

Labour Markets and Inclusive Growth

Growth Commission Reprise

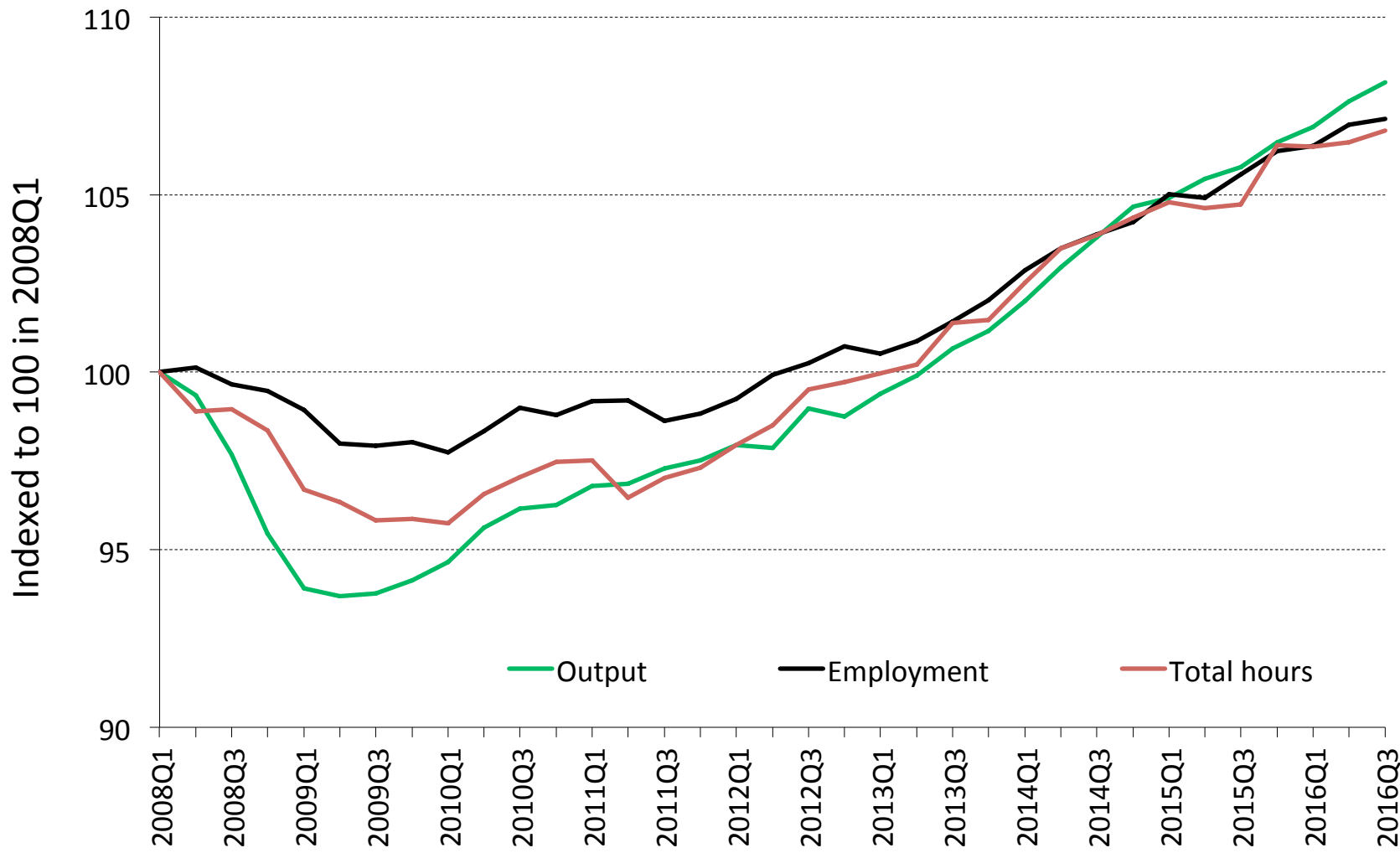
17th November 2016, LSE

Richard Blundell

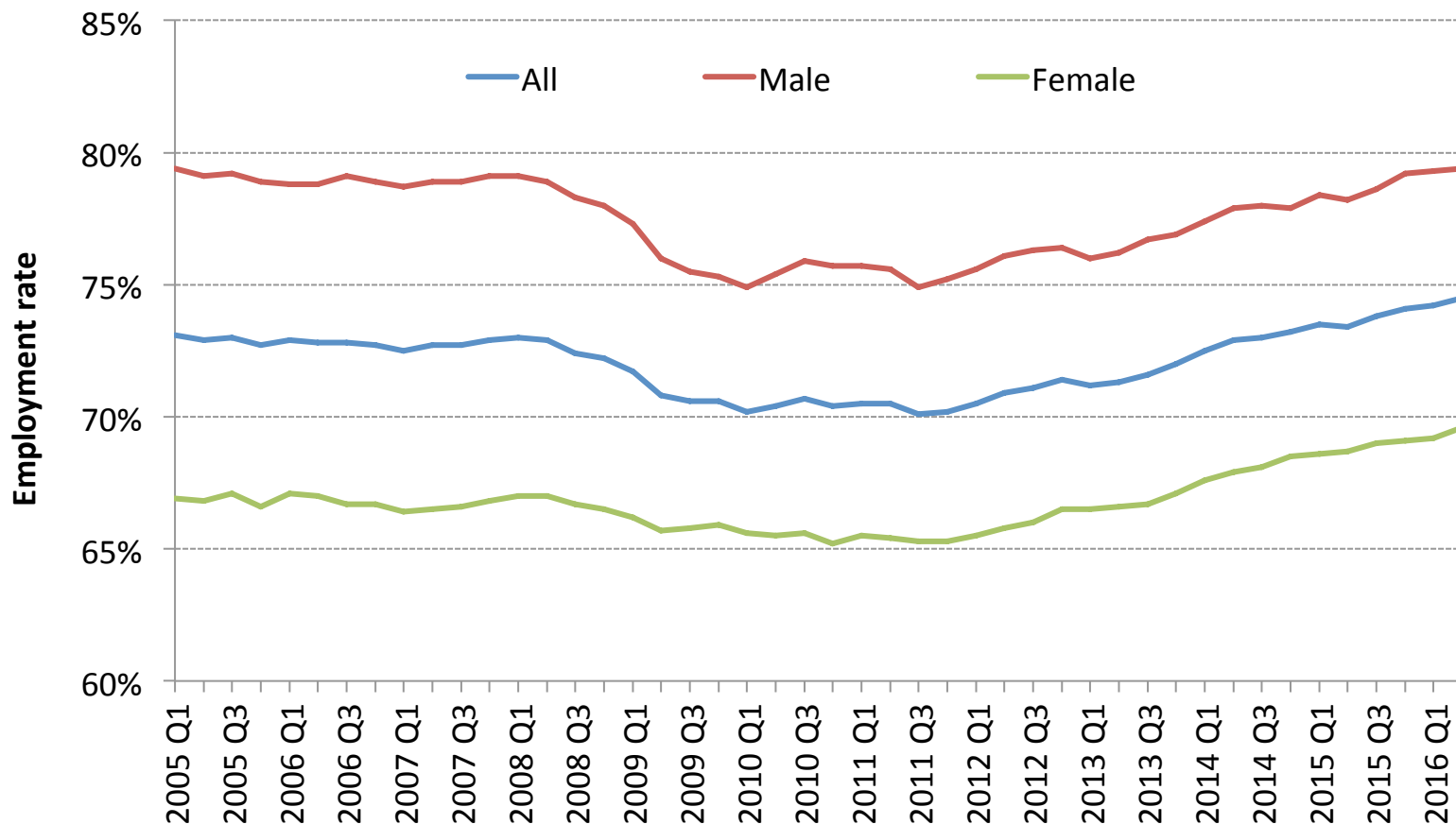
University College London and Institute for Fiscal Studies

Changes to total output, employment and hours worked since 2008Q1

- in contrast to previous recessions, *real output per hour* has remained largely stagnant

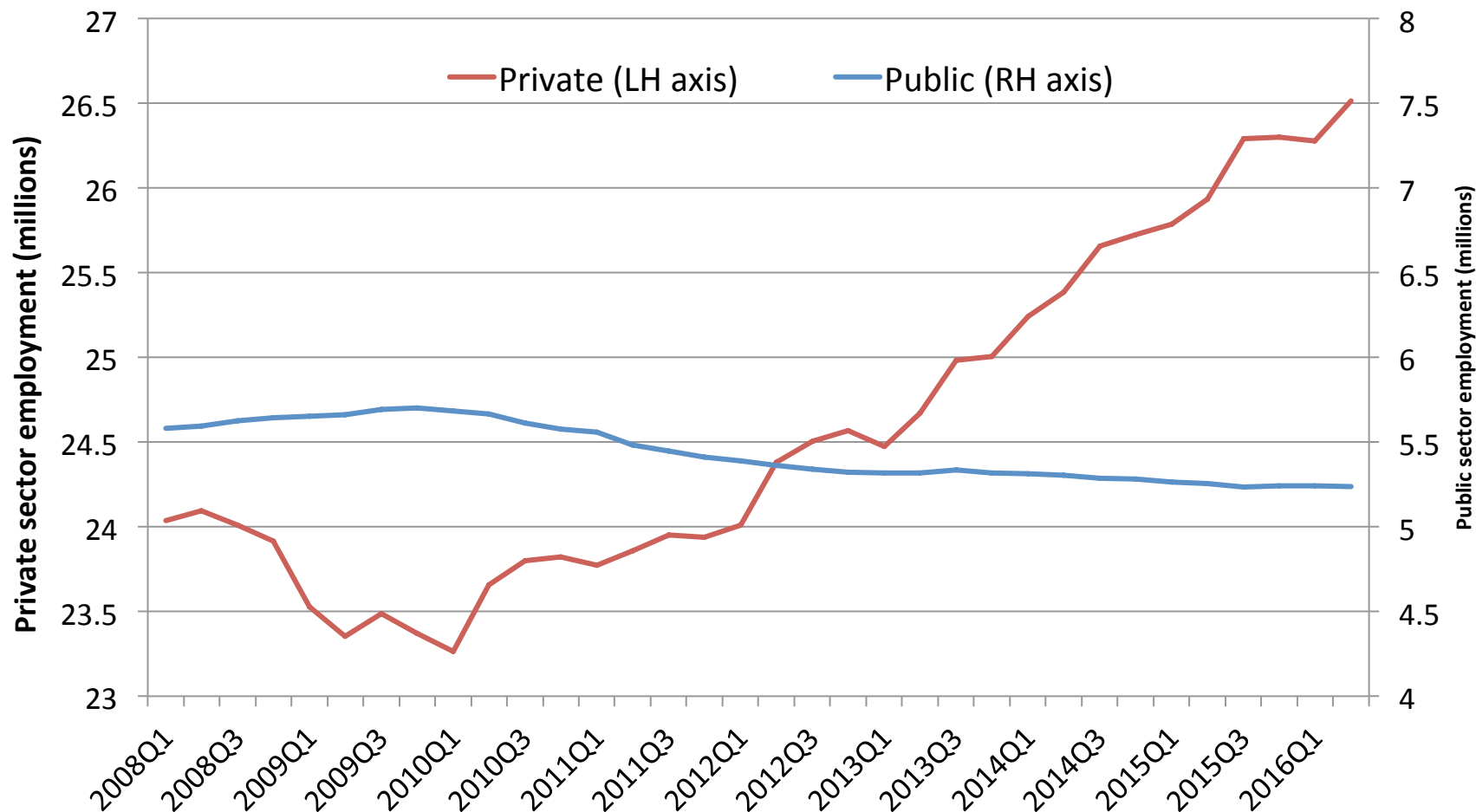


Employment rates have rebounded (16 to 64 year olds)

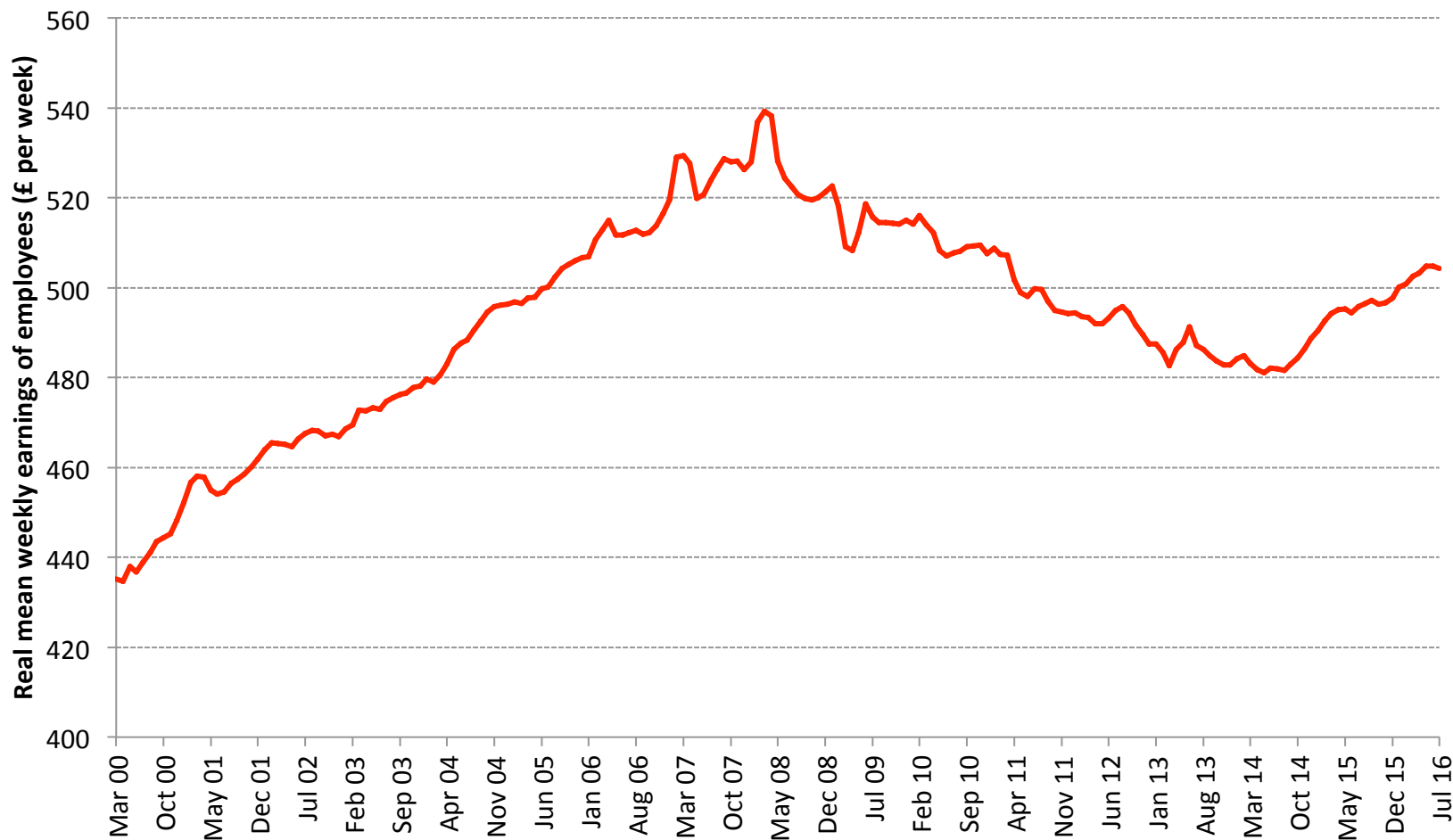


Source: Office for National Statistics (Labour Force Survey) series LF24, LF25 and MGSV.

Particularly strong growth in private sector



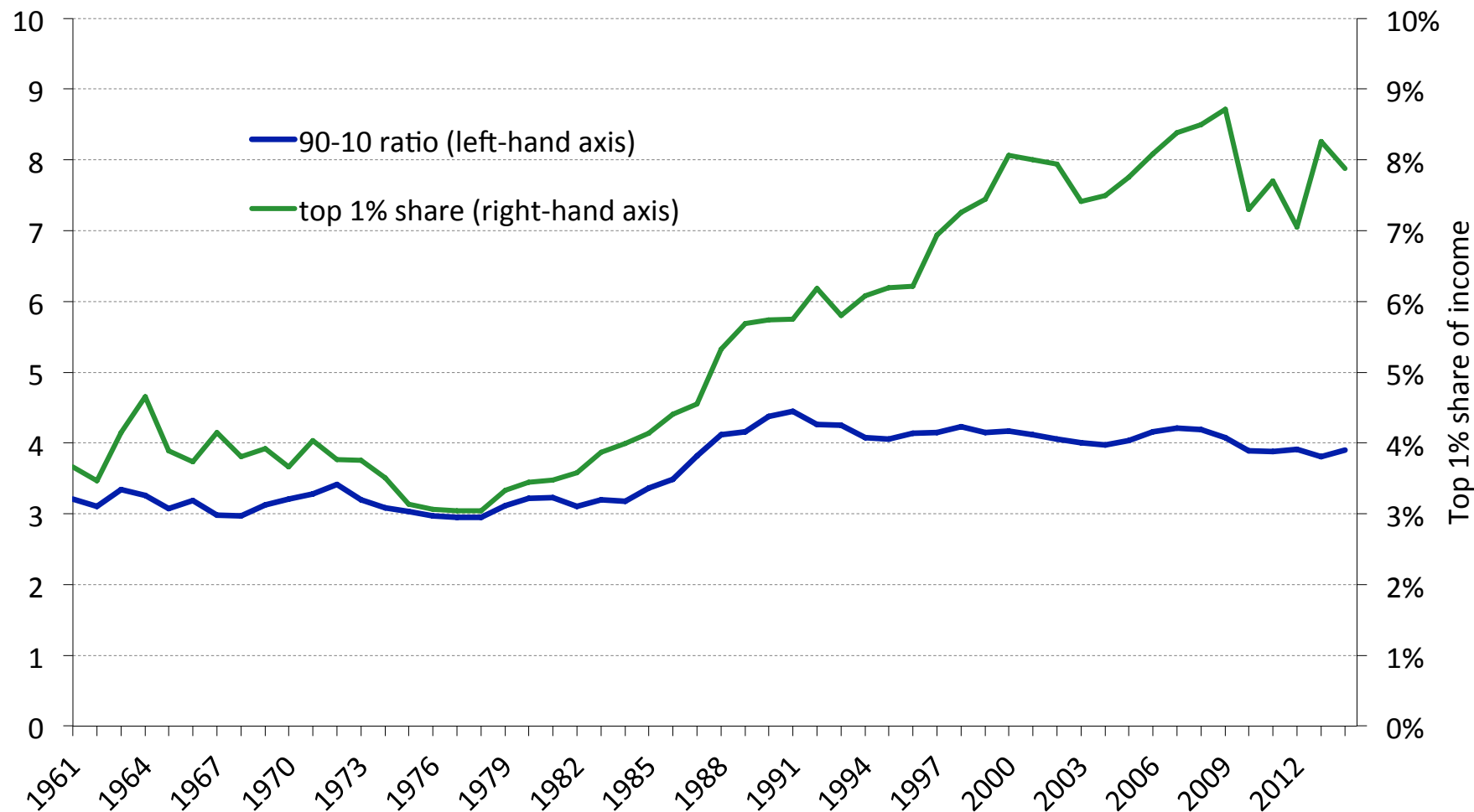
Large falls in labour market earnings, followed by a partial recovery since mid 2014



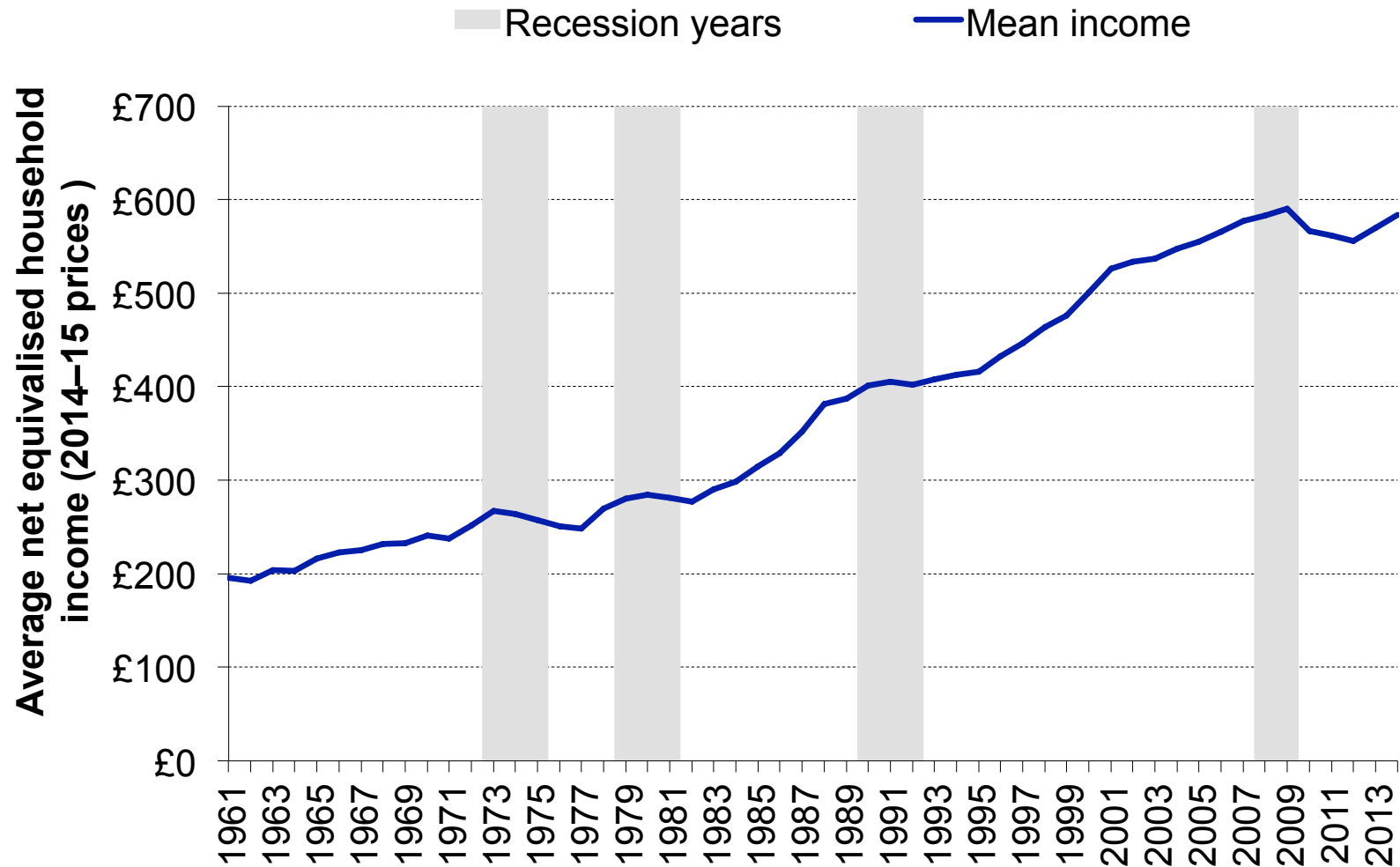
Notes: Earnings deflated using the CPI and expressed in July 2016 prices. Each data point refers to the average real weekly earnings over the previous 3 months.

