CLIMBING THE WAGE LADDER: LINKING JOB MOBILITY AND WAGES

e61 Research Note No. 11

Summary

Climbing the wage ladder: Linking job mobility and wages

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The rate at which workers move between jobs has declined in recent decades. And despite a historically strong labour market, job switching rates have only recently risen to pre-pandemic levels. This means that thousands of job switches that would have occurred, but for the pandemic, did not happen.

I find that switching jobs is associated with pay increases that are 9 percentage points higher on average than for non-switchers. The largest beneficiaries are workers aged between 21-34 years old. When these workers switch jobs, they earn on average $7,500 more per year than job stayers.

However, not all workers benefit equally. Younger and lower-earning workers tend to move to higher-paying jobs. But older and higher-earning workers, on average, move to lower-paying jobs.

Building more dynamic labour markets with fewer unnecessary barriers to job mobility may boost gains from job switching. Wage gains for job switchers accelerated after the removal of pandemic-era policies that were geared towards preserving worker-firm links and discouraged switching. Wage gains were also larger for workers living in capital cities compared to the regions.

These findings highlight the relevance of declining job mobility to the wage slowdown in the decade before the pandemic and reforms that seek to reduce barriers to labour mobility.

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Job mobility has declined over the past three decades

This note examines whether and what groups of workers are switching jobs for higher pay. Economic theory suggests that workers may be paid more when they switch jobs because they are compensated according to the value they add to a firm's production process.[1] But workers may switch jobs for other reasons, such as career advancement, personal fulfilment and work-life balance (NAB, 2022).

Job switching has declined over the past 30 years (Figure 1A). Following the onset of the pandemic, policies like JobKeeper initially kept workers attached to their employers. But job mobility has since picked up (Figure 1B). Other research suggests that a decline in job switching may have implications for wage growth (Box 1).

I build on this existing research using weekly data from Single-Touch Payroll (STP). This high-frequency dataset allows me to measure actual job changes at the person-level and measure the timing of these job switches more accurately. My work greatly improves coverage of workers who switch jobs more than once within a year, which would not be accurately captured by past work using annual tax or survey data.

I use data from STP to analyse the link between job mobility and total wage earnings between 2020 and 2022.[2] My analysis examines differences in wage gains between job switchers and stayers by age, gender and across the wage distribution.[3]

Box 1: Literature review

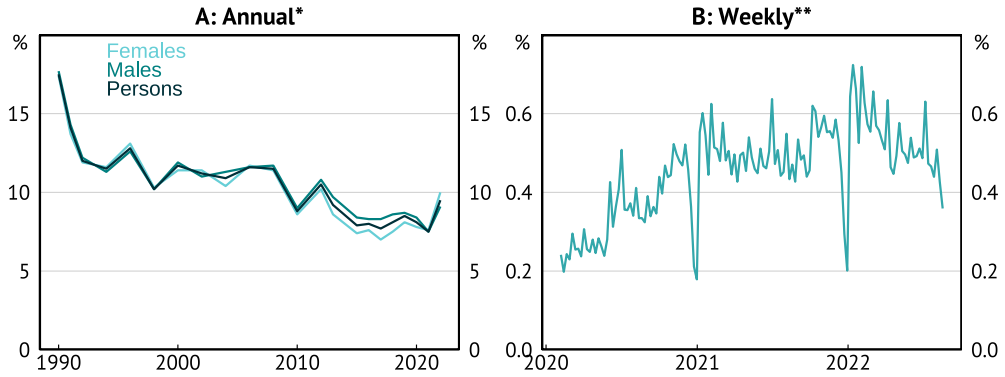
Most existing research in Australia uses aggregate data. At the regional labour market level, higher job switching rates are positively associated with wage growth (Deutscher, 2019). In aggregate, higher job mobility is predictive of higher aggregate wages growth (Black & Chow, 2022). Survey data (using HILDA) shows that average wage growth is higher for job switchers than stayers (Adams et al., 2022).

This association is driven by:

- Workers increasing their wage when they switch jobs; and
- Higher rates of job switching increasing the bargaining power of workers relative to firms, making it easier for workers in general to demand higher wages.

International evidence using microdata has found that when workers switch jobs, they tend to move to higher paying jobs and more productive firms (Albagli et al., 2021; Haltiwanger et al., 2018).

