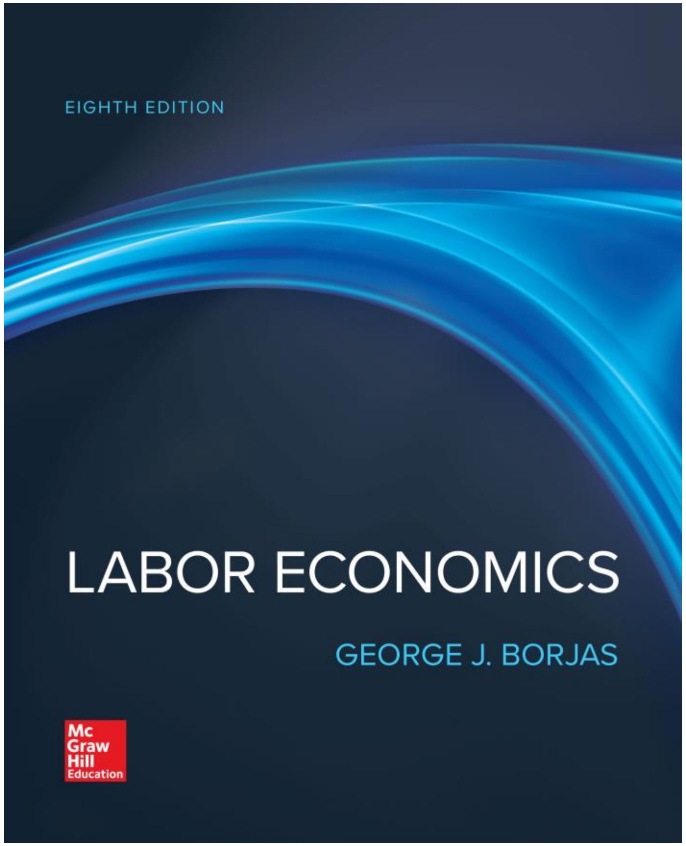
Chapter 8

Labor Mobility



“Immigration is the sincerest form of flattery.”

-Jack Paar

Introduction

Labor mobility is the mechanism labor markets use to improve the allocation of workers to firms.

Geographic Labor Migration as an Investment in Human Capital

Mobility decisions are guided by comparing present value of lifetime earnings among alternative employment opportunities in different locations.

Geographic Labor Migration as an Investment in Human Capital

Improvements in economic opportunities available in a destination location increases the net gains to migration and raises the likelihood a worker moves.

Improvements in economic opportunities available in the current location decreases the net gains to migration and lowers the likelihood a worker moves.

An increase in migration costs lowers the net gains to migration, decreasing the probability a worker moves.

Geographic Labor Migration as an Investment in Human Capital

A worker decides to move if the net gain from moving is positive.

Migration occurs when there is a good chance the worker will recoup his investment in the move.

Internal Migration in the U.S.

The probability of migration is sensitive to the income differential between the destination and original locations.

There is a positive correlation between improved employment conditions and the probability of migration.

There is a negative correlation between the probability of migration and distance.

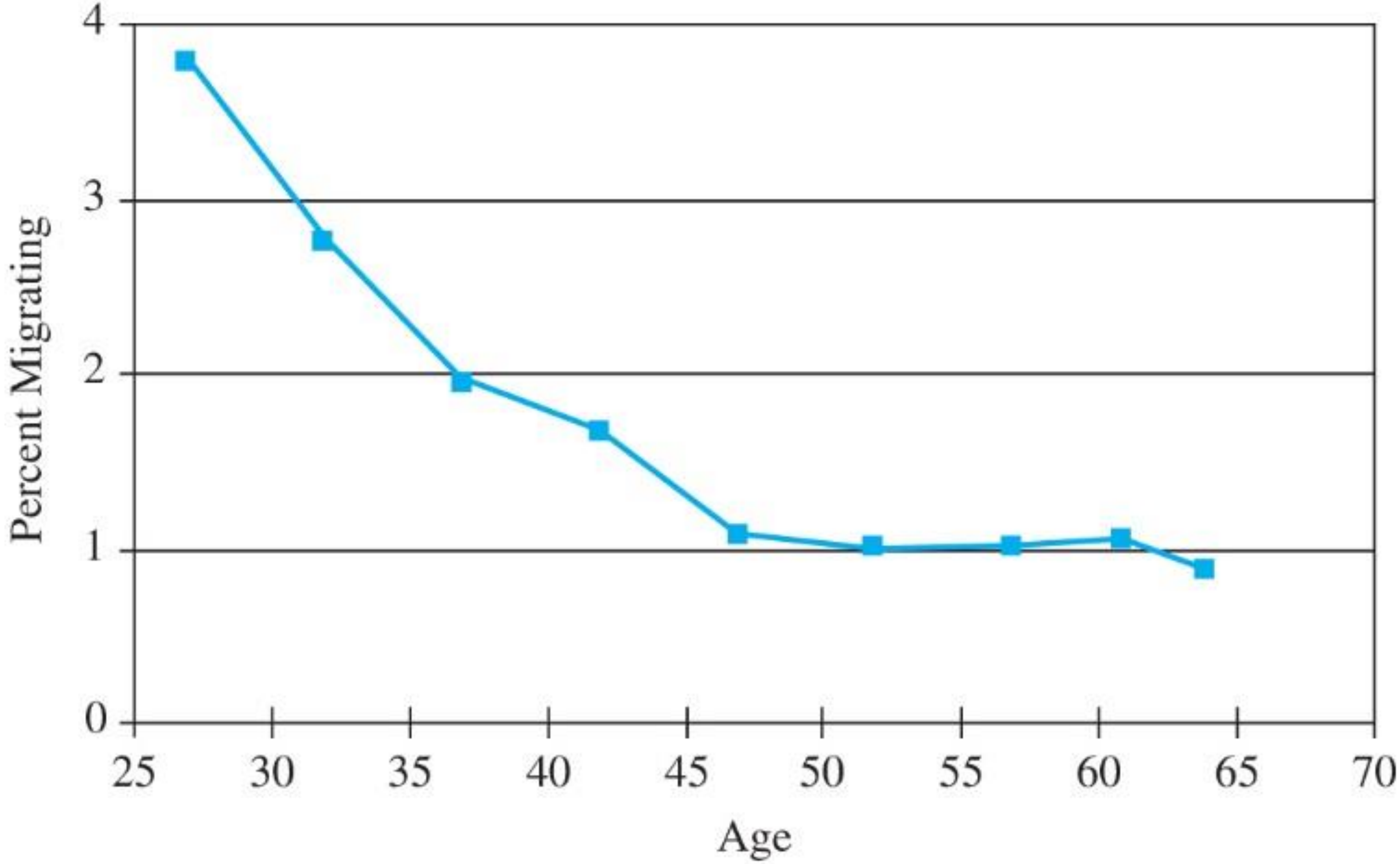
- Distance is taken as a proxy for migration costs.

