

# Job-to-Job Flows and the Consequences of Job Separations

Bruce Fallick<sup>1</sup>    John Haltiwanger<sup>2,3</sup>  
Erika McEntarfer<sup>2</sup>    Matthew Staiger<sup>2,3</sup>

<sup>1</sup>Federal Reserve Bank of Cleveland

<sup>2</sup>U.S. Census Bureau

<sup>3</sup>University of Maryland

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## Motivation

- Labor market exhibits high rate of worker reallocation, important for
  - aggregate productivity growth (Haltiwanger et al. forthcoming)
  - career progression of individual workers (Topel and Ward 1992)
- But some workers harmed in the process
- Jacobson et al. (1993) and others find large persistent losses for displaced workers—separators from distressed firm
- Literature on displaced workers tries to understand source of losses

## Our Paper

- We estimate the earnings consequences of separations by both the health of the origin firm (distressed vs. non-distressed) and the length of the nonemployment spell prior to finding a new job

# Preview of Results

## Data

- Administrative earnings data from LEHD program

## Main Findings

- Firm distress is not predictive of earnings losses
- Duration of nonemployment spell is strongly associated with earnings losses: large losses for those who do not immediately find a new job
- Nonemployment spell associated with moving to lower-paying firms

## Implications

- Future work should aim to understand relationship between earnings losses and duration of nonemployment
- Models of the labor market that produce job ladders appear to be useful framework to study the problem

## Source

- Quarterly panel of linked employer-employee data from LEHD
- Five large states: CA, NC, OR, WA, WI

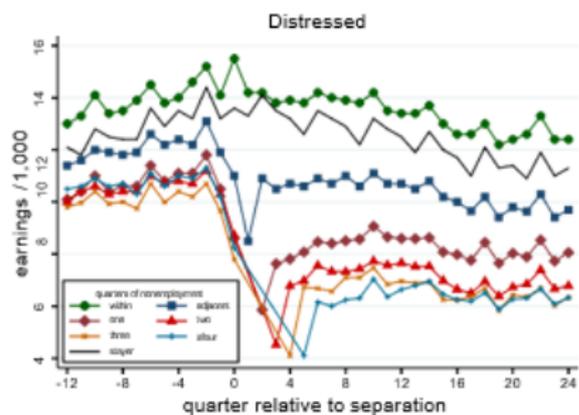
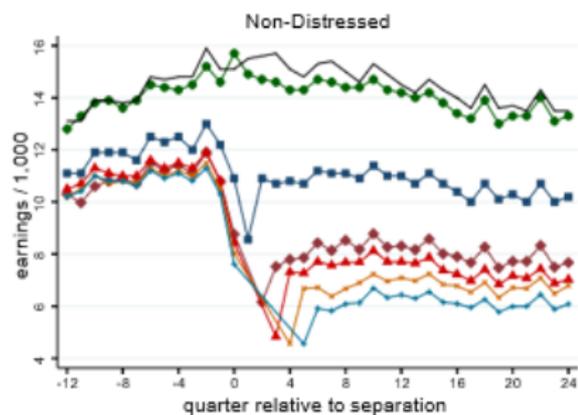
## Employees

- Workers employed with  $\geq 3$  years tenure in 2005:2
- *Stayers*: sample employed for at least 3 quarters ( $\sim 700,000$ )
- *Separators*: employed at new employer within 8 quarters ( $\sim 200,000$ )
- Most of the analyses exclude recalls

## Employers

- *Distressed*: Employment declines by  $\geq 30\%$  between 2005:2 & 2006:2
- Exclude firms with  $< 50$  employees

# Summary Statistics

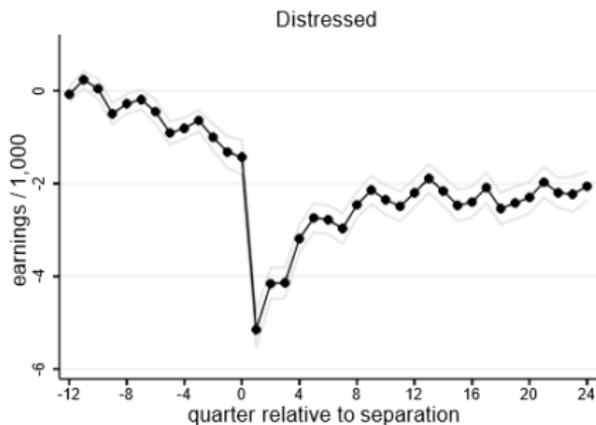
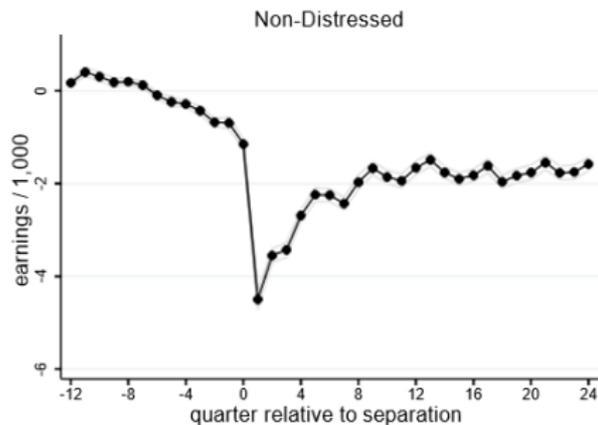