Source: IFS calculations using ONS Average Weekly Earnings series KAB9

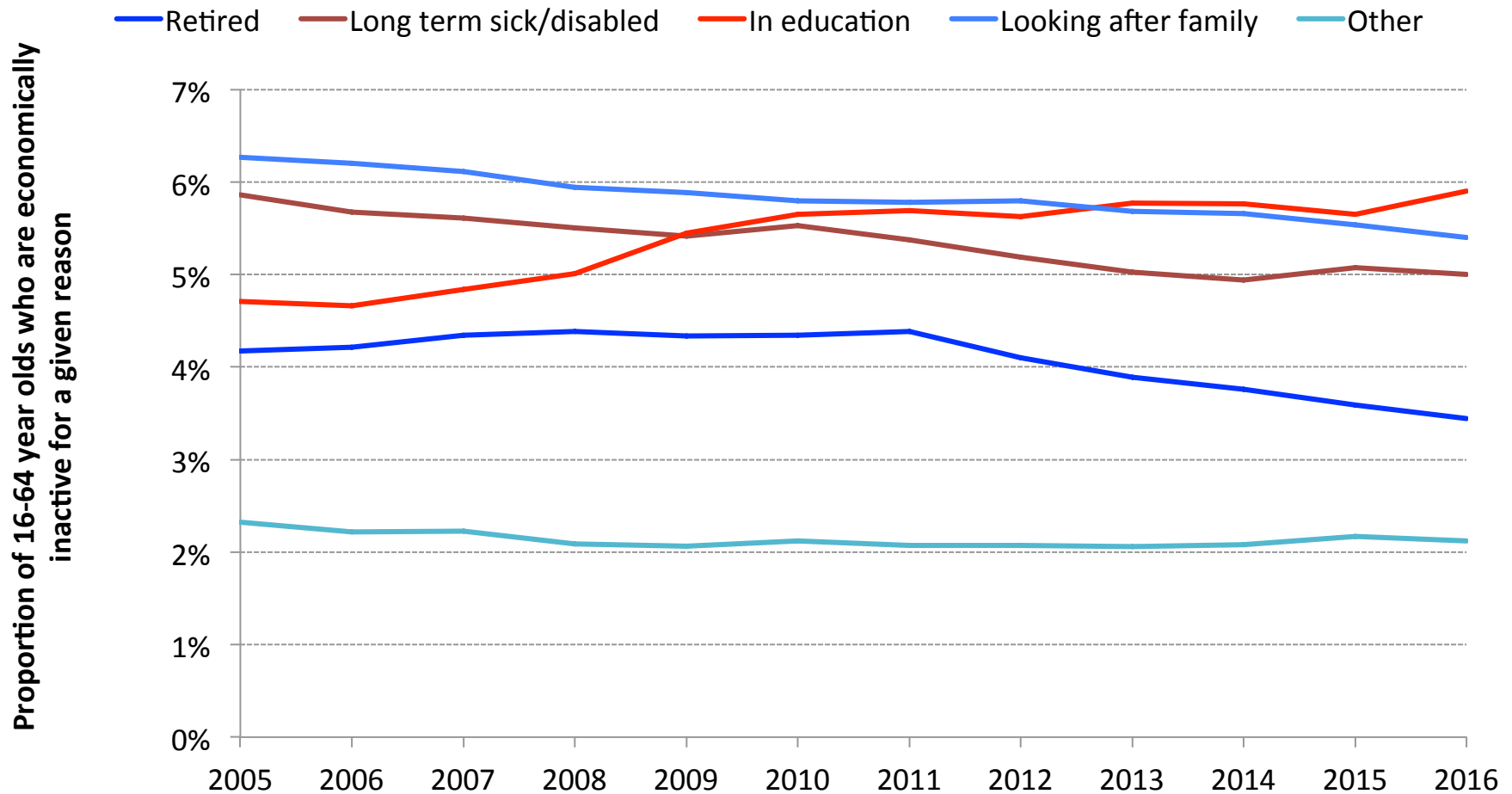
Inclusive? In terms of income inequality the 90:10 ratio and the top 1% share show very different trends



=> 1995 – 2007 was a relatively inclusive growth period in terms of the 90:10 family income (less in terms of male earnings or the top 1%!)
Mean real household income since 1961...

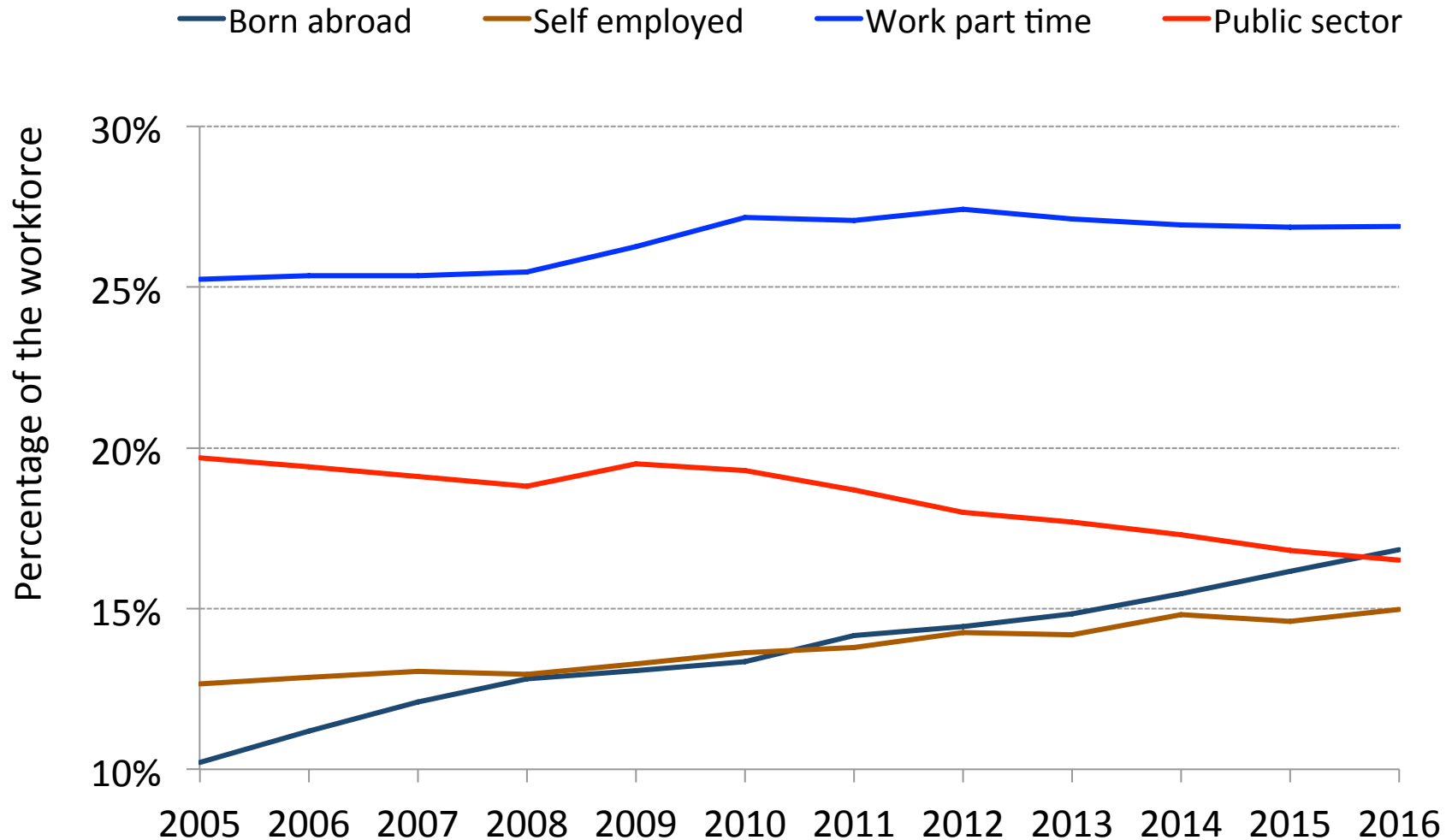


Reductions in all forms of 'inactivity' other than being in education



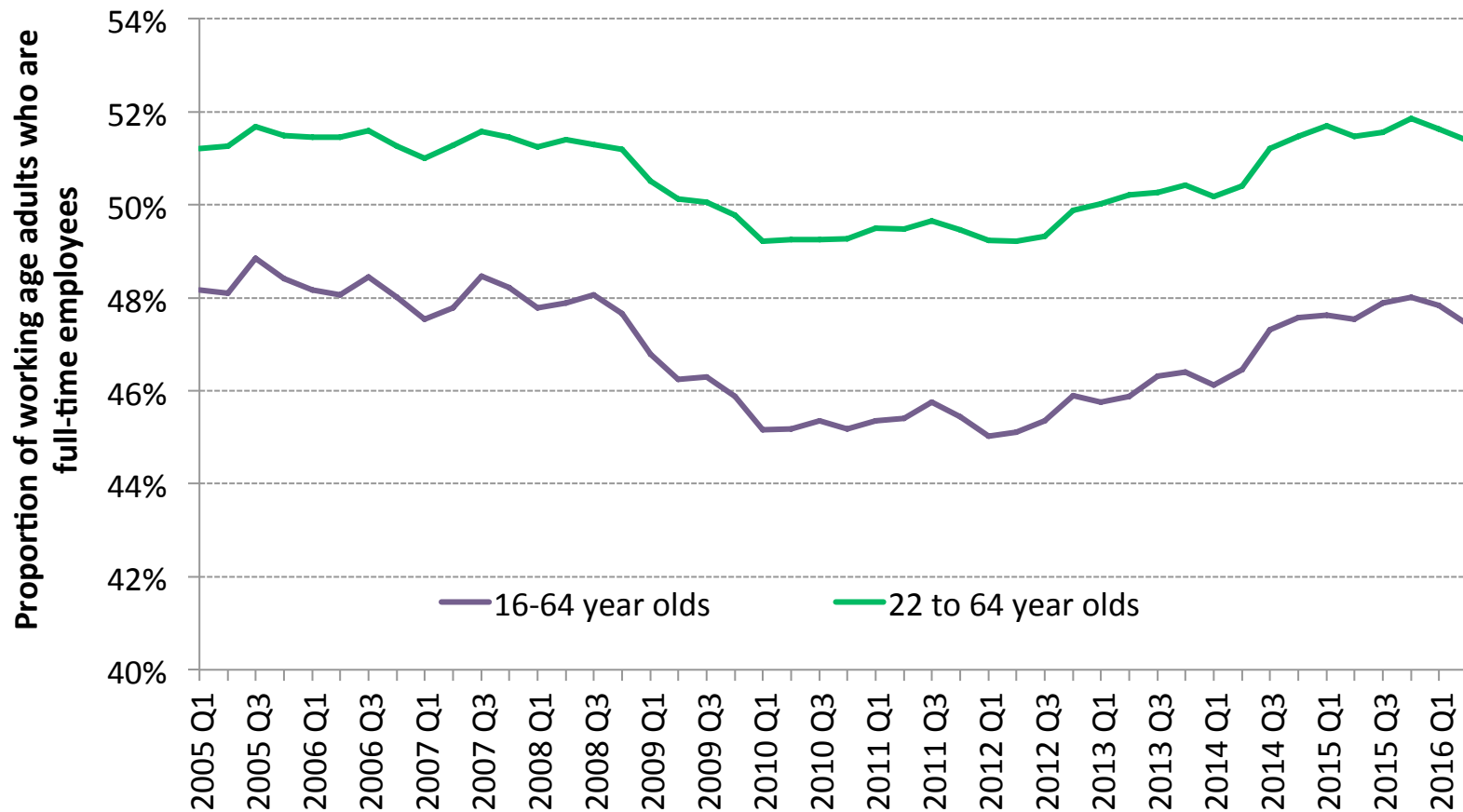
Source: IFS calculations using the Labour Force Survey. 2016 refers to 2016 Q1 and Q2

Big changes in other characteristics



Source: IFS calculations using the Labour Force Survey. Public sector % from ONS Public Sector employment statistics, and excludes the effects of reclassifications.

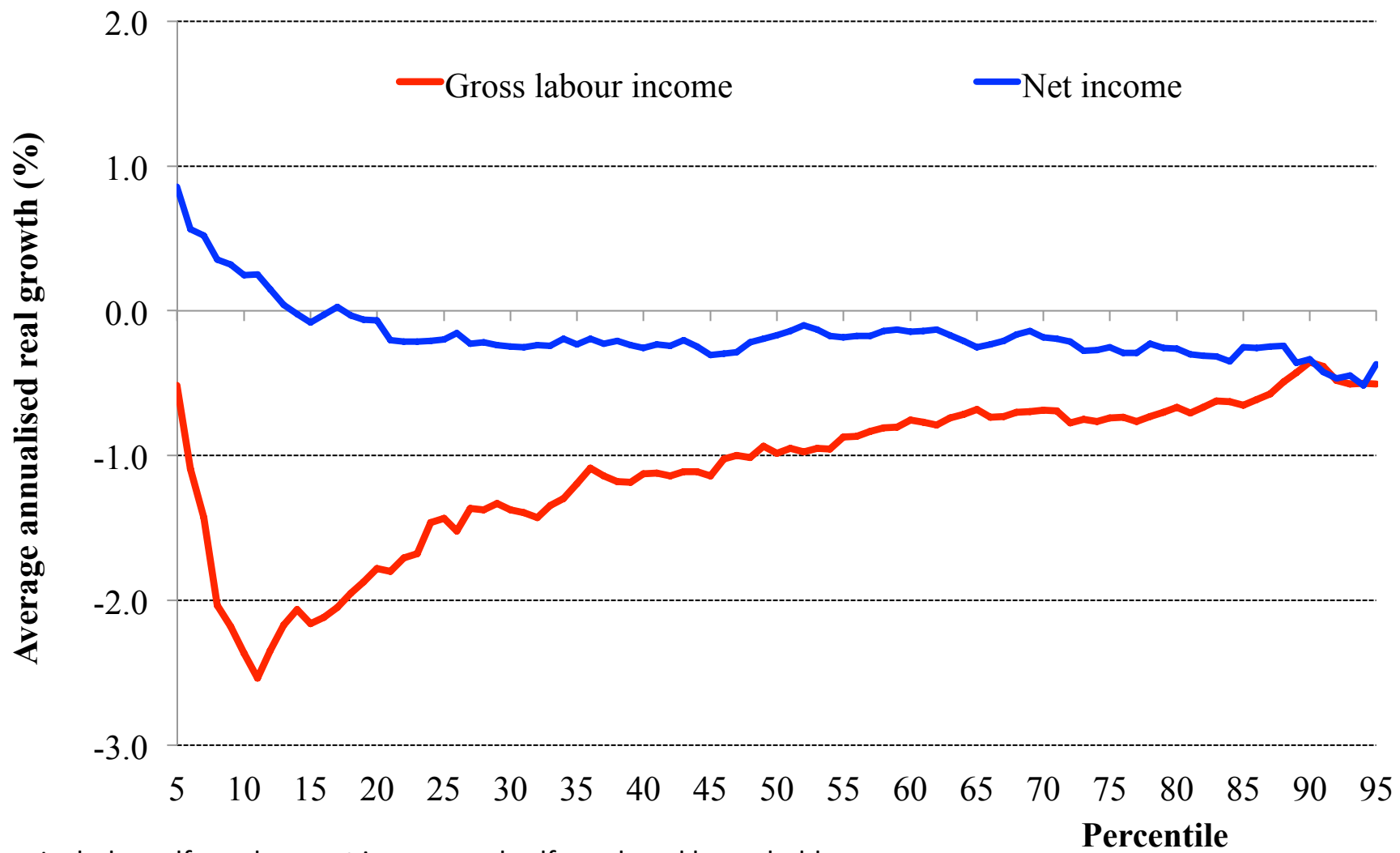
But same proportion in full time employment as in 2005



Source: Office for National Statistics (Labour Force Survey) series LF24, LF25 and MGSV.

In terms of 'inclusion' there has been a key role for benefits and tax credits:

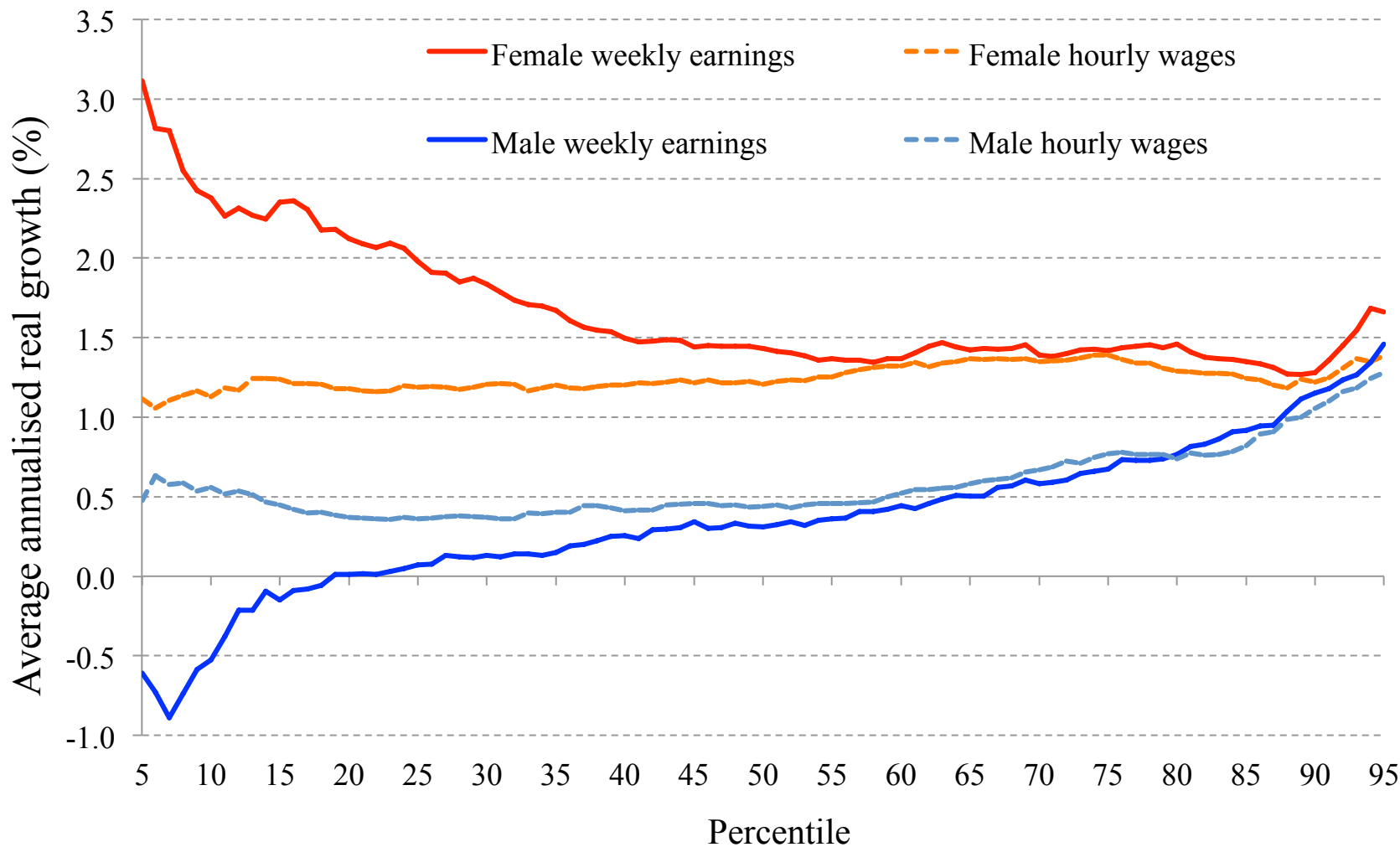
Household income growth for working households 07/08 to 14/15



