Switching Occupational Categories

By Aspen Gorry, Devon Gorry, Tim Sablik, and Nicholas Trachter

Worker mobility, across jobs and across state lines, has fallen in recent decades. Changing jobs is one way workers gain new skills and improve their wages. New research also suggests that switching between white-collar and blue-collar occupations enables workers to learn valuable information about their abilities and the types of jobs they are best suited for. Any frictions inhibiting the ability of workers to switch occupations would be costly, particularly for young workers.

Interstate migration has been falling in the United States over the past three to four decades.1 One of the main reasons people move is to change jobs. Indeed, some researchers have blamed the decline in geographic mobility at least in part on the fact that workers in the United States are changing jobs less frequently than they used to.2 According to one study, the rates at which employees quit their jobs and start new ones have fallen by between 10 percent and 38 percent over the past two decades.3

Economists are interested in this decline in labor market “dynamism” because job switching is believed to play a key role in how workers gain new skills and raise their incomes. Many workers change jobs within the same industry or even within the same company to build their skills and climb the job ladder to better-paying positions. But workers also benefit from being able to switch between broad occupational categories — that is, switching from a white-collar job to a blue-collar job. Young workers in particular may switch occupations to experiment and identify the type of work they are best suited for early in their careers to maximize their lifetime earnings.

Calculating the value of the option to switch occupations can shed light on the potential costs of the recent decline in job mobility. Three authors of this Economic Brief (Gorry, Gorry, and Trachter) have created a model of occupational switching to examine which workers change between white- and blue-collar jobs and to quantify the value of having the option to change jobs.

Modeling Occupational Transitions

Roughly one-fifth of high school educated workers from ages eighteen to twenty-eight switch between white- and blue-collar occupations each year. Additionally, nearly half of these workers switch occupations more than once during the first ten years of their careers. (See Figure 1 on the following page.) These findings come from the 1979 National Longitudinal Survey of Youth (NLSY79) conducted by the Bureau of Labor Statistics, which surveyed a sample of more than
Gorry, Gorry, and Trachter develop a model that accounts for the patterns of occupational switching observed in the data. Workers choose whether to go into a white-collar or blue-collar occupation after high school based on their beliefs about their abilities. Workers then periodically update their beliefs about their abilities and the types of jobs they are best suited for. If they receive signals that reinforce their initial beliefs, they will remain in their current job types. But if the signals they receive cause them to question whether they are best suited for their current occupations, they will switch. In the model, workers who are less certain initially about their abilities are closer to the threshold for switching. They are more likely to switch occupations in response to new information, such as learning more about their abilities while on the job or being exposed to an economic shock that affects their current jobs.

Once they switch occupations, workers in the model remain close to the threshold for switching. As a result, a small change in their beliefs in the other direction would induce them to switch occupations again. If they do switch again, the model predicts they would do so faster than the first time. This aspect of the model captures the fact that in the NLSY79 data, a large share of workers who switch occupations do so more than once, and those who do switch multiple times do so faster the second time than the first.

This finding contrasts with previous studies on job switching that suggested individuals change jobs less frequently as they get older. This pattern of less-frequent job switching seems to be true for individuals with strong initial beliefs about the types of jobs they are best suited for. But workers who have beliefs on the margin are more likely to switch occupations many times before finding the occupations they are best suited for. In their paper, Gorry, Gorry, and Trachter observe that this behavior doesn’t seem to fit with models of job switching that assume workers change occupations simply to gain skills, since it would imply that they gain skills faster as they age. Instead, workers who switch occupations multiple times are learning about themselves and the type of work they can do most productively. This learning drives occupational switching in the model.

**The Value of Learning by Switching**

Gorry, Gorry, and Trachter use their model to estimate the value of being able to switch between types of occupations. They compute the value of switching for workers based on their occupations and beliefs across time as they age. For the average eighteen-year-old, being able to switch is worth an estimated sixty-seven months of his or her best potential wage (the maximum wage the worker could earn in the model). That value falls to less than one month of wages by age forty-nine.

Having the option to switch occupations becomes less valuable for workers as they age for two reasons.
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Endnotes


5 Gorry, Gorry, and Trachter focus on high school graduates, but their findings are similar for college graduates as well.