Internal Migration in the U.S.

There is a positive correlation between a worker's educational attainment and the probability of migration.

Workers that have migrated are likely to return to the location of origin (return migration) and are more likely to migrate again (repeat migration).

Probability of Migrating across State Lines between 2016 and 2017, by Age



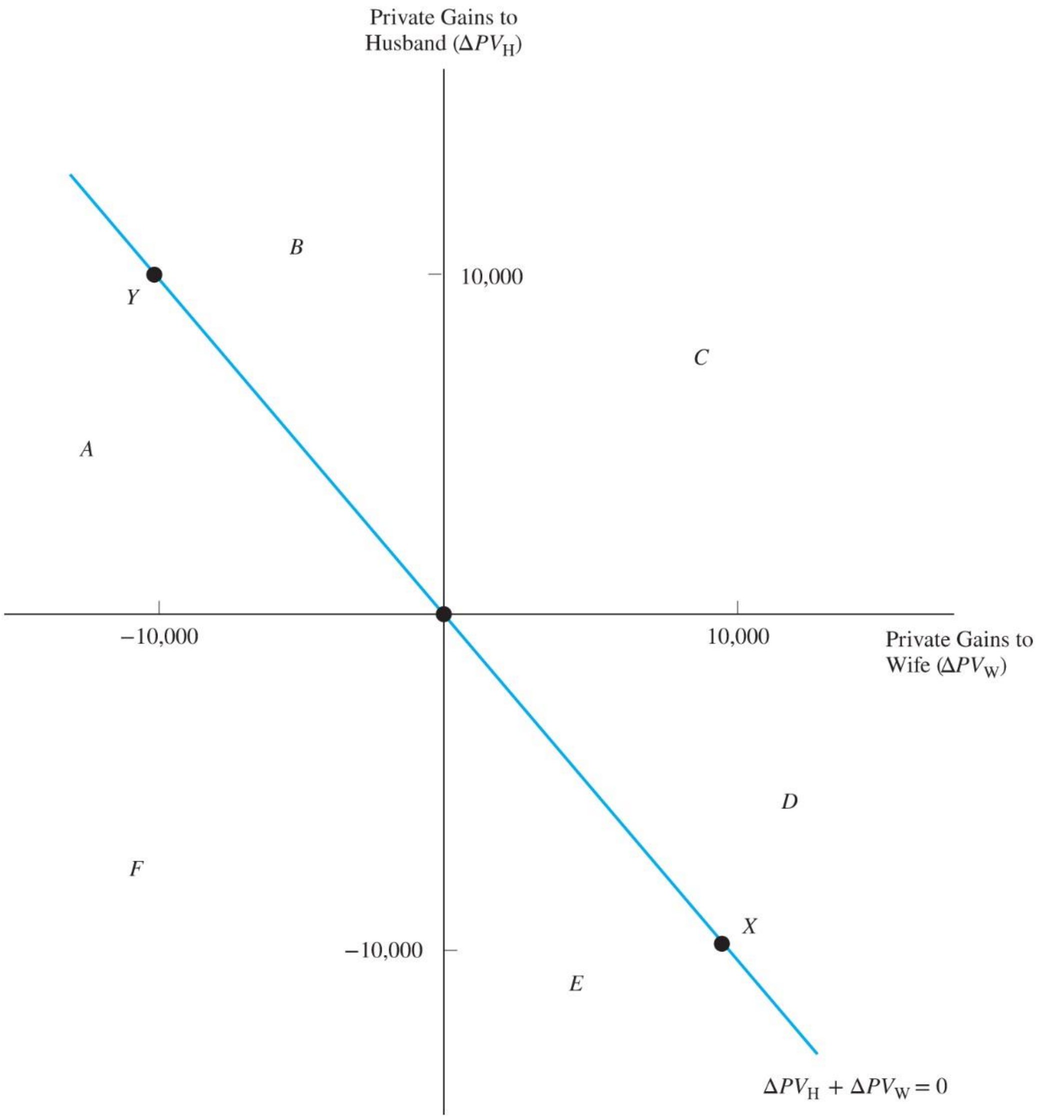
Family Migration

The family unit will move if the net gains to the family are positive.

