



General Discussion: Macroeconomic Consequences of Declining Labor Mobility

Chair: Janice Eberly

Don Kohn: I took some of the things that both Steve and Linda raised and tried to think about what this might mean for the Fed. That's what we're here for to some extent. And what are the effects on u^* , on the equilibrium unemployment rate? So, it seems to me that the decline in dispersions of shocks, which Steve noted means you don't need as much moving, ought to reduce u^* , ought to make it lower, right? The reductions in information frictions, which were mentioned I think by Linda in her paper anyhow, because vacancies are advertised, nationwide, you can access vacancies wherever you are. That reduction ought to help to put some downward pressure on u^* . And work from home, as Steve said, ought to also move in the same direction. Something that I thought about might move in the other direction is the immigration issue. So, some of the regional demands are met by people coming from other countries rather than other states. And as immigration surged, but then as it declines, it seems to me that would tend to put upward pressure on u^* because you need more interstate immigration.

Joachim Nagel: Don Kohn just alluded to the question that I have. I think you used a lot of granular data. You even went down to the county level. And migration is not the same as immigration.

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When reading your paper and comments, one might ask: is migration being influenced? What is the impact of immigration on migration? Over the past couple of decades, I know this has been a hot topic—both here in the United States, but also in my country, in Germany. So how does this change labor markets and what does that mean with regard to monetary policy? Thank you very much.

Linda Tesar: I first want to say thank you, Steve, for great comments. One tiny detail that I do want to note is that when we think about convergence and whether incomes are being equalized, it's really real incomes. And so, there is this phenomenon. I mean, it's an interesting question how it is that both prices and wages are very regional. But the fact that we have regions that have remaining high wages doesn't necessarily mean that we have wage dispersion and doesn't necessarily mean that there isn't pressure for real incomes to converge. But that's a minor point. Otherwise, we take all your comments on board. Thank you. Thanks a lot.

Chris House: Let me second Linda's remark, thanking Steve for his comments. His question about whether the level of interstate migration is strong enough, that's exactly the right question. Our paper really is focused on whether there's compelling evidence of a change in the migration elasticity. We don't find strong evidence that there is much of a change in this elasticity. But really the question for policymakers should be whether that baseline level of the migration elasticity is sufficient to resolve any regional imbalances. And I think that's an open question. Steve also mentioned this issue that there are workers who are going to be left behind in areas that are hollowed out by adverse demand shocks. We completely agree with that. The issue of the role of foreign immigration in regional adjustment, I think when we look at the data, it's pretty clear that they do respond to these shocks. But they're a relatively small component

of the adjustment. Most of the adjustment seems to be happening with domestic workers by themselves.

Steve Davis: Don asked what this means for monetary policy. It's basically good news. I'm referring here to less need for spatial reallocation. It's basically saying the U.S. has moved closer to one of the conditions for an ideal currency union, not because people have become more mobile, but just because the shocks have become less dispersed geographically. So, good news for the Fed, and as Don suggested, it also is a force contributing to a reduction in the underlying natural rate of unemployment.

Kristin Forbes: This is a super interesting paper, and the challenge with super interesting papers, is that once you look at all the data, they often raise a number of additional questions. I will limit myself to three quick ones.

First, you spent a lot of time on the responsiveness of net migration to demand shocks. Did you also think about supply shocks? A couple of questions have already focused on immigration, but let me give you another concrete example that's relevant in Massachusetts. What about changes in income taxes across states? There's a narrative that a recent increase in Massachusetts' taxes is driving migration out of the state. Has the responsiveness to that type of supply shock changed?

Second question, you show that labor demand shocks across states have become more correlated, and you suggest this reflects increased similarity in industry composition. Could another explanation be that the nature of the shocks has changed? Global shocks have become more prevalent across countries in driving movement in demand, labor markets, and prices. So, could this just be the shocks have changed, not the industry composition?

Third question, there was a long literature a number of years ago when the euro was created that while the U.S. makes a logical common currency area, this does not apply to the euro area, as it is less able to adjust to shocks to individual countries, partly because of less internal migration than in the U.S.. Do you have any evidence on how your new numbers on net migration in the

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U.S. compare to across countries in Europe? And could you update that? Thank you.

Chris House: For the issue of supply shocks, I think we agree this is a very interesting question. We haven't started to go down that road yet. I think it's a great question.

The issue of the currency area, funny you should ask. So, the way we actually got into this research area, both Linda and I are macroeconomists. This isn't our normal arena that we hang out in. The way we got into this originally was exactly by looking at optimal currency union questions and comparing U.S. mobility versus European mobility. What we found very briefly was that I guess not surprisingly, European mobility is much, much lower than the mobility rates in the United States. There's lots of potential reasons why that would be expected. Language has got to be one of the top things on your list. As part of that work, we did look at the effectiveness of whether the U.S. migration rate was strong enough. It is not. So, okay, the U.S. is more like an optimal currency area than the eurozone, fine. But it is not close to being mobile enough to obviate these regional imbalances. Thank you.

Barry Eichengreen: I can be quick because Kristin has anticipated my point, not for the first time. But another way to look at the issue is that if region-specific shocks are becoming less important, that's good news for the euro. And if work from home is becoming more important, that's also good news for the euro.

