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Move over

Falling labour mobility in America may reflect a more efficient market

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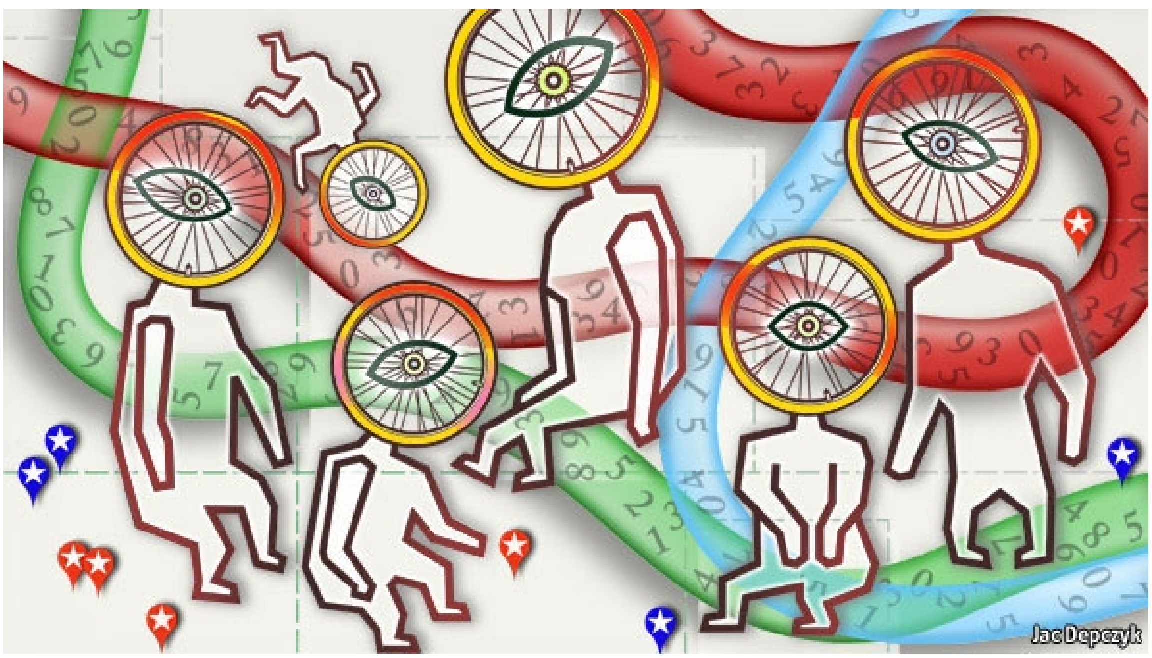
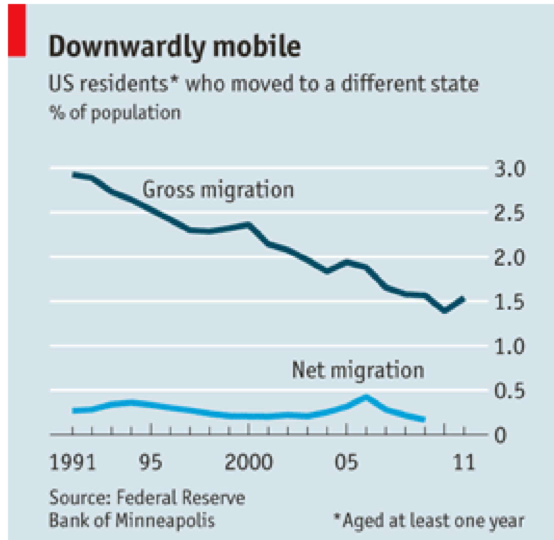


AMERICANS are famously footloose. Migration rates across state lines are more than twice those between Canadian provinces. Mobility is an economic asset: it leads to better matches between workers and jobs and helps America absorb economic shocks as people shift in search of employment. Since the early 1990s, however, when roughly 3% of Americans moved from one state to another each year, the rate of gross interstate migration has fallen by about half. That makes economists fret: a nation of stick-in-the-muds could face disappointing productivity growth and more stubborn unemployment than it is used to.