The optimal choice for a member of the family may not be optimal for the family unit (and vice versa).

- Tied stayer: someone who sacrifices better income opportunities elsewhere because the partner is better off in the current location
- Tied mover: someone who moves with the partner even though his or her employment outlook is better in the current location.

Tied Movers and Tied Stayers



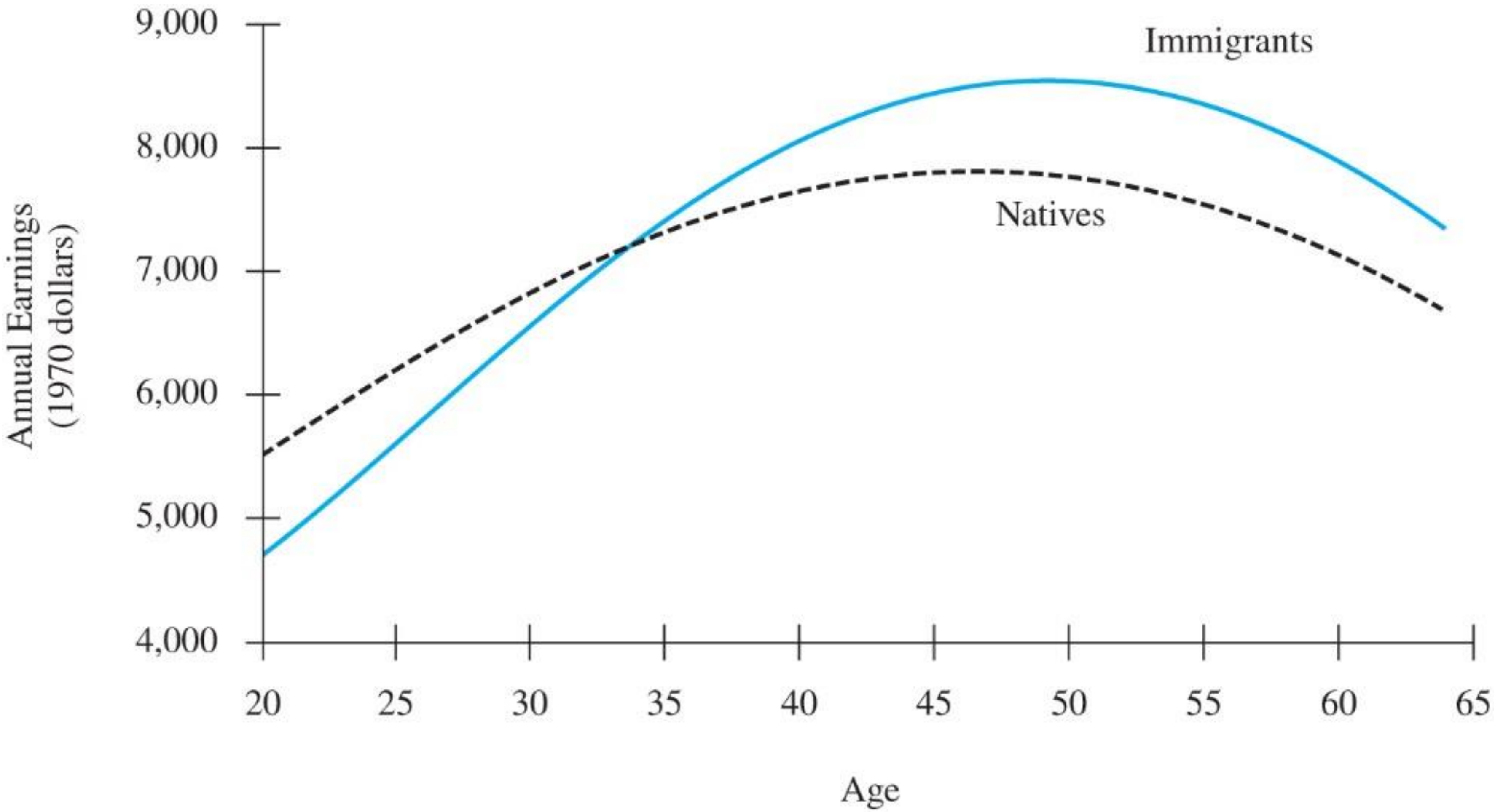
If the husband were single, he would migrate whenever $\Delta PV_H > 0$ (*A*, *B*, and *C*). If the wife were single, she would migrate whenever $\Delta PV_W > 0$ (*C*, *D*, and *E*). The family migrates when the sum of the private gains is positive (*B*, *C*, and *D*). In *D*, the husband would not move if he were single, but moves as part of the family, making him a tied mover. In *E*, the wife would move if she were single, but does not move as part of the family, making her a tied stayer.

Immigrant Performance in the U.S. Labor Market

Immigrants who can adapt well and are successful in new jobs make a significant contribution to economic growth.

The economic impact of immigration depends on the skill composition of the immigrant flow.