Figure 1: Job-to-job Transition Rates



* Share of employed workers who changed jobs in the past year; data are from the ABS Participation, Job Search and Mobility (PJSM) survey.
** Share of employed workers who changed jobs in the past week; data are from Single-Touch Payroll.
Sources: ABS; e61 Institute

1 Workers may become more productive at a new firm if the new firm is more productive than the previous firm or the attributes of the worker are a better match for the requirements of the new job.

2 STP data only provide total wages paid to a worker in a given job as the STP system does not collect the number of hours worked. Thus, all references to earnings and wages in this note refer to total earnings, not hourly wages. For more details see Appendix A.

3 Although this note focuses on the gains for job switchers, previous research also finds evidence that wages growth for job stayers is positively correlated with higher regional job switching rates (Deutscher, 2019).

Job mobility is strongly associated with growth in workers' wages

Wage gains are on average 9 percentage points higher for workers who switch jobs than for workers who stayed at their existing job (Figure 2A).[4] For the typical job switcher, this represents an annual pay rise around $5,700 larger than the equivalent job stayer (Figure 2B).[5] Younger workers and the lowest earning workers are more likely to switch jobs than older or higher earning workers.

We can measure wage gains in two ways (Figure 2). Panel A measures relative percentage point (ppt) gains for job switchers and stayers by age and gender. Panel B converts these estimates into equivalent annualised dollar changes for the median worker in each age group.

For example, for workers younger than 21 years, wage gains for job switchers are 30 ppts higher than the equivalent job stayer (Panel A). This is equivalent to an annual pay increase for job switchers $5,300 larger than for job stayers (Panel B).

Wage gains by age and gender

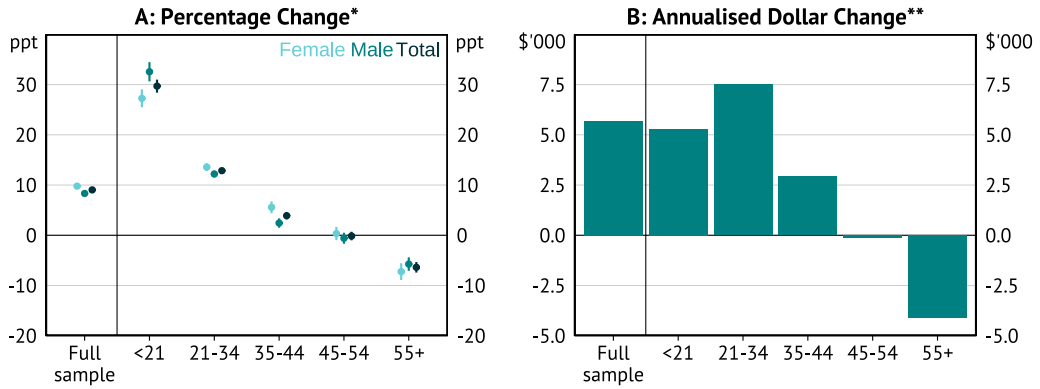
Younger workers under the age of 34 benefit the most from changing jobs. The youngest workers (aged under 21) gain a 30 percentage point wage increase relative to those who stayed in their job (Figure 2A). In dollar terms, workers aged between 21-34 years receive the largest gains at $7,500 for the median earning worker (Figure 2B).[6]

This may be driven by younger job switchers being more likely than older workers to move to more productive firms (Buckley, 2023); high-productivity firms are more likely to pay higher wages. Younger workers also benefit from moving into jobs that better match their skills at the start of their careers (Andrews et al., 2022; Fontenay et al., 2020).

In contrast, the average older (over 55 years old) job switcher moves to a lower paying job when they switch.[7] This may partly reflect smaller gains from improved matching, as most worker-firm matching gains would have already occurred earlier in their working life. Non-financial factors – such as lifestyle preferences or preferences for part-time work – may be a more important determinant of job mobility at this age. There is little difference in average wage gains by gender.

Figure 2: Wage Gains Following Job Switch

For switchers relative to stayers, by age group



* Panel A presents coefficient estimates from separate regressions. All regressions use STP data from 2020 to 2022 and include Industry x State x Time and SA4 fixed effects.
** Panel B shows the annual median wage gain for job switchers relative to stayers calculated from the estimates in panel A and ABS Employee Earnings and Hours survey data.
Sources: ABS; e61 Institute

4 The regression estimates control for firm, industry and time effects, with separate estimates by gender and age. See Appendix B for more details. Full regression tables are in Tables B.1 to B.4.

