Declining Labor Turnover and the Importance of Intensive Margin Adjustment

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Abstract

The contribution of intensive margin adjustments to the cyclical fluctuations in total hours worked has increased in the US since the 1980s. I document that the job tenure length has increased during this period and labor hours adjustments in recessions are more prominent in economies with higher job tenure lengths. I build a search-and-matching model with part-time workers and job-specific human capital accumulation. With the model, I claim that the improvement in initial match quality can account for the increased use of intensive margin adjustments along the business cycle. A policy simulation shows that subsidizing intensive margin adjustments via Short-Time Compensation (STC) policy is more effective in reducing unemployment volatility when the initial match productivities are higher and job separations are lower.

Keywords: Intensive margin adjustments, endogenous separation, human capital, business cycle