The Age-Earnings Profiles of Immigrant and Native Men in the Cross Section



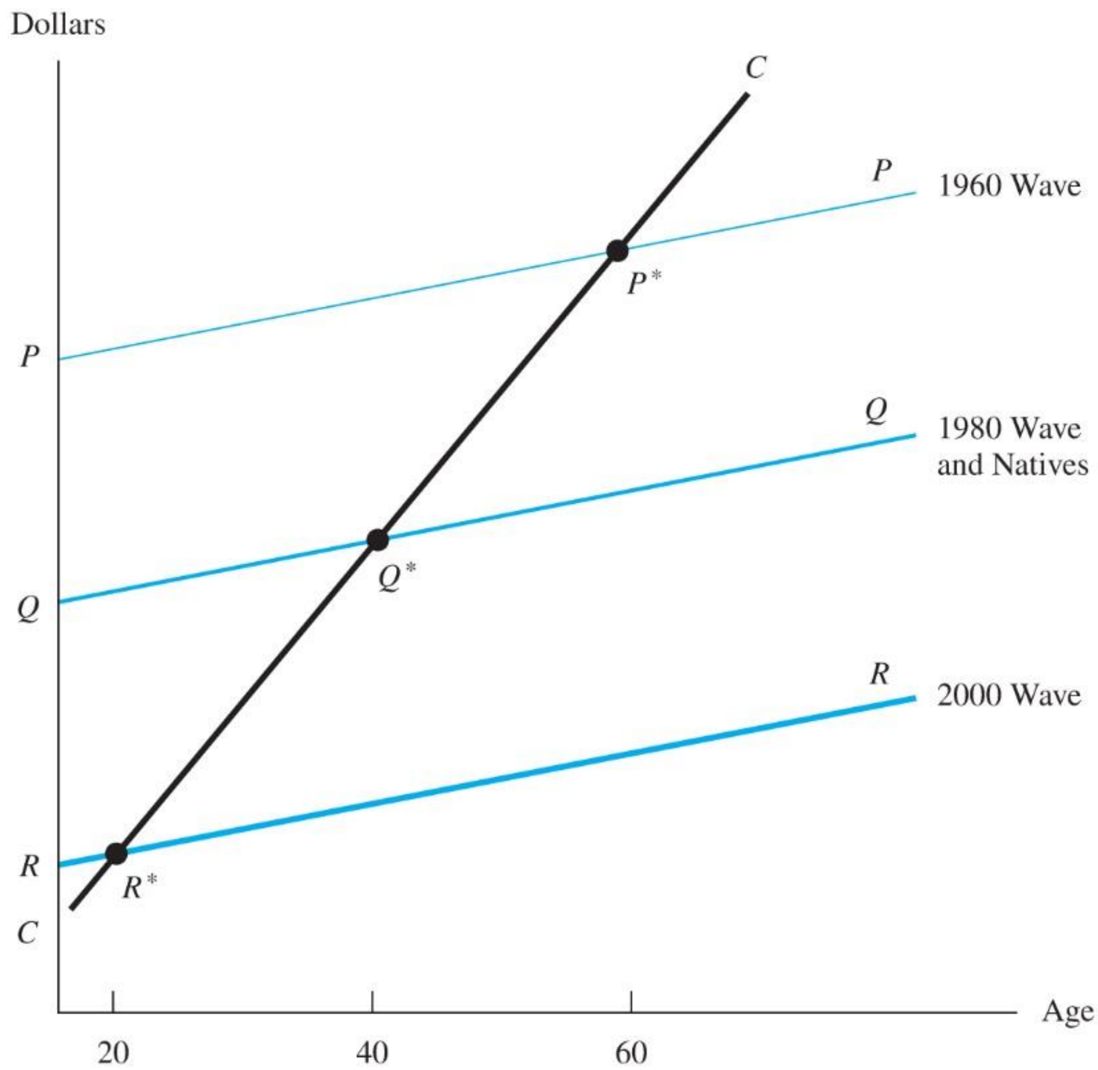
The Decision to Immigrate

Skills vary across country-of-origin (or source country) immigrant groups.

The general rule: Workers decide to immigrate if U.S. earnings exceed earnings in the source country.