5 The median Australian employee earns $62,868 per year as measured by annualised weekly cash earnings from the ABS' 2021 Employee Earnings and Hours survey.

6 The dollar gains are larger for the cohort aged 21-34 despite the percentage point gain being larger for under 21 year olds because median annual earnings for the younger group are much lower at $18,000 compared to $58,000.

7 Controlling for differences between industries.

Wage gains by income

A majority of job switches (55 per cent) entail a wage gain, but the distribution of outcomes is broad. The median gain for workers moving to higher paying jobs is 70 per cent. And the median decline in pay for workers moving to lower paying jobs is 37 per cent. This variation reflects both fluctuations in hours worked and rates of pay.

Figure 3: Wage Outcomes From Job Transitions

Following a job switch

* The 45 degree line shows wage outcomes if the median worker moved to a job in the same wage percentile as their previous job.
Sources: ABS; e61 Institute

Figure 3 shows the average wage percentile of new jobs after a job switch, grouped by the percentile of the previous job's wage. For below-median income workers, it pays to switch jobs: a worker who leaves a job paying at the 25th percentile, moves to a new job which pays more, on average, at the 35th percentile.

Across the wage distribution, there is a strong mean reversion effect when workers change jobs (Figure 3). While workers on below-median earnings tend to move to higher paying jobs, workers on above-median earnings move to less-well paying jobs. The latter may reflect non-financial reasons driving workers to switch jobs, for example older workers seeking better work-life balance.

Wage gains since 2020

Workers benefit more from job switching when labour market policies make it easier to switch jobs. Wage gains from job switching were much smaller in 2020 (Figure 4A). This was partly due to JobKeeper, which preserved links between employees and firms, including lower quality job matches where workers could have received higher wages elsewhere (Andrews et al., 2023). Once these shackles were removed, labour mobility and the wage gains from job switching increased.

The average gain from switching jobs rose from 7 ppt in 2020 to over 11 ppt by 2022. This was equivalent to a wage gain of $4,400 to $7,200 for the median-earning worker compared to job stayers.

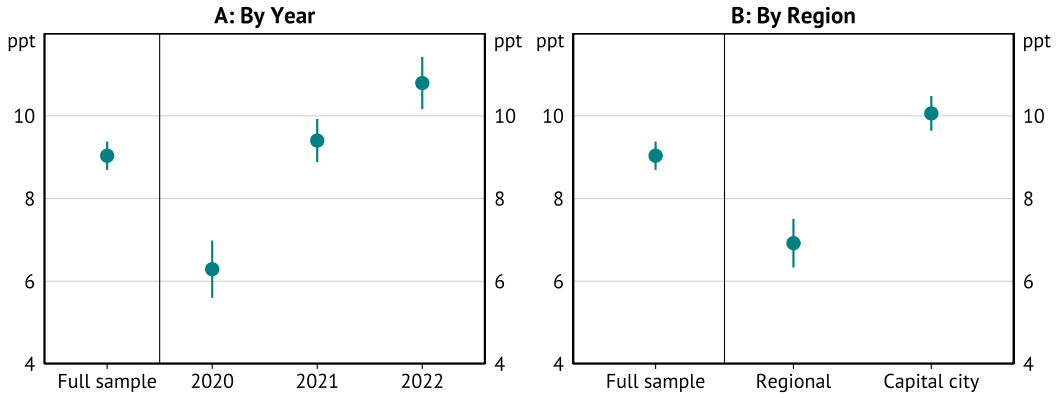
Wage gains by region

Labour markets in the capital cities tend to be deeper due to the greater concentration of workers and firms (Gordon & Turok, 2005). This allows for better matching between workers and firms, improving both worker wages and firm productivity. Workers may have more outside options and thus more bargaining power in the capital cities, which is likely to increase wage gains from switching.

This is consistent with workers living in capital cities receiving larger gains (10 ppt), on average, when switching jobs compared to workers living in regional areas (7 ppt) (Figure 4B). The median-earning capital city worker gained $6,300 from a job switch compared to $4,300 for regional workers relative to earnings growth for job stayers.

Figure 4: Wage Gains Following Job Switch

For switchers relative to stayers*



* Panels A and B present coefficient estimates from separate regressions. All regressions use STP data from 2020 to 2022 and include Industry x State x Time and SA4 fixed effects.
Sources: ABS; e61 Institute

Policies that address frictions to labour market mobility are likely to boost worker wages

Policymakers care about boosting worker wages (Albanese, 2022; Commonwealth of Australia, 2023). And recent policy changes to the industrial relations system have the explicit goal of boosting wages (Burke, 2022).

