LABOR MARKETS IN *TRANSITION:*

Demographics, Productivity and Macroeconomic Policy

JACKSON HOLE ECONOMIC POLICY SYMPOSIUM

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Macroeconomic Consequences of Declining Labor Mobility: Remarks on “Interstate Mobility and the U.S. Economy”

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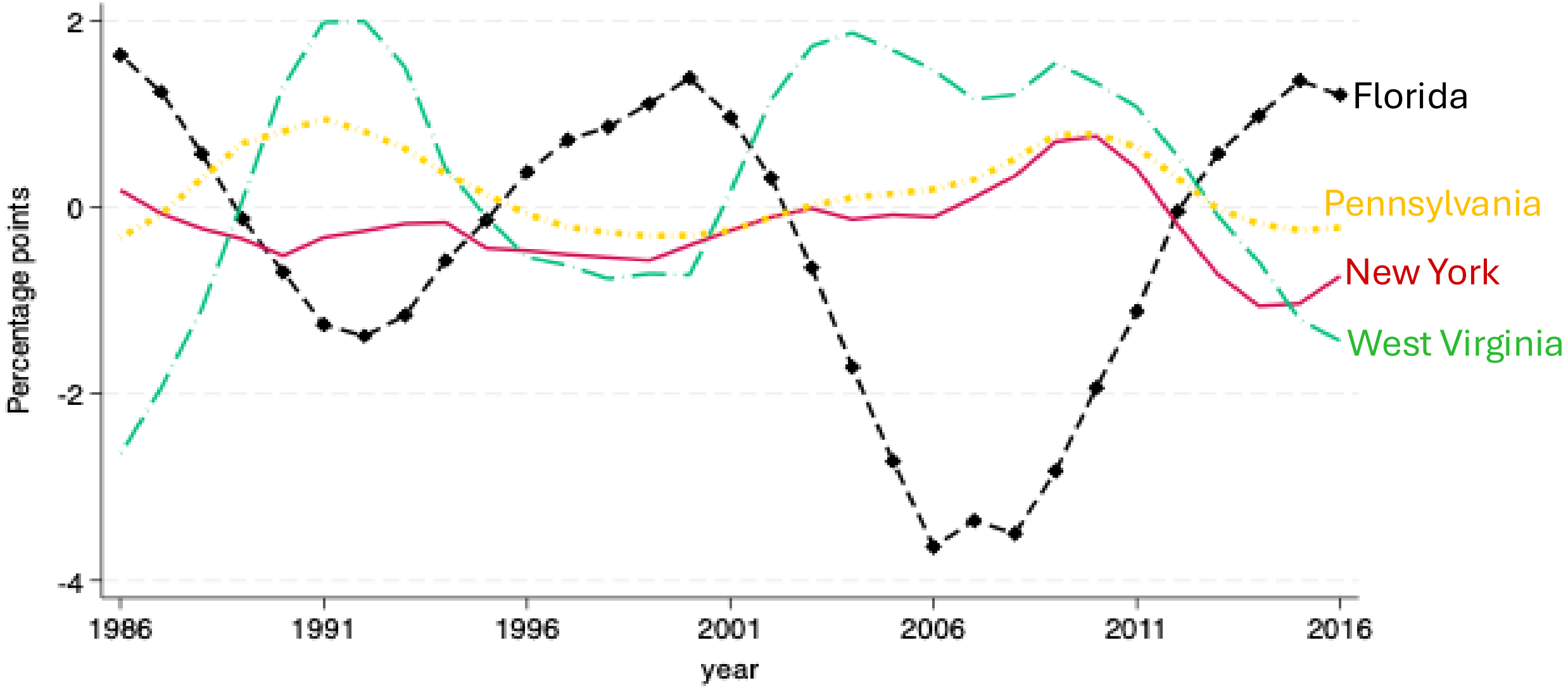
Migration Responses: Strong or Weak?

If migration responses (of workers and jobs) are powerful and rapid, then regional unemployment, wage, and income differentials should dissipate quickly in response to regional labor demand shocks.

1. Do state-level unemployment rates exhibit large, persistent responses to state-level labor demand shifts?
2. Are regional wage differentials large? Have they shrunk over time?
3. Do people migrate to regions with higher incomes? How, if at all, has this migration response changed over time?