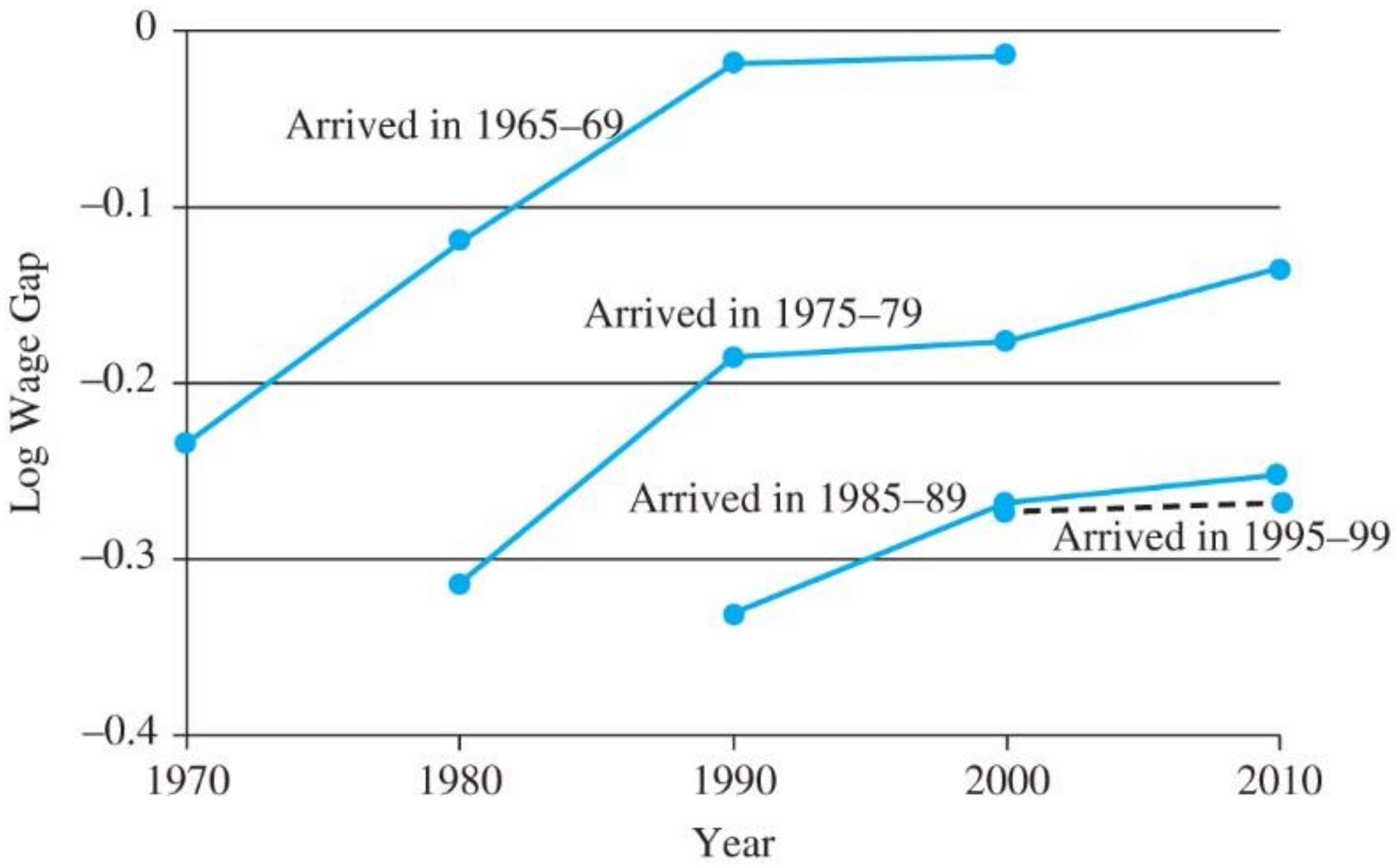
- The decision ultimately depends on individual skills and the returns to those skills in the source and destination countries.

Cohort Effects and the Immigrant Age-Earnings Profile



The cross-sectional age-earnings profile erroneously suggests that immigrant earnings grow faster than those of natives.

Evolution of Wages for Specific Immigrant Cohorts over the Life Cycle

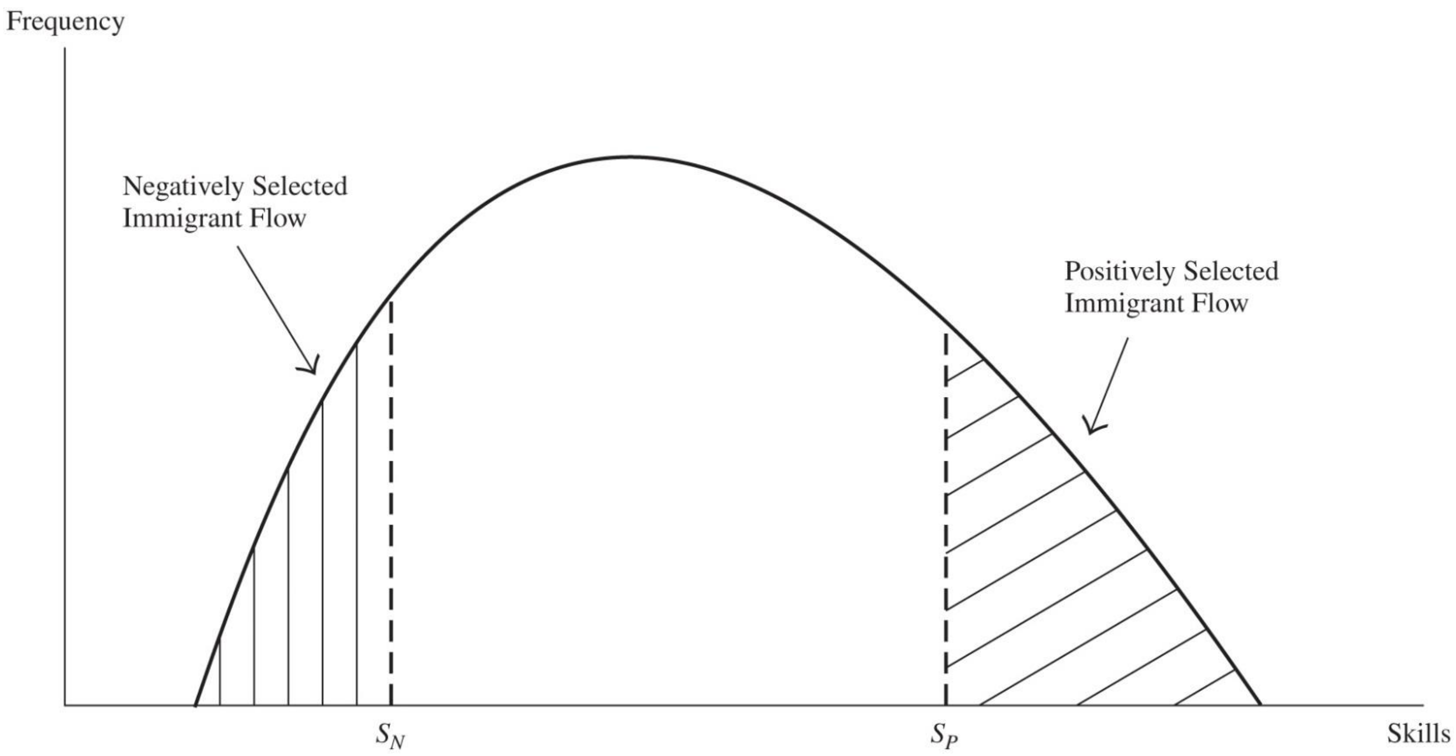


The Roy Model

The Roy model considers the skill composition of workers in the source country.

