Understanding Job-to-Job Transitions with Wage Cuts

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ABSTRACT

This paper identifies the reasons behind the surprisingly high prevalence of job-to-job transitions in which a worker moves to a lower paying job. We quantify the importance of four reasons for such moves: faster earnings growth, lower earnings uncertainty, better amenities (non-earnings job characteristics), and forced moves. Forced moves can either be associated with a loss in welfare (e.g., getting fired with advance notice) or with a gain in welfare (e.g., moving to improve a component of life not related to working). Using a large-scale Danish adminstrative dataset, we develop a method to distinguish between the current wage of a job and the expected present discounted value of a job, which encompasses all possible future wage streams faced by the workers in the job. With the adminstrative data alone, we can account for changes in realized wage growth and volatility, with amenities and forced moves acting as a residual. We then design a survey to directly elicit information from workers on the reasons for moving to a job with a lower initial wage. The survey focuses on quantifying the change in amenties and identifying forced moves. Both of these are impossible to see using only the administrative data. Finally, a structural model is estimated that matches the empirical frequency and size of these EE transitions for the right reasons. 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 work and government labor market policies.

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

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