

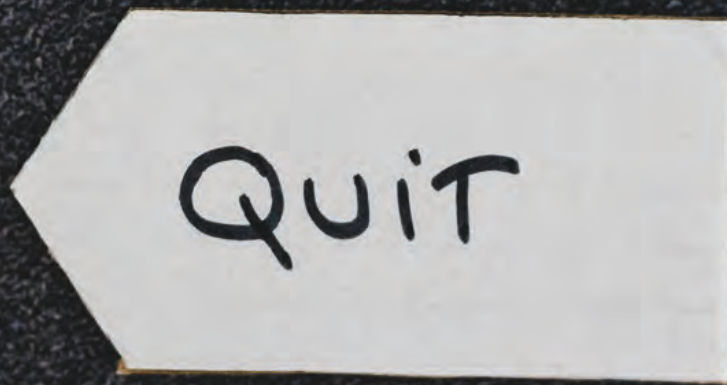
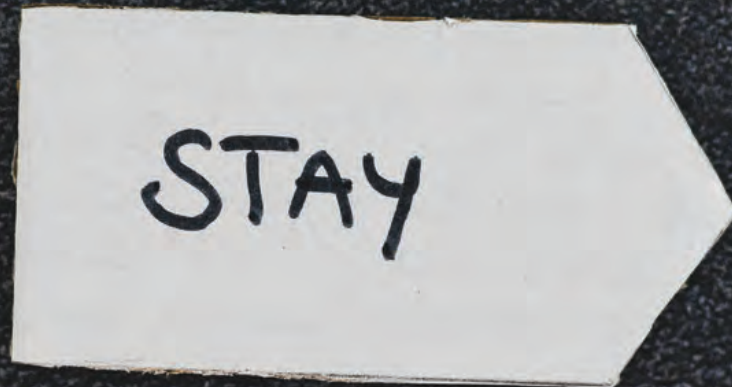


True North in
Canadian public policy

MOVING AROUND TO GET AHEAD:

Why Canadians' Reluctance to Change Jobs Could Be Suppressing Wage Growth

Philip Cross

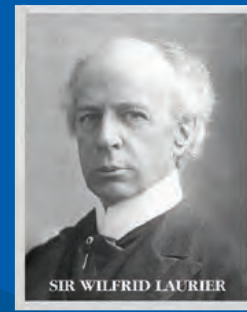
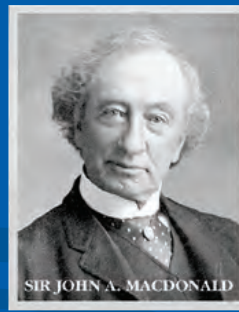


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Canadian public policy



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Executive Summary

Economists have recently had a hard time explaining why wages have not increased more in response to low unemployment.

In the past, lower unemployment often has meant more competition for workers and has led to higher wages. But that has not been the case in recent years. In Canada, the unemployment rate fell from 8.3 percent in 2009 to 5.8 percent in 2018, but average hourly earnings grew by only 2.1 percent to 3.3 percent over that period.

While there are various theories for why this is, one largely ignored factor could be that fewer Canadians are willing to change jobs these days. Research at the US Federal Reserve Board found

“The growing reluctance to change jobs is one factor reducing the efficiency of the labour market in matching workers with the jobs most suited to them.”

that people who switch jobs earn substantially more than people who stay in the same job, especially when labour market conditions tighten. These job leavers are willing to seek new opportunities to move up the employment ladder. It should be noted that wage increases for job changers are highly skewed with a few highly skilled people seeing very large gains. Not everyone who leaves one job for another will get the same benefit.

Still, the numbers are compelling. This study finds that, in Canada, median wage increases for job leavers averaged 15.4 percent in the post-recession period from 2010 to 2015. For job stayers it was a mere 2.9 percent.

Even so, Canadians have been more reluctant to leave their jobs in recent years. The share of job leavers hit a low of 3.0 percent in 2010 in the wake of the recession and remained below 4.0 percent, averaging 3.7 percent for the whole period from 2010 to 2015. This represents a 0.5 percentage point decline from the average of 4.2 percent in the period from 2000-2009. That’s the equivalent of about 38,756 fewer people changing jobs every year out of the 7.75 million workers included in the data.

Reasons for this include workers being cautious in the wake of turbulent economic times, and older workers staying in positions where they have seniority. More broadly, the declining number of job changers reinforces lower job mobility. Inter-provincial migration has been falling for decades.

This is a problem that policy-makers need to grapple with. The growing reluctance to change jobs is one factor reducing the efficiency of the labour market in matching workers with the jobs most suited to them. More Canadians need to realize that they must move around to get ahead.