## Standard JLS Regression

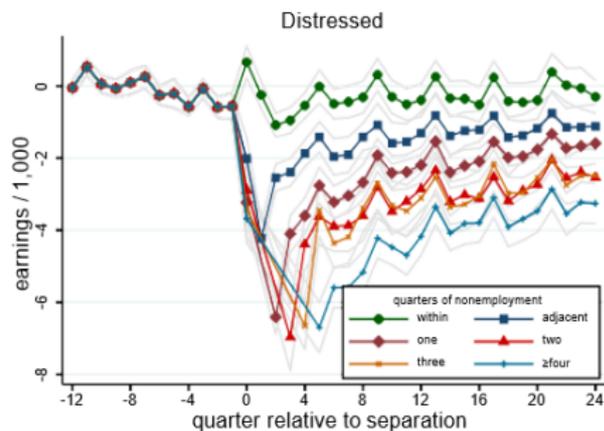
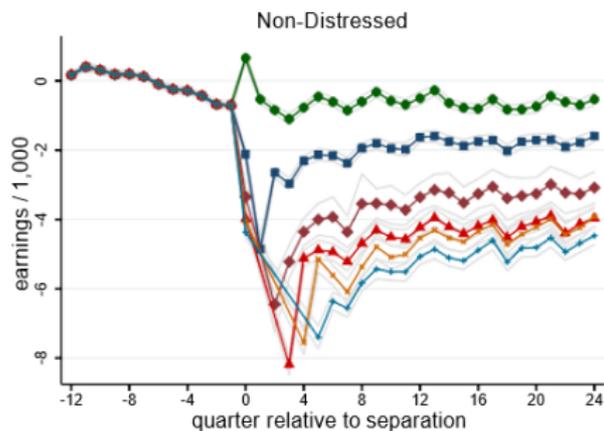
$$y_{it} = \alpha_i + X_{it}\beta + \sum_{k \geq -23} A_{it}^k \gamma^k + \sum_{k \geq -12} S_{it}^k \delta^k + u_{it} \quad (1)$$

- $i$  is individual and  $t$  is calendar quarter
- $y$  is quarterly earnings
- $A_{it}^k$  is equal to one if  $t$  is  $k$  quarters after  $t$
- $S_{it}^k$  is equal to one and  $i$  is a separator
- $X_{it}$  is interactions between sex, age and age<sup>2</sup>
- $u_{it}$  is error term clustered at the original employer

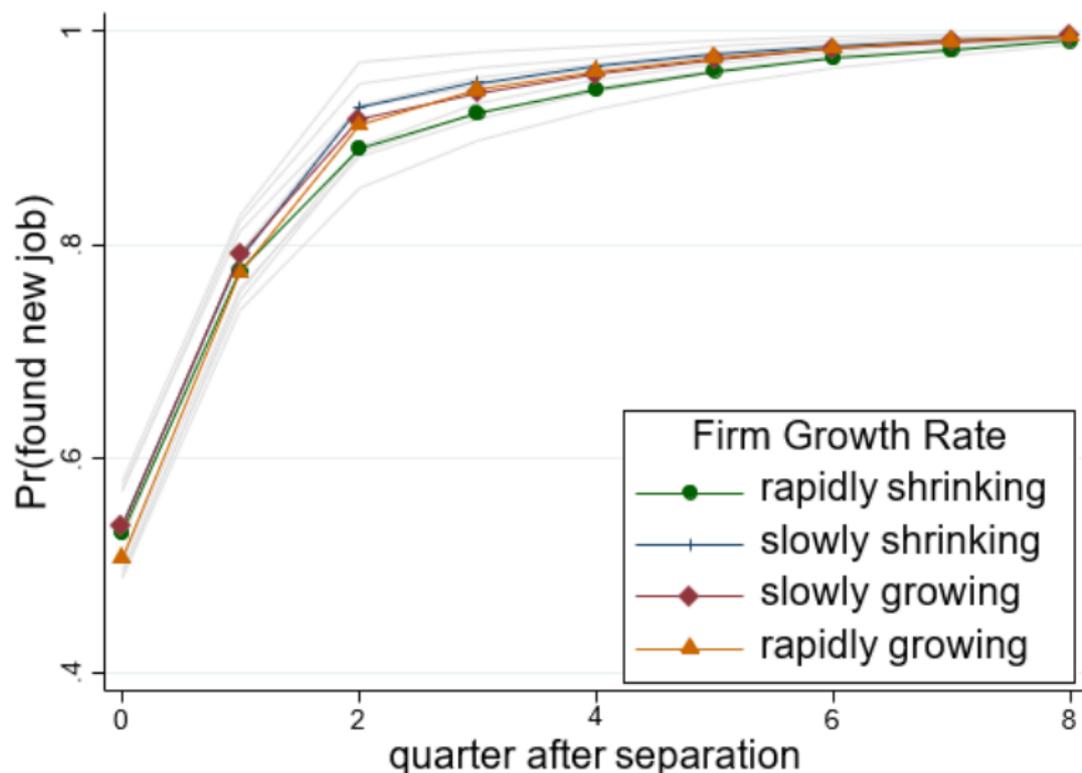
# Earnings Losses from Standard JLS Regression