Notes: Includes self employment income and self employed households.
Family Resources Survey. All income measures are equivalised.
Source: Belfield, Blundell, Cribb, Hood and Joyce (2016)

And a role for hours

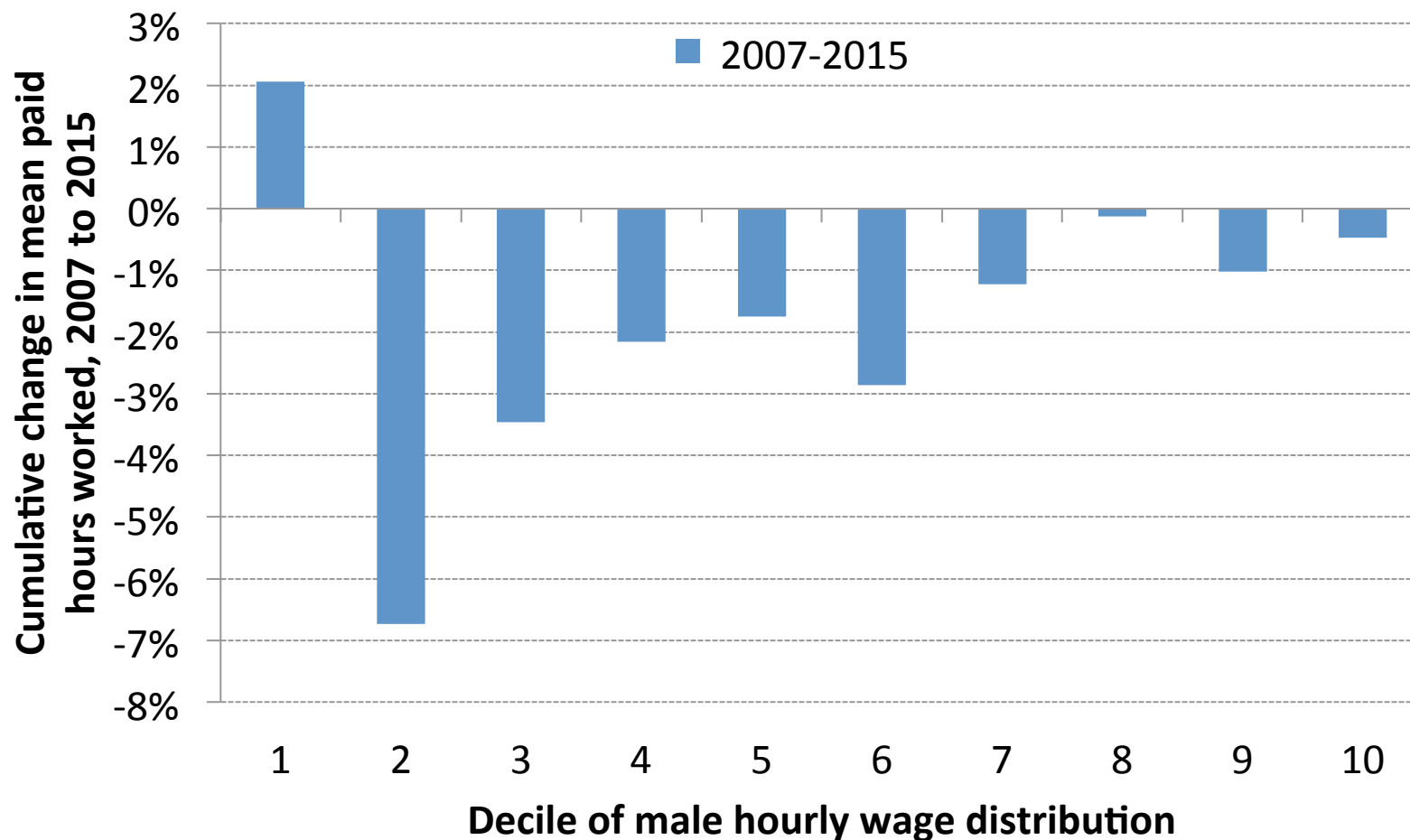
Weekly earnings and hourly wage growth, men and women, 1994–95 to 2014–15



Note: assortative partnering implies this has not improved between family inequality

Source: Belfield, Blundell, Cribb, Hood and Joyce (2016)

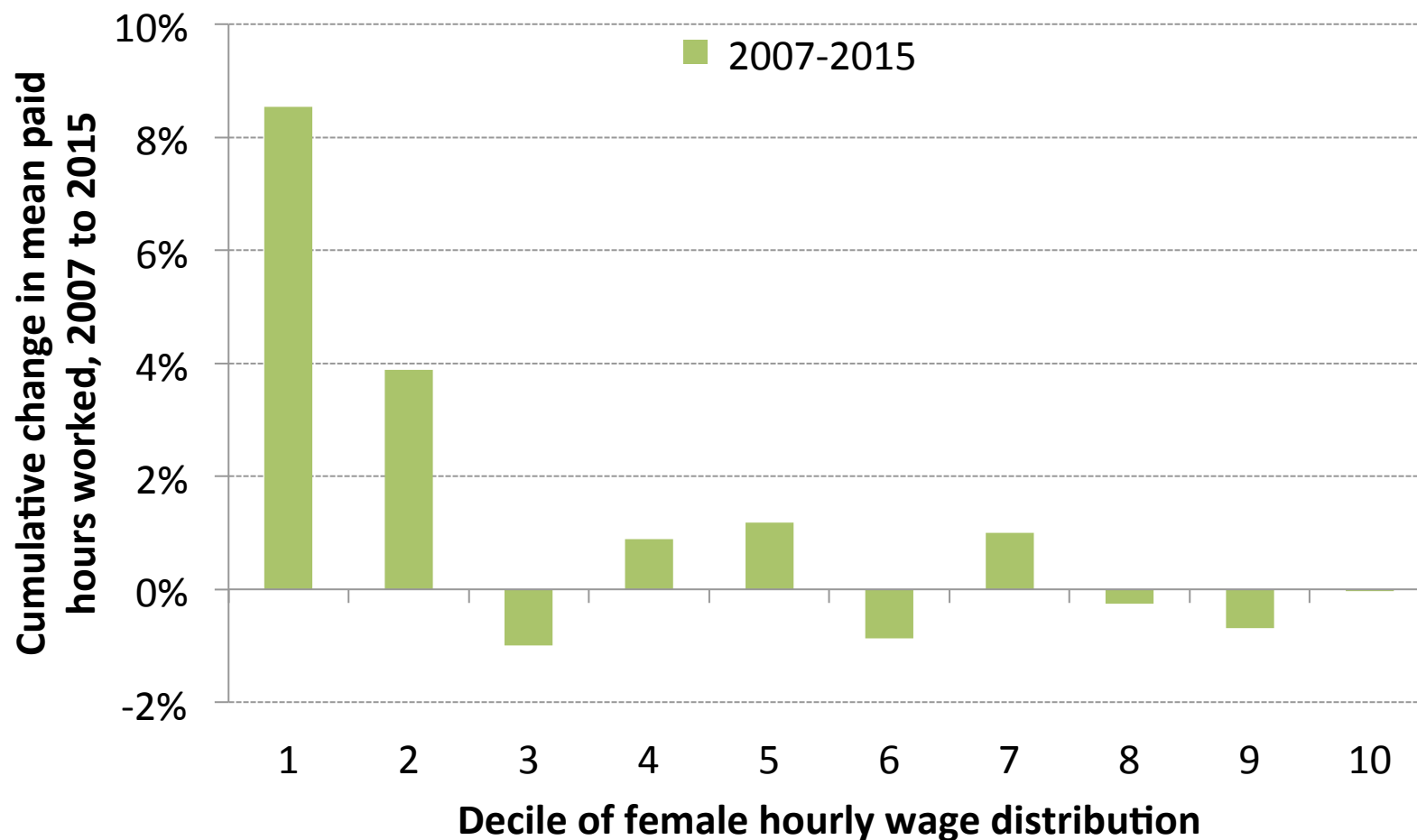
Partly explained by fall in hours worked for lower wage men (a secular shift in the UK)



Notes: "Decile 1" excludes the bottom 5% of male hourly wage earners.

Source: IFS calculations using Labour Force Survey

Very different to the change seen for women



Notes: "Decile 1" excludes the bottom 5% of female hourly wage earners.

Source: IFS calculations using Labour Force Survey

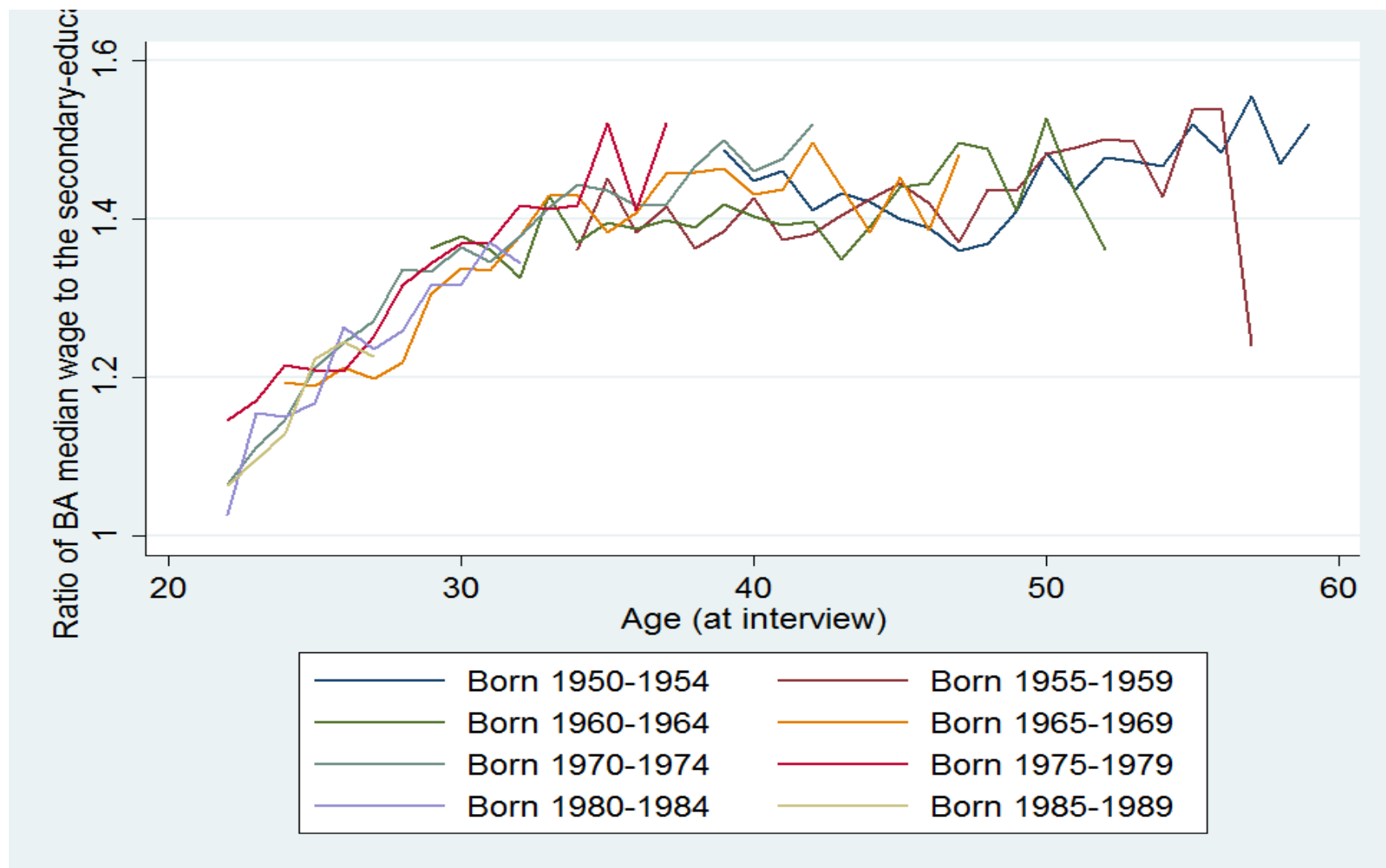
Human capital trends show a rapid increase in the % of workers who are highly educated.

Proportion of 25-29 year olds with a degree by birth cohort



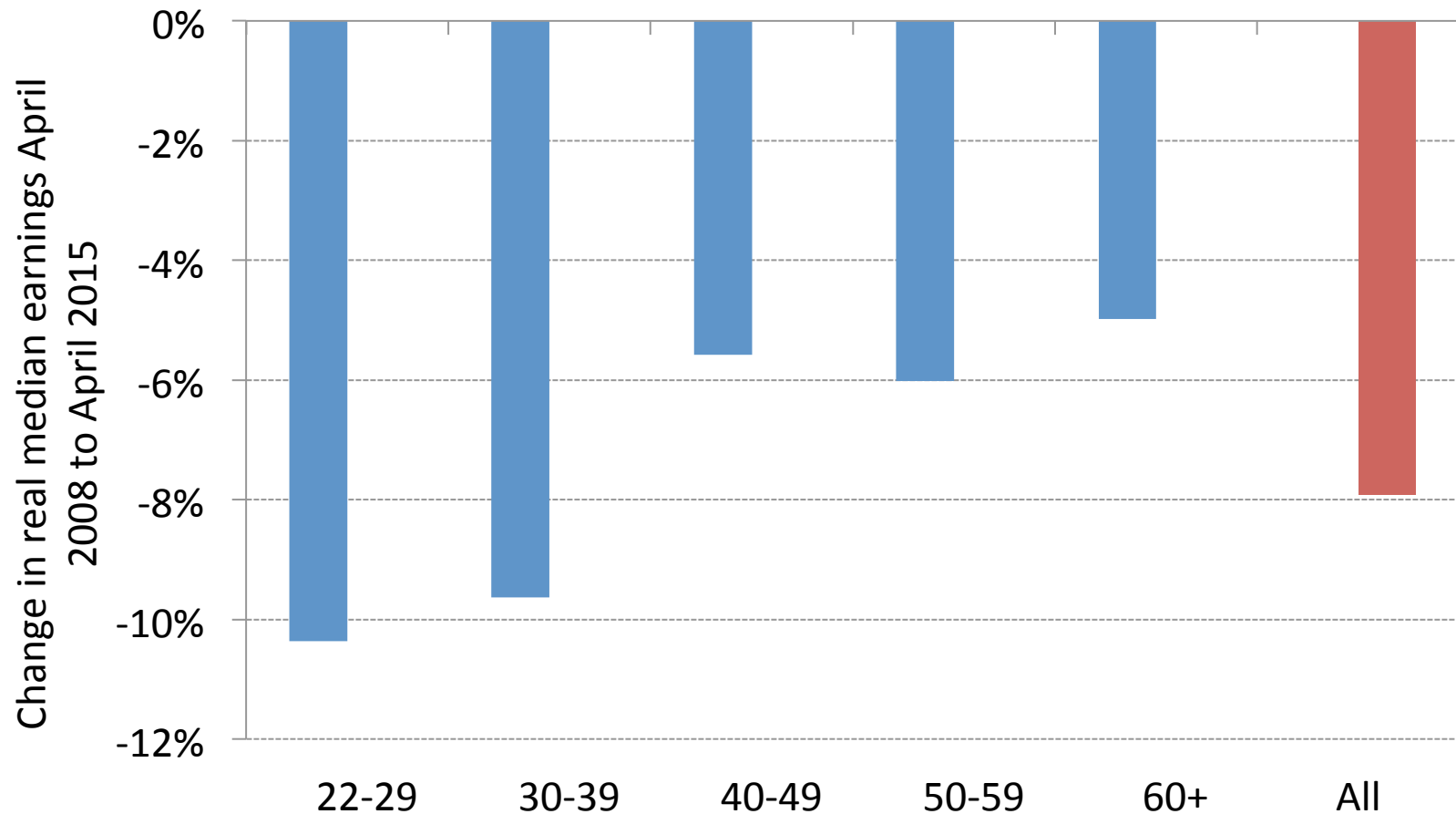
With little evidence of a drop in the education premium.

Ratio of BA (equiv.) median wage to that of A-level (equiv.) by birth cohort



Age and Generation:

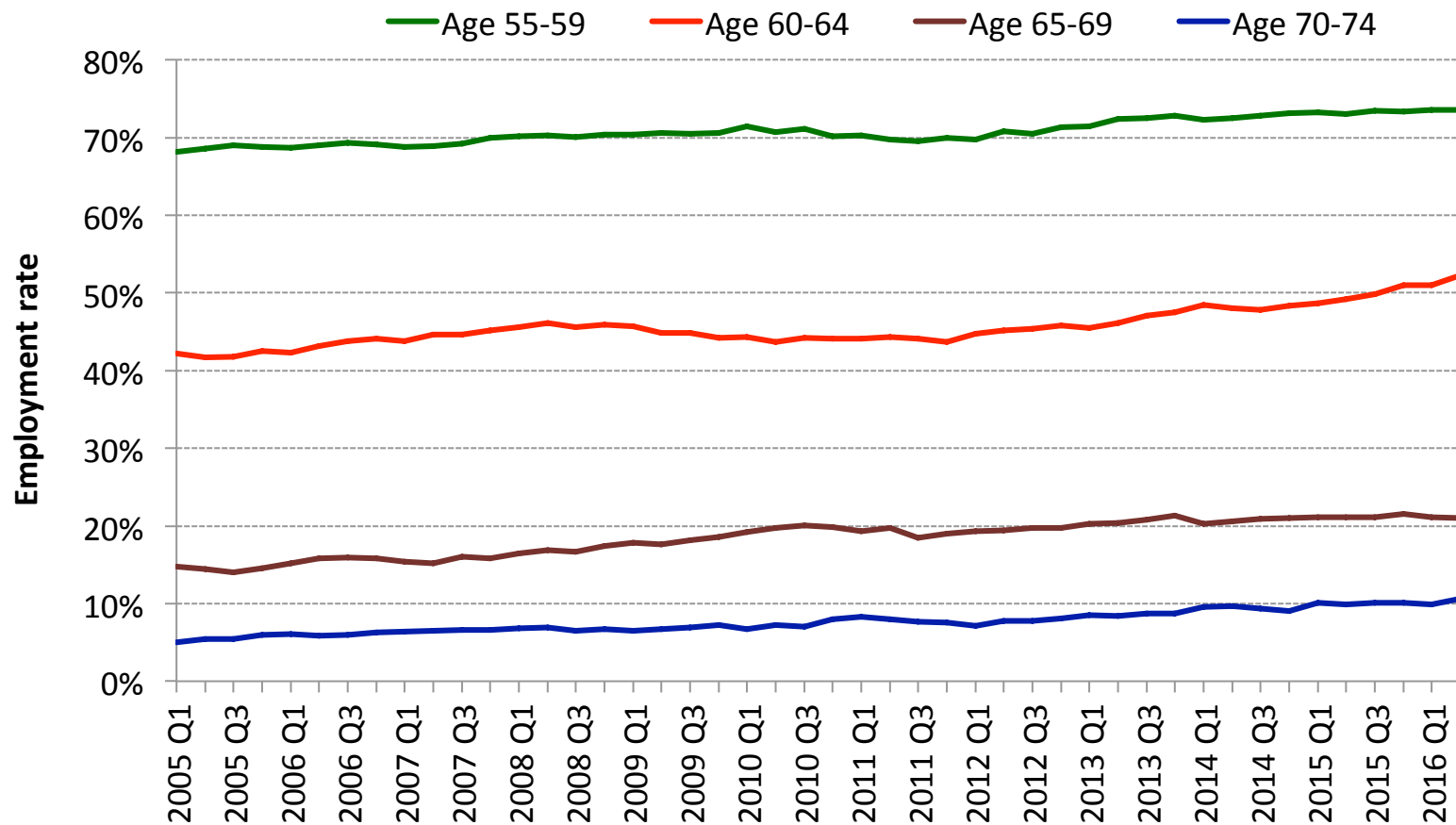
Bigger falls in earnings for younger employees



Notes: Earnings deflated using the CPI.

