

Declining Dynamism in the U.S. Labor Market

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Many observers have [noted](#) that certain measures of the U.S. labor market "dynamism" or "fluidity"—including job reallocation, worker churn, and geographic labor mobility—have been declining for the past 20 years or more. The ability of U.S. workers to flow between jobs has been a defining feature of the economy since the end of World War II, and a reduction in labor market fluidity could have negative implications for unemployment, wage growth, and productivity. Economists have proposed several possible explanations for the decline in labor market dynamism, but the effect of these potential factors is unclear.

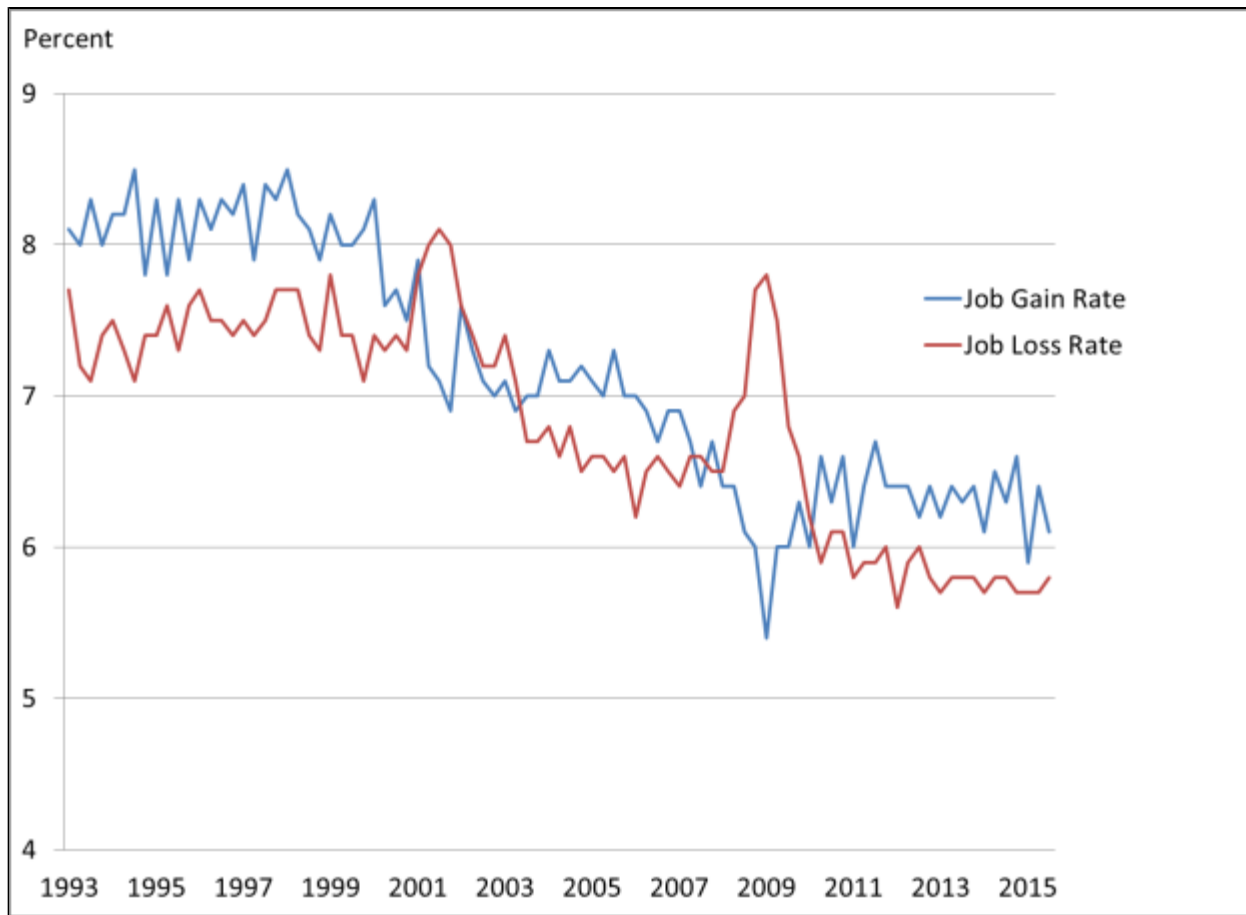
Evidence of Decline

Decreasing rates of gross job gains and gross job losses are often [cited](#) as evidence of a decline in U.S. dynamism. Jobs are continually reallocated across companies and industries, as they are created by new or growing companies and are destroyed in contracting or closing ones. These gross job gains and losses are related to the widely reported *net* job change. Whereas the net change—the difference between gains and losses—shows how many more or less jobs are available between two time periods, gross gains and gross losses capture additional detail on the creation of new jobs, the loss of existing jobs, and the economy's ability to respond to changing conditions.

The net change has increased and decreased as economic conditions have changed. However, rates of gross job gains and losses in the United States have experienced a steady decline beginning in the late 1990s and have recently stabilized at a level only slightly higher than the trough reached during the 2007-2009 recession. Newly created jobs accounted for 7.9% of all jobs on average between 1993 and 2003, but just 6.3% between 2011 and the third quarter of 2015. Similarly, the gross job loss rate started to decline at about the same time, and (after temporarily spiking during the recession) has also settled at a relatively low level (see [Figure 1](#)).

