

# School of Economics

# FOCUS PAPER

## The extent and cyclical nature of career changes: Evidence for the UK

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One of the most important functions of the labour market is to pair the right set of workers with the right set of jobs. This assignment process, however, is slowed down by frictions that impede the reallocation of labour resources. For example, moving costs, re-training, learning about one's ability, information frictions about the location of workers or jobs, among others, can be important barriers for efficient resource reallocation. The result of these frictions is that there are observed large concurrent flows of workers changing jobs directly from employer-to-employer as well as through spells of unemployment. This excess churning is a common feature of all labour markets in OECD countries.

The extent of reallocation is not necessarily constant over the business cycle. In one view, recessions are times in which the labour market is "cleansed" by speeding up the reallocation of workers. This view is appealing because it provides a possible explanation for why unemployment is persistently high in recessions. However, another view is that economic expansions, rather than recessions, are times in which labour resources tend to reallocate to better uses, since employment-to-employment transitions are large and procyclical.

This paper studies two specific dimensions of reallocation: occupational and sectoral mobility of workers. Career changes are identified when workers change employer and start new jobs in either a different industry or occupation from the one they were previously employed in. The focus here is on career changes in the UK labour market over the period from 1993 to 2012. The United Kingdom is an interesting country to look at because it has one of the most flexible labour markets in Europe and exhibits one of the highest levels of worker turnover in the OECD.

Five main findings emerge from the analysis of the UK Labour Force Survey:

### The extent of career changes is high:

A worker who changes employers has around a 50% chance of switching to another occupation or industry. Career changes in large part reflect excess churning in the labour market.

### Career changes decrease in recessions:

The total number of workers that change careers and the probability of a career change are procyclical. Moreover, for a worker, the probability of a career change is also procyclical, whether conditioning on changing employers directly, or on experiencing an intervening spell of non-participation, or a spell of unemployment.

### Characteristics of career changers:

Career changes are more likely for (i) those workers actively searching for a job, (ii) those that made voluntary transitions (i.e. those who 'resigned' from jobs, or gave up for 'family or personal reasons', as opposed to those that were made 'redundant' or 'dismissed') and (iii) those workers that work part-time or as temps.

**Career paths:** Across occupations, career changes that involve an upgrade in the skill level are more likely through direct employer-to-employer transitions. On the contrary, career changes that involve a step down in skill level are more likely after spells of non-employment. Further, career changes tend to move workers from routine to non-routine employment.

### Wage changes upon career changes:

Most career changes come with wage increases and these increases tend to be bigger than for those workers that change jobs but remain in the same career. The wage gains for those who got hired out of unemployment and changed occupations fell during the recession and became smaller than the wage gains of those who did not change occupations.



Taken together, these are consistent with the view that the Great Recession and its aftermath has affected workers across a large set of industries and occupations, with a broad-based shortfall in economic activity preventing workers from pursuing alternate careers at substantial wage gains. There is little support in the UK data for recent theories of job polarization that point to occupational mobility between routine and non-routine jobs during recessions as the major driving force of the secular decline in routine jobs.

### Information

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