

# Labour Markets and Inclusive Growth

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Growth Commission Reprise

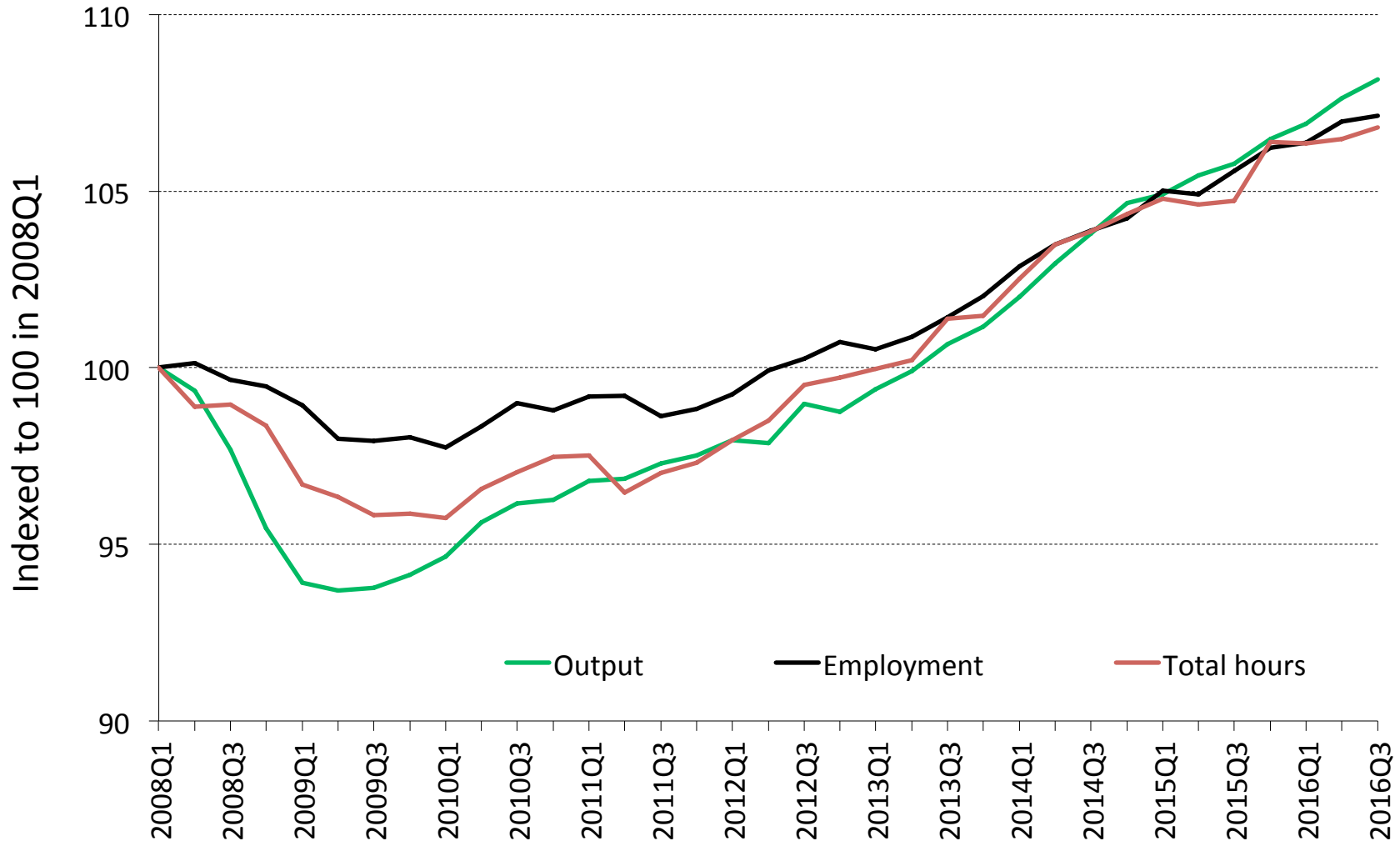
17<sup>th</sup> November 2016, LSE