Source: IFS calculations using Annual Survey of Hours and Earnings

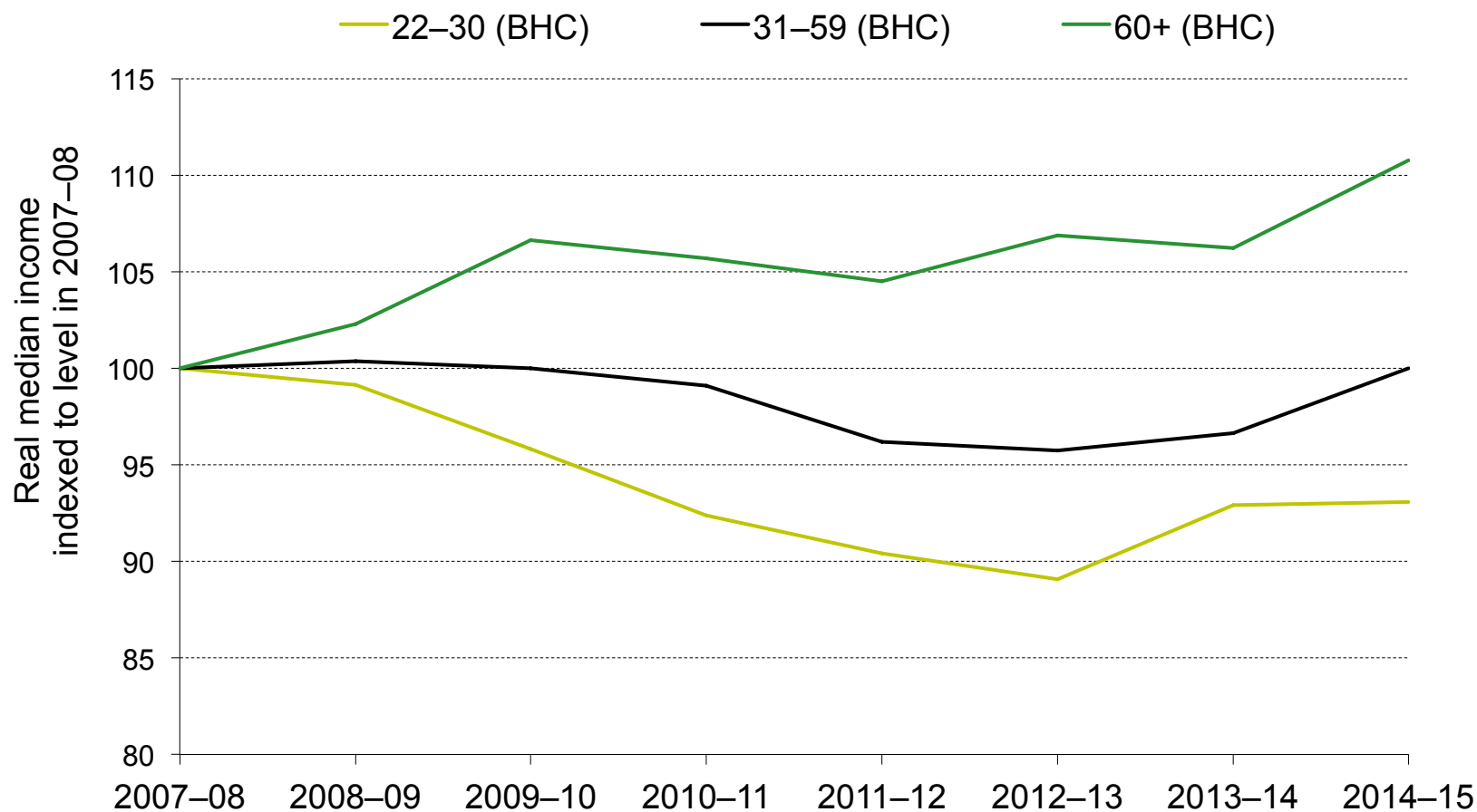
Higher employment rates for older people



Source: IFS calculations using the Labour Force Survey.

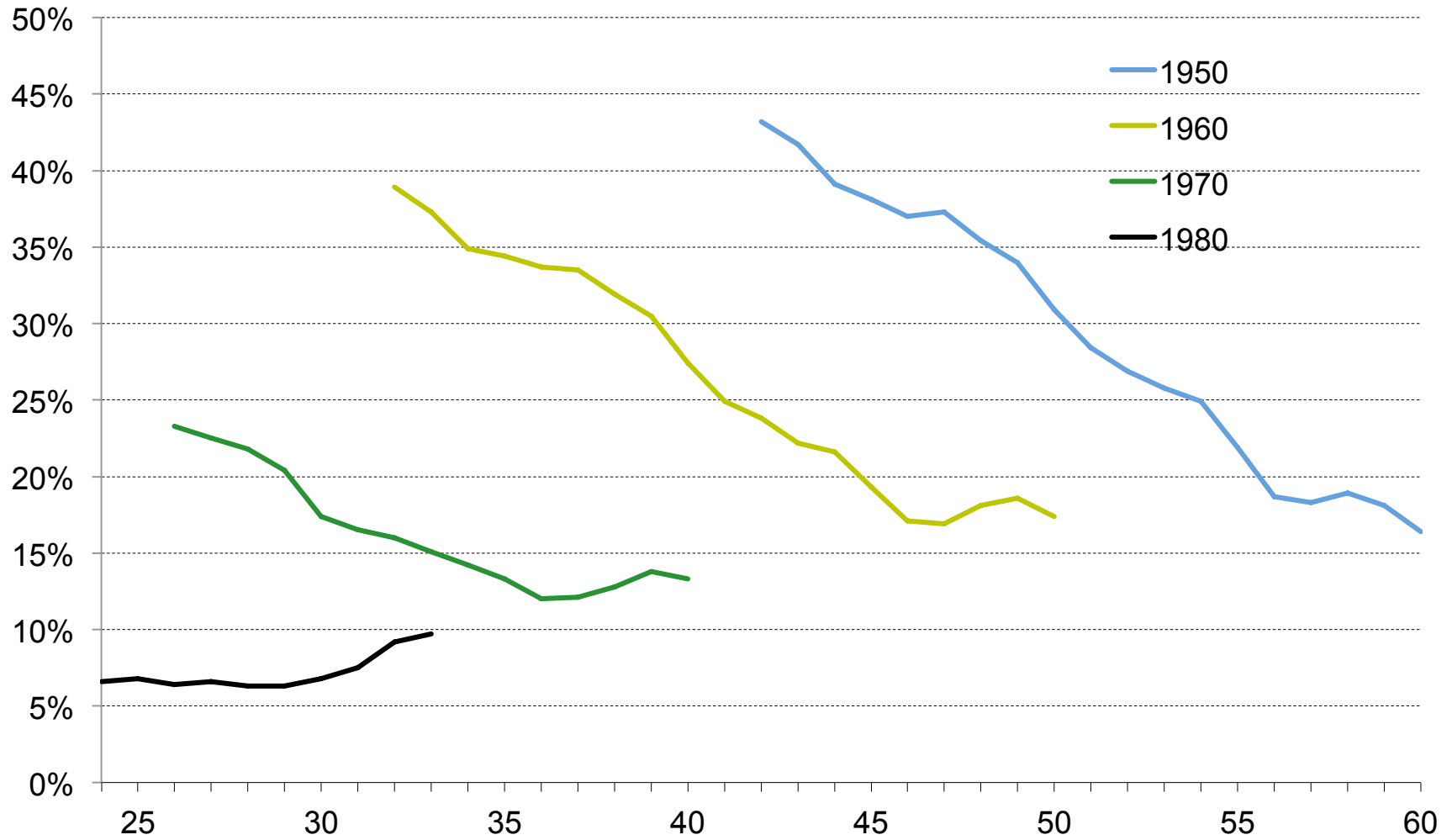
Translates into real income changes:

Real median household income since 2007–08 (UK), by age group



Large generational differences in income growth, pension wealth and house ownership.

Percentage of private sector employees who are active members of a DB pension scheme by age, for people born in different decades

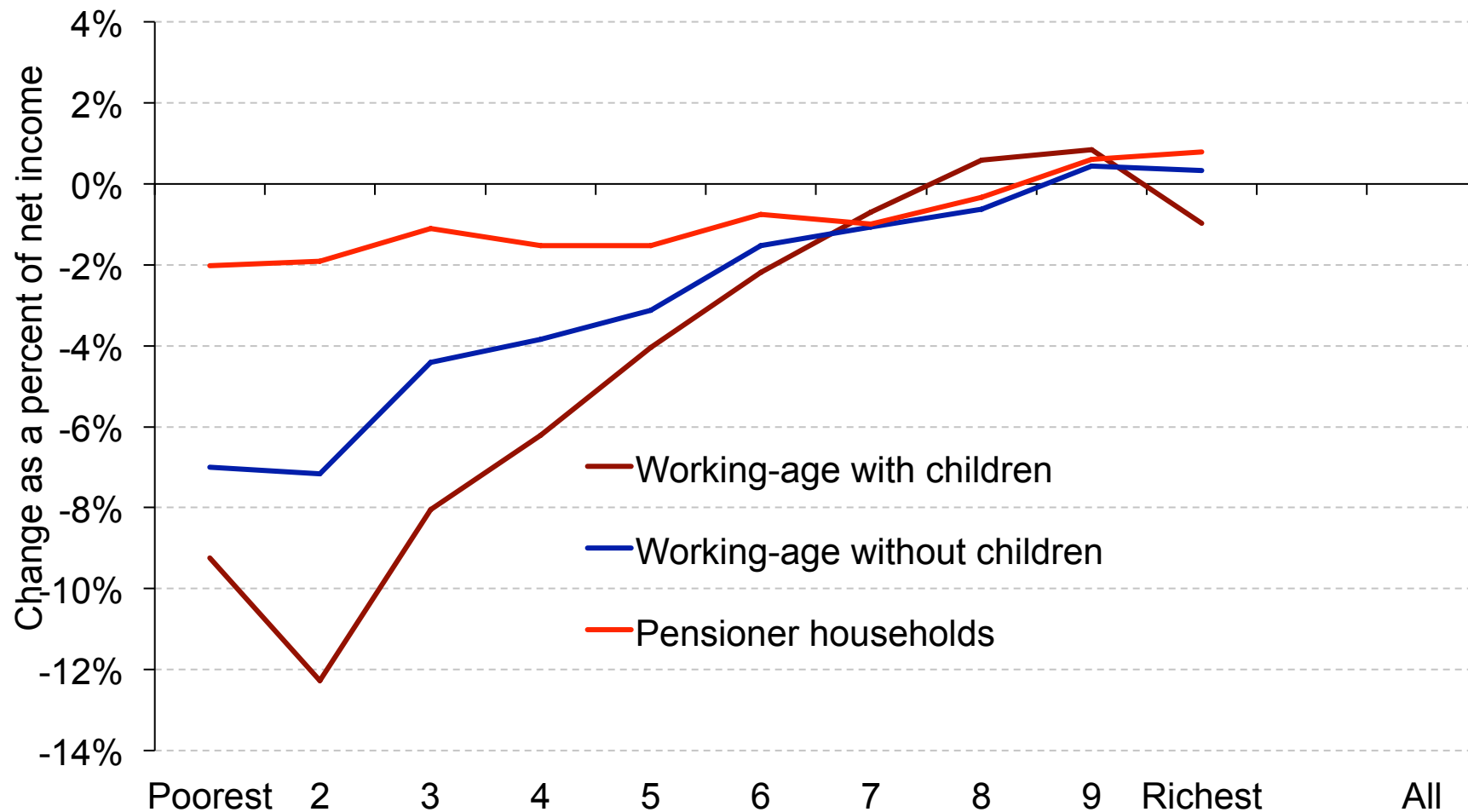


Prospects and Policies

- Real wages and productivity have been very slow to pick up
 - ‘buoyant’ employment,
 - changes in key characteristics: older people, immigrants, private sector, part-time work, self-employment.
- Unprecedented expansion of higher education has paid off
 - education premium maintained but signs of falling back recently,
 - new growth coming from post-graduate education/ returns,
 - limits to further degree level expansion?
- Male earnings and, in particular hours, have been driving the fall in earnings for young families with low educated parents
 - rises in women’s employment and education has not done much to help reduce inequality between households due to assortative partnering,
 - continuing ‘strain’ on the tax-credit and benefit system =>

Impact of tax and benefit reforms

May 2015 – April 2019 (including universal credit)



Assumes full take-up of means-tested benefits and tax credits
and all changes fully in place

Summary, Prospects and Policies (cont.)

What should be the response at the bottom for inclusive growth?

- Minimum/living wage
 - useful but not enough to solve the growth or inclusion problem
- Human capital and mobility
 - little evidence of earnings progression for lower skilled and part-time workers – employment (especially part-time) is not enough!
 - re-think vocation education; non-cognitive skills;
 - early years investment, low ed. parents their kids opportunity is key.
- Efficient re-design of tax/benefit system
 - ‘universal credit’ plus; contribution based social insurance;
 - age-based/intergenerational taxes.
- Innovation and work?
 - developing clusters outside London.

Extra Slides
(may be useful in dsicussion)

Labour Markets and Inclusive Growth

by Richard Blundell

Pre-talk notes:

Growth, the labour market and inequality in the UK

- First the big picture, very briefly.

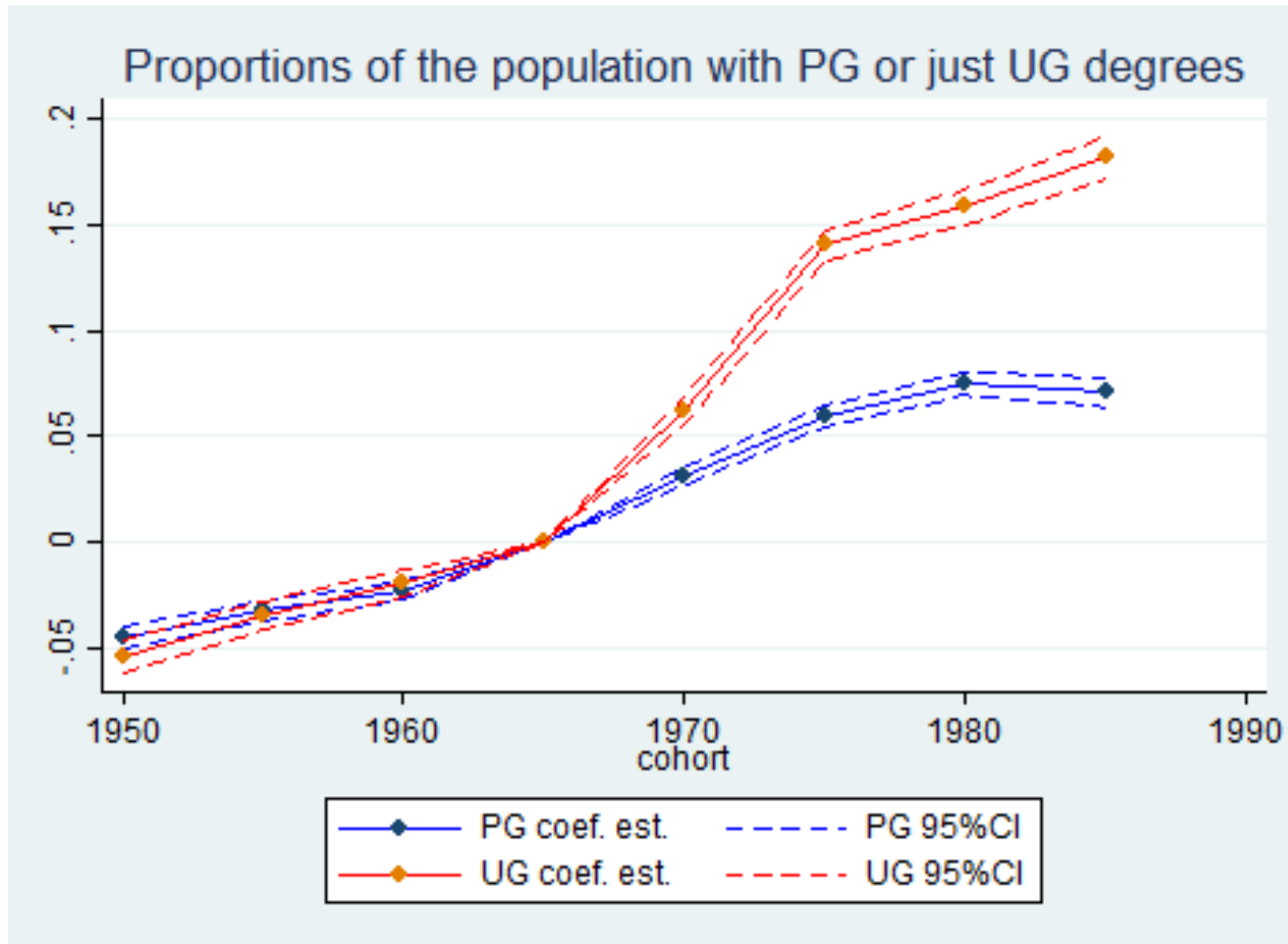
Then unpicking the parts of the picture. What is the role of:

- employment and inactivity?
- hours vs wages? (Bell and Machin note political implications of local variation and Brexit)
- labour earnings versus taxes and benefits?
- gender differences and earnings within the family?
- human capital, sector and immigration?
- age and cross generation differences?
- Finally, and briefly: prospects and policies?

Earnings for employees and the self employed

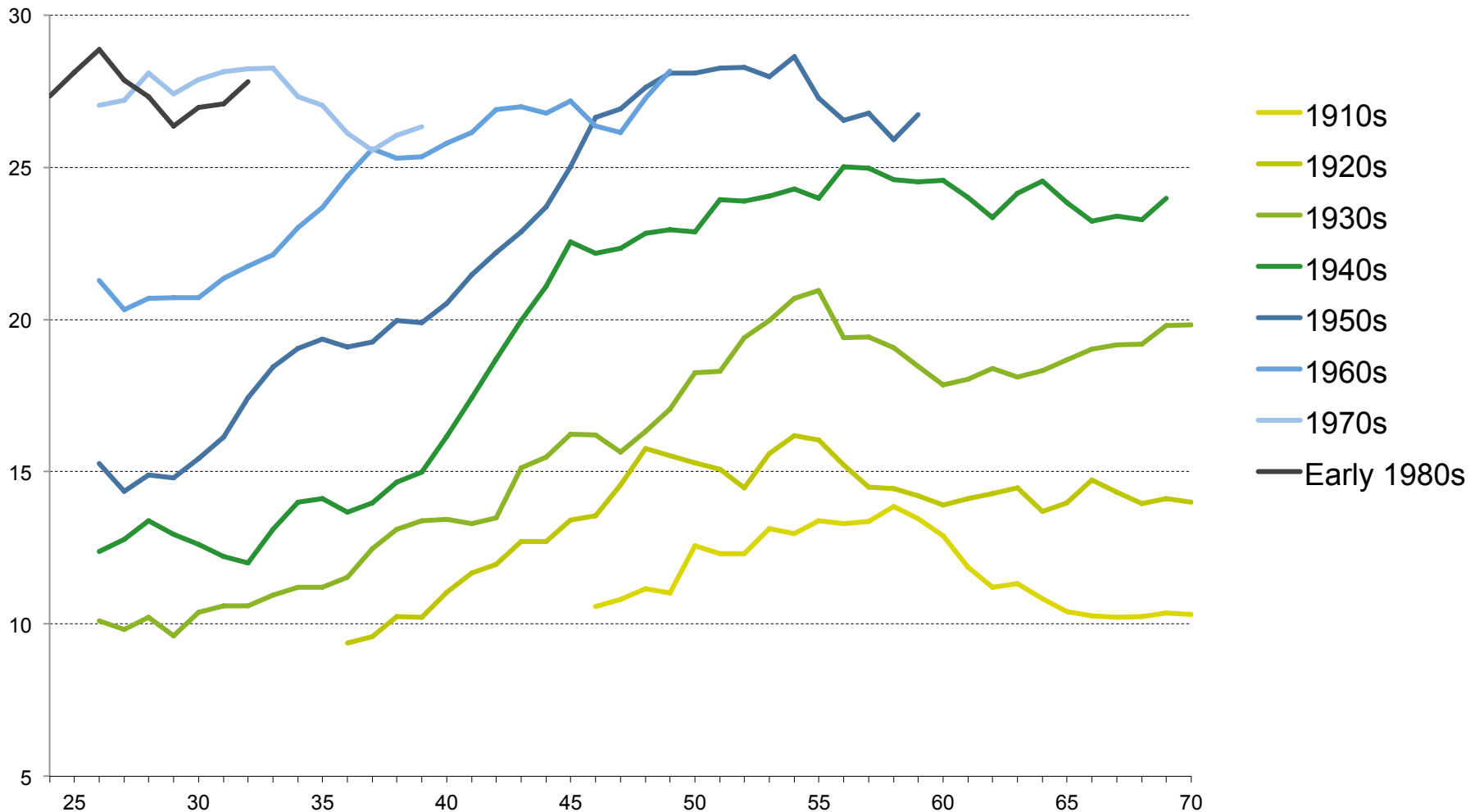


Proportion in each birth cohort with post-graduate degrees



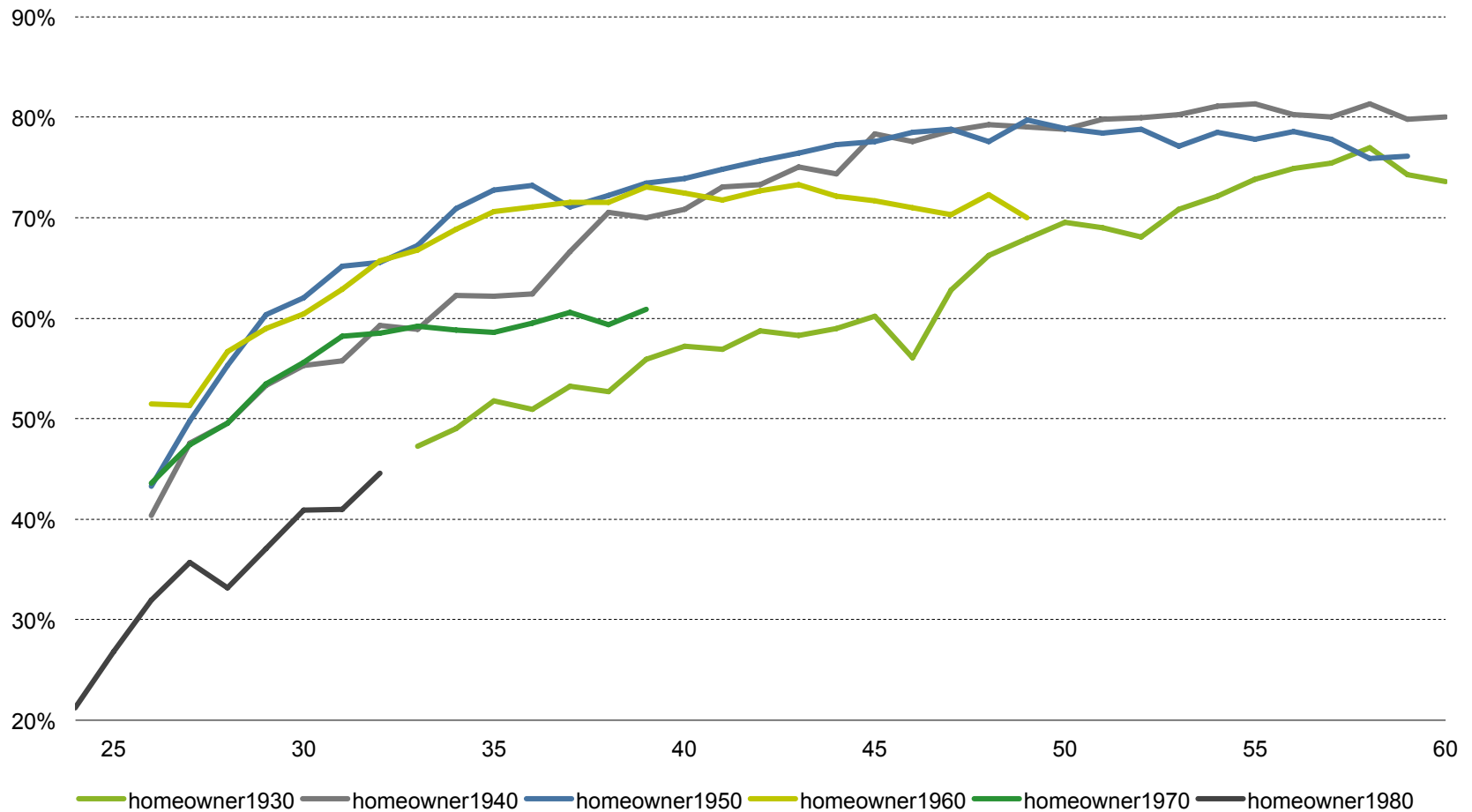
And generational differences:

Median net equivalised household income (before housing costs are deducted) by age, for people born in different decades

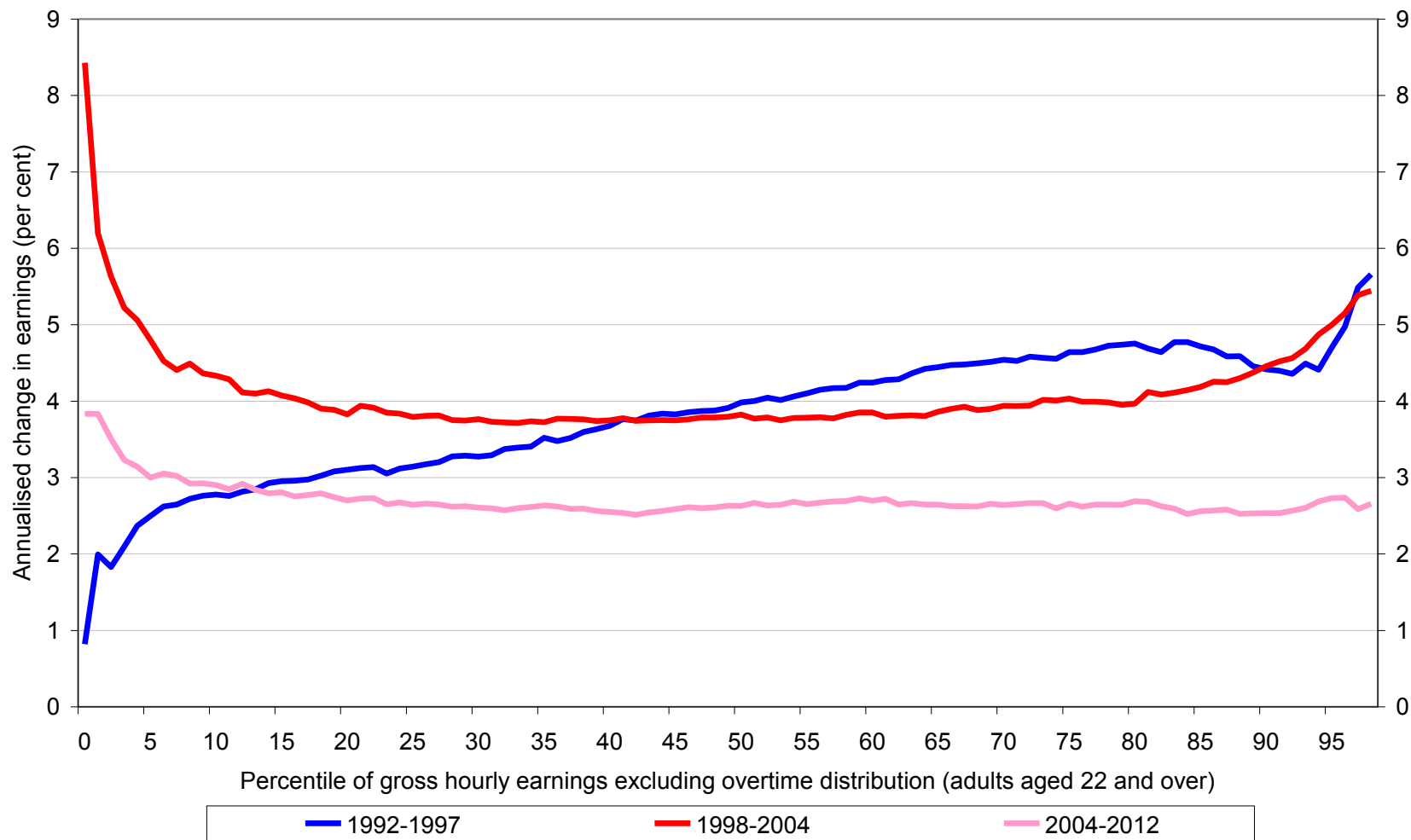


Source: Cribb, Hood and Joyce, 2016

Homeownership by age, for people born in different decades



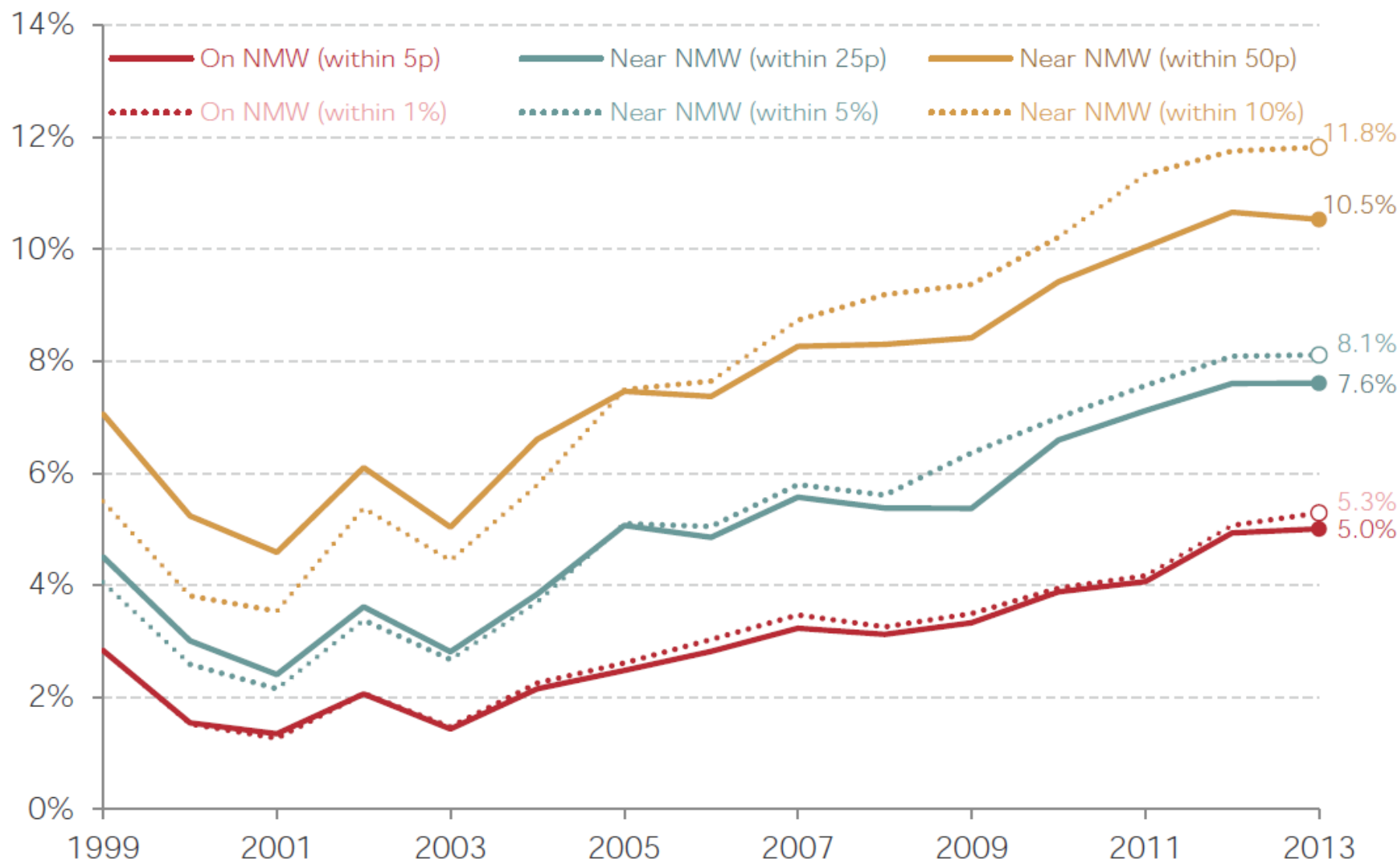
Relative wages of lowest paid have improved



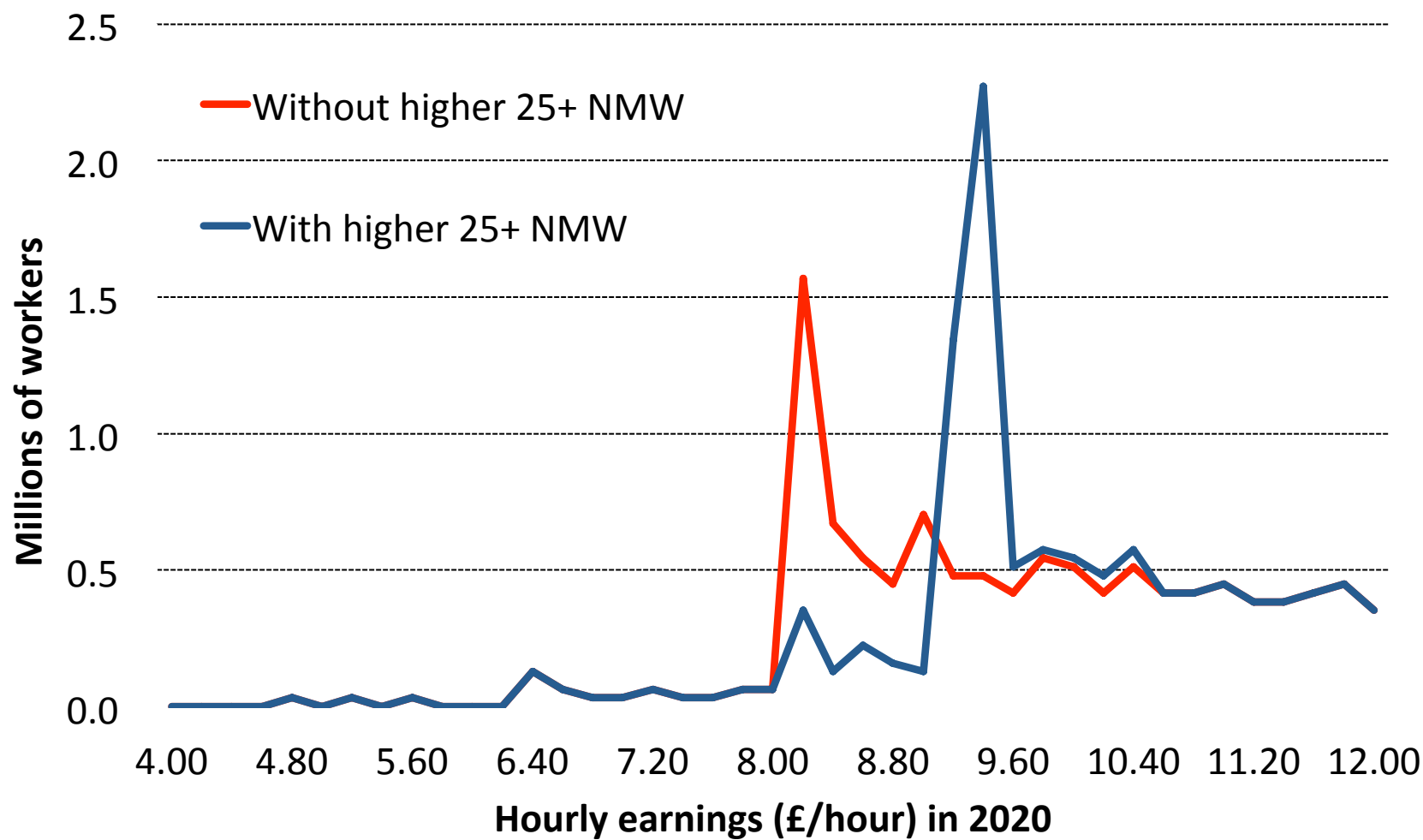
Source: LPC estimates based on New Earnings Survey (NES), April 1992-1997, and ASHE: without supplementary information, April 1997-2004; with supplementary information, April 2004-2006; 2007 methodology, April 2006-2011; and 2010 methodology April 2011-2012, standard weights, including those not on adult rates of pay, UK.

Note: Direct comparisons before and after 1997, before and after 2004 and those before and after 2006 and 2011, should be made with care due to changes in the data series.

Minimum wage affected more people over time

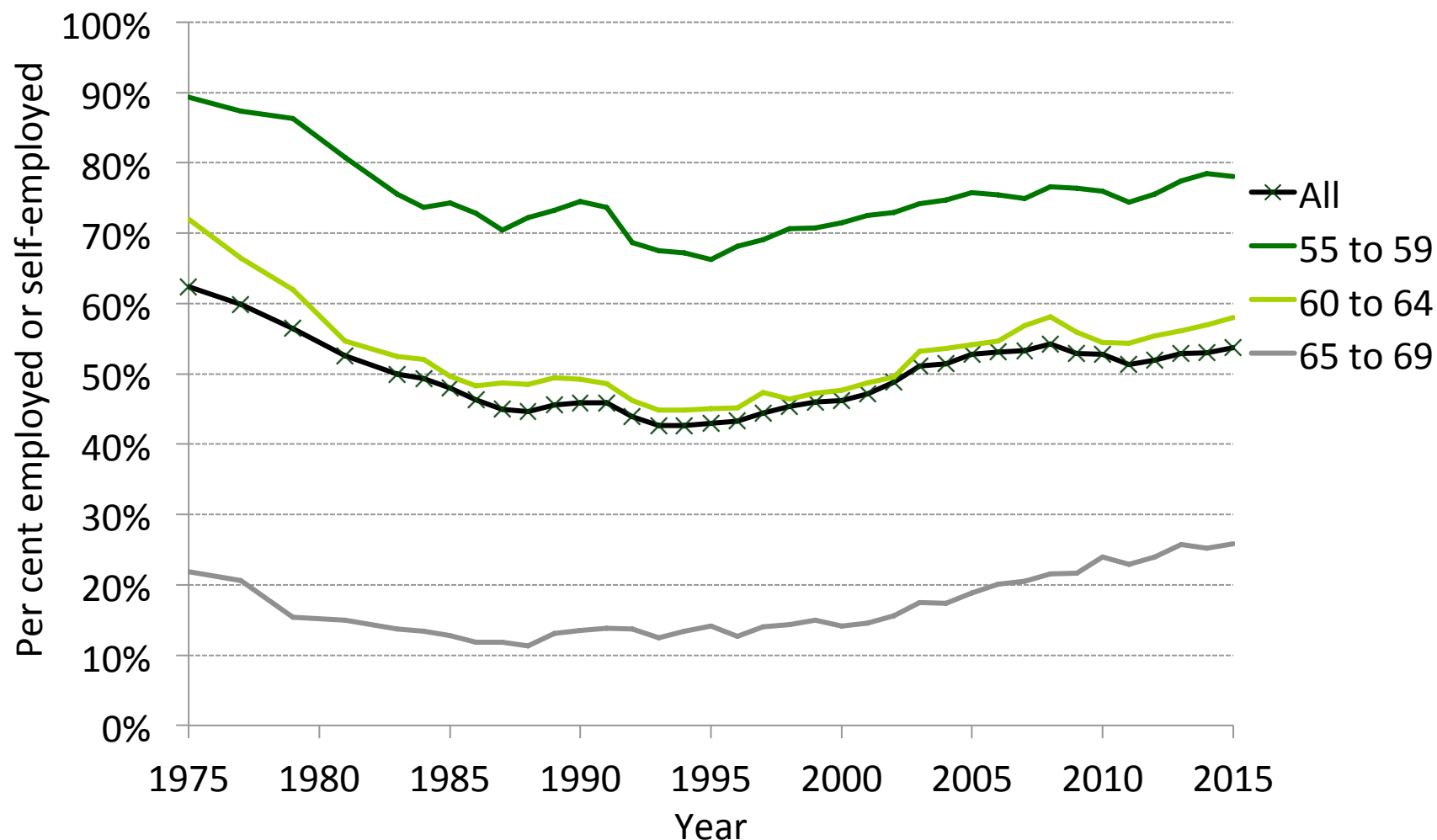


Effect of NLW on wage distribution

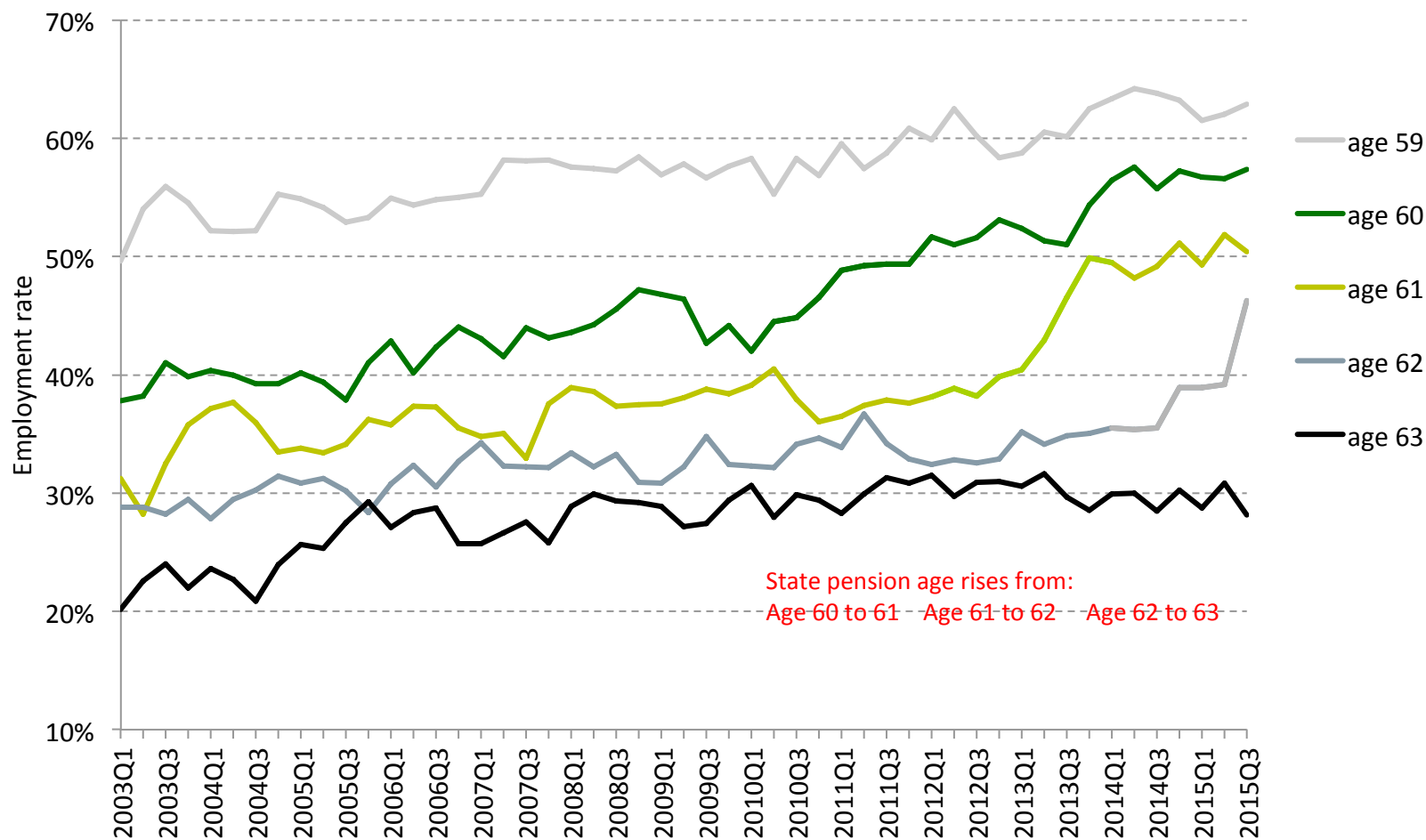


Source: Office for Budget Responsibility (2016)

