment Rates Implied by Changes in Fluidity, 1998-00 to 2010-11, Males

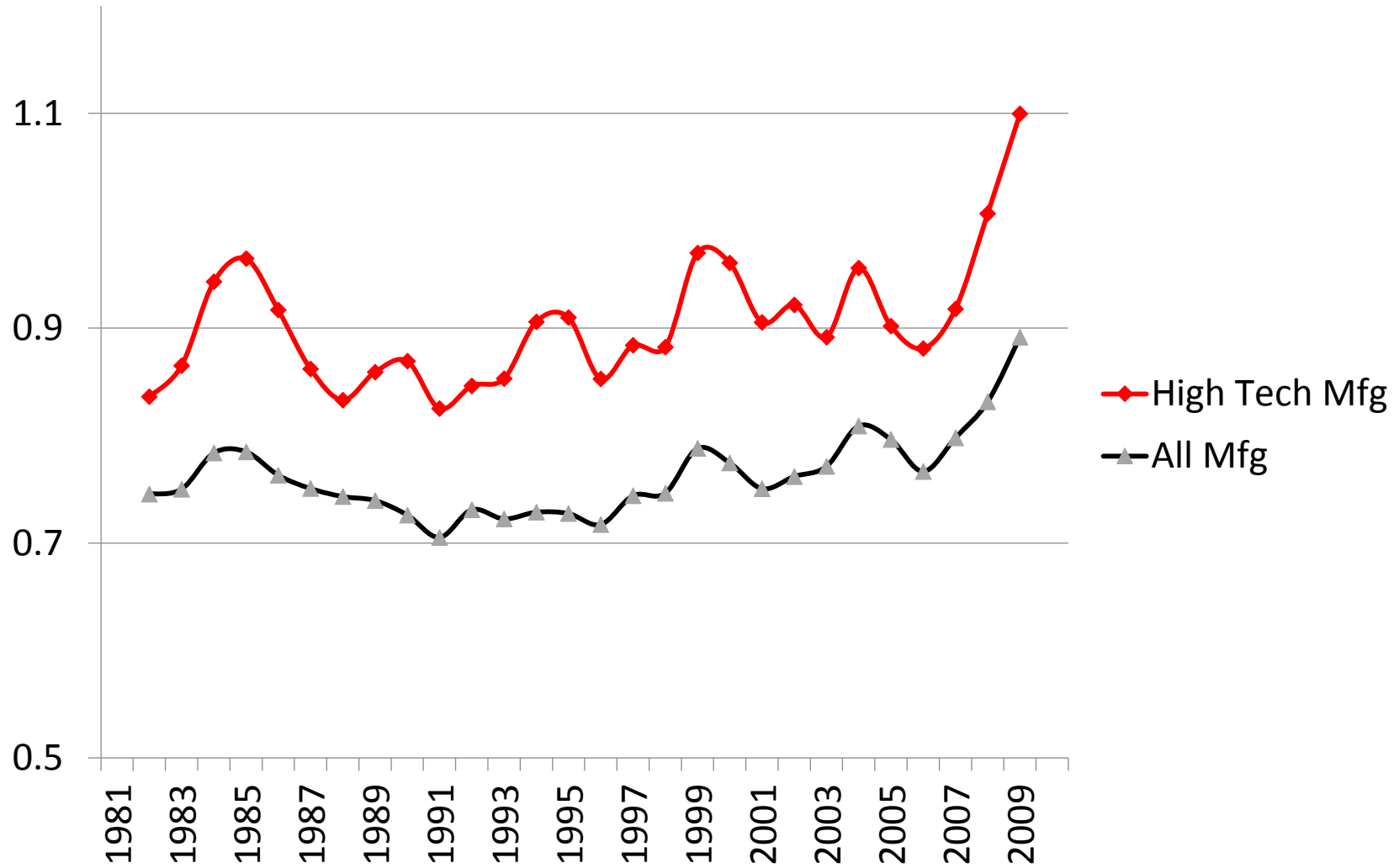


# Actual and Predicted Changes in Employment Rates Implied by Changes in Fluidity, 1998-00 to 2010-11, Females

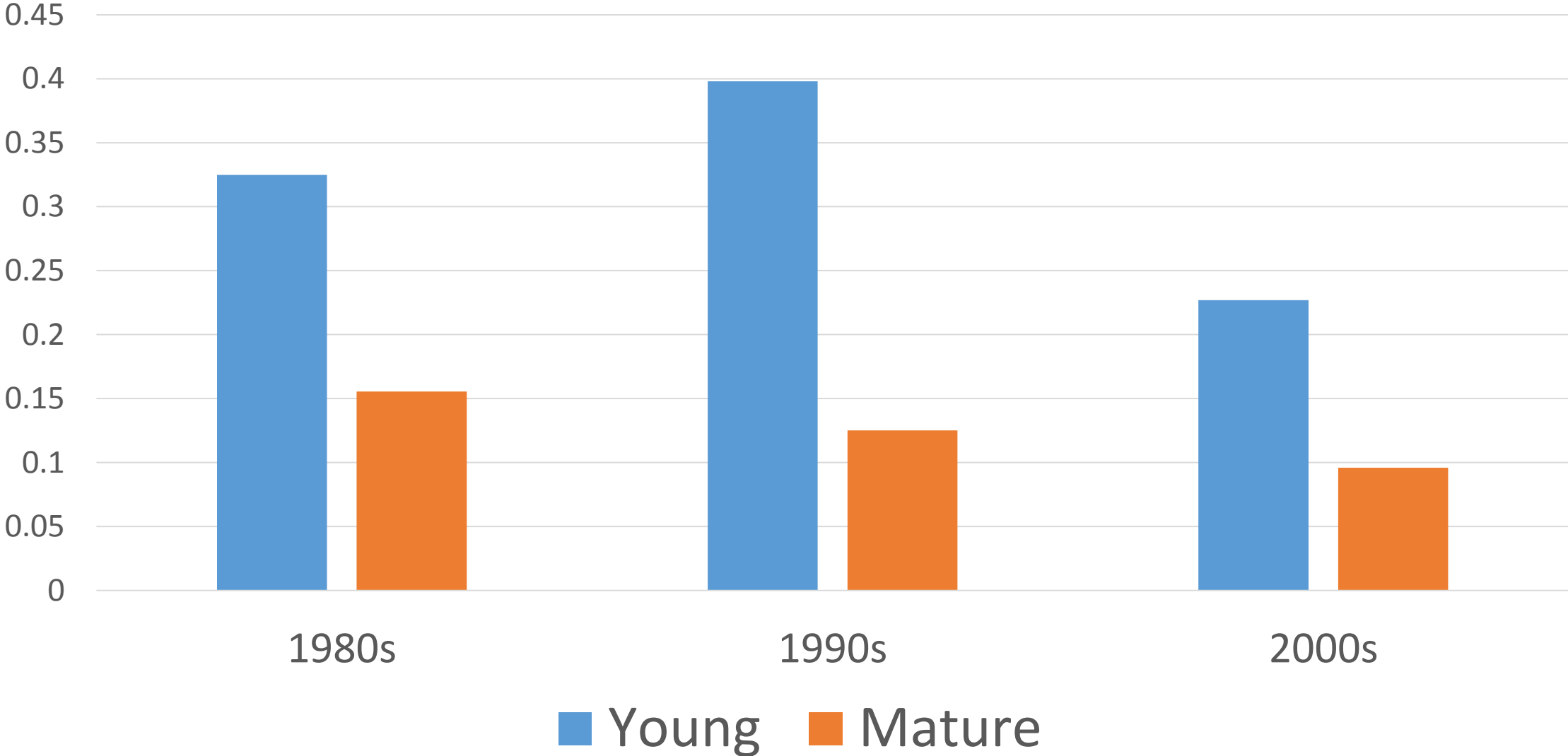




## Within Industry Dispersion in TFP over time in High Tech Mfg vs. All Mfg (3-year MA, 90-10)



# Marginal Response of Plant-Level Growth to TFP Shock in High Tech Manufacturing



# Summary of Key Points

- 1. Broad-based declines in U.S. labor market fluidity in recent decades**
  - Large declines for most demographic groups, huge for younger and less-educated
  - Sharp drop in fluidity and entrepreneurial dynamism in high-tech since 2000
- 2. Why? Full story yet to be written, but multiple forces are at work:**
  - Shift of activity to older firms and establishments (why is not well understood)
  - Shift to larger firms and establishments in some sectors (e.g., Retail Trade)
  - An aging workforce
  - Policy developments that suppress fluidity (e.g., erosion of employment-at-will, expansion of occupational licensing)
- 3. Reasons for Concern:**
  - Worker and job reallocation contribute to productivity and real wage growth
  - Reduced fluidity negatively affects employment, especially for those with limited skills
- 4. Key Implication for U.S. economic outlook:**
  - U.S. faced serious impediments to high employment before the Great Recession. A return to sustained high employment unlikely without restoring labor market fluidity