Model-Implied Unemployment Rate Deviations, 1986 to 2016



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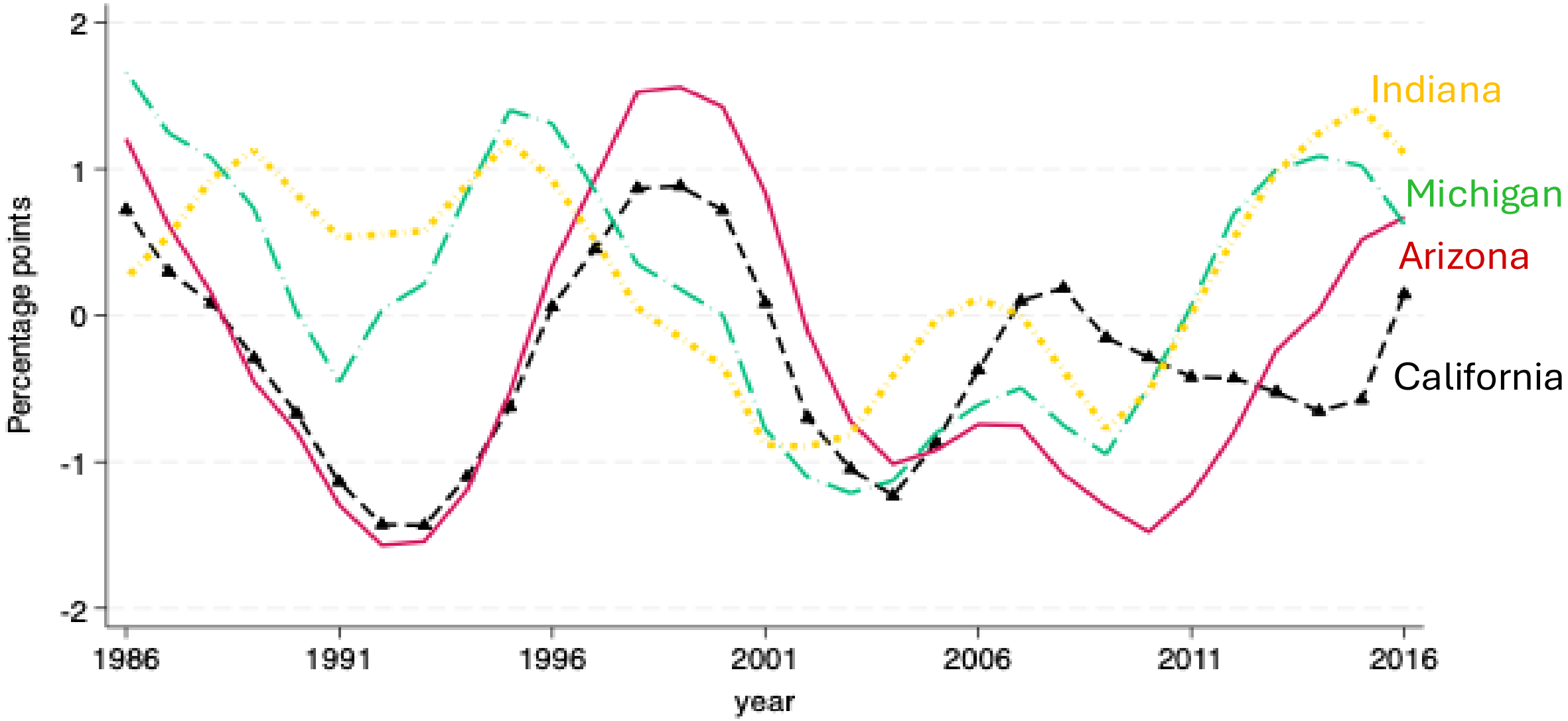
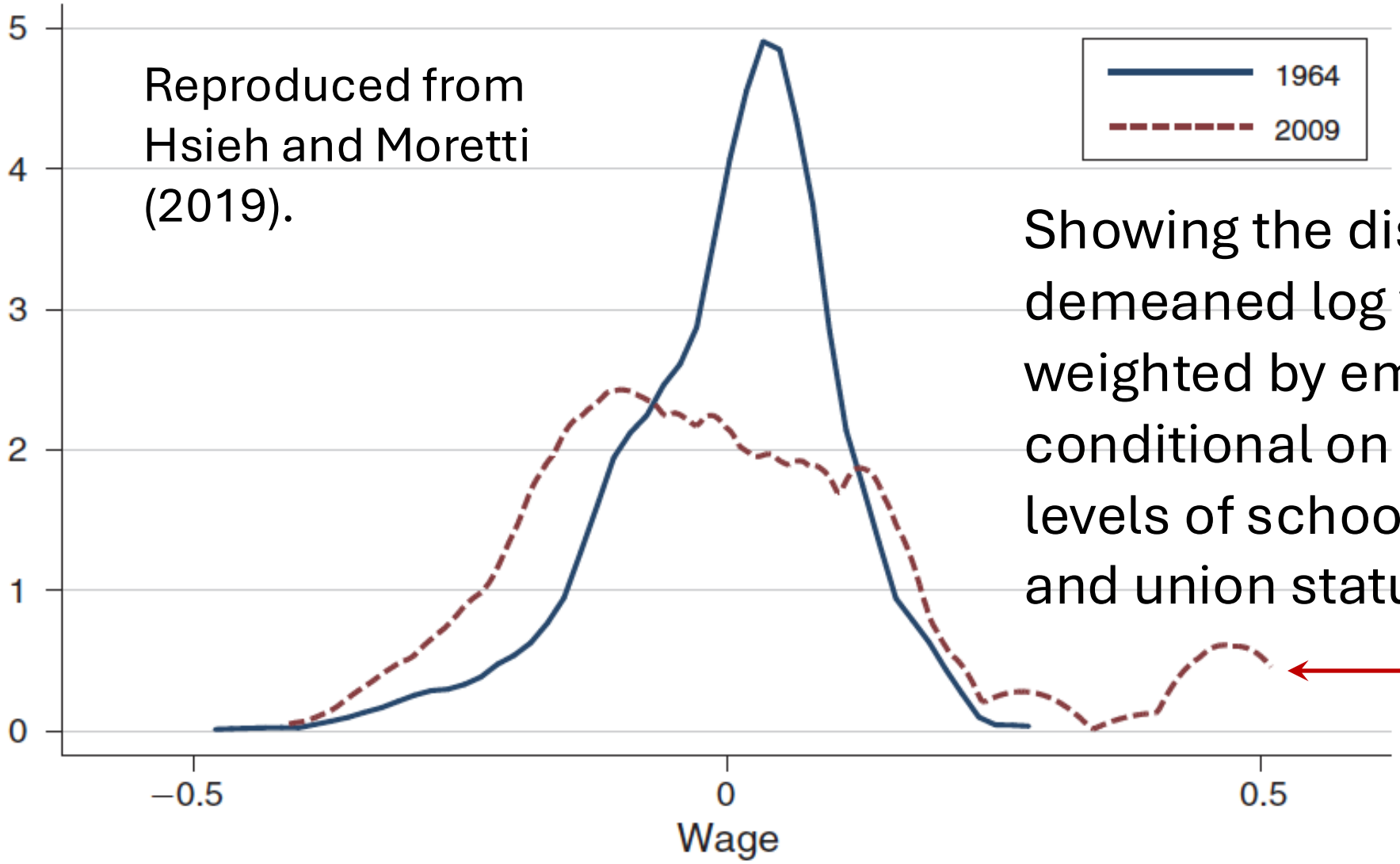