Employment rates of older men over time

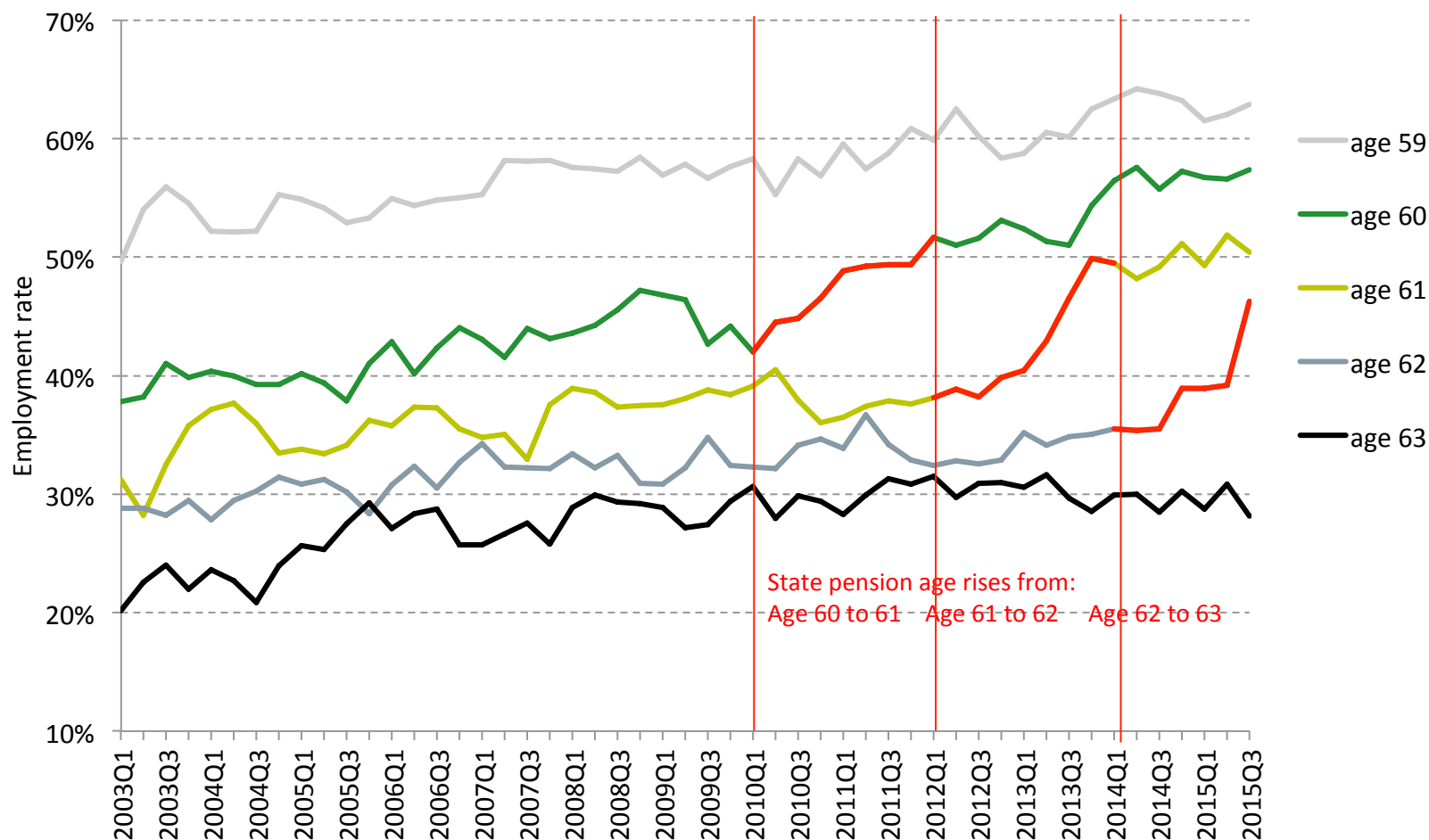


Increases in female state pension age continue to push up employment rates



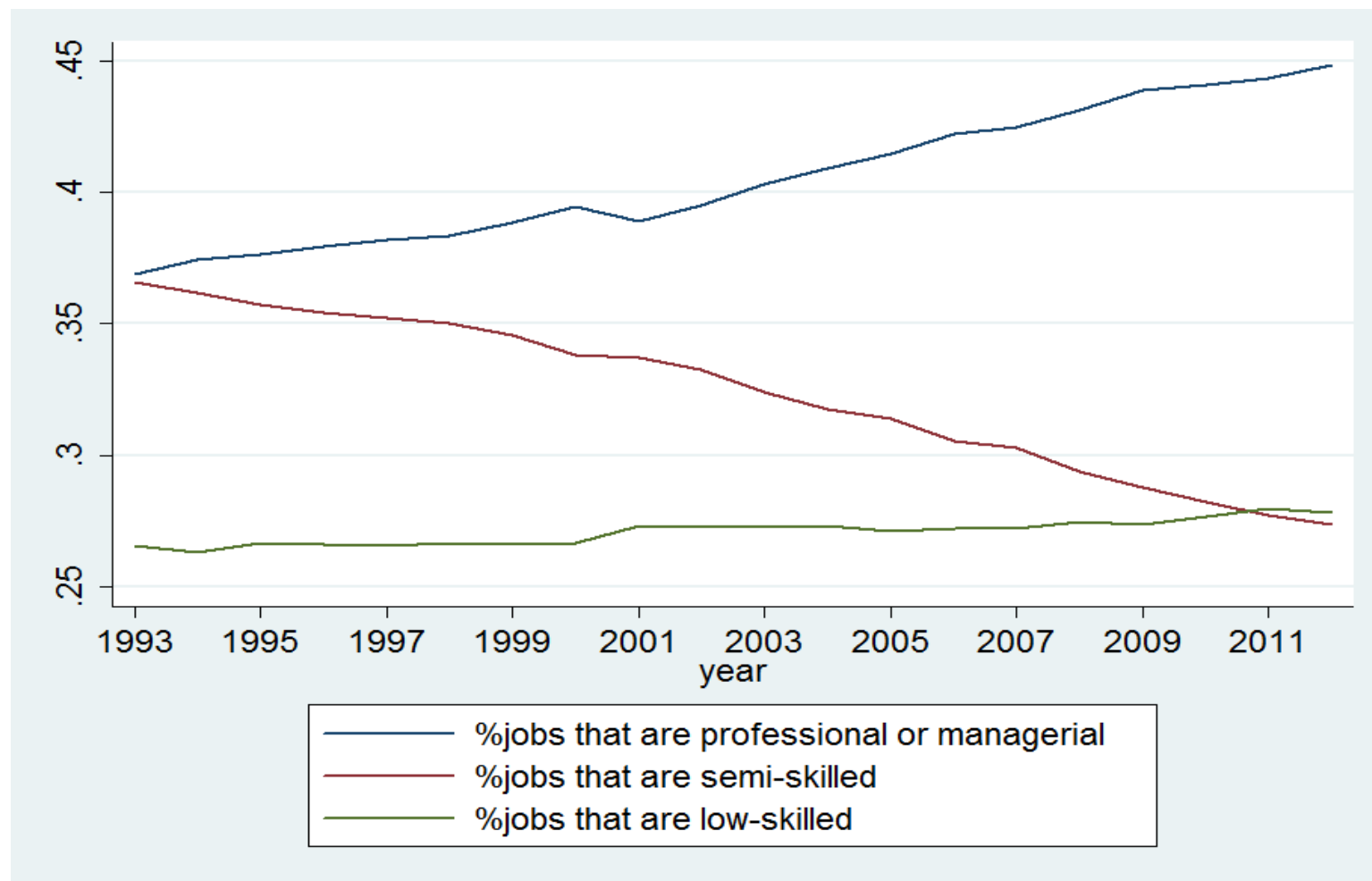
Source: Labour Force Survey.

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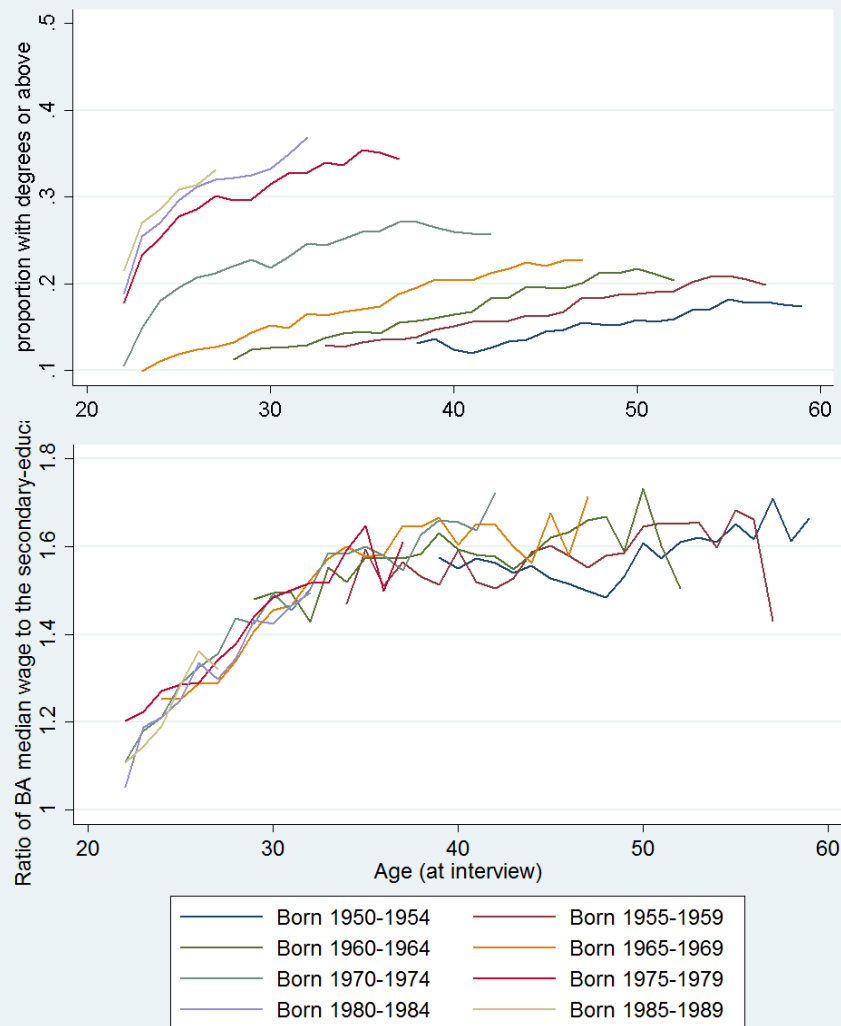
Source: Labour Force Survey.

Employment shares of occupation groups: UK

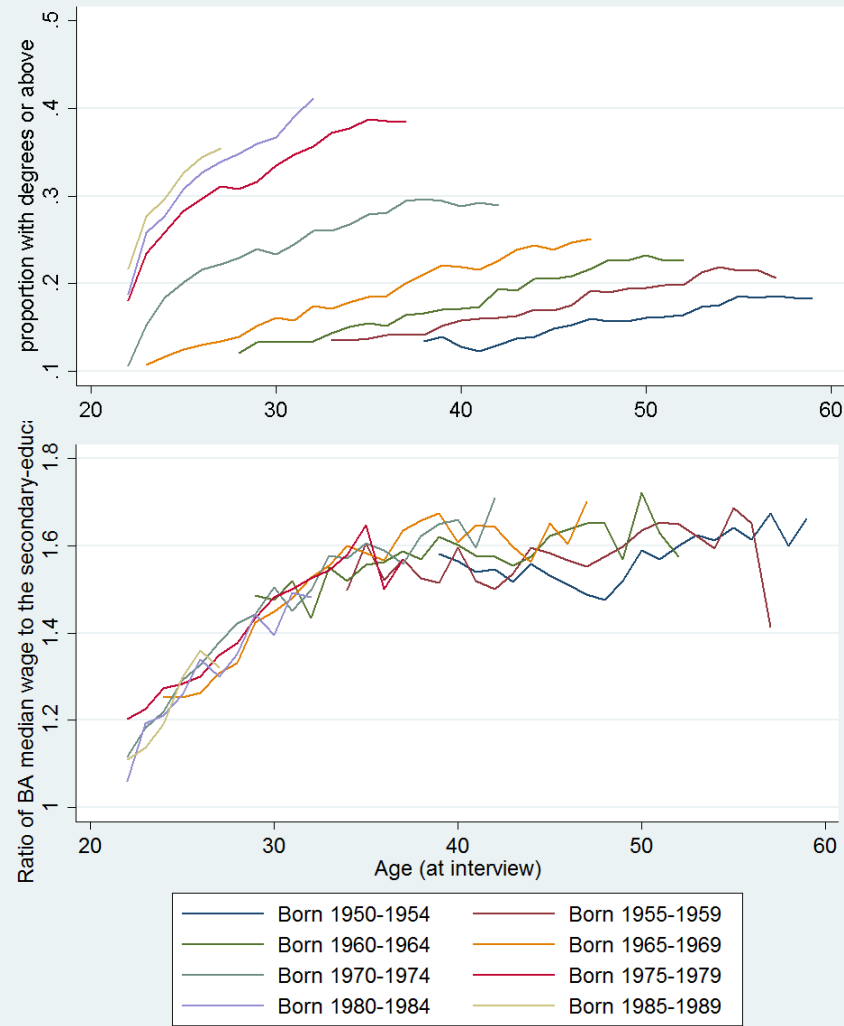


Note: the discontinuities in occupation classification in 2001 and 2011 have been addressed in the following way. For the conversion of SOC 1990 to SOC 2000, we look at individuals who were surveyed in 2000Q4 and 2001Q2 and stayed with the same employer and infer the transition matrix from this group. For the conversion of SOC2010 to SOC 2000, we used the ONS two-way tabulation of the LFS 2007 Q1 sample by the major occupation groups under the two SOC systems.

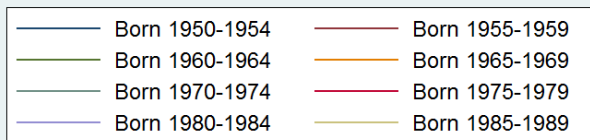
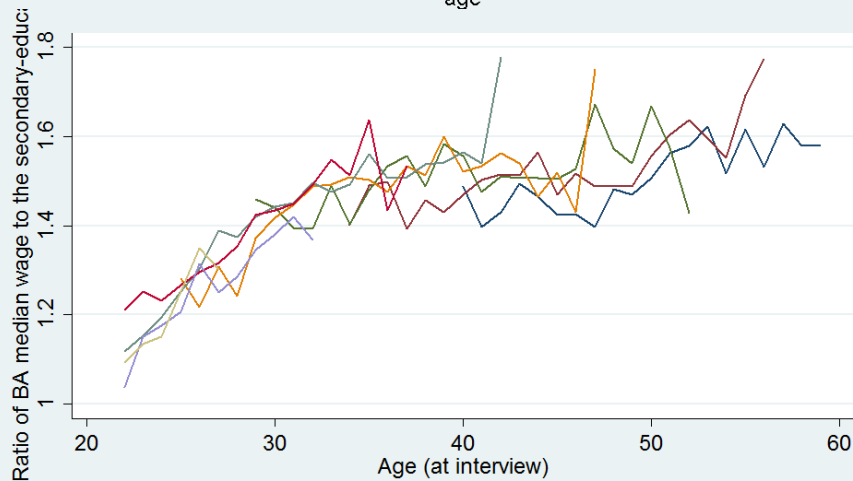
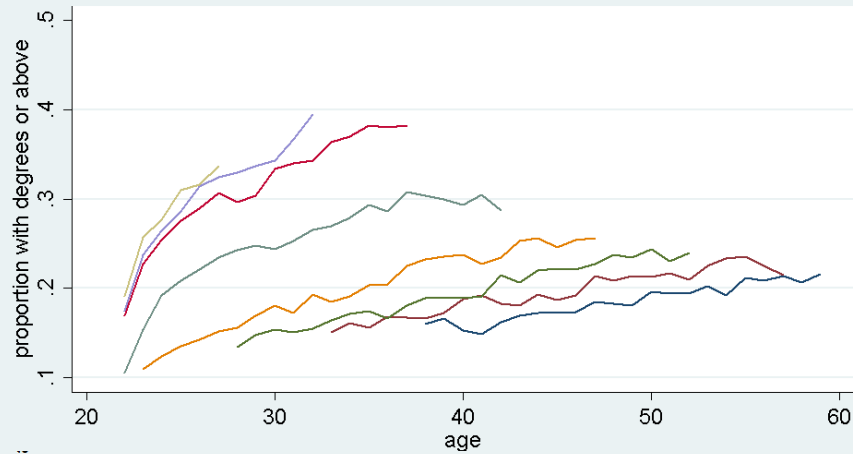
Excluding immigrants



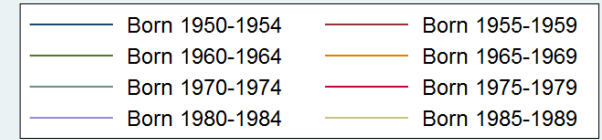
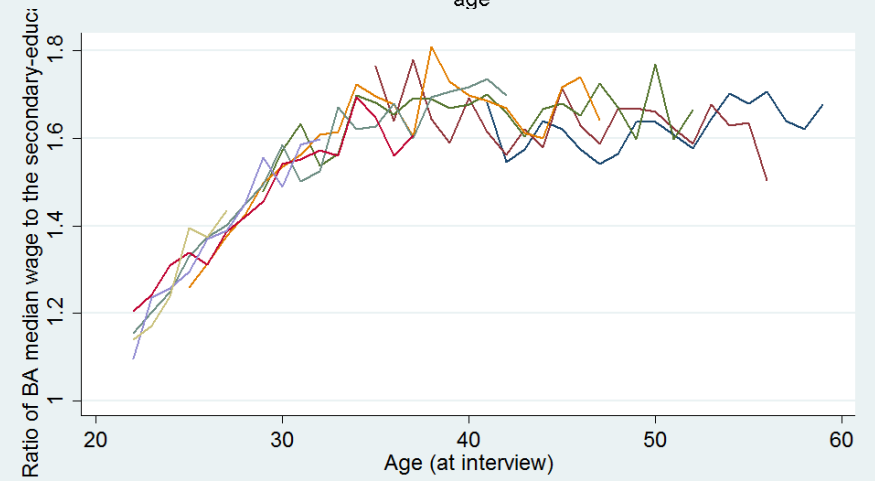
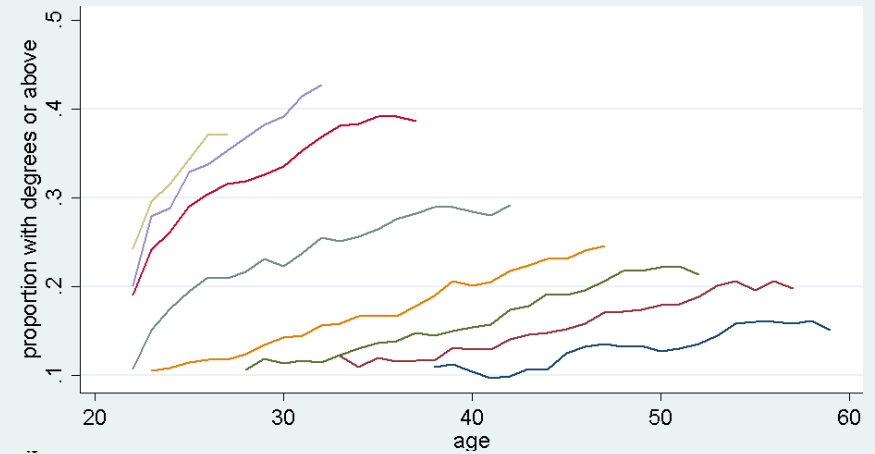
Including immigrants



