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Job Mobility During and After the Pandemic

Are pandemic-era trends in job changing a cause for hope — or concern?

In the past few years, job changing in the United States — workers leaving their current employers for new ones — seems to have been on the rise. This development, often called the "Great Resignation," has attracted much attention, but the reasons behind it are far from clear. Is it the result of health and safety concerns causing workers to pull away from the workforce, or of workers reappraising their work-life balance? Or is it, perhaps, the rippling effects of the move toward remote work? It is even possible, as some have argued, that the Great Resignation is not so great after all and is merely the result of fluctuations in the business cycle. With these competing explanations, the implications for workers and ultimately the economy as a whole are murky.

It's a reversal of a long-term trend. Prior to the COVID-19 pandemic, labor mobility had been drifting downward, a trend that may have begun as early as the 1980s. Researchers have seen this trend reflected in a wide array of data. Multiple papers confirm a downward trend in the job-to-job transition rate — the rate at which workers leave one job for another without suffering through unemployment in between. Others have found similar trends in other common measurements of job mobility, such as the number of hirings and separations.

Another measure of labor mobility is the quits rate. While quits do not provide as detailed information as job-to-job transition data since they do not provide information on what workers do after separation, they do provide a measurement of voluntary job separations. In particular, the data on quits measure the number of separations initiated in a month by employees (not including retirement). It's considered a good measurement of a worker's ability to leave a job and pursue other economic opportunities and therefore of labor mobility.

The quits rate, the proportion of jobs that workers quit in a given month, paints an interesting picture of labor mobility. (See chart.) Until roughly 2017, quits rates seemed to tell a story that was in line with the general decline in other measures of labor mobility during this period — in particular, collapsing during the Great Recession and experiencing only a modest recovery in the years after.

After 2017, however, this quickly changed as the quits rate grew beyond pre-crisis levels. Then came the COVID-19 pandemic, when, after an initial drop, it reached heights not seen before in the 21st century.

CHANGING TRENDS

After the initial, precipitous decline around April 2020 that lasted only a few months, the quits rate grew and eventually peaked at 3 percent — more than half a percentage point higher than any previous peak in the pre-pandemic data since the series began in 2000. Even after some retrenchment in recent months, it still remains comfortably above any pre-pandemic level.

This is especially surprising when one considers that an increase in the quits rate represents an increase in voluntary job changes, but these were precisely the types of job changes whose decline drove the fall in labor mobility measures in the first place. In a 2019 article for the Bureau of Labor Statistics' *Monthly Labor Review*, Maury Gittleman sought to use more detailed survey data to provide more context for the labor market trends seen up to that point. He found that voluntary job changes may have fallen by as much as 50 percent between 1988 and 2013.

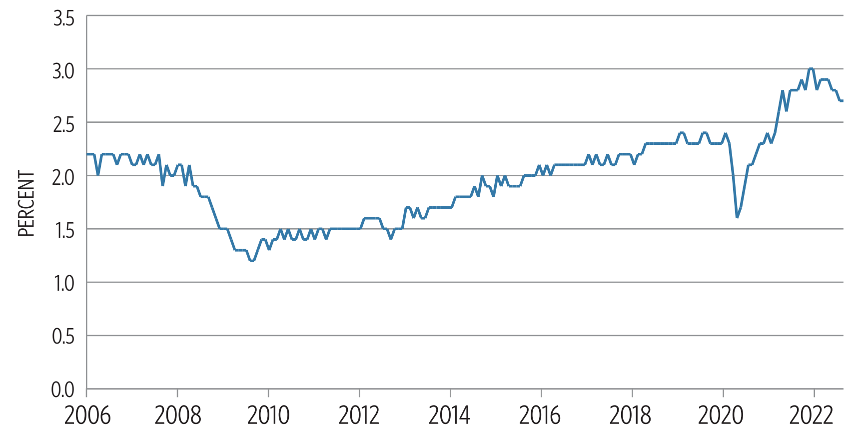
"My analysis seems to imply the downward trends in job-to-job transitions prior to the pandemic were primarily due to a decline in voluntary job switching," says Gittleman. "In this case, it seems that much of this might be the result of demographic trends — the work force is aging, and older workers are less keen on job switching."

