Accounting for Job-to-Job Moves: Wages versus Values

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ABSTRACT

Job-to-job transitions are an important part of labor reallocation. In many modern labor markets, the majority of hires come directly from other jobs and over 10 percent of workers make a job-to-job move annually. Moving jobs is a common way of obtaining an increase in earnings. Yet, the available data, mostly surveys, show a wide dispersion in wage changes for job movers with a substantial fraction of moves generating negative wage growth. However, these data are highly noisy and this existing measurement is far from satisfactory. Our first contribution is to better document the frequency and size of wage changes for EE movers. We do this by using a large-scale Danish administrative dataset that is uniquely suited to the task. We find a large fraction of EE moves are associated with negative wage changes; 13 percent of EE moves result in large wage cuts of over 10 percent. There are a variety of reasons why workers may be willing to accept a negative wage change and there are EE moves that may not be voluntary. First, the wage cuts are not necessarily puzzling from a dynamic perspective if they are associated with an increase in the expected present discounted value of wages. Second, jobs are multidimensional and workers may care about non-wage components of a job (e.g., hours flexibility, closer commute, better labor market location for spouse, etc.). From this broader perspective, even moves with negative change in the PDV of wages could be utility-improving. Finally, there are forced moves (e.g., getting fired with advance notice) that are truly negative welfare moves. The main contribution of our paper is to develop a framework that leverages the strength of the administrative data to compute the PDV of wages for each worker at each job. We compare wage changes and value changes across different types of workers at different states of the world. Finally, we decompose the value of a job into two components: wages on that job and transitions to new jobs, allowing us to decompose the change in value into a change in wages and a change in future job opportunities. Understanding the prevalence and reason for these transitions is important for measuring the efficiency of the labor market, the labor income risk people face over the life cycle, and the utility associated with private and government sector labor market policies.

Keywords: job-to-job transitions, wage cuts, wage growth, amenities, forced moves

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