Sommaire

Récemment, les économistes ont eu du mal à expliquer pourquoi les salaires n'ont pas augmenté davantage en réaction aux niveaux bas de chômage.

Dans le passé, les bas taux de chômage ont souvent accentué la concurrence entre les travailleurs, poussant les salaires à la hausse. Toutefois, cela ne s'est pas autant produit au cours des dernières années. Au Canada, le taux de chômage a baissé pour passer de 8,3 % en 2009 à 5,8 % en 2018, alors que la croissance des gains horaires moyens est passée de 2,1 % à 3,3 % au cours de la même période.

Diverses théories peuvent expliquer pourquoi le taux de chômage historiquement bas n'a pas influé sur les salaires, mais un facteur potentiel largement ignoré est la diminution actuelle du nombre de Canadiens disposés à changer d'emploi. Selon les recherches réalisées par la Réserve fédérale américaine, les personnes qui changent d'emploi obtiennent un salaire qui dépasse largement celui des autres travailleurs, en particulier lorsque les conditions du marché du travail se resserrent. Ces personnes qui quittent leur emploi sont prêtes à se tourner vers de nouvelles possibilités afin de faire avancer leur carrière. Notons que les gains réalisés lors d'un changement d'emploi sont asymétriques, puisque seul un petit nombre de personnes – dotées de compétences hautement spécialisées – ont connu de fortes augmentations. Les avantages obtenus n'ont pas été les mêmes pour toutes les personnes qui ont changé d'emploi.

Les chiffres sont malgré tout éloquentes. Selon cette étude, au Canada, les salaires des personnes ayant quitté leur emploi ont été en moyenne de 15,4 % plus élevés que ceux des autres travailleurs au cours de la période post-récessionniste allant de 2010 à 2015. Les personnes qui ont conservé leur emploi ont vu leur salaire s'accroître d'à peine 2,9 %.

Les Canadiens ont quand même été, dans l'ensemble, moins disposés à quitter leur emploi au cours des dernières années. La proportion de personnes qui ont quitté leur emploi a atteint un creux de 3,0 % en 2010, dans la foulée de la récession, et cette proportion est demeurée sous les 4,0 %, soit de 3,7 % en moyenne pour l'ensemble de la période allant de 2010 à 2015. La baisse a été de 0,5 point de pourcentage par rapport à la moyenne de 4,2 % enregistrée au cours de la période allant de 2000 à 2009. Cela équivaut à 38 756 personnes de moins ayant quitté leur emploi sur les 7,75 millions de travailleurs recensés dans les données.

Parmi les raisons expliquant cette situation, mentionnons la prudence dont ont fait preuve les travailleurs en cette période économique particulièrement troublée et l'immobilité des travailleurs vieillissants ayant acquis beaucoup d'ancienneté dans leur poste. De manière générale, la baisse du nombre de personnes qui changent d'emploi ajoute à la diminution de la mobilité. La migration interprovinciale baisse depuis des décennies.

Il s'agit d'un problème avec lequel les décideurs devront composer. La réticence croissante à changer d'emploi est un facteur qui réduit l'efficacité du marché du travail : le marché n'arrive pas à jumeler les travailleurs avec les emplois qui leur conviennent le mieux. Davantage de Canadiens doivent comprendre les avantages qu'apporte la mobilité sur le plan professionnel.

“ Les Canadiens ont quand même été, dans l'ensemble, moins disposés à quitter leur emploi au cours des dernières années.”

Introduction

Economists have been puzzled by why the record low unemployment rate in North America has not been reflected in faster wage growth. In Canada, for example, the unemployment rate fell from 8.3 percent in 2009 to 5.8 percent in 2018, but average hourly earnings grew by only 2.1 percent to 3.3 percent over that period.¹ This contradicts the so-called Phillips Curve trade-off between unemployment and wage and price inflation where high unemployment dampens inflation while low unemployment lifts wage and price inflation.² However, the relationship between unemployment and inflation has become so murky in recent years that one researcher relabelled it the “Phillips Cloud” rather than the Phillips Curve (Uhlig 2017, 187).

As noted in a previous commentary for the Macdonald-Laurier Institute (Cross 2018), economists have advanced several theories as to why the Phillips Curve, one of the bedrocks of New Keynesian macroeconomic theory guiding the management of the economy, has broken down over the past decade. These include intensified global competition and technological change, which might have made workers insecure about losing their jobs to overseas competitors or to robots if they demanded higher wages. Other theories include the lingering effect of the Great Recession of 2008-2009 on job insecurity, the aging of the labour force that has seen older workers replaced with lower-cost younger ones, and the concentration of employment in a small number of firms (especially in technology industries).