But my research shows that erecting unnecessary and artificial barriers to job mobility is likely to lead to lower wage growth. Job switchers receive larger wage increases than stayers. But even job stayers benefit from a higher overall rate of job switching (Deutscher, 2019). Furthermore, job switching is particularly important for raising the wages of younger and lower-earning workers.

Younger workers are facing the largest losses from a slowdown in job mobility over the past decade (Andrews et al., 2022; Fontenay et al., 2020). Younger workers also face other costs when job switching rates decline. For example, switching jobs helps to improve matches between worker skills and job requirements, which is associated with large mental health benefits (Michielsen & Buckley, 2023).

Current policy settings could do more to facilitate wage-enhancing labour mobility.

Non-compete clauses: Policies should limit the spread and applicability of non-compete clauses in employment contracts, especially for lower-wage workers. The growing prevalence of non-compete clauses may be stifling job mobility, wages and productivity growth (Andrews & Jarvis, 2023).

Occupational licensing: Reform to occupational licensing to remove duplication and unnecessary barriers, particularly across states and for overseas migrants, may increase job mobility and wages (Productivity Commission, 2023).

Active labour market policies: Greater investment in active labour market policies may help improve the quality of job matches in the labour market. Australia's spending on active labour market policies to better match workers and firms is low compared to the OECD average (OECD, 2023).

Housing policies: The rate of housing mobility has declined alongside job mobility. Frictions in the housing market (such as stamp duty) may be making it more difficult for workers to move to better-matched jobs (Garvin et al., 2024; Malakellis & Warlters, 2021).

Pay-setting methods: Less flexible pay-setting methods may be linked to lower gains from switching jobs. Increasing flexibility through changes to industrial relations laws to make it easier for workers to move between employers may also improve the quality of job matches (Buckley, 2023). Increased labour market frictions may be contributing to a slowdown in productivity-enhancing reallocation (Hambur, 2023).

Demand-side factors also matter. Encouraging more entrepreneurship and higher new firm creation would generate more switching opportunities and increase gains from moving to better matched jobs.

Box 2: Future research pathways

This note is the first time weekly microdata has been used to analyse the job switching behaviour of Australian workers. There are a range of future potential research areas that would help inform labour market policy.

- Understanding the causal mechanisms that drive differences in returns to job switching by age, gender and wage distribution.
- Exploring the effects of proximity and accessibility to job opportunities on the likelihood of job-to-job transitions.
- Exploring the effects of local labour market concentration on the rate and returns for workers to job transitions, building on work by Hambur (2023).
- Analysing differences in job mobility patterns across different industries.

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Appendix A

Data construction

I construct a Longitudinal Linked Employee-Employer Dataset (L-LEED) spanning 2020 to 2022 by joining weekly Single-Touch Payroll (STP) data (individual side) with annual BLADE data (firm side).

This dataset is referred to as STP throughout the Note and covers all employees who work for employers registered with the STP system. This covers nearly all employees in Australia, as most exemptions to reporting through STP ended on 1 July 2021.

Worker coverage changes over time. Workers can enter and exit the dataset as they gain and lose employment or when their firm starts reporting to STP for the first time. The focus on job transitions means that movements in and out of the dataset only reduce the overall sample, rather than directly affecting one of the results.

I obtain weekly data from STP on employees' age, gender, SA4 of residence, weekly earnings, unique individual and firm identifiers, while industry sub-division of their employer comes from BLADE.

Defining job-to-job transitions

Job-to-job transitions (J2Js) occur when workers change jobs without going through a period of non-employment. This is defined on a weekly frequency using the STP data to identify when a person reports being paid by a new firm ID.

The following scenarios are defined as J2Js:

- $A \rightarrow B$: a person leaves job A and starts job B.
- $AB \rightarrow C$: a person leaves jobs A and B, and starts job C.
- $A \rightarrow BC$: a person leaves jobs A and starts jobs B and C.

To avoid short-term contract or casual work overstating the frequency of J2Js, a J2J only occurs if the previous job was held in the past 8 weeks, and the new job is held for at least the following 8 weeks after the change is first reported. I also consider any jobs held in the current and preceding 3 weeks to be a "current" job, to avoid similar issues with short-term contract or casual employment.

