

## Long Hours and High Turnover – For What?

BY AARON STEELMAN

**“Allocating Effort and Talent in Professional Labor Markets.” Gadi Barlevy and Derek Neal. Federal Reserve Bank of Chicago Working Paper No. 2016-03, March 2016.**

It’s commonplace to hear of young employees at law firms, investment banks, and consulting groups working very long hours. Those employees, often termed “associates,” usually work within an “up-or-out” promotion system, meaning that after a set number of years they are either made a “partner,” typically receiving an equity stake in the firm, or they leave for another job, often in a less competitive sector of their profession or in a different profession altogether. Why do firms have such policies for their associates? In a new paper published by the Chicago Fed, Gadi Barlevy and Derek Neal argue that both policies — heavy workloads and up-or-out promotion decisions — serve a common purpose: They help current partners identify new talent that will lead their organizations into the future.

Partners possess analytical skills required to perform and direct complex work as well as the communication and people skills required to earn and maintain the trust of clients. And because the trust relationship between a partner and a client depends on the partner’s ability to reliably provide expert services, each partner can manage only a limited number of clients. Firms grow horizontally by recognizing new partners who can handle such client relationships. This is done by observing how associates perform a large number of tasks over a fixed period and by cycling through new associates when current ones either are promoted or leave.

Those who leave reduce their hours significantly in their new jobs, and their wage rates often rise because their skills are desirable in the labor force overall. As mergers have created some very large firms, up-and-out policies have been relaxed at certain organizations, with a limited number of employees retained in nonpartner positions to provide specific services that multiple partners can use.

**“Are Millennials with Student Loans Upwardly Mobile?” Stephan Whitaker, Federal Reserve Bank of Cleveland Economic Commentary No. 2015-12, Oct. 1, 2015.**

From 2007 to 2015, outstanding student loan debt rose 116 percent and now amounts to \$1.19 trillion. Stephan Whitaker of the Cleveland Fed recently analyzed data from the New York Fed/Equifax consumer credit panel to determine how the increase in student loan debt is affecting debtholders’ socioeconomic outcomes across a variety of measures. In general, economists expect student loan debt

to be correlated with upward mobility because young people with higher education generally are more highly skilled and command higher wages, more than compensating for the debt they have acquired. But some observers have suggested that there may be a critical point at which the debt level becomes too large and upward mobility ceases to be possible.

Overall, Whitaker finds that such fears have not proved true. “Millennials” with student debt still are more likely to be upwardly mobile than nonborrowers. But the advantages seem to have declined relative to the previous cohort of student debt holders. In particular, they are less likely to hold a mortgage. Whitaker observes that these trends “may be caused by the debt itself, or they may reflect the relatively weak economic recovery.”

**“Sentiment of the FOMC: Unscripted.” San Cannon, Federal Reserve Bank of Kansas City *Economic Review*, vol. 100, no. 4, Fourth Quarter 2015, pp. 5-31.**

The Federal Open Market Committee (FOMC) releases transcripts of its meetings with a five-year lag. San Cannon of the Kansas City Fed has used text-mining techniques to examine participants’ tone and diction over time, from 1977, the first year the FOMC started identifying written records as transcripts, through 2009. As might be expected, when economic growth is above trend, discussions tend to be shorter, contain fewer unique words, and be more positive than when growth is below trend.

Overall, Governors tend to make more comments than Reserve Bank presidents or Board staff members, but those comments tend to be shorter, perhaps because they ask a larger number of questions while Bank presidents, among other things, describe economic conditions in their districts and Board staff members often present prepared comments on specific topics. The tone of Bank presidents “has been consistently more positive than that of the Governors and staff for most of the period. The staff tone also has been consistently more positive, with smaller variation, than the Governors until recent years,” Cannon notes.

In response to a congressional hearing in 1993, the FOMC announced it would start publishing meeting transcripts. Cannon shows that discourse has changed since that decision, offering that participants may have given more carefully worded responses in the 1994-2009 period, knowing that their comments would be made public. In addition, positive economic activity “sparked a less positive tone in FOMC discussions post-publication than pre-publication,” though changes in tone were not uniform across Governors, Bank presidents, and Board staff members. **EF**