

## [Did the Job Ladder Fail After the Great Recession?](#)

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Giuseppe Moscarini<sup>1,2</sup> and Fabien Postel-Vinay<sup>3,4,5</sup>

<sup>1</sup>National Bureau of Economic Research; <sup>2</sup>Yale University; <sup>3</sup>Centre for Macroeconomics; <sup>4</sup>Institute for Fiscal Studies; and <sup>5</sup>University College London;

The persistence of high unemployment in the US and many other countries after the 2007-2009 Great Recession (GR) is currently the central issue for macroeconomic policy around the world. In previous work, we formulated and documented empirically the following hypothesis to explain the pattern of employment decline and recovery during and after a typical recession. In a tight labor market high-paying, large employers overcome the scarcity of unemployed job applicants by poaching employees from smaller, lower-paying competitors, whose relative employment share then shrinks. When the expansion ends, large employers thus have more employment to shed than small ones. In addition, the resulting high unemployment relaxes hiring constraints on all employers, particularly the small ones that are less capable of poaching from other firms. As a result, small employers downsize less in the recession and grow faster (in relative terms) in the early recovery.

According to this hypothesis, in a prolonged phase of high unemployment, as we witnessed since 2009, small firms should be leading the charge in job creation, followed years later by upgrading to larger, better-paying employers.

In this paper, we confront this “dynamic job ladder” hypothesis with newly available semi-disaggregated US data by establishment size from the Bureau of Labor Statistics’s *Job Openings and Labor Turnover Survey*, covering the period 2000-2013. We focus our investigation on the GR and its aftermath, in comparison with previous cyclical episodes.

Our comprehensive assessment of the evidence indicates that *the job ladder has slowed down considerably since the GR, and has not yet fully resumed*. The drastic decline in labor market turnover affected especially direct movements from smaller, lower-paying to larger, higher-paying employers. Small employers suffered unusual job losses relative to large employers, mostly through an increase in their layoffs, only partially compensated by resilient vacancy posting and hiring.

We now provide the details. From an aggregate perspective, the GR impacted the labor market as would any (deep) recession: job openings went down across the board, job

finding rates plummeted, and layoff rates spiked (temporarily) around the Fall of 2008, as the financial crisis came to a head. As a result, unemployment soared. This created conditions that were relatively favorable to small, low-paying employers: high unemployment meant plenty of cheap labor for them to hire, and the collapse in job-to-job quits further reduced their incentives to hire unemployed workers to offset attrition. Indeed, job-to-job transitions went down markedly during the GR and, while the share of small establishments in total job openings remained roughly stable throughout the GR, the vacancy *yield* of small employers sky-rocketed, in sharp contrast to

the comparatively modest increase in the vacancy yield of large establishments.

Yet — and this is where the GR differs from past recessions — small employers fared *worse* than large ones in terms of net employment growth. This unusually poor relative job creation performance was the result of a brutal (temporary) increase in the layoff rate of small employers around the peak of the financial crisis (September 2008). While at that point layoffs rose sharply at employers of all sizes, small establishments stood out, possibly because they were hit especially hard by the credit crunch. Those among small employers that were still hiring did so relatively easily, benefiting from relatively favorable conditions on the hiring and retention margins, but that was not enough to offset the exceptionally large blow from the credit crunch.

These findings suggest the following interpretation of the GR and its aftermath. Small employers, especially existing ones, faced an unusual credit crunch that led to a wave of layoffs, while the class of small employers as a whole, including entrants, kept hiring at a healthy pace. The collapse in hiring by large employers froze job-to-job upgrading, further taming the incentives of small employers to take advantage of abundant unemployment to hire.