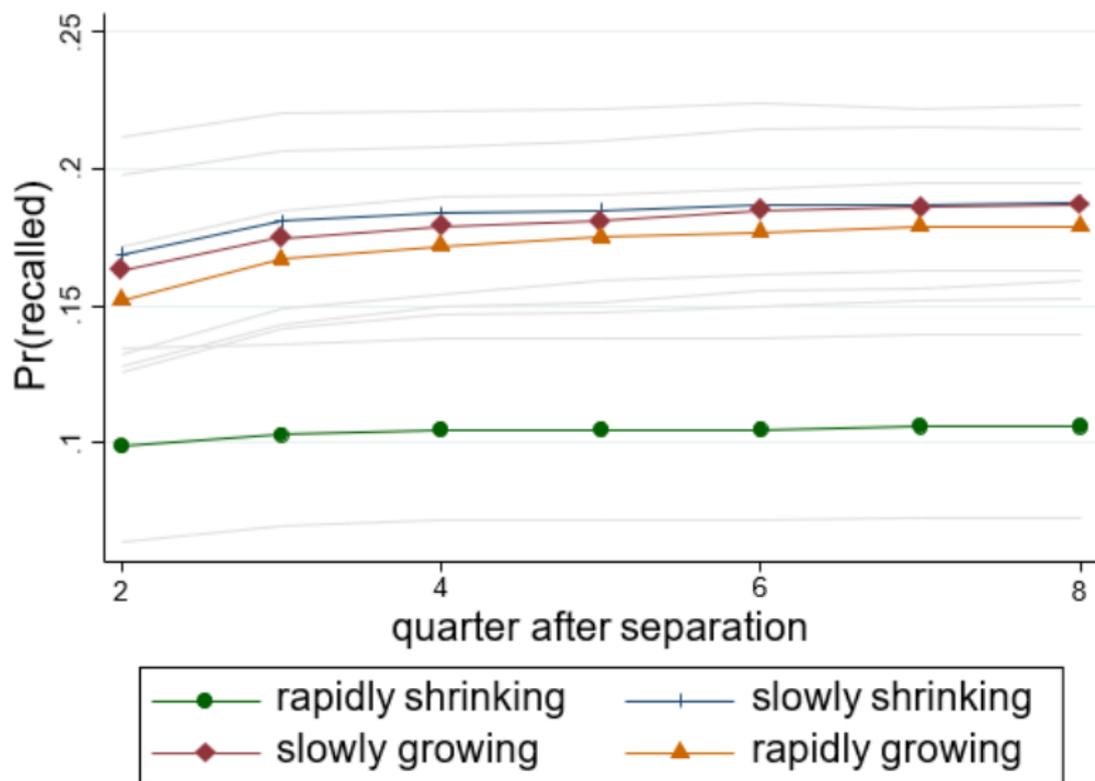
# Earnings Losses by Duration of Nonemployment



# Firm Health and Duration of Nonemployment



## Firm Health and Recalls



# Potential Explanations

## Worker Heterogeneity

- Differences across workers correlated with earnings losses and duration of nonemployment
- Results robust within samples in which separations more/less likely driven by worker choice

## Labor Demand

- Demand for workers skill set is declining making it more difficult to find work and leading to earnings losses
- Findings robust within samples defined by local labor market strength