This paper explores another factor behind persistent slow wage growth: the increasing reluctance of Canadians to change jobs. Research at the US Federal Reserve Board found that people who switch jobs earn substantially more than people who stay in the same job, especially when labour market conditions tighten (Faberman and Justiniano 2015).³ Some people switch jobs because they are moving up the “job ladder” to higher-paying jobs. Others lose their jobs involuntarily after they are fired or laid off. Yet others switch jobs voluntarily rather than wait until they are fired or laid off. However, the quit rate is highly cyclical, rising as the economy improves but falling sharply when the economy slows or contracts.

“This paper explores another factor behind persistent slow wage growth: the increasing reluctance of Canadians to change jobs.”

The analysis in this paper draws on a special tabulation from Statistics Canada’s Longitudinal Worker File (LWF) between 2000 and 2015 that compares the wages of people who changed jobs with those who stayed in the same job. This tabulation also yields a measure of the proportion of people who voluntarily

changed jobs. To avoid earnings truncation due to people starting or ending a job in the middle of the year, this tabulation only captures job stayers who were with the same employer from at least year $t-3$ (i.e., 3 years before changing jobs) to $t+1$; job leavers who left their job in $t-1$ must have been with the same employer in $t-2$ and $t-3$, obtained their new job in $t-1$ and have stayed in that job in t and $t+1$.

The wage data are in constant 2018 dollars to adjust for inflation as measured by the Consumer Price Index. While adjusting for inflation using the CPI is problematic over long periods of time, this is unlikely to be a major issue over the 15 years in this study.

The results were compiled for the 7.75 million employed people between 18 and 64 years of age who met these criteria. A separate tabulation was done for adults between 25 and 64 years old in order to exclude the impact of higher job turnover among young people. Most of the analysis in this paper focuses on adults age 25 to 64 years, the data for which is provided in the appendix.

Excluding youths age 18 to 24 makes the results slightly less noisy but does not materially alter the results. This is demonstrated by comparing wage changes for people remaining in the same job for adults 25 to 64 years old with the total employed population 18 to 64 years old (see Figure 1).

