

20 mins, AEA.

- Thank you very much for including me in the program & organising this session. Today I'm presenting a new paper about internal & external labor markets & declining dynamism - this paper is still in its early stages, so I would really appreciate & welcome your comments & feedback.

- ① observation fact
- (i) The starting point of this paper is the ^{the US economy}, the US economy has experienced a long-run ↓ in measures of worker reallocation b/w firms.
 - (ii) An important measure of labor reallocation is the EE trans prob capturing the freq at which workers switch employers or transition b/w firms every month w/o any intervening spell of nonempt.
 - (iii) This prob has observed a decline of nearly 20% b/w the mid 90s to now - which led to concern that the US labor market is less dynamic or less flexible now compared to what it used to be 30-40 years back.
 - (iv) Now why worker reallocation across employers is up is because workers typically realize a pay ↑ when switching firms, so these trans tend to be an important lifetime earnings growth of workers.
 - (v) Another emp trend observed over this time period has been the shift in emp composition away from small firms and towards large firms. This is very apparent if we look at the

empt share of large firms w/ more than 500 employees has climbed by 8 pp & now stands at just above 50%. Most of this shift has come from firms below size 100 for which the empt share decreased from 40% to just around 1/3 rd → these changes also took place b/w early 90s & now.

(vi) And finally a third observation - that I will talk much more about - is that large firms have internal labor markets, and provides avenues for workers to climb job ladders or reallocate b/w jobs internally. Now the evidence on ILM is far less than FLM, most studies focus on studying ILM of one firm but a few recent papers have tried to apply this idea to a broader set of firms and in particular found evidence of internal job ladders and occupation switches to be more prevalent in larger firms.

- If large firms indeed have ILMs, then a pertinent question is ^{W/in} are large firms increasingly climbing job ladders internally within firms, rather than externally, across firms? And if so what implications does that have on the measurement of labor market dynamism?
 - In this paper, I want to bring together these 3 facts & try to understand
 - ~ to what extent can accounting for ILM trans dampen or amplify the decline in labor M dynamism which, as we now measure it, arises purely out of external BE transitions.

- ② To answer this question :- two public-use survey in US
- I use data from (the CPS and SIPP) to document the prevalence of internal job ladders in large firms.
 - Specifically, I find evidence that job stayers in large firms, rel. to small ones, report a higher prob. of internal work switching over the course of a year.
 - To understand whether these work switches are horizontal or vertical, I focus on annual pay changes associated with these work switches.
 - I find evidence that workers in large firms realize a larger annual pay growth that are associated w/ these internal work switches.
 - These patterns are very broad based & not due to differences in industry or occupations or worker composition.

- In the next part of the paper, I propose a simple decomposition framework to disentangle changes in a true measure of worker dynamism that would emanate from J-J moves within firms & EE moves across firms.
evidence on
- I show that accounting for internal JL in part I partially amplifies LM dynamism and offsets part of the decline in External EE rates. → As expected, this result arises purely due to shifting composition of workers towards L firms and treats dynamics of IJL within these firms as fixed.
- But I can go one step further and ask, what happened to IJL within firms over time? And I observe a secular decline in the rate of internal worker switching (just like we see in measures of external worker switching). I observe this decrease in L & S firms but

much more so for L firms. Finally, accounting for this decline in internal depronism in our decomposition framework amplifies the decline in overall depronism by 1/3 rd b/w 1990s & 2010s.

- finally, what is still in progress & I'm not going to talk about today is a model of external & internal LMs to interpret these facts
- In this model, ILMs mediate mobility across tasks & wage growth of job stayees, whereas the frictional external LMs mediate mobility across employees and the resulting wage dynamics. The aim of the model is to quantify the role of ILM & ELMs in assigning workers to jobs & to understand the mechanism leading to the simultaneous & in worker mobility across both these markets. Today, I'm going to focus on the descriptive part of the paper, but I would welcome any conversations about the model after the session.