Male

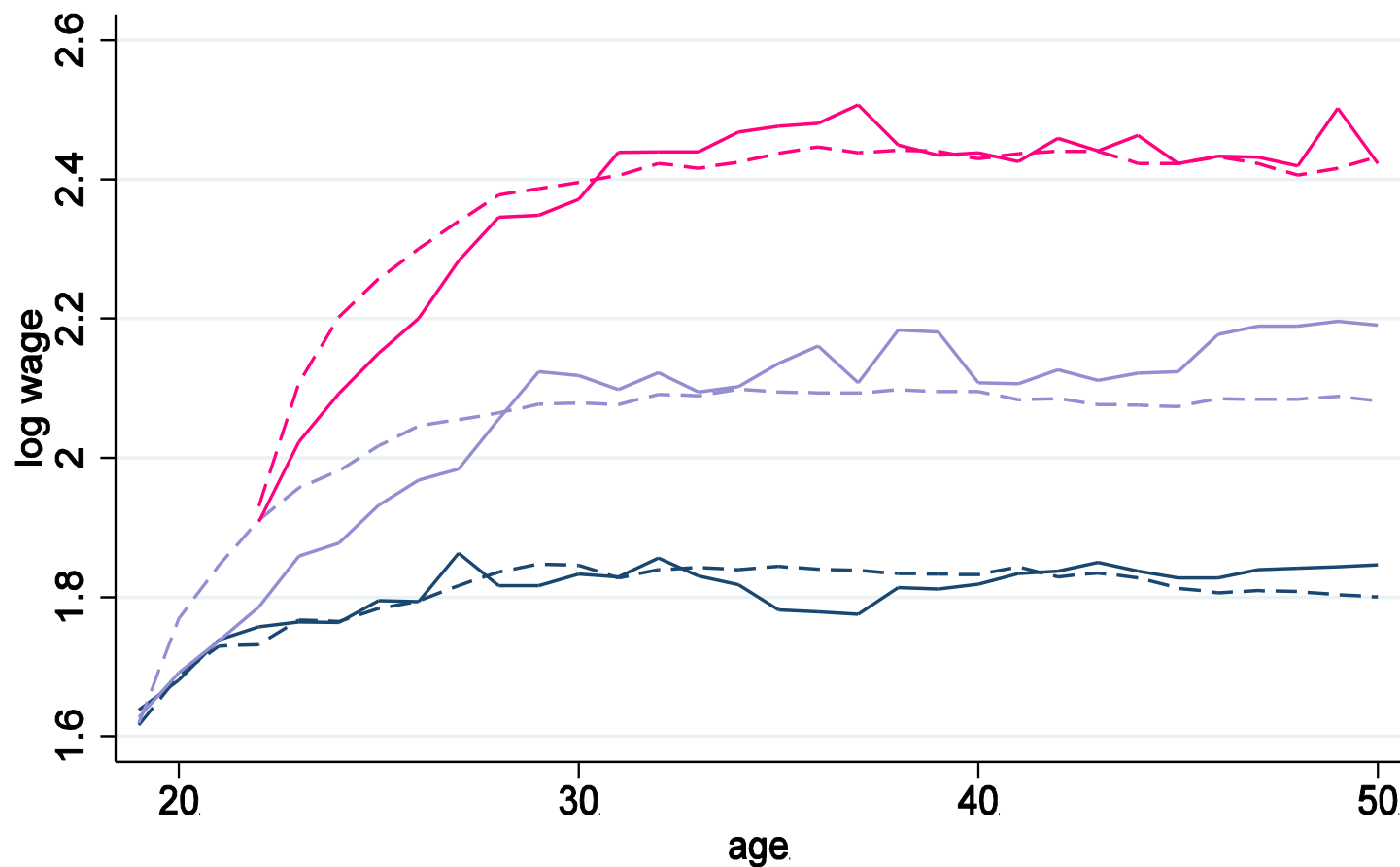


Female



Human Capital Complementarities

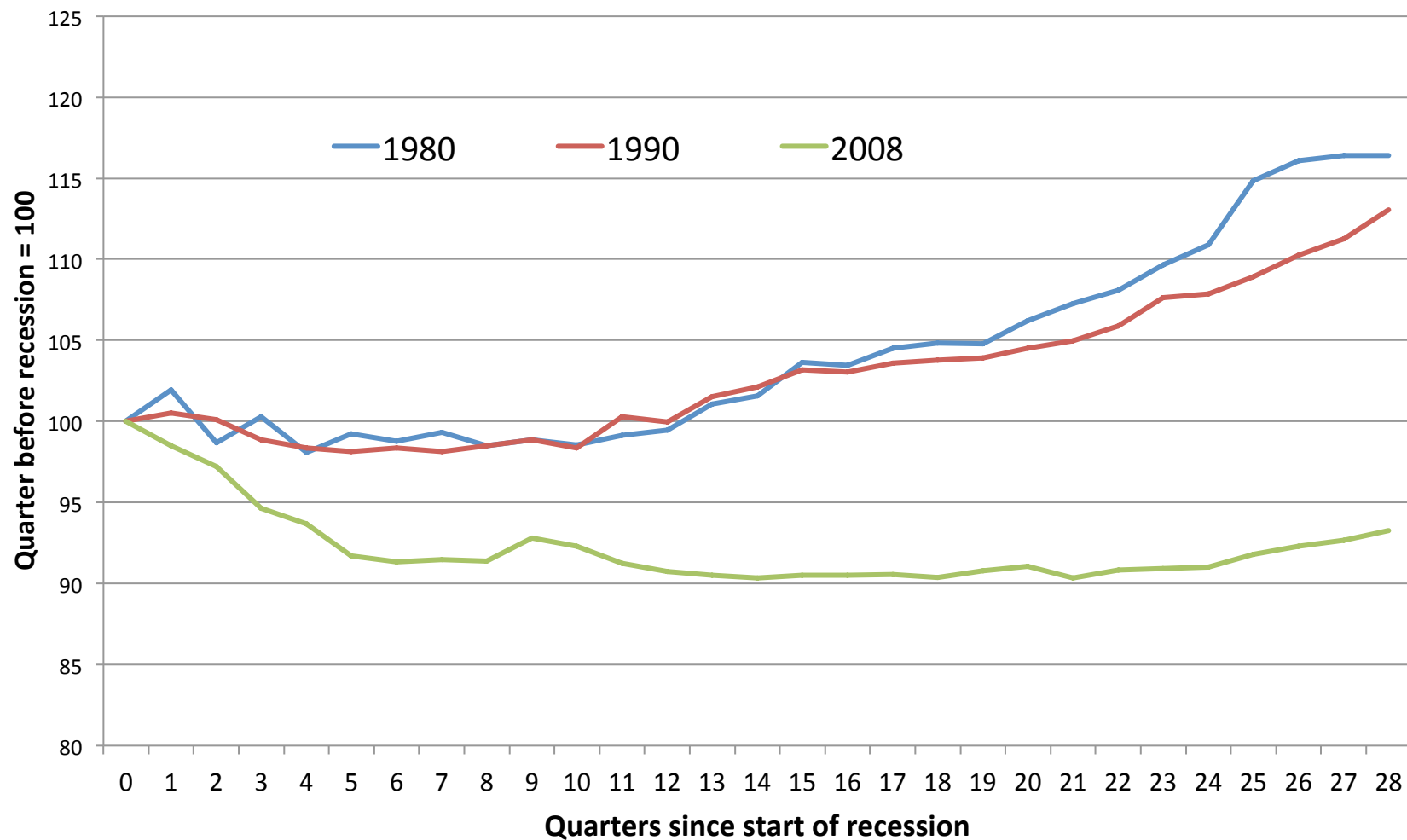
Wages by education and age – UK Women, BHPS



— data, secondary	- - - simulations, secondary
— data, further	- - - simulations, further
— data, higher	- - - simulations, higher

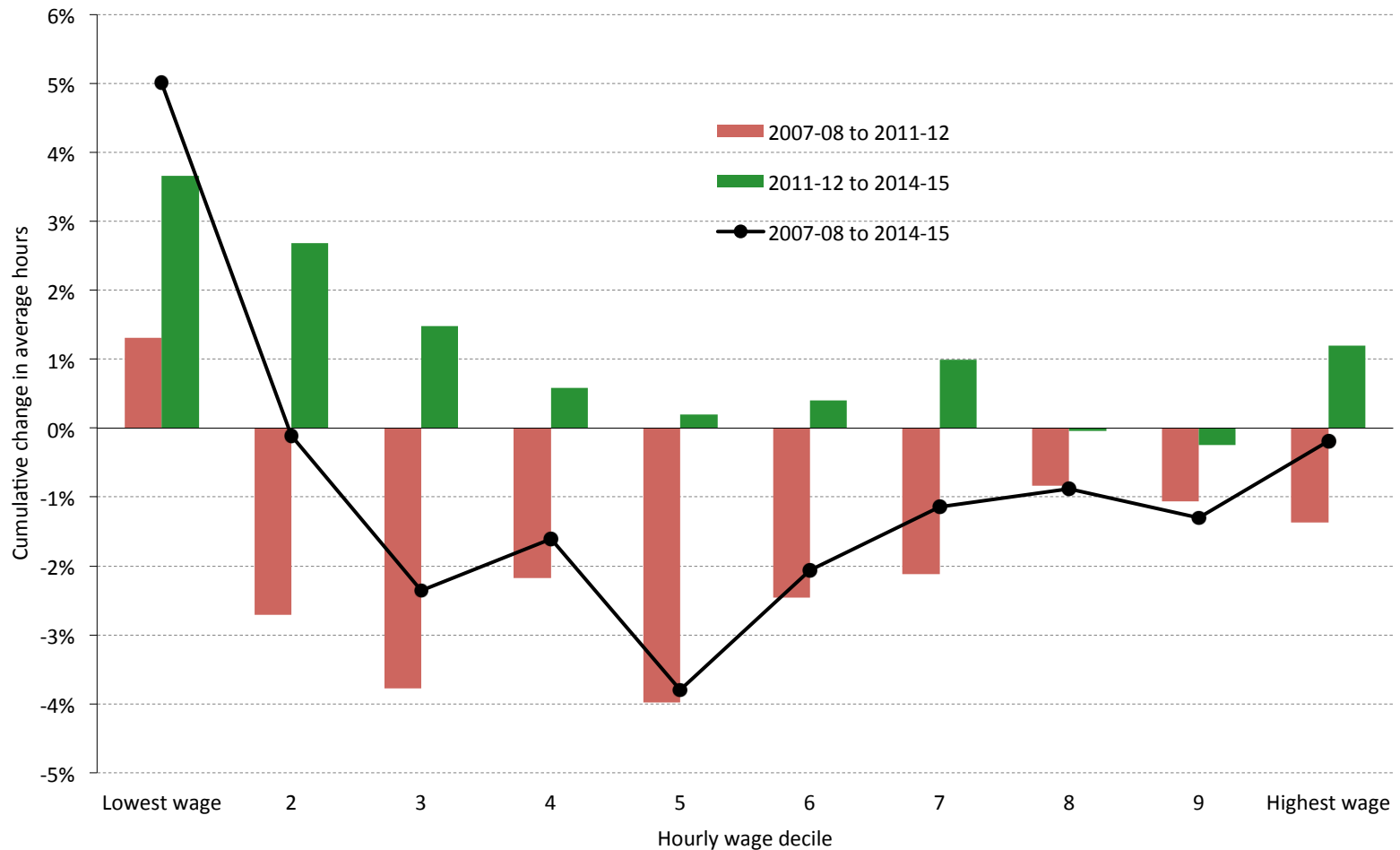
Source: Blundell, Dias, Meghir and Shaw (2016)

Non- and semi-durables per head

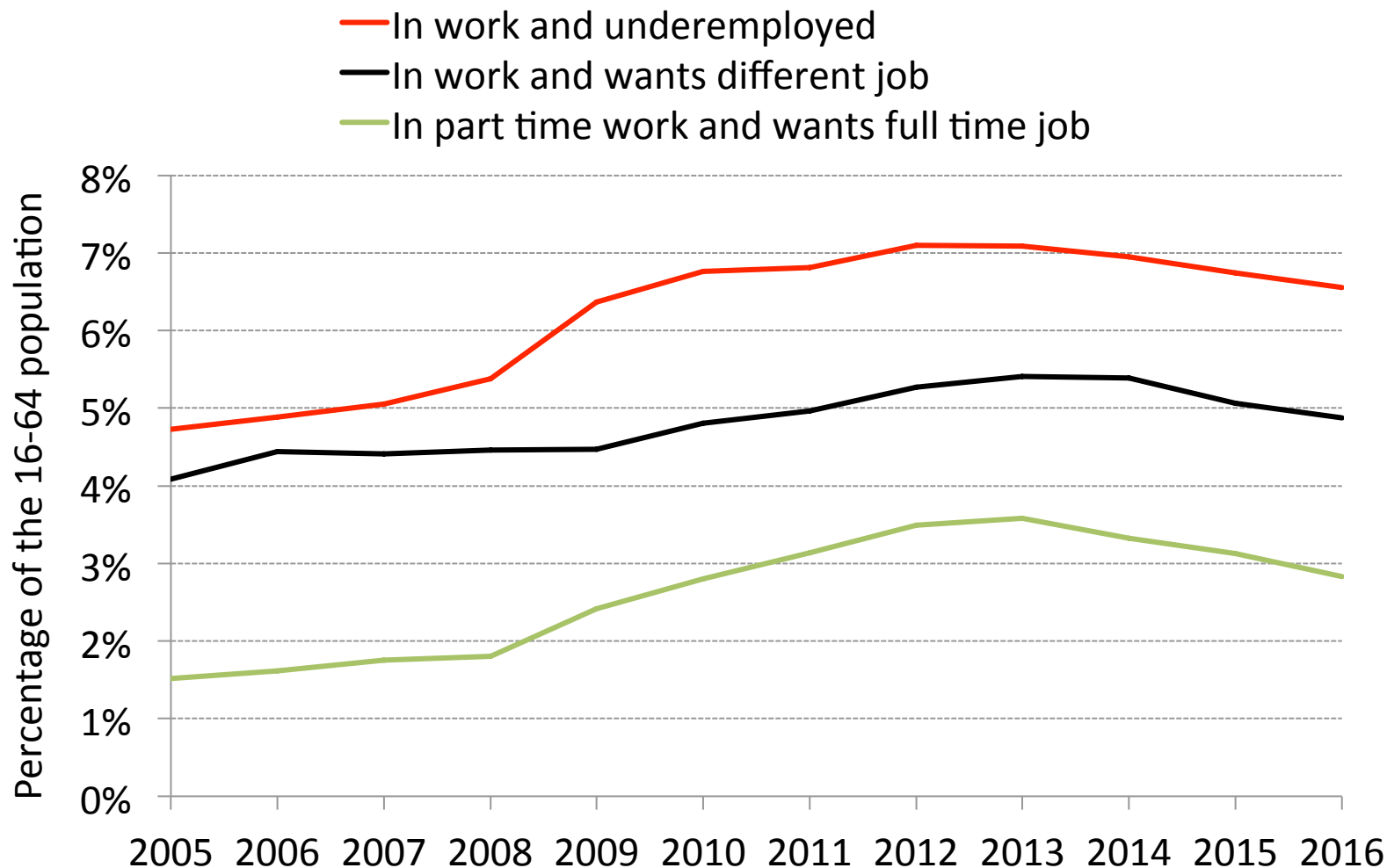


Source: Crossley, Low & O'Dea (2015)

Change in average hours by hourly wage decile

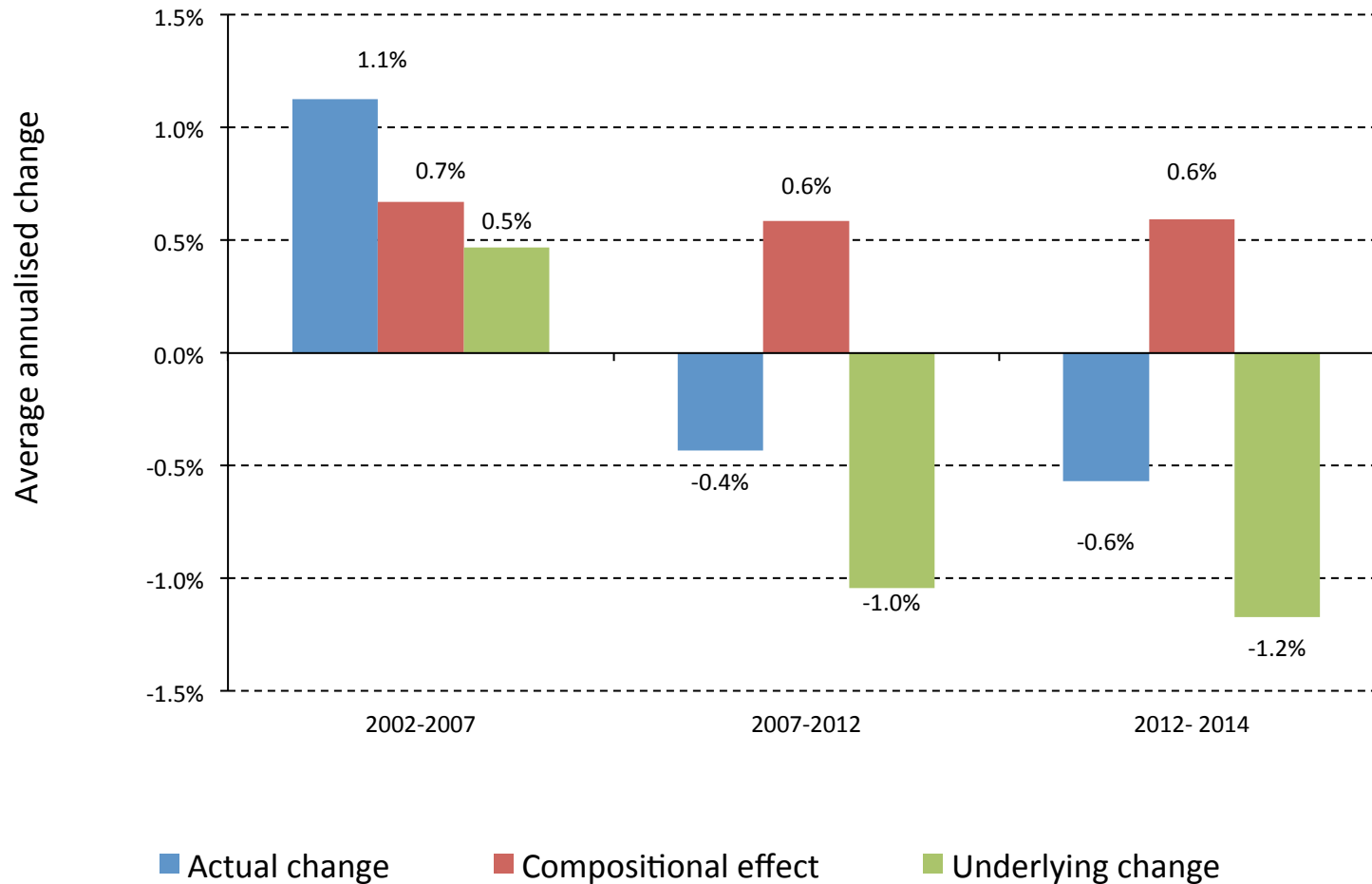


Falling hours: measures of underemployment still higher than pre-recession



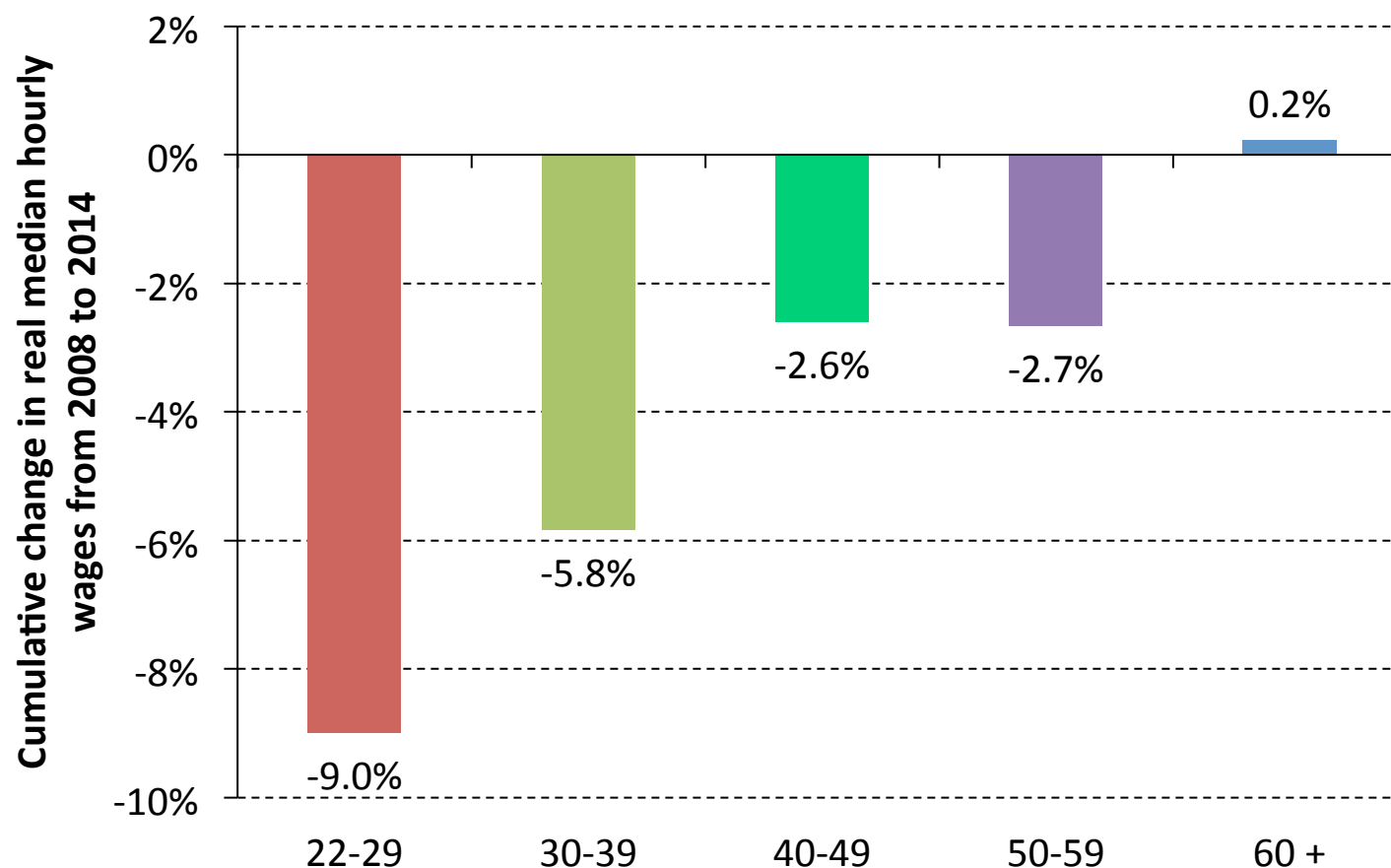
Source: IFS calculations using the Labour Force Survey. Only includes workers age 20 to 59. 2016 refers to 2016 Q1 and Q2