FIGURE 1. WAGE GROWTH FOR JOB STAYERS, BY AGE

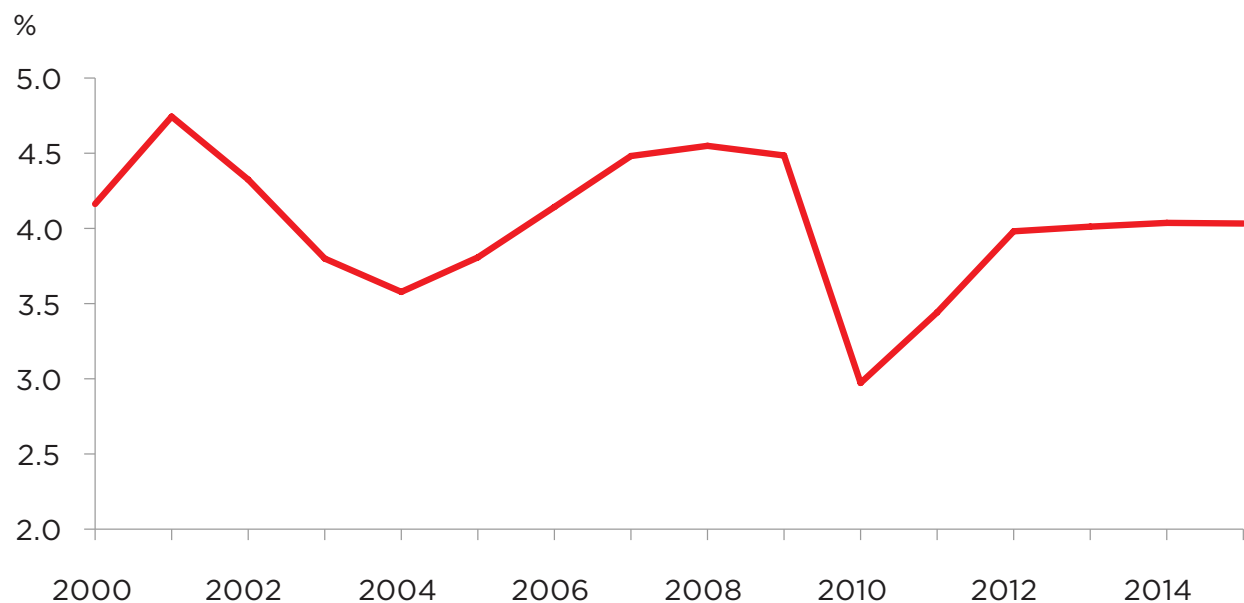


Source: Statistics Canada, Longitudinal Worker File

Employees are increasingly reluctant to change jobs

The share of workers changing jobs declined after the 2008-2009 recession. Among adults 25 to 64 years old, over 4.2 percent a year on average changed jobs between 2000 and 2009. The share of job leavers hit a low of 3.0 percent in 2010 in the wake of the recession and then remained below 4.0 percent, averaging 3.7 percent for the whole period 2010 to 2015 (see Figure 2). This 0.5 percentage point decline is the equivalent of about 38,756 fewer people changing jobs every year out of the 7.75 million workers included in the LWF data in 2015.

FIGURE 2. SHARE OF WORKERS LEAVING THEIR JOBS



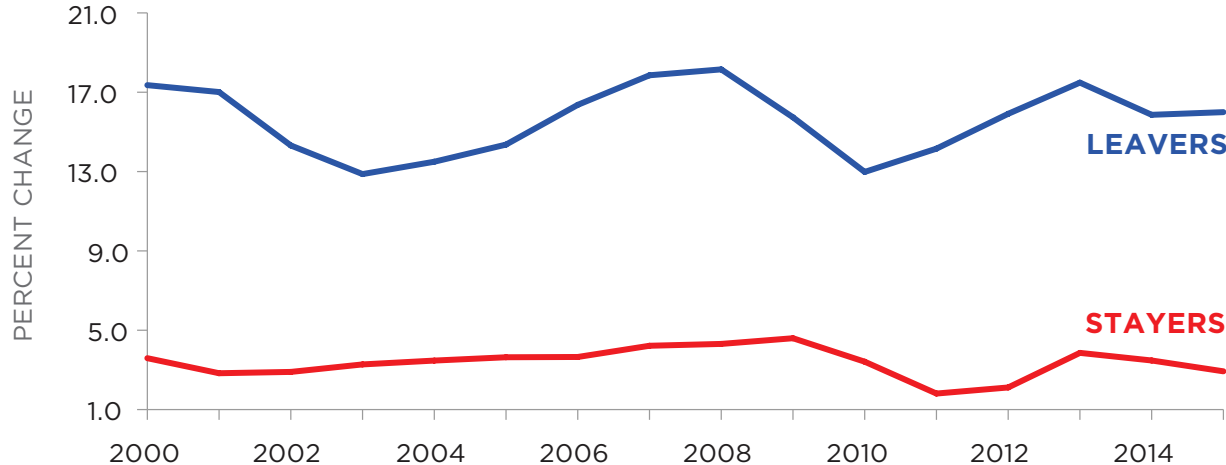
Source: Statistics Canada, Longitudinal Worker File

Wage increases for the growing number of workers staying in their jobs slowed nearly a full percentage point following the recession. The median wage growth for people who remained in the same job averaged nearly 3.7 percent from 2000 to 2009. After the recession, median wages for job stayers fell to a low of 1.8 percent in 2011 and averaged 2.9 percent between 2010 and 2015.

People receive substantial pay increases when they change jobs

Median wages for people who changed jobs rose significantly more than for people who stayed in the same job (Figure 3). In addition, wage increases for job leavers were little changed before and after the recession, averaging 15.8 percent from 2000 to 2009 and 15.4 percent from 2010 to 2015 even if the premium for job changers clearly has a cyclical component (falling below 14 percent in the immediate aftermath of the 2001 slowdown and the 2008 recession). Care should be taken in interpreting these numbers; not everyone who changes jobs can expect such a substantial wage hike. People who change jobs often do so because they were enticed by a better offer elsewhere, presumably because they are among the most talented and potentially productive workers in their area. Compared with the cyclical-sensitivity of wage changes for job leavers, the wages of job stayers are much less influenced by business conditions.

FIGURE 3. MEDIAN WAGE GROWTH FOR JOB STAYERS AND LEAVERS



Source: Statistics Canada, Longitudinal Worker File

There are a number of reasons why Canadian workers became more reluctant to change jobs after the 2009 recession even if the incentive of earning a higher wage by changing jobs seemed as strong as ever. Initially, there were fewer job openings during the recession and early in the recovery. At the same time, the labour force was aging rapidly. With the trauma of the recession fresh in their minds, older workers may have been content to stay in their current job, collect their salary and protect their pension benefits, especially if they worked in the public sector where defined pension benefits are now almost exclusively concentrated.