Figure 1. Quarterly Job Gains and Losses Rates

First Quarter of 1993 to Third Quarter of 2015

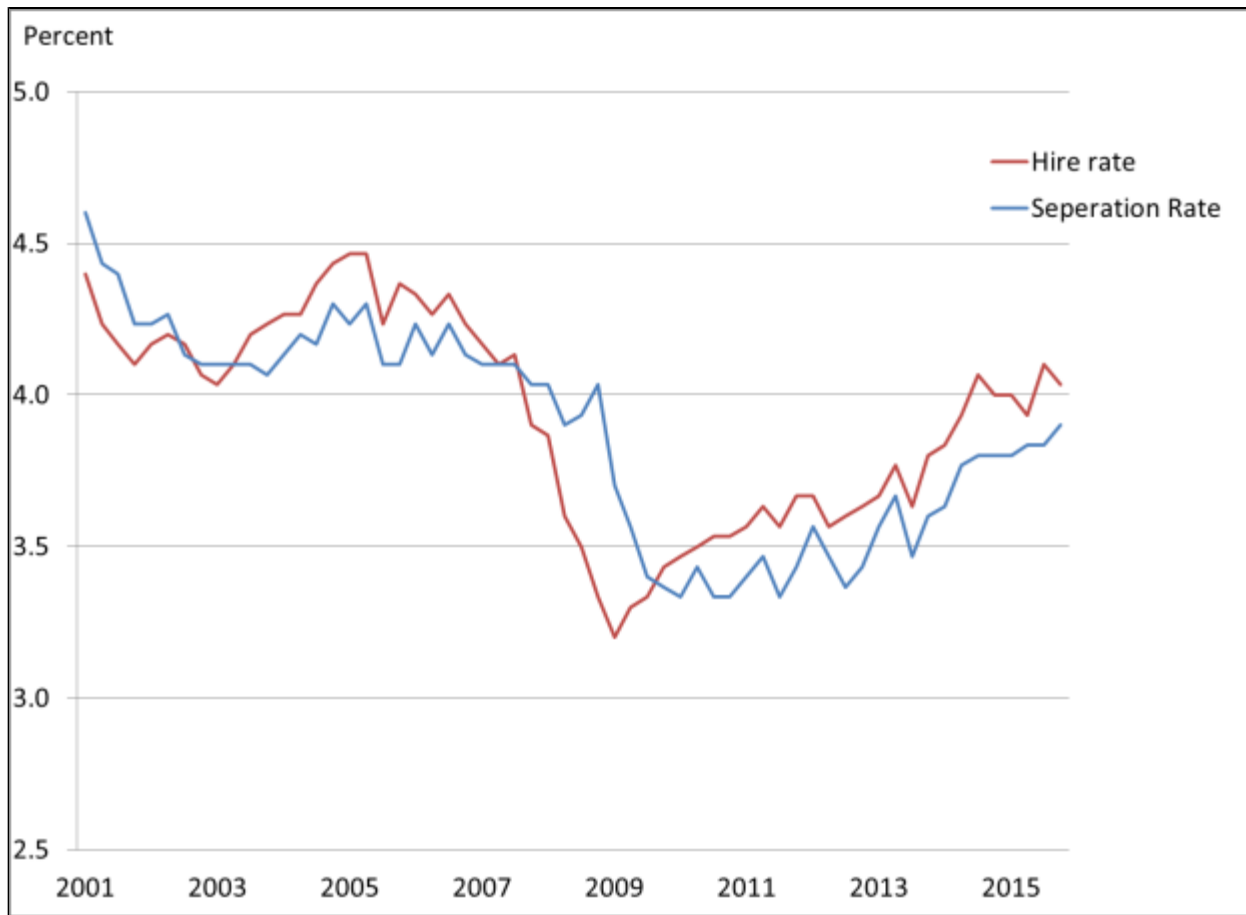


Source: Bureau of Labor Statistics, [Business Employments Dynamics data](#).

Hiring and separation rates are also meaningful indicators of labor market dynamics that capture the movement of workers across jobs. If a worker leaves a job and is replaced by another worker, no job has been created or destroyed. Instead, workers have been moved within an existing job, and this "churn" will be counted