HENRY R. HYATT
US Census Bureau, USA, and IZA, Germany

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The decline in job-to-job flows

An aging workforce and declining entrepreneurship explain the decline in job-to-job flows only partially

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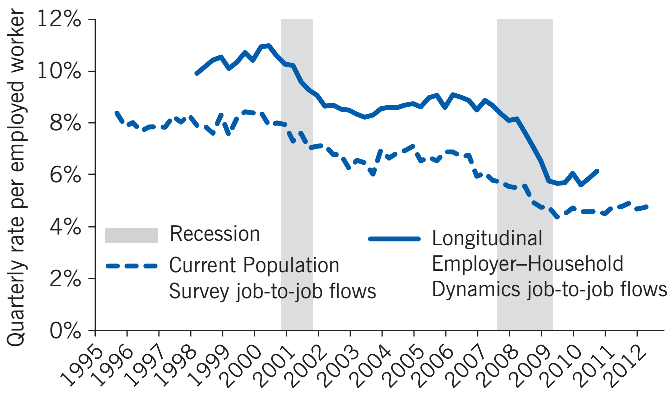
ELEVATOR PITCH

As part of a more general process of employment reallocation from less to more productive employers, job-to-job flows tend to be beneficial for productivity and for workers. Thus, when this rate slows, it is important to understand why. In the US, for example, the job-to-job flow rate is now at an all-time low. While job-to-job flows are a means of boosting wages and productivity, a decline could indicate improvements for workers if it means that they are now better matched to their jobs. Furthermore, when job-to-job flows are lower, firms and workers incur fewer costs related to job transitions, such as job search and hiring costs.

Job-to-jobs flows have been declining in the US since 2000



Source: [1], Figure 3.

KEY FINDINGS

Pros

- Job-to-job flow rates are generally the result of voluntary quits for better jobs.
- Changing employers usually involves a wage increase, especially for young workers.
- Job-to-job flows are part of efficiency-enhancing resource reallocation: productive employers tend to expand, and less productive ones to contract.
- Workers are generally in their jobs longer after switching employers.
- Changes in labor market composition, such as the aging workforce, rising educational attainment, and declining entrepreneurship, explain some of the decline in the job-to-job flow rate.

Cons

- Job transitions are costly: workers have to look for work, and employers must post vacancies and interview new applicants.
- Worker-accumulated job-specific skills may not be put to productive use after a worker changes jobs.
- Some direct job-to-job flows are involuntary, and these often involve worse matches and pay cuts.
- The main causes of the decline in the job-to-job flow rate are unknown.
- Little information is available on job-to-job flows in countries other than the US.

AUTHOR'S MAIN MESSAGE

Job-to-job flows generally reflect workers' moves to jobs that pay more and last longer. But job-to-job flows also involve job search and training costs, and the loss of valuable employer-specific experience. Thus, any single job-to-job transition may be good or bad for a particular employee or employer. New US data indicate that job-to-job flows have slowed dramatically since 2000. While the aging of the workforce and the decline in entrepreneurship explain some of the decline, a large share is unexplained. A slowdown would be worrisome if it means that there is not a steady stream of new jobs that are more productive than existing ones.

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