Another reason people stay in their current job is that their wage level is higher than it is for people who change jobs. Seniority presumably helps explain why the median real wage of job stayers was

nearly \$10,000 more than it was for job leavers in 2015 (\$60,410 versus \$52,767). This gap between the wage of job stayers and job leavers fluctuates with the economy. It widened to 15.2 percent in the aftermath of the 2001 slowdown and narrowed to a low of 8.3 percent when the economy was doing well in 2012. Moreover, the gap between higher wages for job stayers than job leavers narrowed from an average of 12.5 percent before the Great Recession to 11.2 percent after 2008. This would be consistent with older workers increasingly staying in their jobs, but there may be other factors behind the gap.

More broadly, the number of job changers is declining due to a decreasing willingness to move long distances to find employment. That reluctance to move and change jobs reinforces lower job mobility. Inter-provincial migration has been falling for decades (Cross 2015, 17). Lower geographic mobility is not a function of an aging population only; most age cohorts have shown a lower propensity to move between provinces in recent years.

The premium for job leavers fluctuates with the economy

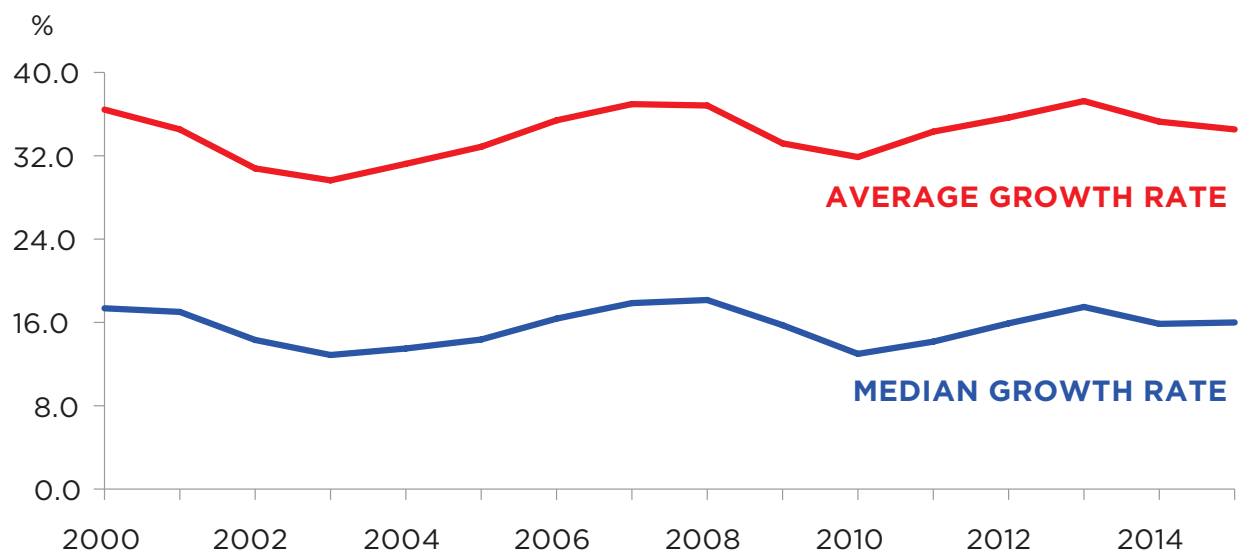
While job leavers as a group invariably received higher wages than they would have in the job they left, they did not automatically do better than other people who left their job; it depended on how the economy was doing in a particular year. For example, the cohort of people who left their jobs in 2009 and 2010 earned lower annual wages than those who left in the three years before the recession. Similar declines were posted by the cohorts of people who left their jobs in 2002 and 2003 after the 2001 high-tech crash slowed the economy, and those who left in 2014 and 2015 when the oil price crash pushed Canada's economy to the brink of recession.

There is evidence from the United States that higher wages for job leavers was driven by people leaving the government for the private sector. Borjas found this is because people who left the public sector are its most talented workers, realizing they can command much higher salaries both because of the premium for high-skill workers in the private sector and the wage compression that limits pay for upper echelon public servants (Borjas 2003, 43). The growing gap between wages for highly skilled workers in the private and public sectors accompanied a rising quit rate among public sector workers leaving for the private sector, which was almost four times as high as the reverse flow (Borjas 2003, 45). As Borjas concludes, "the substantial widening of wage inequality in the private sector and the relatively more stable wage distribution in the public sector created magnetic effects that altered the sorting of workers across sectors, with high-skill workers becoming more likely to end up in the private sector" (Borjas 2003, 52). It is likely this holds true in Canada because the same dynamic of wage compression in the public sector also caps the pay for highly skilled employees. Wage compression in the public sector reflects how its long-standing egalitarian ethos became institutionalized in collective bargaining by unions.