as a hire and a separation. Hire and separation rates have recovered very slowly since the recession, and they are still below pre-recession levels. Official government data only goes back to 2001, but [academic estimates](#) of the rates going back to 1990 suggest that they are also in long-term decline. As of March 2016, the rates remain low relative to pre-recession norms (see [Figure 2](#)).

Figure 2. Quarterly Hires and Separation Rate

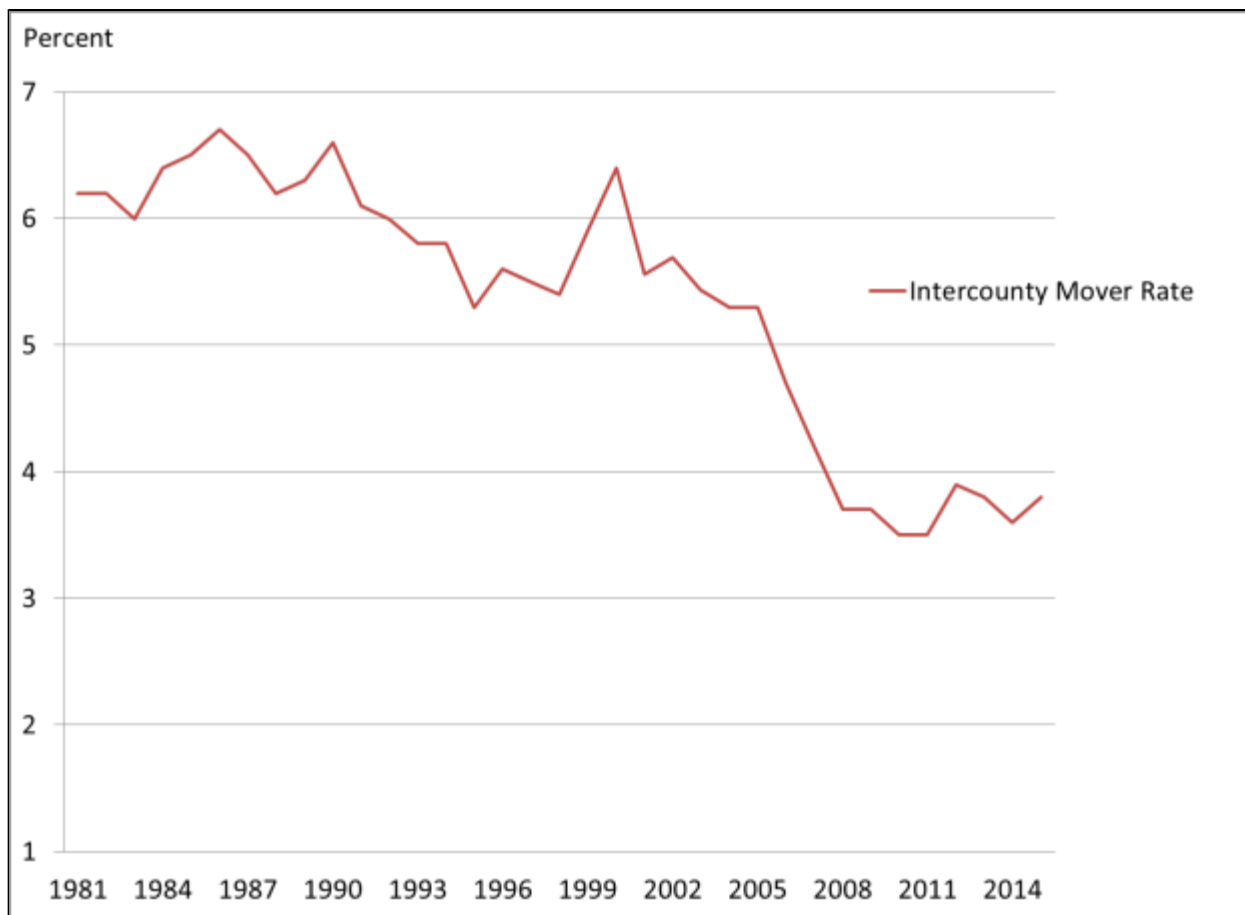
Second Quarter of 2001 to First Quarter of 2016