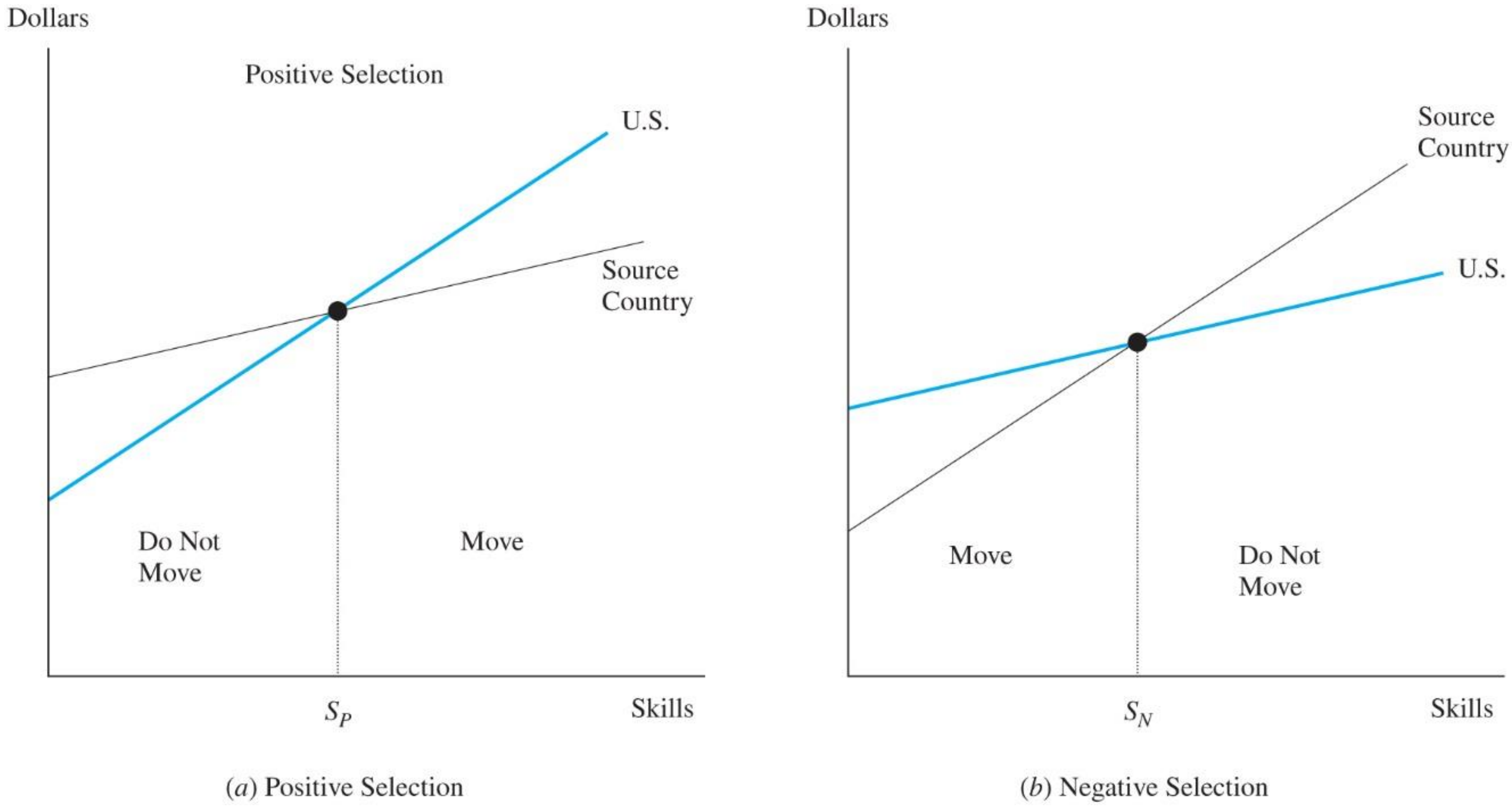
- Positive selection: immigrants who are very skilled do relatively well in the U.S.
- Negative selection: immigrants who are unskilled do relatively well in the U.S.
- The relative return to skills determines the skill composition of the immigrants from different source countries.