The reasons for the recent reversal in a decades-long trend are disputed. The sudden increase in labor mobility could be temporary — for example, it might simply be following the business cycle. Indeed, this is the explanation offered by Bart Hobijn of the San Francisco Fed. In an April 2022 *Economic Letter*, he argued that the increase in the quits rates corresponds to the rapid recovery of the economy after the pandemic-induced recession, pointing to historical episodes of high quits rates that accompanied other periods of rapid growth in the 20th century. If the increase in labor mobility is indeed due to the post-pandemic recovery, then, of course, this uptick should be only temporary.

On the other hand, some believe the effect goes beyond the business cycle. In a 2022 article for the *Monthly Labor Review*, Gittleman examined the trend in quits rates. While he found that cyclical trends in the labor

market did explain much of the current increase in quits rates, they did not explain all of it. "Depending on the model, ignoring nonbusiness cycle factors could lead to significant error in predictions for the quits rate," he explains. This led him to conclude that other possible pandemic-related factors such as stimulus checks, health concerns, or changing attitudes to work are worthy of more investigation.

Alternatively, the increase in job mobility could be the result of long-term shifts that took place during the pandemic. For example, the pandemic may have changed workers' views of their career prospects and work-life balance. Another force that may contribute to a more lasting change in labor mobility is the increase in remote work during the pandemic, which opened more options for workers — a shift that may prove to be enduring.



SOURCE: U.S. Bureau of Labor Statistics via FRED

NOTE: Quits represent employees who left voluntarily, except for retirements or transfers to other locations. The quits rate is the number of quits during the entire month as a percent of total employment.

BENEFITING WORKERS

Economists have often associated increased job mobility with positive outcomes. In some ways, the fluidity of the U.S. labor market has often been seen as an "engine of opportunity" that drives the U.S. economy. As a result, its fall was potentially a significant cause for worry and its return could benefit workers.

In particular, job mobility is especially important for young workers who derive significant benefit not only from more job options, but also from the learning opportunities that a job change can provide, both about skills in a variety of fields and about themselves and the career they are suited for. As a result, the option to switch jobs represents an important tool for increasing wages and optimizing the career path for inexperienced workers.

This effect was demonstrated in research by Robert Topel and Michael Ward, then at the University of Chicago, published in the *Quarterly Journal of Economics* in 1992. They found that, at the time, job changes accounted for about a third of the increase in early-career wages — a result that led them to conclude that changing jobs is "the principal method by which workers at the present time improve their condition on their own initiative."

More recent work has been done on examining occupational mobility — a larger shift in a worker's life that encompasses not only a job change, but also a change in the type of work he or she does, such as moving from blue-collar work to white-collar work or vice versa. Here again, research shows that the benefits of occupation switching can be considerable. A 2019 *International Economic Review* article by Aspen Gorry and Devon Gorry of Clemson University and Nicholas Trachter of the Richmond Fed attempted to model the benefits of occupational switching and found that, for young workers, the value of the option to switch occupations is worth about 67 months of the maximum wage that those workers could earn in the model. Similarly, the value young workers receive from learning about themselves and their talents is worth about 32 months of this same wage. Thus, occupational mobility can bring outsized benefits, especially to young workers.

Indeed, it has been argued that falling job mobility could be related to the lack of rising wages in the wake of the Great Recession. Therefore, it is possible that a sustained reversal in this trend could ease wage stagnation and bring considerable benefits to U.S. workers.

Thus, if the current trend in labor mobility is the result of more opportunities being afforded to workers due to changes in labor market structures — such as the movement toward remote work, which may allow workers to seek jobs that are farther away — then this could be a cause for optimism as these opportunities will allow young workers to look for higher wages and learn new skills. If these changes are because of reorganization due to health concerns or the result of business cycle forces, however, then there may be less cause for celebration.

THE COSTS OF MOBILITY

While there are benefits to higher levels of labor mobility, there are possible costs as well. Gittleman notes that a major potential downside of increased labor mobility is more uncertainty for workers, who will likely feel less secure in an economy that is so fluid and subject to change. In particular, workers may potentially face a greater risk of job loss.