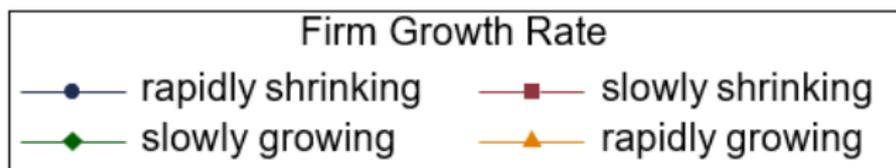
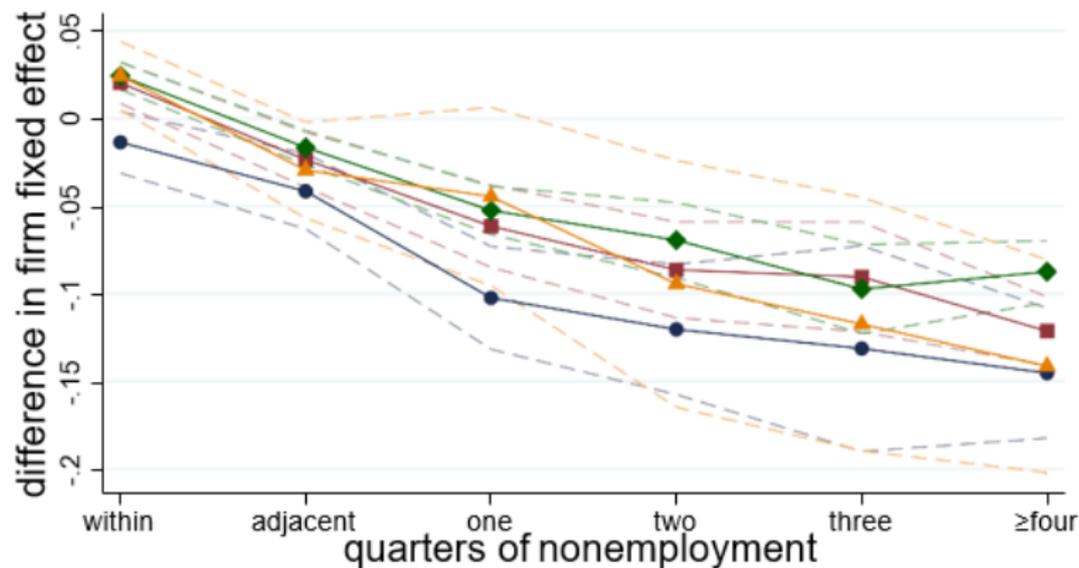
## Human Capital

- Human capital depreciates while nonemployed
- Why would earnings losses would be so large and persistent for relatively short spell of nonemployment?

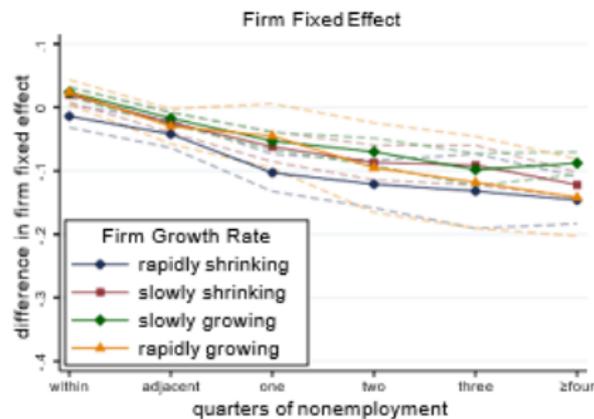
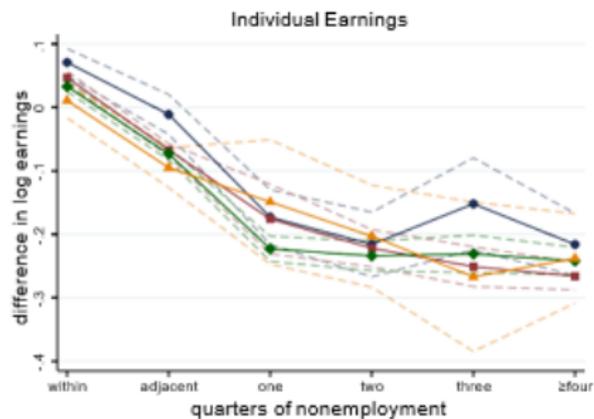
## Job Ladders

- Hard to find job at high-paying firm if nonemployed

## Job Ladders and Firm Fixed Effects



# Comparison to Individual Earnings



## Summary of Findings

- Earnings losses are not specific to separations from distressed firms, rather time spent in nonemployment
- Duration of Nonemployment also associated with movements to lower-paying firms

## Key Implications

- Existing models cannot explain the strong association between earnings losses and nonemployment, this should be priority of future research
- Focus of displaced workers not necessarily misplaced
  - Welfare implications depend on whether separation is unanticipated/involuntary
  - Separations from distressed firms are more likely to be exogenous, simplifies interpretation of empirical estimates