Falls in Real Earnings even greater after allowing for composition changes in mean real hourly earnings

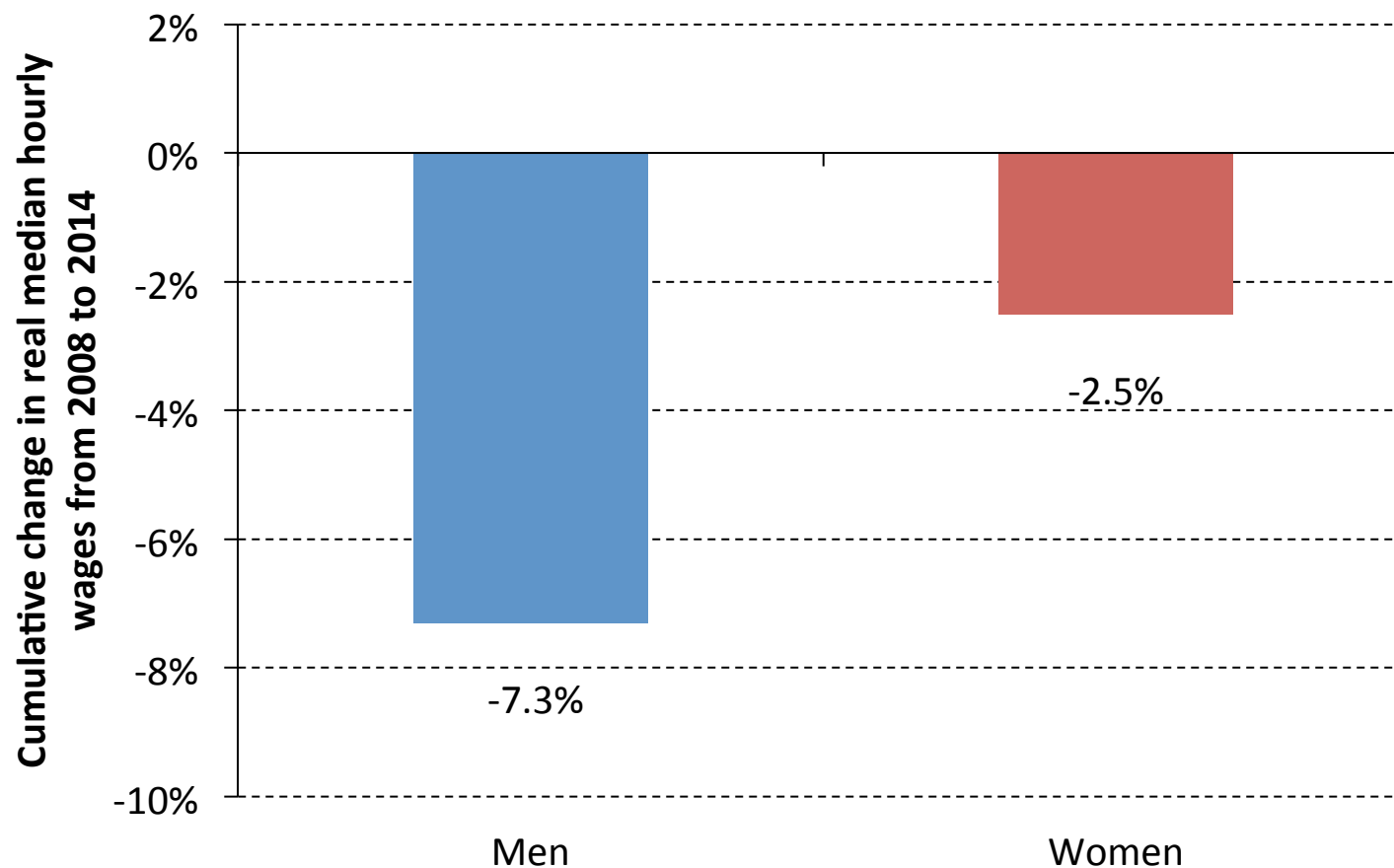


Source: Cribb and Joyce (IFS, 2015) and Blundell, Green and Jin (2014)

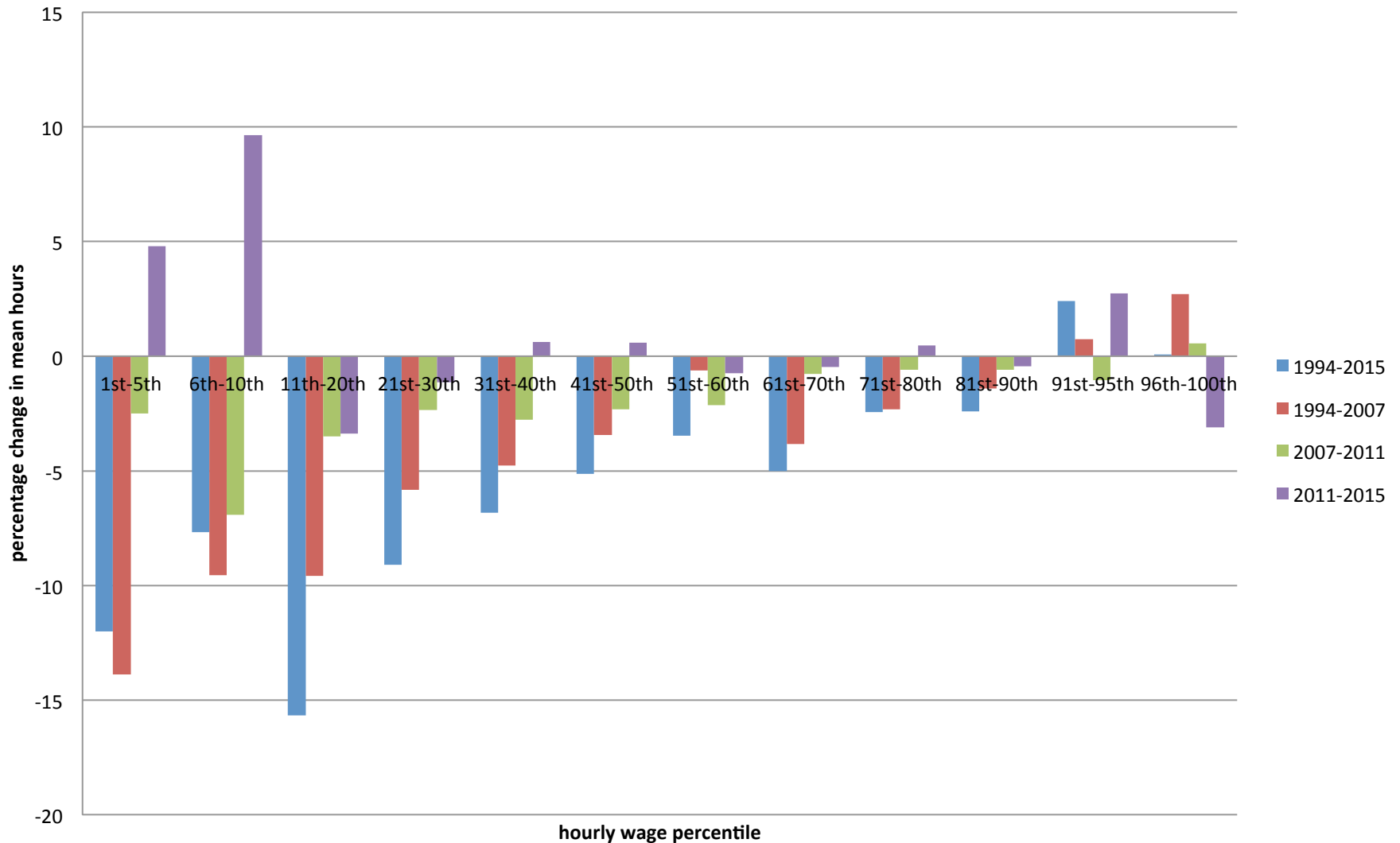
Change in real median hourly wages by age group since 2008



Change in real median hourly wages by sex since 2008

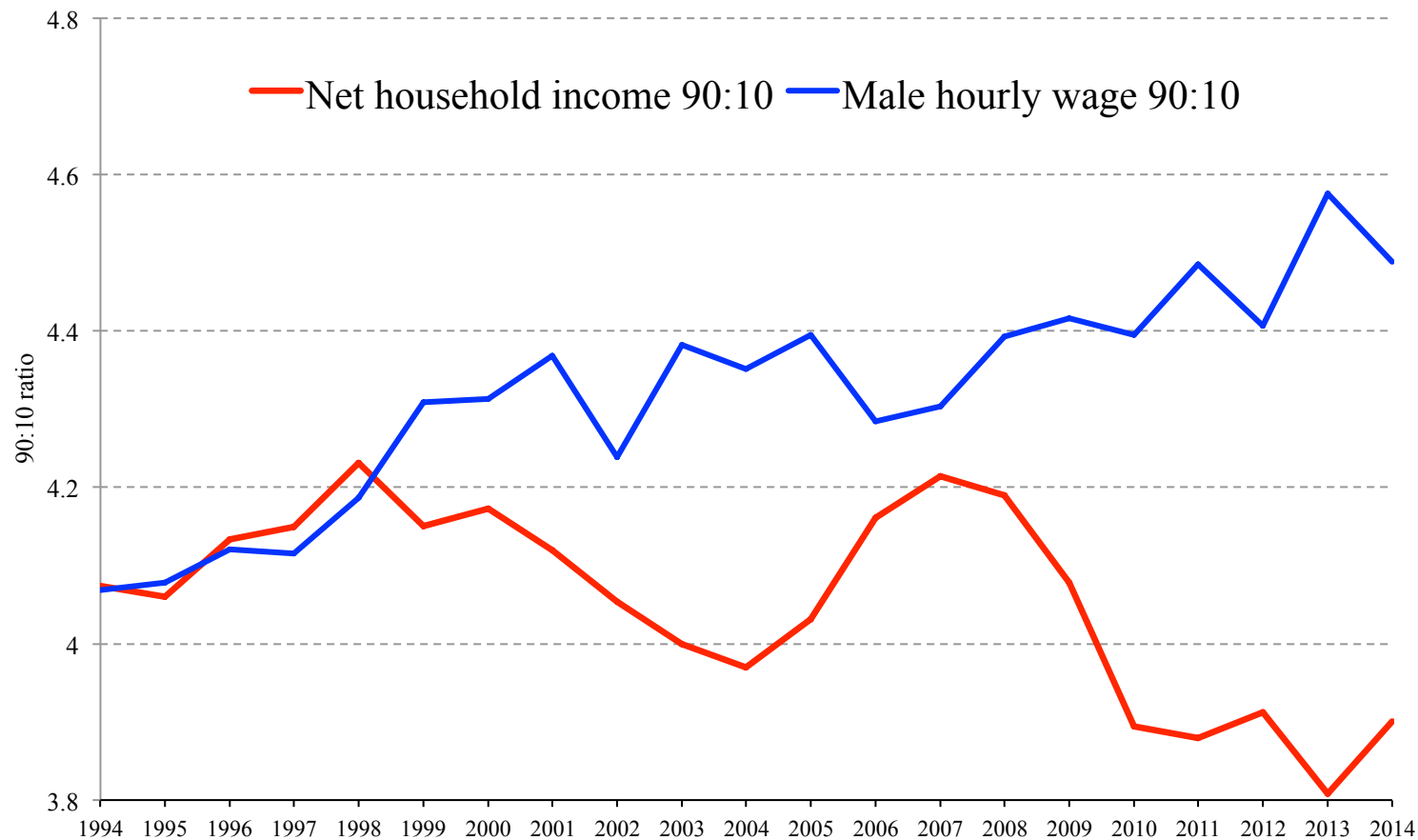


Hours growth for male employees aged 16-64,, LFS

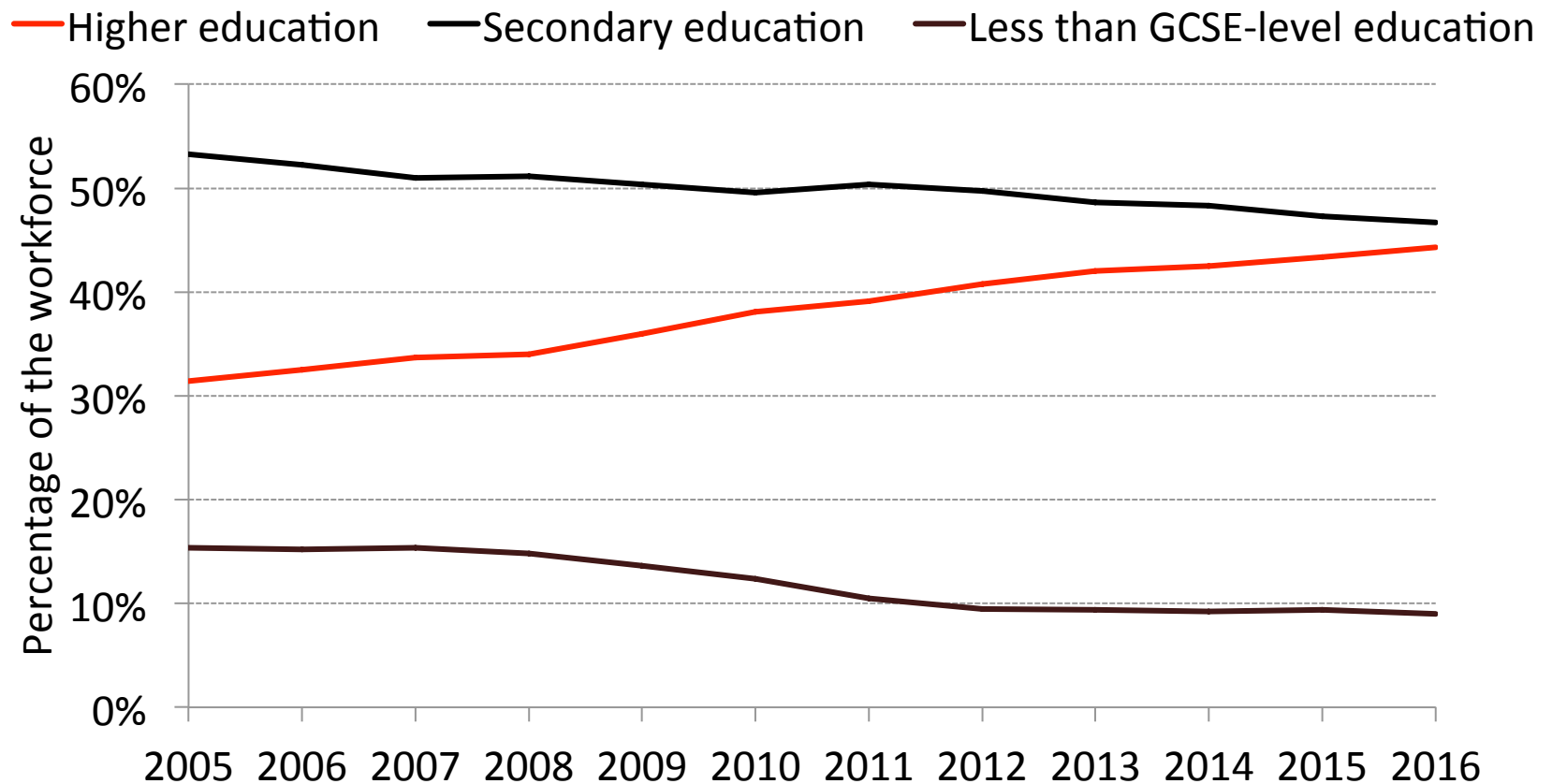


Note: Own calculations using the Labour Force Survey. Paid overtime is included in the measurement of hours.

90:10 ratio for male hourly wages and net household income 1994 to 2014

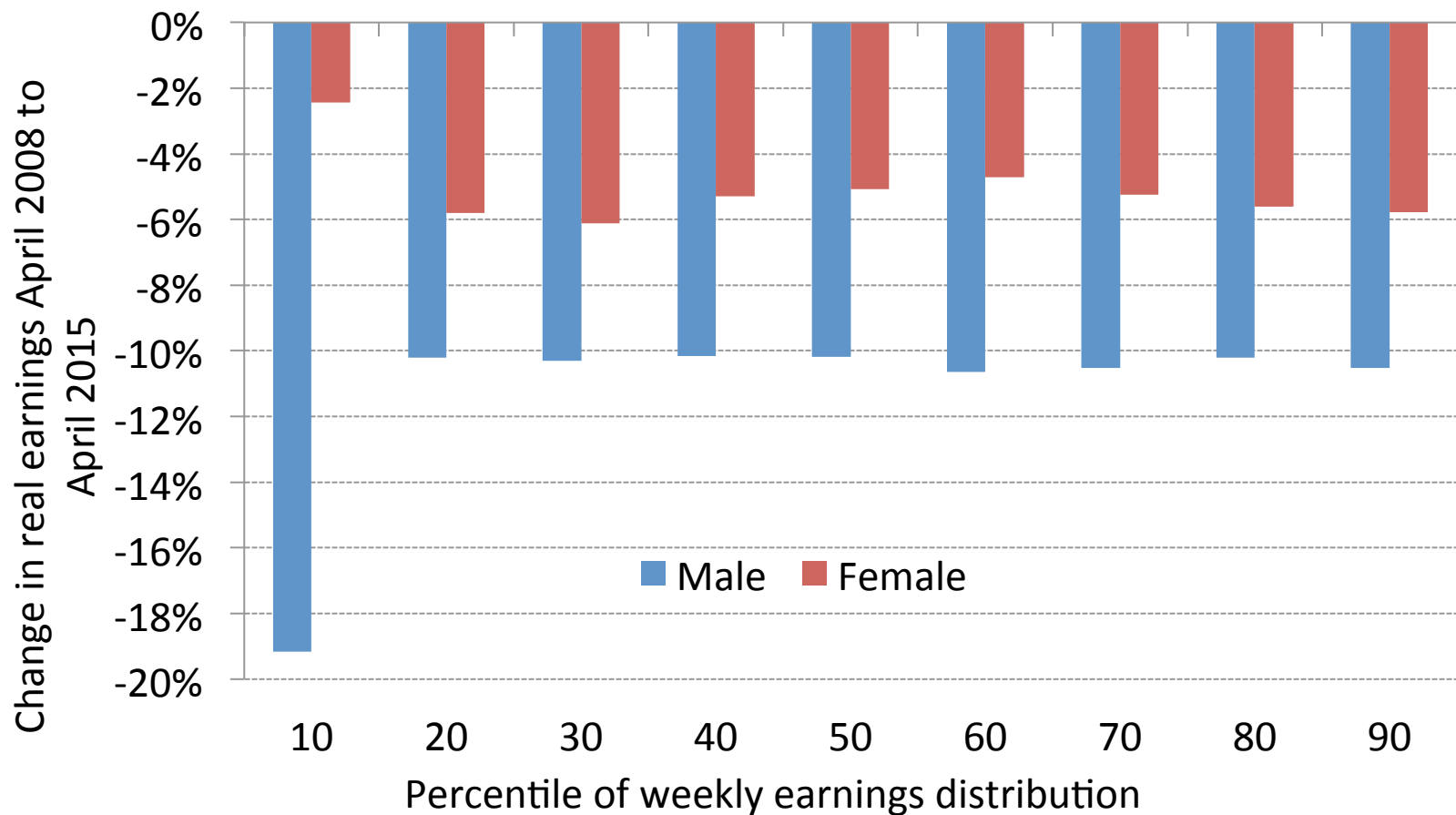


Human capital: Rapid increase in the % of workers who are highly educated, slightly higher for women



Source: IFS calculations using the Labour Force Survey. Only includes workers age 20 to 59. 2016 refers to 2016 Q1 and Q2

Very different earnings trends Men and Women



Notes: Earnings deflated using the CPI.

Source: IFS calculations using Annual Survey of Hours and Earnings

In contrast to previous recessions, *real output per hour* remained largely stagnant since 2008

