Opinion **US employment**

Why quitting your job is good for the economy

Workers who move to new positions tend to get paid more and contribute to wider productivity

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People are more likely to leave for something better when opportunities are plentiful and to cling to their current jobs when unemployment is high © Alamy

Sarah O'Connor OCTOBER 12 2021

They call it the Big Quit. Americans are quitting their jobs in higher numbers than at any point since the turn of the millennium. Much has been written about the reasons, from burnout during the pandemic to a "great re-evaluation" of what people want from their jobs.

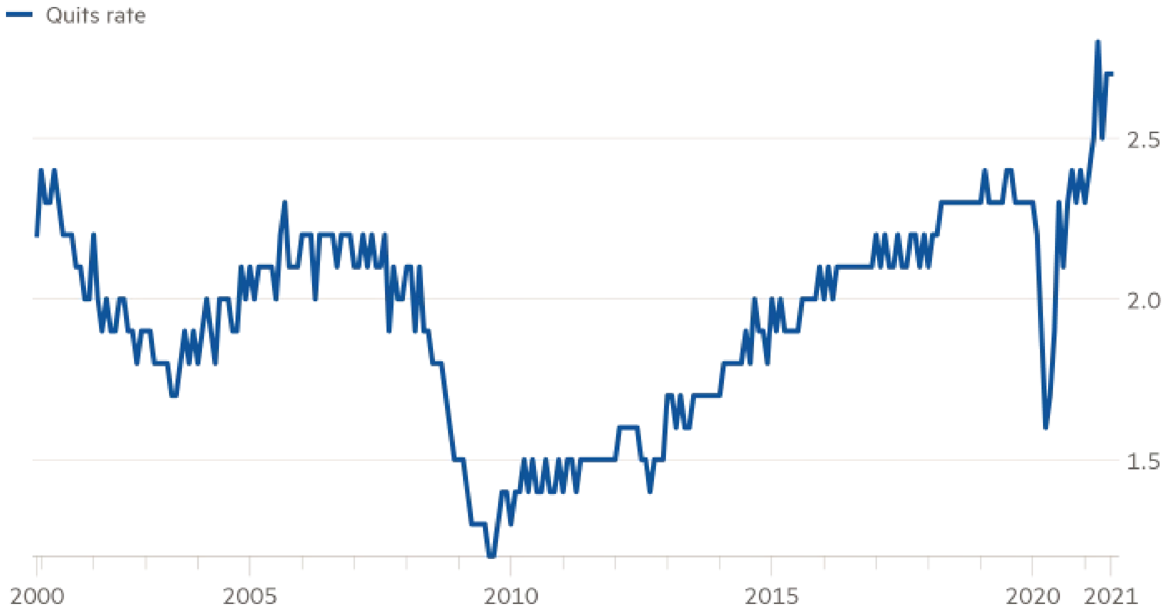
But this isn't just an interesting sociological phenomenon. It is also a hard-headed economic indicator with an under-appreciated bearing on pay and productivity. The recent spate of job quitting has to be seen in context: for the past decade, people haven't been doing anywhere near enough of it.

The proportion of workers who quit their jobs (which Nicholas Colas, co-founder of DataTrek Research calls the "Take This Job and Shove It" index) usually moves in tandem with the health of the labour market. People are more likely to leave for something better when opportunities are plentiful and to cling to their current jobs when unemployment is high.

When the financial crisis hit, for example, the monthly quits rate in the US fell from about 2.2 per cent in 2007 to 1.2 per cent in 2009. In the UK, the number of people quitting their jobs fell more than half.

Quitting is back in fashion...

Proportion of US workers quitting their jobs each month



Source: US Bureau of Labor Statistics

But after the recession ended, people's willingness to quit their jobs took an unusually long time to recover. In both the US and the UK, it took until 2016 before the number of quitters returned to pre-recession levels. UK quitting behaviour levelled off at that point even though the jobs market boomed and the unemployment rate fell to the lowest since the 1970s. Data on other countries is hard to find, but the Australian Treasury identified a similar phenomenon of puzzlingly depressed job-switching behaviour in a paper in 2019.