The Distribution of Skills in the Source Country

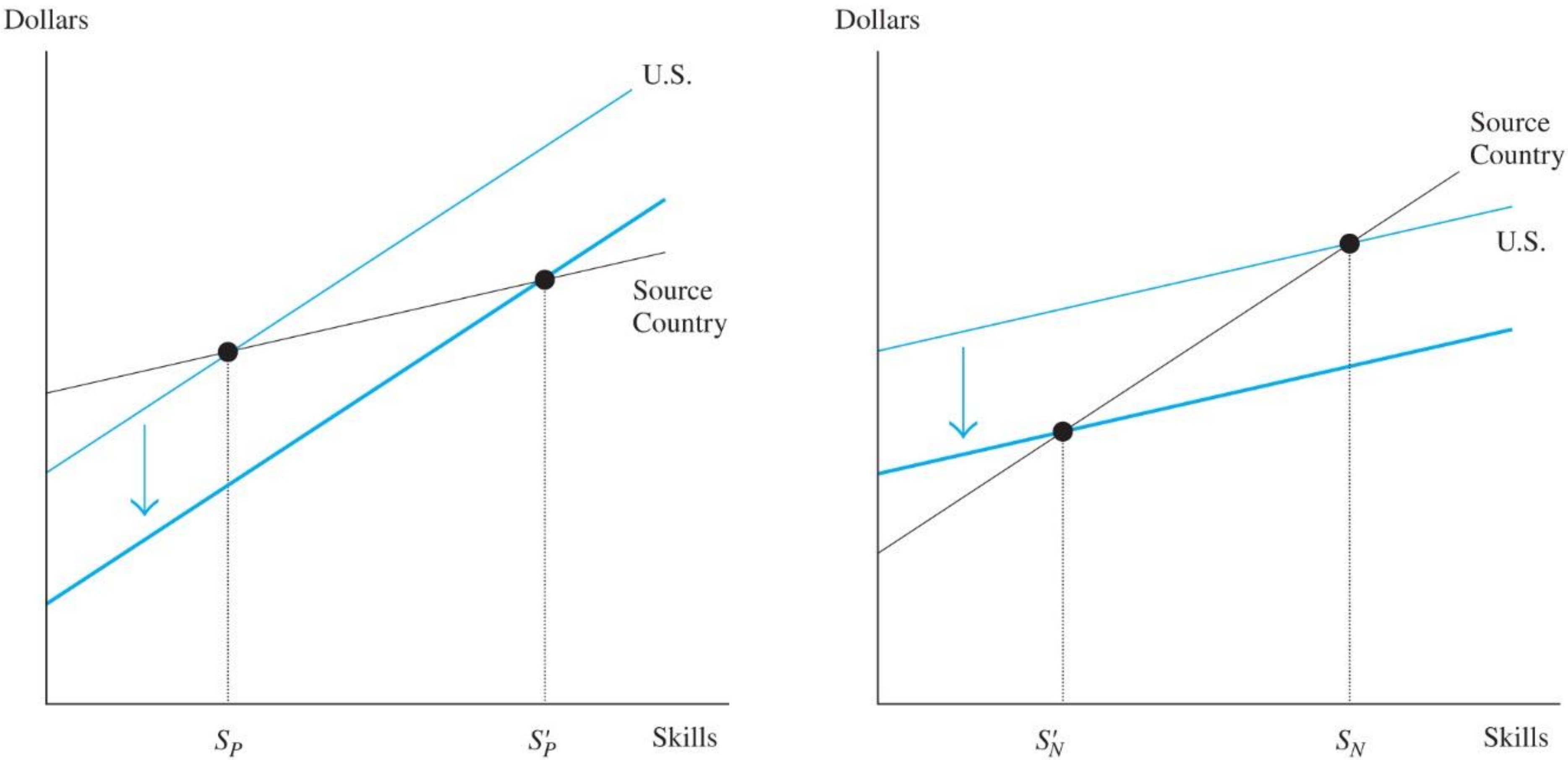


The distribution of skills in the source country gives the frequency of workers in each skill level. If immigrants have above-average skills, the immigrant flow is positively selected. If immigrants have below-average skills, the immigrant flow is negatively selected.

The Self-Selection of the Immigrant Flow



The Impact of a Decline in U.S. Incomes



(*a*) Positive Selection

(*b*) Negative Selection

Decline in U.S. Incomes

The previous graphs shows that when U.S. incomes decrease (shift down in the returns-to-skills curve):

- Fewer workers migrate to the U.S.

- The type of selection (positive vs. negative) doesn‘t change.

Job Turnover: Stylized Facts

Newly hired workers tend to leave their jobs within 24 months of being hired, while workers with more seniority rarely leave their jobs.

The rate of job loss is highest among the least educated workers.

Job Turnover: Stylized Facts

There is a strong negative correlation between a worker's age and the probability of job separation.

- This fits with the hypothesis that labor turnover can be an investment in human capital.
- Older workers have a smaller payoff period to recoup the costs associated with job search. Thus, they are less likely to search (or move).

The Job Match

Each particular pairing of a worker and employer has its own unique value.

Workers and firms might improve their situation by shopping for a better job match.

Efficient turnover is the mechanism by which workers and firms correct matching errors and obtain a better and more efficient allocation of resources.

Specific Training and Turnover

When a worker receives specific training, his productivity improves only at the current firm.

This implies there should be a negative correlation between the probability of job separation and job seniority.

- As age increases, the probability of job separation decreases.

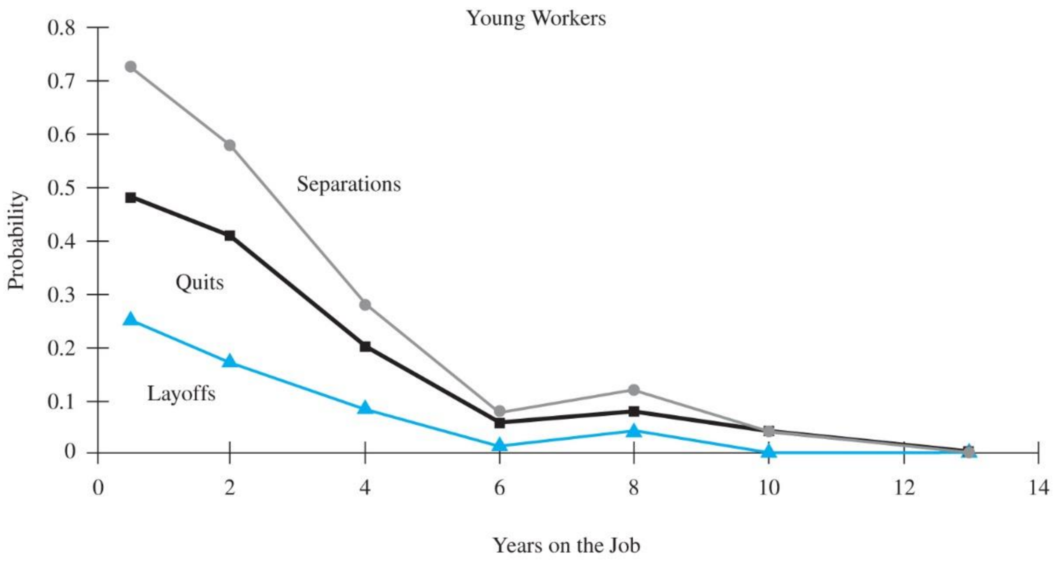
Job Turnover and the Age-Earnings Profile

