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

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.

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

Source: Annual Rates, BDS

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).

Source: Decker, Haltiwanger, Jarmin and Miranda (2015), LBD
Retail and Services have largest and most pervasive declines in young-firm shares.

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

- Males, less than high school
- Males, high school
- Males, some college
- Males, college or higher
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

Less than High School

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<tr>
<th>Age Group</th>
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High School

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Some College

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Actual and Predicted Changes in Employment Rates Implied by Changes in Fluidity, 1998-2000 to 2010-2011, Females

- **Less than High School**
  - Age Groups: <25, 25-34, 35-54, 55+
  - Actual and Predicted changes for different age groups.

- **High School**
  - Age Groups: <25, 25-34, 35-54, 55+
  - Actual and "Predicted" changes for different age groups.

- **Some College**
  - Age Groups: <25, 25-34, 35-54, 55+
  - Actual and Predicted changes for different age groups.

- **College**
  - Age Groups: <25, 25-34, 35-54, 55+
  - Actual and Predicted changes for different age groups.
Within Industry Dispersion in TFP over time in High Tech Mfg vs. All Mfg (3-year MA, 90-10)

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