Source: Bureau of Labor Statistics, [Job Openings and Labor Turnover Survey](#).

Geographic labor mobility is also [declining](#). U.S. workers have traditionally been very willing to move their residence, allowing them to move to areas with more job openings or to expand their job search to several markets. In the 1980s, the proportion of Americans that changed county or state from one year to the next fluctuated between 6.0% and 6.7%. A steady decline began in the mid-1990s, and the proportion was 3.8% in 2015 (see [Figure 3](#)).

Figure 3. Percentage of Population to Move Across Counties, 1981-2015



Source: Census Bureau, [Current Population Survey](#).

Potential Causes

Recent trends in job creation and movement of workers are closely interrelated and likely affected by many factors. One common explanation is that the decline is the result of an [aging workforce](#). Workers nearing retirement age may be less likely to change jobs or move.

Another [possible cause](#) is a decrease in business dynamism. Young companies usually start with a small number of employees, but can grow quickly and add many new jobs. The rate of business establishment births is in long-term decline. [New business establishments](#) accounted for 15.4% of all businesses in 1987, but the proportion steadily declined to 10.2% by 2013. [Several possible explanations](#) for this trend have been put forward, including rising economic and political uncertainty and globalization, but it is an issue that could be further examined.

In addition, regulatory and legal changes—including a decline in the [employment-at-will](#) doctrine and increased [occupational licensing requirements](#)—may be inhibiting labor market fluidity because they raise barriers to job and worker reallocation.

A single cause is unlikely to be wholly responsible for the long-term decline in labor market dynamism. However, with many possible contributing factors, including structural changes, such as an aging workforce, the decline may continue.

Potential Implications

The reduction in job creation, worker churn, and geographic mobility could have negative implications for unemployment, wage growth, and productivity. Less job creation and worker churn may increase the likelihood that workers, including the unemployed, get locked into their current employment situation, potentially resulting in longer durations of unemployment. Long, unsuccessful job searches could then cause more potential workers to become

discouraged and leave the labor force, lowering the labor force participation rate.

Productivity and wage growth could also be hindered. Leaving one job for another has traditionally been an important method for workers to make better—more productive—job matches, [raise their wages](#), and advance their careers. Fewer job openings and less movement of workers between jobs could close off one path to wage growth for many workers. [Young workers](#), whose skills are less job-specific and have less knowledge about where they will be most productive, might be disproportionately affected by lack of opportunity to change jobs.