Defining wages

STP records the total wages paid by a firm to a worker on a weekly basis, but not the total number of hours worked. As a result, we cannot calculate hourly wages and all the analysis in this note uses total wage earnings as the measure of wages. This means that some of the effects that we find may be driven by changes in hours worked, rather than wages paid per hour.

This may be a concern as changes in hours worked may be an important preference that drives the decisions of some workers to switch jobs. For example, older workers transitioning to part-time work, or younger workers entering their first full-time job. This is a methodological shortcoming that will be difficult to address until STP begins to include hours worked.

Weekly wages data may also be very noisy. I smooth the wages data by taking the wage for a worker's previous job to be the average of wages paid at that job for the period 4-8 weeks before a job switch, while the wage at the new job is the average of wages paid at that job in the 4-8 weeks following a job switch. This primarily affects workers with particularly variable earnings, such as those who are employed casually or on short-term contracts.

Another concern is around wages paid in the final weeks of employment or the first weeks of employment in a new job. In the final weeks of employment, employees may receive large lump sums (e.g. cashed out accrued annual leave), which would upwardly distort the measured earnings of the previous job. On the other hand, workers may start a new job with reduced hours or partway through a pay cycle, which would lower the measured earnings of the new job. This is addressed by the approach detailed in the previous paragraph.

Appendix B

Regression specifications and tables

This section provides additional detail on the econometric approach and the regression outputs.

The regressions explore the association between a worker's decision to switch jobs and the change in their wages between their old and new job. The outcome is the relative difference in wages from one week to the next for a job switcher, compared to a worker who stays at their existing job.

The regression specification is as follows:

(1) $$\Delta wage_{it} = \beta \left(switch\right)_{it} + \gamma_{it} + \lambda_{rt} + \epsilon_{it}$$

Where:

- For the *i*th worker and week *t*.
- $\left(switch\right)_{it}$ is an indicator variable that takes a value of 1 if the worker switches jobs in that time period and 0 otherwise.
- $\Delta wage_{it} = \ln\left(\frac{wage_{it}}{wage_{it-1}}\right)$ is the log-change in wages between the previous and current job.
- γ_{it} represents industry-state-time fixed effects for the firm that the worker switches to, controlling for the state-specific industry trends. Industries are defined using 2-digit ANZSIC sub-division codes.
- λ_{rt} are SA4 fixed effects controlling for geographical differences across the places of residence of workers.

Each regression is run with sub-samples of the data, the combinations are:

- Gender and Age: Female, Male and Total; Under 21, 21-34, 35-44, 45-54, Over 55, and Total;
- Calendar year; and
- Location of the worker: capital city (GCCSA) or regional (Rest of State).

Across all the regressions, the standard errors are clustered at the individual level.

Table B.1: STP wages gender/age pair regressions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Female									
	<21		21-34		35-44		45-54		55+	
Switched jobs	0.2874***	0.2726***	0.1413***	0.1357***	0.0577***	0.0558***	0.0038	0.0034	−0.0721***	−0.0723***
	(0.009)	(0.009)	(0.0038)	(0.0038)	(0.0060)	(0.0060)	(0.0067)	(0.0067)	(0.0085)	(0.0085)
Industry x State x Time FE	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
SA4 region FE	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
N	1,649,557	1,649,557	13,797,066	13,797,066	7,678,780	7,678,780	7,097,933	7,097,933	6,930,408	6,930,408
R2	0.001	0.039	0.000	0.019	0.000	0.021	0.000	0.025	0.000	0.025
Within R2		0.001		0.000		0.000		0.000		0.000
	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
	Male									
	<21		21-34		35-44		45-54		55+	
Switched jobs	0.3304***	0.3256***	0.1264***	0.1220***	0.0274***	0.0244***	−0.0038	−0.0059	−0.0573***	−0.0573***
	(0.0097)	(0.0098)	(0.0034)	(0.0034)	(0.0048)	(0.0048)	(0.0056)	(0.0056)	(0.0068)	(0.0067)
Industry x State x Time FE	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
SA4 region FE	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
N	1,494,043	1,494,043	14,248,114	14,248,114	9,994,915	9,994,915	9,311,633	9,311,633	8,844,020	8,844,020
R2	0.001	0.038	0.000	0.024	0.000	0.027	0.000	0.029	0.000	0.024
Within R2		0.001		0.000		0.000		0.000		0.000