Neela Richardson: I just wanted to circle back to this question of mobility, people versus jobs, which really dovetails nicely with Steve's comments, but also the overall theme. The thing about remote work is that you can't really differentiate it. You could live across the street from your office and still work from home. So, what we've done at ADP is define something called long distance work, which is whether or not you live in the same metro area as your manager. And what we found is a 10-percentage point

increase in people who've done that since the pandemic. So that dovetails nicely with your work, Steve.

But there's also more to that. We've seen some job sorting, with managerial jobs being tied to cities, low skilled jobs being now disintermediated from the headquarters and pushed to more affordable locations. So, while the findings are similar in terms of the rise of remote work, I think the wage implications that we are seeing are quite opposite, where you're seeing more and more wage inequality regionally based on employment shocks because of this job sorting that companies are doing.

Ayşegül Şahin: I had a question about the way you dismiss demographics as an explanation. So, it's based on the shift share analysis, which has this stark assumption that when population shares change, nothing happens to group specific outcomes. But we know, at least for unemployment, that Don brought up is that older areas tend to have lower employment rates for all workers. So, did you think about using an IV structure to be able to get to the total effect of demographics? Because we have this huge cohort, which has done well in the labor market, in the housing market. And it's very likely that both younger workers and employers are responding to this.

Linda Tesar: There's another whole paper that could be written for sure, if not several, about the interaction between, which we didn't get into, the interaction between demographics, industry composition and location. And there's a lot there to unpack. And I mean, it's going to take very detailed data to do it, but I think it's got to be important.

Carolyn Pflueger: I just wanted to follow up on Don Kohn's question in terms of what this means for monetary policy. The causality could go in two directions. Unemployment is, of course, an input for monetary policy. Conversely, interest rates are going to affect mobility, maybe by locking households into low interest rate mortgages, especially after an extended period of the zero lower bound. You don't find much variation in mobility, so should we not worry about this? Or how should one look at it in the data to figure out whether interest rate lock-in is an issue?

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Doug Elmendorf: Two quick points. The first is, I was surprised by the focus on net migration rather than gross migration. If all workers and all jobs are alike, then what matters would be the net, the number of people in a state. But workers and jobs are not alike. So, if Michigan loses a manufacturing job and gains a nursing job, it matters tremendously whether a manufacturing worker moves out and a nurse moves in, or nothing happens, and both of those would register zero net migration. So, the gross seems to me quite important in actually equilibrating individual labor markets.

Second point is that your 60 percent of the demand shock is absorbed by migration sounds at first blush like a sort of, the glass is half full or roughly half full and roughly half empty in terms of the responsiveness of people. I think that's too favorable, though, because mobility can have very large personal costs. I think for people in this room, many of our moves have seemed very positive and rewarding. But for lots of people, the need to move to a different state to find a job is wrenching you away from your family, your communities, your whole personal networks. And so, I don't think that mobility solves a labor market problem, but it can do so at a very large personal cost. I don't think we should view that mobility as a panacea for different labor shocks. And maybe the shocks are getting somewhat smaller over time, which is good. But those that are there, I think, mobility has a lot of cost. And that emphasizes the importance of place-based policies. I know that economists have a lot of good, efficient, effective place-based policies in our toolkit. Of course, we have people who are doing research, trying to build evidence to do that. I think that remains very, very important, even with somewhat smaller shocks, even if mobility has not declined, because of the cost of moving. Thank you.

Fatih Karahan: I just wanted to ask how you reconcile your main findings with the first graph. So, you show basically in the paper that the response of net migration to local shocks did not

change over time. You also show that shocks are more uniform across regions. So, putting the two together, we should see a decline in net migration. But net migration in the first figure is flat. And all the decline is concentrated in gross migration. So, I'm curious how you reconcile that with the macro picture.

Chris House: On the last question about how you line up the declining cross-state dispersion in the Bartik with a roughly constant overall net migration rate, we should probably emphasize that the Bartik impulses, if you want to think about them that way, these motivations to go from a state that's suffering a little bit to another state that's doing well, this actually represents a rather small part of the total labor demand shocks that face a given region. It is true that for those shocks, they seem to be declining in their intensity, but that's just one of them. So, I guess one way of thinking about this is that there are other labor demand shocks that are kind of keeping that net migration rate from declining too much. There is actually a decline in the net migration rate. It's just not overwhelming.

Doug's point about the importance of gross migration, yeah, you're preaching to the choir. We completely agree. One thing that Linda discussed, probably went by a little bit fast, is that when you saw that decomposition between offsetting and migration rates and net migration rates, we were kind of emphasizing that it's the offsetting migration rate that's declining. But another thing to take from that picture is just how significant the offsetting migration rate is. That is the lion's share of gross migration.

And this issue of the costs of moving, absolutely. We do not mean to say that, oh, you can move, therefore all of the sins have been forgiven. Not at all. This is at best a silver lining or a little bit of a buffer. If you're losing your job in Detroit because the auto industry is declining, the fact that you can move to Pennsylvania and take your second-place job is, it's somewhat comforting, kind of cold comfort.

There was also a question about remote work. We get this question every single time we present this data. Unfortunately for

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us, the data that we prefer when we're looking at migration, it does not include the COVID period. So, we are anxiously awaiting those data so that we can follow up on Steve's work.

Steve, he said that he thinks he's the first one who's documented this increase in remote work. I commend him for doing that work and I'm going to immediately start citing his paper every time I'm asked these questions, but our data does not include that that period at the moment.