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ONE EXPLANATION FOR WEAK WAGE GROWTH: WORKERS' RELUCTANCE TO SWITCH JOBS

Central banks should monitor job-market churn as a stronger predictor of pay, prices and productivity than unemployment, say some economists

By Tom Fairless
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From London to Washington to Sydney, policy makers are puzzling over why workers' pay has been rising only slowly even though official unemployment is at its lowest levels in decades.

Now, some economists have a possible answer: Instead of focusing on the number of people without jobs, watch the rate at which workers are switching between jobs.

While unemployment fell quickly after the financial crisis, job-switching rates recovered more slowly and remain lower than in earlier decades.

That is surprising because changing jobs is often lucrative. U.S. workers who switch jobs gain 4 percent more pay on average than those who stay put, according to recent research by Giuseppe Moscarini, a labor economist at Yale University.

He and other economists say the amount of job-market churn may be a stronger predictor of wages, inflation and productivity than unemployment.

If so, wage growth and inflation could remain soft even as labor markets continue to tighten – especially if the recent sag in global growth weighs on workers' confidence.

It is a crucial issue for central banks as they figure out how much to cut interest rates to support their softening economies. One of their key economic models, the so-called Phillips curve, predicted inflation would rise as unemployment fell. That hasn't happened lately. Inflation remains below central banks' targets across developed economies.

"Central banks should pay more attention to job switching and what it reveals about people's preferences for the jobs they have," Mr. Moscarini says.

The argument runs like this: Workers can demand higher wages only if they have outside offers, regardless of the unemployment rate. People who switch jobs tend to find work that better utilizes their skills, and therefore pays more. Job switchers also improve the bargaining position of workers who stay in their jobs, by encouraging employers to pay more to retain them.

The most productive companies are able to pay more to poach workers and expand, while less productive companies shrink. That means increased job-switching tends to boost productivity, or output per hour worked.

“The biggest reason for wage rises is competition, either actual turnover or the threat of turnover,” says Chris Pissarides, a Nobel Prize-winning labor economist. “If we’re observing declining labor turnover, that should have an impact on productivity and wage increases.”

Since peaking after the recession at 10 percent in October 2009, the U.S. unemployment rate fell 6.5 percentage points to a 50-year-low of 3.5 percent in September, before edging up to 3.6 percent last month.

But the rate at which employed workers transition to new jobs has only recently edged toward the levels seen before the 2008 financial crisis, according to data from the U.S. Census Bureau. Some 5.8 percent of U.S. workers switched jobs in the first three months of 2018, the most recent period available, similar to the level reached in 2006-07, and down from around 7 percent per quarter in 2000. Job switching fell to as low as 3 percent per quarter in 2009.

U.S. wage growth firmed much of the past year, with average hourly earnings increasing 3 percent in October from a year earlier. But annual wage growth remains below the rates of more than 4 percent seen before the financial crisis, and above 5 percent in the early 2000s.

For the average U.S. worker, 40 percent of wage growth over their working lifetime comes from job switching, rather than experience or skills, says Mr. Moscarini.

Researchers at Australia’s Treasury found that a 1 percentage point increase in the rate at which workers switch jobs is associated with a 0.5 percentage-point increase in growth of average wages.

Yet the share of Australian workers who switch jobs in a given year has fallen to around 8 percent from around 11 percent in the early 2000s, according to the researchers.

In the U.K., the job-switching rate only recently returned to its precrisis level and remains around 25-30 percent below its peak in the 1970s and 1980s, according to the Bank of England. U.K. wages are still below their level a decade ago after adjusting for inflation, despite the lowest unemployment rate in around half a century.

The job-switching theory could explain why it has taken so long for inflation to pick up. As workers started changing jobs after the financial crisis, their pay rose. But that generally reflected increased productivity, which doesn’t generate inflation. And switching hasn’t recovered enough to fuel faster inflation.

Why the slowdown in job switching? One important driver, economists say, is workers’ increased caution in the wake of the financial crisis and sweeping changes in the economy, including globalization and new technologies.

Switching jobs is good on average, but risky. New hires may fear they will be the first to be fired in any downturn. Workers may be concerned about switching to fast-growing sectors that require new skills.

An aging population also plays a large role, says Steven Davis, an economist at the University of Chicago.

“Older workers are less geographically mobile and are less likely to quit to take a job or seek employment in new locations,” he says. “Spousal employment, kids, homeownership are among the factors that make older workers less mobile.”

Increased regulation has made the U.S. labor market less fluid, and more like those in Europe, economists say. The share of U.S. jobs requiring a license has risen to 22 percent in 2018 from around 9 percent in 1950, according to the Labor Department. That means switching jobs can be more expensive and time-consuming.

If workers are less willing to switch jobs, central banks could press harder on the gas pedal to stimulate the economy without worrying about inflation. And there may be little policy makers can do to influence the job-switching rate except to watch it.

– Eric Morath contributed to this article.