Remarks

1. Other studies find that (a) negative state-level labor demand shocks produce larger short-run responses than positive ones, and (b) labor demand shocks spill over across states. See, e.g., Davis et al. (1997), Baker et al. (2022) and Foschi et al. (2025).
2. Extending the authors' specification (1) to incorporate asymmetries and spatial spillovers would lead to somewhat different model-implied state-level unemployment responses and probably more explanatory power for the Bartik forcing variable (and other demand shifters).

Log Wage Dispersion across 220 MSAs

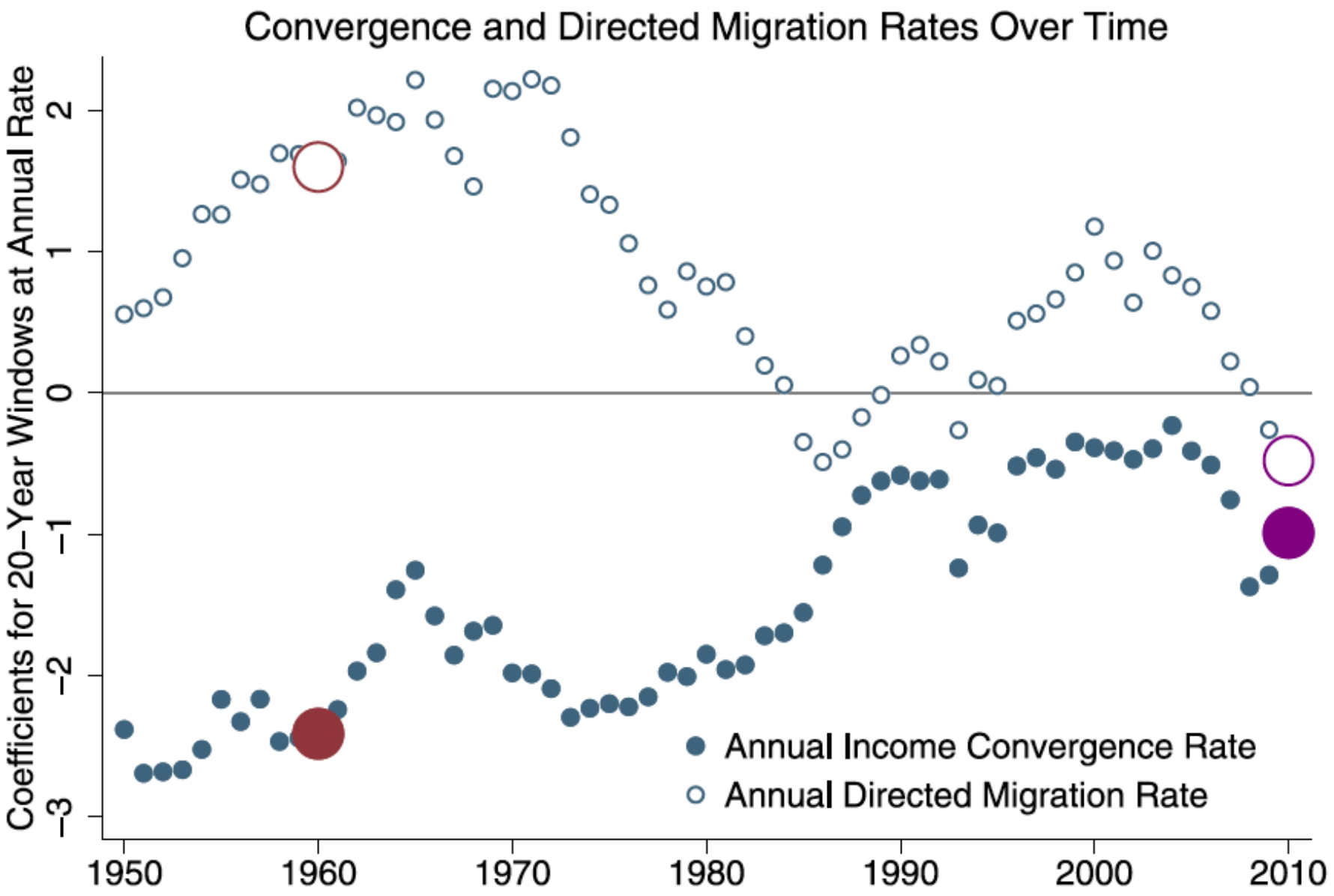
Reproduced from Hsieh and Moretti (2019).



Showing the distribution of demeaned log wages across MSAs weighted by employment and conditional on controls for three levels of schooling, race, sex, age, and union status.

The rise of high-wage coastal cities – e.g., San Francisco, San Jose, New York.

Regional Income Convergence and Migration



Reproduced from Ganong and Shoag (2017).

