



Job Mobility and Earnings Instability

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There is still no consensus on the causes of the increase of the variance of transitory earnings (earnings instability) in the US. It is difficult to attribute the rise in instability to job mobility because there is no evidence of a concurrent increase in turnover or separations. This paper shows that there is an increase in the variance of wage changes upon job change. Using an error component model of the covariance structure of earnings on PSID and SIPP data, I show that job mobility accounts for a substantial part of the increase in earnings instability. The empirical evidence is consistent with the predictions of a search and matching model where an increase in the variance of productivity shocks increases on-the-job search and earnings instability among job changers while leaving job turnover and earnings instability of job stayers approximately constant.