The drop in mobility shows up almost exclusively in gross migration, the total number of interstate household moves. Net migration, which tracks shifts in the population after cancelling out offsetting moves, has remained relatively constant (see chart). It is the overall rate of geographical churn that is slipping. The trend predates the housing boom and bust; the crisis cannot explain it.

Some reckon the decline is caused by demography. Young workers, at the start of their working life, have most to gain from moving. An ageing population may therefore be less mobile. Growth in two-earner households could also play a role. When both partners work, it is harder to move if one of them loses his job or is offered a post somewhere else. New research by Greg Kaplan of the University of Pennsylvania and Sam Schulhofer-Wohl of the Federal Reserve Bank of Minneapolis casts doubt on these explanations.

The authors analyse census data gathered monthly between 1991 and 2011, and find that the pattern of falling mobility persists across all parts of the workforce. Mobility is down across “all education levels, for people of all marital statuses, and for both single-earner and multiple-earner households.” Ageing is a red herring: mobility rates have dropped most for young workers. It isn’t so much the American worker that is changing, they argue, but the American economy. Reduced mobility largely reflects two shifts in the nature of economic activity.

The first is that the mix of jobs offered in different parts of America has become more uniform. The authors compute an index of occupational segregation, which compares the composition of employment in individual places with the national profile. Over time, their figures show, employment in individual markets has come to resemble more closely that in the nation as a whole.

This homogenisation reflects the rising importance of “non-tradable” work. As the name suggests, non-tradable goods and services are not traded across long distances. Californian dentists tend not to clean

Floridian teeth; every city has its own dentists. Cars, by contrast, are tradable, so not every state has its own car plant. Recent research by Michael Spence and Sandile Hlatshwayo of New York University's Stern School of Business found that 98% of employment growth between 1990 and 2008 occurred in non-tradable industries. Education and health-care jobs now account for 15% of employment, up from less than 10% in 1990. With more of the country's employment mix present in each state, it is less necessary to move to find work.

Yet a more uniform job distribution alone cannot account for falling mobility. As Messrs Kaplan and Schulhofer-Wohl point out, mobility has fallen for manufacturers, where jobs are more dispersed, as well as for service-sector workers. What is more, if workers know that they can find jobs they want in different places, they may become more willing to move for other reasons—to be by the coast, for example, or to savour a particular music scene. Yet survey data reveal that moves for these other reasons have not risen. The authors suggest another force is also reducing migration: the plummeting cost of information.

Site unseen

Young workers in particular used to have to move to gather information: to see whether they could stand a Boston winter, say, or cared enough about the Californian climate to pay Californian rents. In recent decades, however, it has become much easier to learn about places without moving house. Deregulated airlines and innovative online-travel services have slashed travel costs, allowing people to visit and assess different markets without moving. The web makes it vastly easier to study every aspect of a potential new home, from the quality of its apartment stock to the surliness of its baristas, all without leaving home. Falling mobility isn't simply caused by labour-market homogenisation, the authors argue, but also by greater efficiency. People are able to find the right job in the ideal city in fewer hops than before.

Migration still occurs, of course. Differences in incomes, adjusted for cost of living, are large and help to drive net population shifts. Since 1990 net migration trends have been relatively constant and show clear patterns: away from the north-east, the Midwest and the west coast and towards warm southern states and the Rockies.

That is not entirely welcome. Southward migration since 1980 has been motivated by cheap housing rather than rising regional productivity, according to work by Edward Glaeser of Harvard University and Kristina Tobio of the Kennedy School of Government. That could now help to reduce housing overhangs in bubble states, but at the potential cost of a slower drop in unemployment. The American mobility engine may be more efficient, but it is not running perfectly.

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