Borjas's notion that employers target the most skilled workers in other workplaces seems to be supported by Figure 4, which compares the average versus the median annual wage growth for job leavers. The average wage increase is at least twice as high as the median increase. This large discrepancy between the average and the median wage reflects how a small number of people receive very large wage increases when changing jobs. The level of wages supports this: the average wage

of job leavers in 2015, for example, was \$61,181 versus a median wage of \$49,342. The premium for the most highly skilled workers appears to have risen slightly over time, as the gap between average wage gains for job changers and their median wage increase edged up from 18.0 percent before the recession to 19.4 percent after 2009.

FIGURE 4. AVERAGE AND MEDIAN WAGE GROWTH FOR JOB LEAVERS



Source: Statistics Canada, Longitudinal Worker File

Conclusion

Economists do not really know why record low unemployment has not been reflected in higher wage increases. In part, this reflects that the unemployment rate overstates the improvement in labour market conditions because some of its decline in recent years reflects the withdrawal of older workers from the labour force and not rising demand for labour. This paper explores the role played by the increasing reluctance of workers to change jobs even when doing so might raise their wages. This growing reluctance appears related to the aging of the population and heightened concerns about job security.

More broadly, their reduced willingness to change jobs is another manifestation of the declining mobility of Canadians in the labour force. For decades, the number of people in Canada who have moved between provinces for work has been declining. The results of this paper reinforce the perception that Canada's labour force is becoming increasingly immobile. Even as the potential wage gain from changing jobs remains high, many Canadians are not willing to change jobs. Their reluctance to do so has led to a less efficient labour market in terms of matching people with the jobs that maximize the use of their skills. The result is lower wage increases for individuals and lower incomes as a whole in the Canadian economy. Governments should be doing more to encourage Canadians to maximize their earnings capability.

Appendix

TABLE 2: AVERAGE & MEDIAN: A) REAL ANNUAL WAGES, B) GROWTH IN REAL ANNUAL WAGES, OF STAYERS AND LEAVERS AGED 25 TO 64 IN YEAR T, CANADA, 2000 TO 2015

Year t	Average annual wages		Median annual wages		Average annual wage growth from t-2 to t		Median annual wage growth from t-2 to t		Number of stayers	Number of leavers	Leavers/ Both groups	Year t
	Stayers	Leavers	Stayers	Leavers	Stayers	Leavers	Stayers	Leavers				
	2018 dollars				percent						percent	
2000	65,019	59,609	56,494	49,242	10.1	36.4	3.6	17.4	5,381,423	233,736	4.2	2000
2001	64,634	59,531	55,780	49,569	8.1	34.5	2.8	17.0	5,590,038	278,377	4.7	2001
2002	64,648	59,015	56,043	49,433	7.1	30.8	2.9	14.3	5,772,475	260,930	4.3	2002
2003	64,667	56,601	55,975	47,513	7.6	29.6	3.3	12.9	5,961,088	235,434	3.8	2003
2004	65,892	57,231	56,405	47,829	8.6	31.2	3.5	13.5	6,153,357	228,319	3.6	2004
2005	66,721	59,213	56,542	49,664	9.0	32.9	3.6	14.4	6,254,450	247,552	3.8	2005
2006	67,985	61,155	57,210	50,721	9.0	35.4	3.7	16.4	6,306,408	272,529	4.1	2006
2007	69,238	62,286	57,936	51,447	9.9	37.0	4.2	17.9	6,346,569	297,765	4.5	2007
2008	69,526	62,467	58,488	51,773	9.3	36.8	4.3	18.2	6,467,060	308,216	4.5	2008
2009	69,125	62,075	58,618	51,713	8.4	33.2	4.6	15.7	6,637,283	311,658	4.5	2009
2010	69,397	61,350	58,383	50,367	7.7	31.9	3.4	13.0	6,863,023	210,236	3.0	2010
2011	69,701	64,675	58,377	52,401	8.1	34.3	1.8	14.2	7,021,507	250,249	3.4	2011
2012	70,290	65,469	58,776	53,900	7.9	35.7	2.1	15.9	6,999,058	290,168	4.0	2012
2013	71,722	65,985	59,837	53,615	9.2	37.3	3.9	17.5	7,040,199	294,243	4.0	2013
2014	72,254	64,998	60,020	53,070	8.8	35.3	3.5	15.9	7,156,048	301,028	4.0	2014
2015	72,707	64,646	60,410	52,767	8.1	34.5	2.9	16.0	7,221,016	303,428	4.0	2015

Source: Statistics Canada, Longitudinal Worker File.