Young people who quit often experience substantial increases in their wages.

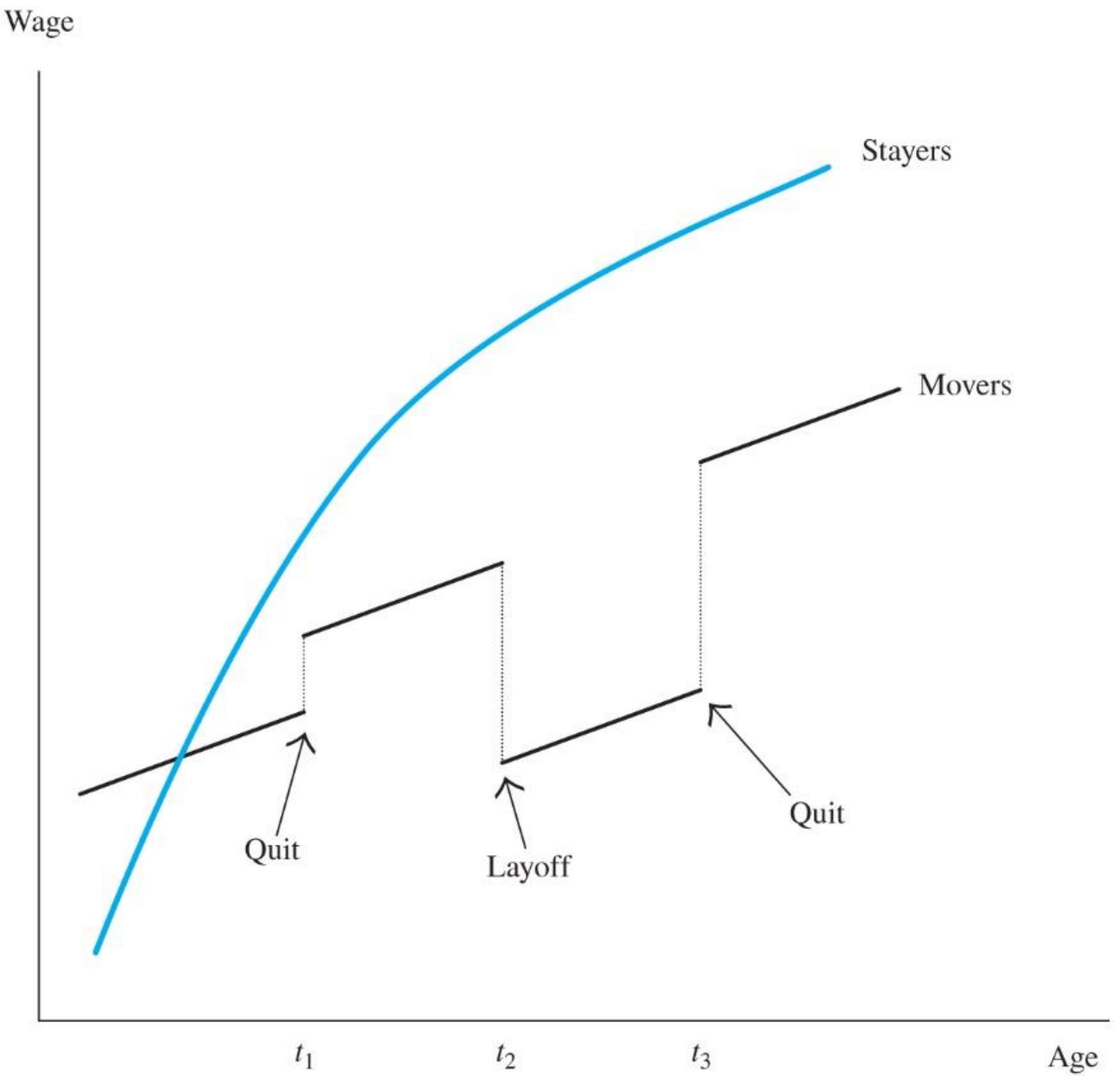
Workers who are laid off often experience wage cuts.

A worker's earnings depend on total labor market experience and seniority on the current job. (Workers experiencing a good job match will have low probabilities of job separation, and these workers will tend to have seniority on the job.)

Probability of Job Turnover over a 2-Year Period



Impact of Job Mobility on the Age-Earnings Profile



The age-earnings profile of movers is discontinuous, shifting up when they quit and shifting down when they are laid off. Long job matches encourage firms and workers to invest in specific training, and steepen the age-earnings profile. As a result, stayers have a steeper age-earnings profile within any given job.