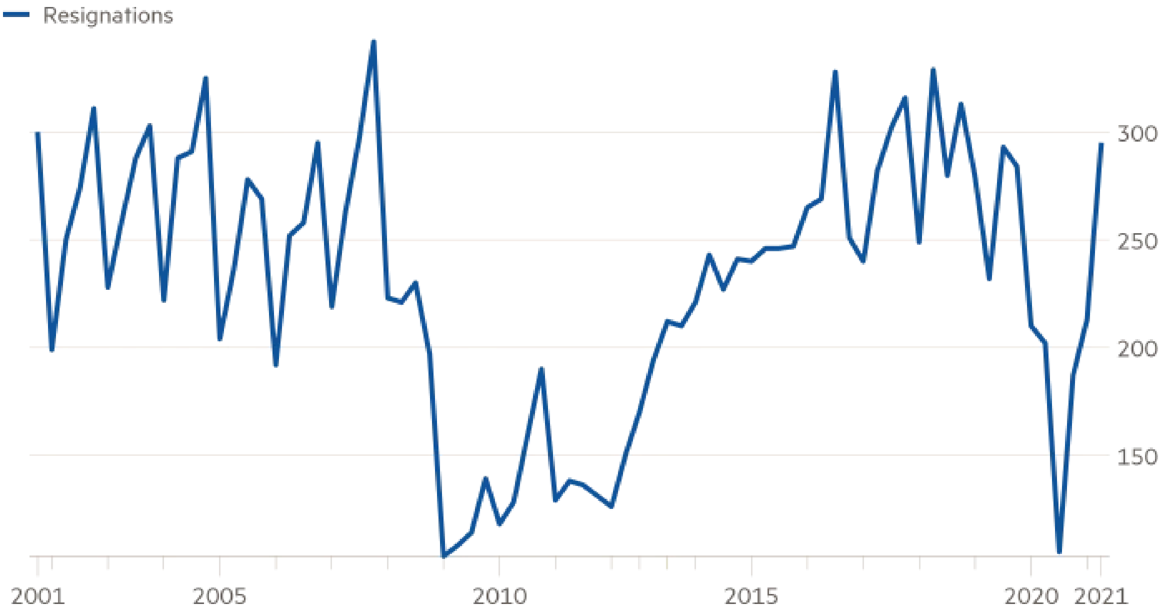
This matters because job quitters might not just be a barometer of economic health — some economists believe they are a driver of it. People who leave jobs voluntarily for new ones tend to move up the career ladder into roles that better utilise or develop their skills. UK data shows median hourly earnings growth for job changers was 7.3 per cent in 2018 compared with 3 per cent for people who stayed in their jobs. An Australian study from 2019 found that local labour markets with higher job switching rates had higher wage growth. And while it is always difficult to disentangle correlation from causation, economists at the Federal Reserve Bank of Chicago observed in 2015 that quit rates seem to precede pay growth by one to two quarters.

There is a link with productivity too. The OECD has found that higher labour reallocation is correlated with higher productivity growth. Andy Haldane, then chief economist at the Bank of England, argued in a speech in 2019 that UK workers' reluctance to switch jobs since the financial crisis helped to explain the economy's "lost decade" for pay and productivity growth.

Risk aversion and insecurity after the crisis meant that "a strong jobs recovery has not resulted in workers vigorously re-climbing the jobs ladder," he said. "The result has been subdued rates of pay and, in particular, productivity growth."

Quitting hasn't boomed in the UK

UK job-to-job moves by reason for job move, people aged 16-69



Source: ONS
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The aftermath of the pandemic-induced recession couldn't look more different to that of the financial crisis. The rate at which people quit their jobs in the US fell from 2.3 per cent to 1.6 per cent during the pandemic then rebounded quickly to 2.7 per cent.

There has been talk of high-paid but frazzled professionals quitting the rat race for lower-paid and less stressful jobs. As one FT reader put it: "Now everyone just wants to wear yoga pants and play with their dog." Does that mean pay and productivity might go down, rather than up?

So far, the data doesn't support that narrative. The people who are quitting at the highest rates in the US work in low-paid sectors such as retail, food and hospitality, and median pay growth for job switchers is 4.1 per cent compared with 3.1 per cent for job stayers.

It looks more like people are taking advantage of resurgent demand and a tight labour market to bid up their pay and conditions in sectors in which they have been poor for many years. It is still too soon to judge the impact on productivity.

In the UK, the number of people quitting their jobs has bounced back quickly too, though only to pre-pandemic levels. The "Big Quit" remains an American phenomenon for now.

But the Take This Job and Shove It index will be an important metric to watch. The UK government said last week that it wants to foster a "high wage, high productivity" economy. Britons could do their bit for the cause by quitting their jobs for something better.

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