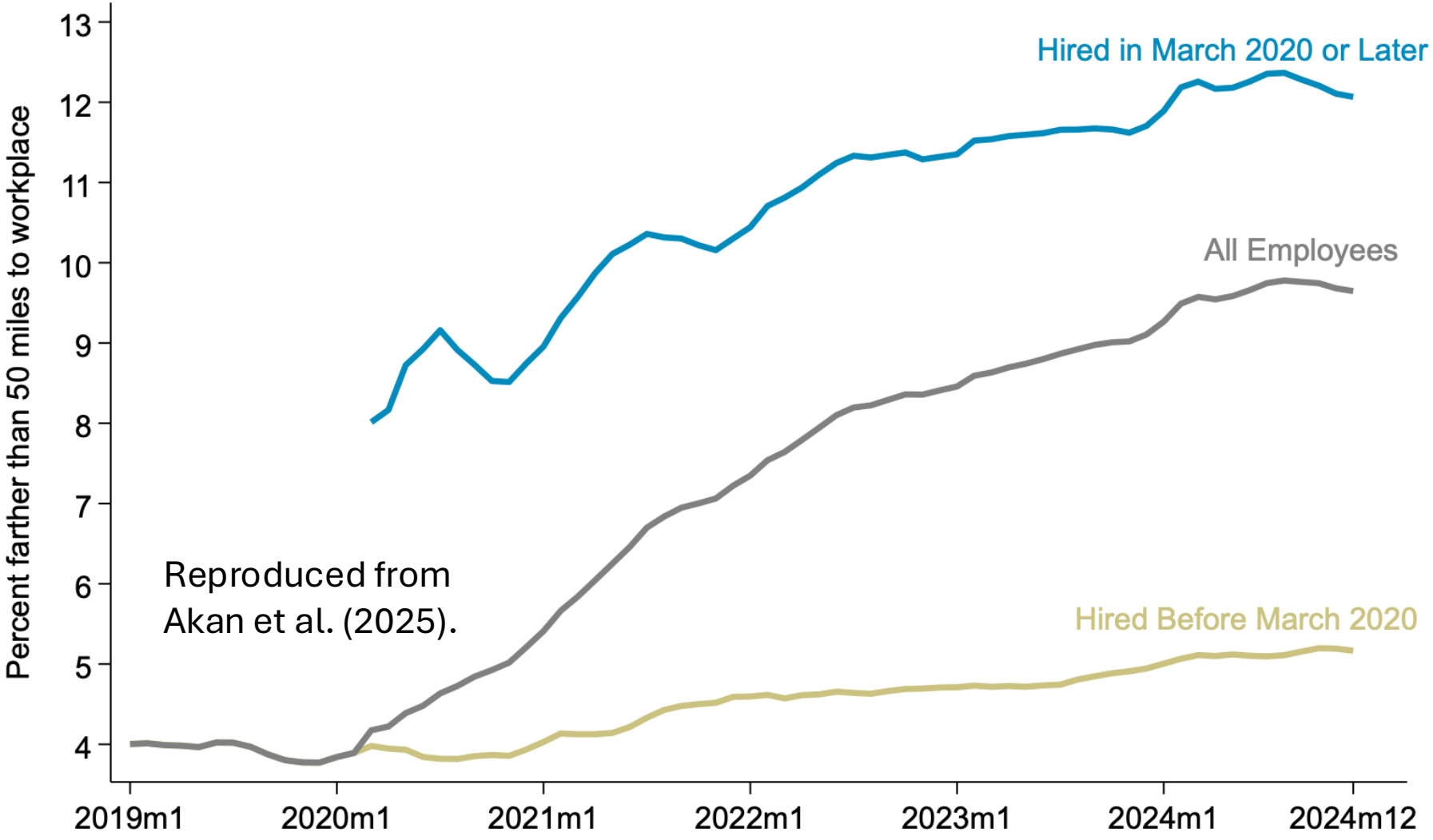
A Provisional Assessment

1. The foregoing charts suggest that spatial reallocation frictions prevent the rapid or full dissipation of regional unemployment, wage, and income differentials in the United States.
2. Foschi et al. and my remarks gloss over the possibility that left-behind areas suffer from poor economic and social outcomes with little outmigration of workers or in-migration of jobs. Attention to this issue requires a different sort of analysis.
3. So, there are reasons for concern about migration responses to regional labor demand shocks in the United States.
4. That's not to say that spatial reallocation frictions arise mainly in the labor market, though some do (e.g., occupational licensing).

Looking Forward: Less Need For Spatial Reallocation?

1. Over time, the industry mix of employment became more similar across U.S. states. Partly for this reason, state-level business cycles became more uniform. See Foschi et al. and Fieldhouse et al. (2024).
2. Greater spatial similarity of the industry mix means that adjusting to future industry shifts will require less spatial reallocation, moderating the negative consequences of spatial reallocation frictions.
3. The recent shift to remote work also lessens the need for spatial reallocation (conditional on the scale of shocks). Why? Because residential location choices are becoming less tethered to employer worksite locations (Akan et al., 2025).

Increasingly, a Sizable Share of Employees Live Far from their Employers' Worksites



Two corollaries:

(1) Job displacements due to industry and firm-level declines will be less clustered in space.

(2) A larger share of job losers will be displaced into local labor markets that are not especially depressed.

Notes: The sample contains 372K employees of 12,454 firms in a balanced panel of mostly smaller and mid-sized firms. Employee-level data are reweighted to match the CPS distribution by (age bin) X sex X major industry. Authors' calculations using proprietary data from Gusto, a payroll processing and HR services firm.

Remarks

1. The spatial diffusion of firm-level footprints is an ongoing process as workforces turn over and new employees reside farther away, on average, than employees hired before the pandemic.
2. Future labor market downturns and restructurings will be more spatially dispersed, moderating the negative effects of job loss on individuals, families, and communities (conditional on the overall scale of job losses).
3. As residential locations become less tethered to employer locations, we need to rethink how we measure and assess the spatial footprint of labor market shocks and the role of migration responses.