Table B.2: STP wages aggregate regressions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Full sample		<25		25-34		35-44	
Switched jobs	0.0946***	0.0904***	0.3077***	0.2969***	0.1336***	0.1286***	0.0413***	0.0390***
	(0.0018)	(0.0017)	(0.0066)	(0.0066)	(0.0025)	(0.0025)	(0.0038)	(0.0038)
Industry x State x Time FE	No	Yes	No	Yes	No	Yes	No	Yes
SA4 region FE	No	Yes	No	Yes	No	Yes	No	Yes
N	88,398,121	88,398,121	3,143,600	3,143,600	28,045,180	28,045,180	20,769,115	20,769,115
R2	0.000	0.015	0.001	0.031	0.000	0.017	0.000	0.019
Within R2		0.000		0.001		0.000		0.000
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	45-54		55+		Male		Female	
Switched jobs	−0.0003	−0.0015	−0.0641***	−0.0637***	0.0873***	0.0833***	0.1027***	0.0978***
	(0.0044)	(0.0043)	(0.0054)	(0.0054)	(0.0023)	(0.0023)	(0.0027)	(0.0027)
Industry x State x Time FE	No	Yes	No	Yes	No	Yes	No	Yes
SA4 region FE	No	Yes	No	Yes	No	Yes	No	Yes
N	18,459,517	18,459,517	17,980,709	17,980,709	44,800,930	44,800,930	43,597,191	43,597,191
R2	0.000	0.021	0.000	0.019	0.000	0.018	0.000	0.016
Within R2		0.000		0.000		0.000		0.000

Table B.3: STP wages year regressions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	2020			2021			2022		
Switched jobs	0.0643***	0.0666***	0.0629***	0.1009***	0.0996***	0.0940***	0.1118***	0.1104***	0.1079***
	(0.0035)	(0.0035)	(0.0035)	(0.0027)	(0.0027)	(0.0027)	(0.0032)	(0.0032)	(0.0032)
State x Time FE	No	Yes	No	No	Yes	No	No	Yes	No
SA4 region FE	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Industry x State x Time FE	No	No	Yes	No	No	Yes	No	No	Yes
N	30,184,020	30,184,020	30,184,020	35,052,229	35,052,229	35,052,229	23,161,872	23,161,872	23,161,872
R2	0.00005	0.00573	0.01580	0.00019	0.00491	0.01679	0.00024	0.00263	0.01070
Within R2		0.00005	0.00005		0.00018	0.00017		0.00024	0.00023

Table B.4: STP wages region regressions

	(1)	(2)	(3)	(4)	(5)	(6)
	Regional			Capital cities		
Switched jobs	0.0724***	0.0733***	0.0692***	0.1056***	0.1050***	0.1006***
	(0.0030)	(0.0030)	(0.0030)	(0.0022)	(0.0021)	(0.0021)
State x Time FE	No	Yes	No	No	Yes	No
SA4 region FE	No	Yes	Yes	No	Yes	Yes
Industry x State x Time FE	No	No	Yes	No	No	Yes
N	27,490,627	27,490,627	27,490,627	60,907,494	60,907,494	60,907,494
R2	0.00009	0.00423	0.01774	0.00018	0.00504	0.01623
Within R2		0.00009	0.00009		0.00018	0.00016

Appendix C

Disclaimer

The results of these studies are based, in part, on data supplied to the ABS under the Taxation Administration Act 1953, A New Tax System (Australian Business Number) Act 1999, Australian Border Force Act 2015, Social Security (Administration) Act 1999, A New Tax System (Family Assistance) (Administration) Act 1999, Paid Parental Leave Act 2010 and/or the Student Assistance Act 1973. Such data may only used for the purpose of administering the Census and Statistics Act 1905 or performance of functions of the ABS as set out in section 6 of the Australian Bureau of Statistics Act 1975. No individual information collected under the Census and Statistics Act 1905 is provided back to custodians for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes and is not related to the ability of the data to support the Australian Taxation Office, Australian Business Register, Department of Social Services and/or Department of Home Affairs' core operational requirements.

Legislative requirements to ensure privacy and secrecy of these data have been followed. For access to MADIP and/or BLADE data under Section 16A of the ABS Act 1975 or enabled by section 15 of the Census and Statistics (Information Release and Access) Determination 2018, source data are de-identified and so data about specific individuals has not been viewed in conducting this analysis. In accordance with the Census and Statistics Act 1905, results have been treated where necessary to ensure that they are not likely to enable identification of a particular person or organisation.