Note: Employees aged 18 to 64 in year t who earned between \$10,000 and \$10 million (in 2018 dollars) in both years t-2 and t. To avoid earnings truncation due to starting/ending a job in the middle of a year, stayers are required to be with the same employer from at least year t-3 to at least t+1. Leavers satisfy the following conditions: a) the job they left in t-1 was also held in t-2 and t-3, b) the new job they got was obtained in t-1 and was also held in t and t+1. These restrictions are imposed to avoid earnings truncation due to starting/ending a job in the middle of a year. For both groups, the job held in t-2 and t was the main job held in these years. Leavers left their employer due to quits or had no ROE issued when they left.

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About the Author



Philip Cross is a Munk Senior Fellow at the Macdonald-Laurier Institute. Prior to joining MLI, Mr. Cross spent 36 years at Statistics Canada specializing in macroeconomics. He was appointed Chief Economic Analyst in 2008 and was responsible for ensuring quality and coherency of all major economic statistics. During his career, he also wrote the “Current Economic Conditions” section of the *Canadian Economic Observer*, which provides Statistics Canada’s view of the economy. He is a frequent commentator on the economy and interpreter of Statistics Canada reports for the media and general public. He is also a member of the CD Howe Business Cycle Dating Committee.

Endnotes

- 1 Wages exclude overtime (see Statistics Canada 2019a).
- 2 The Phillips Curve was formulated in the 1960s when the prevailing theory of inflation was based on a mark-up over the cost of products, not the monetary theories that proved decisive in curbing inflation in the 1980s.
- 3 Regular updates on wages for job stayers and job switchers are available from the Wage Growth Tracker at the Federal Reserve Bank of Atlanta: www.frbatlanta.org/chcs/wage-growth-tracker.



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"The study by Brian Lee Crowley and Ken Coates is a 'home run'. The analysis by Douglas Bland will make many uncomfortable but it is a wake up call that must be read." former Canadian Prime Minister Paul Martin on MLI's project on Aboriginal people and the natural resource economy.

Ideas Change the World

Independent and non-partisan, the Macdonald-Laurier Institute is increasingly recognized as the thought leader on national issues in Canada, prodding governments, opinion leaders and the general public to accept nothing but the very best public policy solutions for the challenges Canada faces.

Where You've Seen Us



About the Macdonald-Laurier Institute

What Do We Do?

When you change how people think, you change what they want and how they act. That is why thought leadership is essential in every field. At MLI, we strip away the complexity that makes policy issues unintelligible and present them in a way that leads to action, to better quality policy decisions, to more effective government, and to a more focused pursuit of the national interest of all Canadians. MLI is the only non-partisan, independent national public policy think tank based in Ottawa that focuses on the full range of issues that fall under the jurisdiction of the federal government.

What Is in a Name?

The Macdonald-Laurier Institute exists not merely to burnish the splendid legacy of two towering figures in Canadian history – Sir John A. Macdonald and Sir Wilfrid Laurier – but to renew that legacy. A Tory and a Grit, an English speaker and a French speaker – these two men represent the very best of Canada's fine political tradition. As prime minister, each championed the values that led to Canada assuming her place as one of the world's leading democracies. We will continue to vigorously uphold these values, the cornerstones of our nation.



Working for a Better Canada

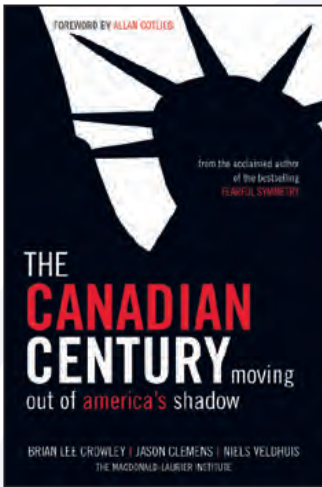
Good policy doesn't just happen; it requires good ideas, hard work, and being in the right place at the right time. In other words, it requires MLI. We pride ourselves on independence, and accept no funding from the government for our research. If you value our work and if you believe in the possibility of a better Canada, consider making a tax-deductible donation. The Macdonald-Laurier Institute is a registered charity.

Our Issues

The Institute undertakes an impressive program of thought leadership on public policy. Some of the issues we have tackled recently include:

- Aboriginal people and the management of our natural resources;
- Making Canada's justice system more fair and efficient;
- Defending Canada's innovators and creators;
- Controlling government debt at all levels;
- Advancing Canada's interests abroad;
- Ottawa's regulation of foreign investment; and
- How to fix Canadian health care.