Other research provides some insight into economic mechanisms by which job mobility can adversely affect workers and even the productivity of the economy as a whole. In a 2018 working paper, Nobuhiro Kiyotaki of Princeton University and Shengxing Zhang of the London School of Economics painted a picture of how uncertainty on the part of firms as to whether a worker will remain with them long term (a so-called "limited commitment" problem)

can result in an inefficient allocation of resources. Kiyotaki and Zhang created a model of job training offered by firms. They found that if a worker can credibly commit to a firm in the long term, the firm is willing to pay the cost of training the worker as the firm knows that it will reap the full benefits of the workers' new skills at some later point.

But if the worker cannot commit to the firm — that is, if there is job mobility — then there is risk to the firm: It may train a worker only to see the worker leave for a different job. In the scenario where the worker can't commit to the firm, workers now need to compensate the firm for this risk if they desire job training — typically through a lower wage. Not only can this hurt the worker, but it can also have a negative effect on the productivity of the economy as a whole. If the cost is high enough, then some workers may be precluded from job training even if they are exceptionally talented. This loss of talented, skilled workers would hurt firms in the long run, ultimately leading to stagnation. Kiyotaki and Zhang's research focused on Japan, so it is not yet clear whether this same story would apply to the post-pandemic U.S. economy.

Indeed, Christopher Smith of the Federal Reserve Board, who has co-authored a number of papers on job mobility, notes that job mobility and job stability may not be as obviously at odds as one may think. "One of our more recent papers on pre-pandemic mobility looks at changes in the tenure distribution and shows that short-tenure jobs were less frequent — consistent with a decline in job changing — but jobs with tenure of 10 years or more were also less common, consistent with the notion that jobs were less stable than they used to be." Thus, it is possible for mobility and stability to decrease concurrently, and consequently, it is possible for them to increase concurrently as well. Rising mobility in the U.S. and the mechanism described in Kiyotaki and Zhang's research might not be so cleanly linked after all.

WHAT IS THE OVERALL EFFECT?

Job mobility is, at least temporarily, on the rise, but the implications of this are unclear. The potential benefits associated with increased mobility are sizeable, with young workers standing to gain the most through improved wage growth and productivity. Yet increased job mobility may also mean increased uncertainty for workers while pushing firms to make inefficient decisions in the labor market.

Which of these contradictory possible outcomes will prevail following the pandemic? Unfortunately, there is not necessarily a simple answer. It is possible to look to history for help. For example, a 2014 working paper by Steven Davis of the University of Chicago and John Haltiwanger of the University of Maryland found that, at least historically, higher worker reallocation rates (and thus higher mobility) benefited workers, especially younger, less educated ones, in terms of employment. They concluded that "sustained high employment is unlikely to return without restoring labor market fluidity." Under this view, higher labor mobility could be a positive.

There is more work to be done, however, in looking into the underlying causes of the change in labor mobility. Underlying the numbers on job-to-job transition rates, hires, separations, and quits are the decisions of millions of workers navigating a changing labor market. It is important to understand the forces at play that are influencing workers to make the decisions they do — are these changes temporary or permanent? Are they the result of increased opportunities due to remote work or of increased uncertainty?

Answering these questions is no easy task. Andreas Hornstein, a Richmond Fed economist, says, "You need to develop a model that describes some theory or tells some story of what is happening in the economy, but it can be hard to decide which stories are good."

As in much economics research, Hornstein says, a researcher at this point might try to test his or her model empirically, checking to see if the implications of the model match with the data or looking for new, more precise measurements to prove or disprove the theory. While insights from these approaches are valuable, they are not always enough. "This is where economics research can become a bit of an art and a bit of a conversation," Hornstein explains. "Researchers come together and propose ideas and explanations and provide critique, ultimately trying to arrive at a model that is simple, interesting, and describes the basic mechanisms causing the trend reasonably well."

The process of sorting out what is happening can be especially complex within a situation like the coronavirus pandemic, which is still underway and whose long-run impact has not yet been realized. Hornstein says, "In such cases, you try to incorporate new events into old models. You might ask what remote work means in terms of worker productivity or what health and safety concerns mean for a worker's willingness to work. In these cases, data will not be enough to tell you what is happening in the long run."

While such methods are complex and difficult, ultimately these are the steps that research economists will be taking to develop a rigorous and thoughtful understanding of what the current trend in labor mobility means for American workers. **EF**

READINGS

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