

## The impact of business cycles on job mobility

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Job mobility is often a critical factor in determining a worker's lifetime earnings growth and career trajectory. Many job ladder models have theorized that higher paying firms poach workers away from lower paying ones, and that larger firms poach workers from smaller ones. Economic recessions, however, reduce job mobility. In "[Cyclical job ladders by firm size and firm wage](#)" (National Bureau of Economic Research working paper no. 23485, June 2017), John Haltiwanger, Henry Hyatt, Lisa B. Kahn, and Erika McEntarfer study the poaching patterns of firms by size and by wage, and explore how business cycles facilitate and interrupt job ladders.

The authors use a sample of linked employer–employee data from the Longitudinal Employer–Household Dynamics (LHED) program at the U.S. Census Bureau from 28 states spanning the first quarter of 1998 to the fourth quarter of 2011. This data set, which covers 65 percent of national private sector employment, is used to classify worker transitions as either poaching (job-to-job) flows or flows to and from nonemployment. The authors consider two cyclical indicators in their analysis: the change in the unemployment rate, and the Hodrick–Prescott-filtered unemployment rate. The latter indicator rises during economic contractions, but it remains high well into recoveries as well.

The authors begin their empirical examination by breaking up firm employment changes into two parts: each firm's net employment change (hires less separations) from poaching flows, and each firm's net employment change from moves to and from nonemployment. They then use this decomposition to measure how much the poaching moves contribute to overall employment changes at large vs. small firms and high-wage vs. low-wage firms over the business cycle.

The data show that larger firms are just as likely to lose workers from poaching as they are to gain them, which is at odds with the concept of a firm size ladder whereby workers move from smaller to larger firms. Net employment changes at both large and small firms are driven mainly by worker flows in and out of nonemployment.

Comparatively, high-wage firms have positive net poaching and low-wage firms have negative net poaching. On average, high-wage firms increase employment 0.7 percent a quarter through poaching moves, while low-wage firms lose 1.2 percent of employment quarterly to poaching, corresponding to significant worker movement up the firm wage ladder. However, net poaching employment for both kinds of firms is strongly cyclical. During the Great Recession, high-wage firms had almost no net employment gains from poaching while low-wage firms had no net losses.

Although the authors find little evidence for a firm-size ladder, they find strong support for a procyclical firm-wage ladder. Employment at high-wage firms is more cyclically sensitive than at low-wage firms, and this employment

effect is attributable to poaching. When unemployment is higher, net poaching by high-wage firms declines relative to net poaching by low-wage firms.

To further test the cyclicity of the firm-wage ladder, the authors break up net poaching hires into two parts: job-to-job flow rates and the likelihood that a job transition results in a move into a different wage category. The authors use a simple bivariate regression to determine whether changes in job mobility or changes in how likely workers are to move up the firm-wage ladder are primarily responsible for the observed cyclical variations in net poaching.

Although job mobility in general is less likely in economic downturns, moves up the firm-wage ladder are especially unlikely. The authors find that during periods of economic expansion, 1.21 percent of low-wage workers transition up the ladder quarterly. During contractions, however, only 0.73 percent of low-wage workers are reallocated up to higher rungs, a decline of 40 percent compared with periods of economic expansion. In particular, during the Great Recession, only 0.19 percent of low-wage workers moved to higher wage jobs each quarter, representing a decline of 85 percent over expansionary periods.

Furthermore, the authors find that job-to-job moves account for total earnings gains of about 1 percent a quarter, with almost 60 percent of those gains coming from workers moving from lower to higher paying firms. During the Great Recession, the earnings growth associated with upward moves along the firm-wage ladder fell by 40 percent. As younger workers depend most upon job-to-job transitions for advancement, the research points to lasting consequences of the Great Recession on this group's career development and earnings potential.