

Noncompetes and Employee Mobility¹

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Abstract

We examine the nature of the relationship between noncompetition agreements and employee mobility. A noncompetition agreement (also known as a covenant not to compete, or simply as a noncompete) restricts the ability of an employee to work for a competitor (or start a competing business) after termination. These agreements are a remarkably common feature of the U.S. labor market across all industries, occupations, and income levels (Starr et al. 2015). Recent academic work and interest from policy makers has raised questions about the effects these agreements might have on an employee's freedom to seek employment elsewhere. In this paper, we outline a basic model of employee mobility, and consider the potential consequences of noncompetes for the entire process of mobility. With this framework, and using data from the 2014 Noncompete Survey, we study how noncompetes are related to differences in search behavior, recruitment, job offers, and firm counteroffering behavior (separately studying technology and low-wage employees). We find that individuals with noncompetes are recruited and receive offers at relatively higher rates, and yet noncompetes are also associated with longer employment tenures. We consider some of the possible stories that would make sense of the patterns we identify.

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The paper is currently in working draft form. Please contact Evan Starr (estarr@rhsmith.umd.edu) for a draft or further details about the paper.