Macdonald-Laurier Institute Publications

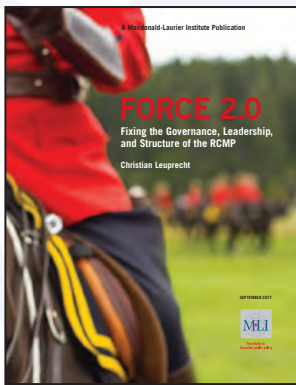


Winner of the Sir Antony Fisher International Memorial Award BEST THINK TANK BOOK IN 2011, as awarded by the Atlas Economic Research Foundation.

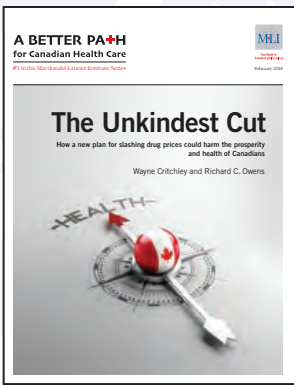
Do you want to be first to hear about new policy initiatives? Get the inside scoop on upcoming events? Visit our website www.MacdonaldLaurier.ca and sign up for our newsletter.

The Canadian Century
By Brian Lee Crowley, Jason Clemens, and Niels Veldhuis

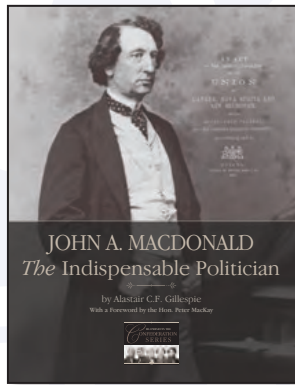
RESEARCH PAPERS



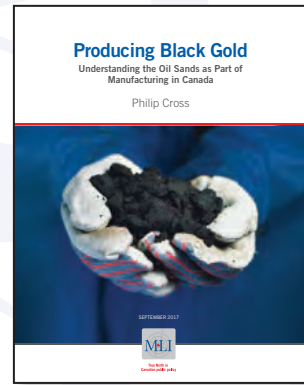
Force 2.0
Christian Leuprecht



The Unkindest Cut
Wayne Critchley and Richard C. Owens



John A. Macdonald: The Indispensable Politician
Alastair C.F. Gillespie



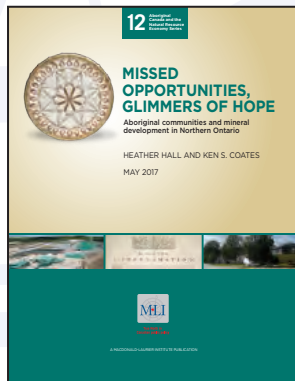
Producing Black Gold
Philip Cross



Getting Out of a Fiscal Hole
Sean Speer



Getting the Big Picture
Bram Noble



Missed Opportunities, Glimmers of Hope
Heather Hall and Ken S. Coates



Running Out of Time
Brian Ferguson, Sean Speer, and Ariel Freeman-Fawcett



True North in
Canadian public policy

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What people are saying about the Macdonald-Laurier Institute

In five short years, the institute has established itself as a steady source of high-quality research and thoughtful policy analysis here in our nation's capital. Inspired by Canada's deep-rooted intellectual tradition of ordered liberty – as exemplified by Macdonald and Laurier – the institute is making unique contributions to federal public policy and discourse. Please accept my best wishes for a memorable anniversary celebration and continued success.

THE RIGHT HONOURABLE STEPHEN HARPER

The Macdonald-Laurier Institute is an important source of fact and opinion for so many, including me. Everything they tackle is accomplished in great depth and furthers the public policy debate in Canada. Happy Anniversary, this is but the beginning.

THE RIGHT HONOURABLE PAUL MARTIN

In its mere five years of existence, the Macdonald-Laurier Institute, under the erudite Brian Lee Crowley's vibrant leadership, has, through its various publications and public events, forged a reputation for brilliance and originality in areas of vital concern to Canadians: from all aspects of the economy to health care reform, aboriginal affairs, justice, and national security.

BARBARA KAY, NATIONAL POST COLUMNIST

Intelligent and informed debate contributes to a stronger, healthier and more competitive Canadian society. In five short years the Macdonald-Laurier Institute has emerged as a significant and respected voice in the shaping of public policy. On a wide range of issues important to our country's future, Brian Lee Crowley and his team are making a difference.

JOHN MANLEY, CEO COUNCIL