**Richard Blundell**

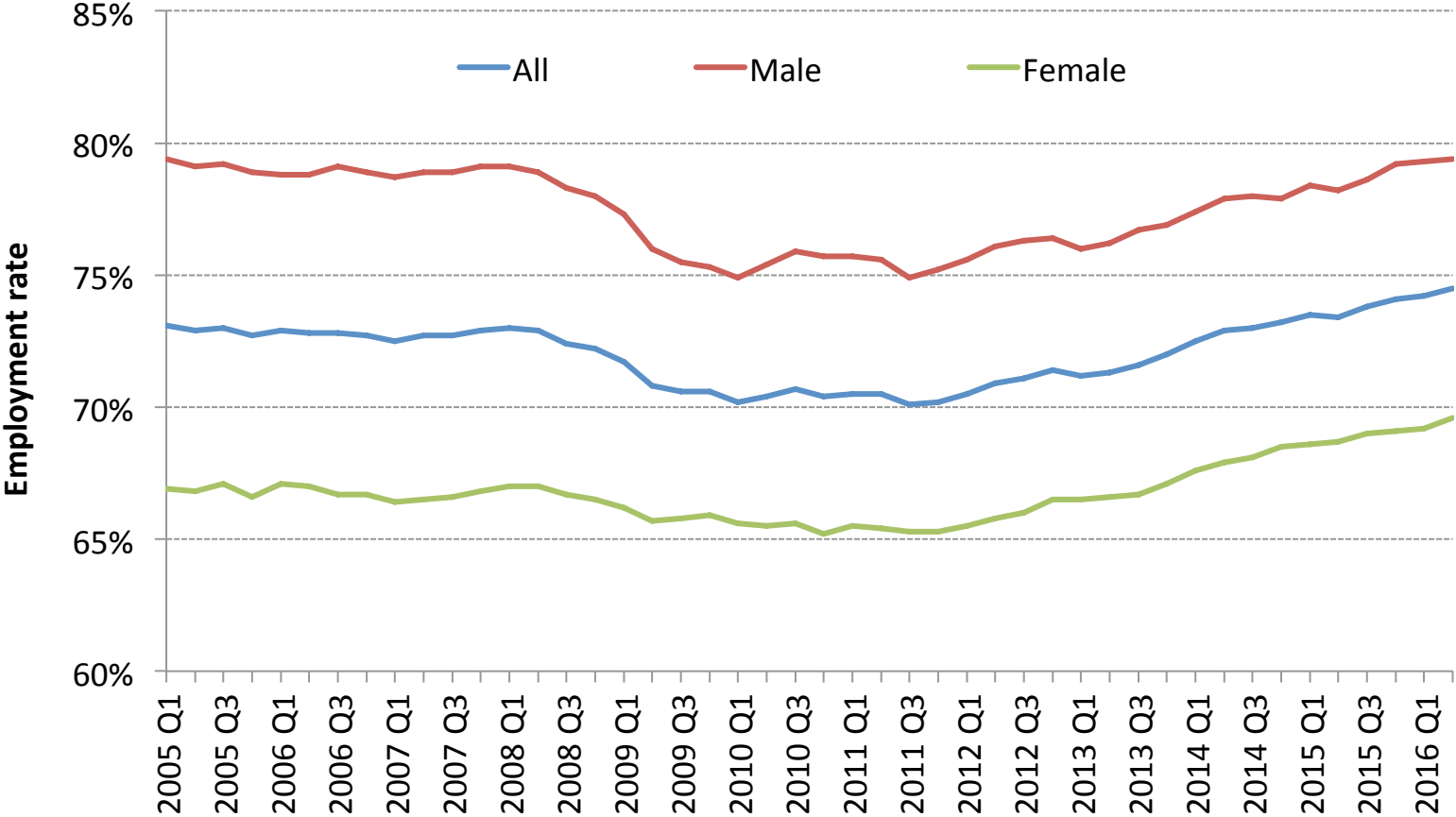
*Institute for Fiscal Studies and University College London*

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

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

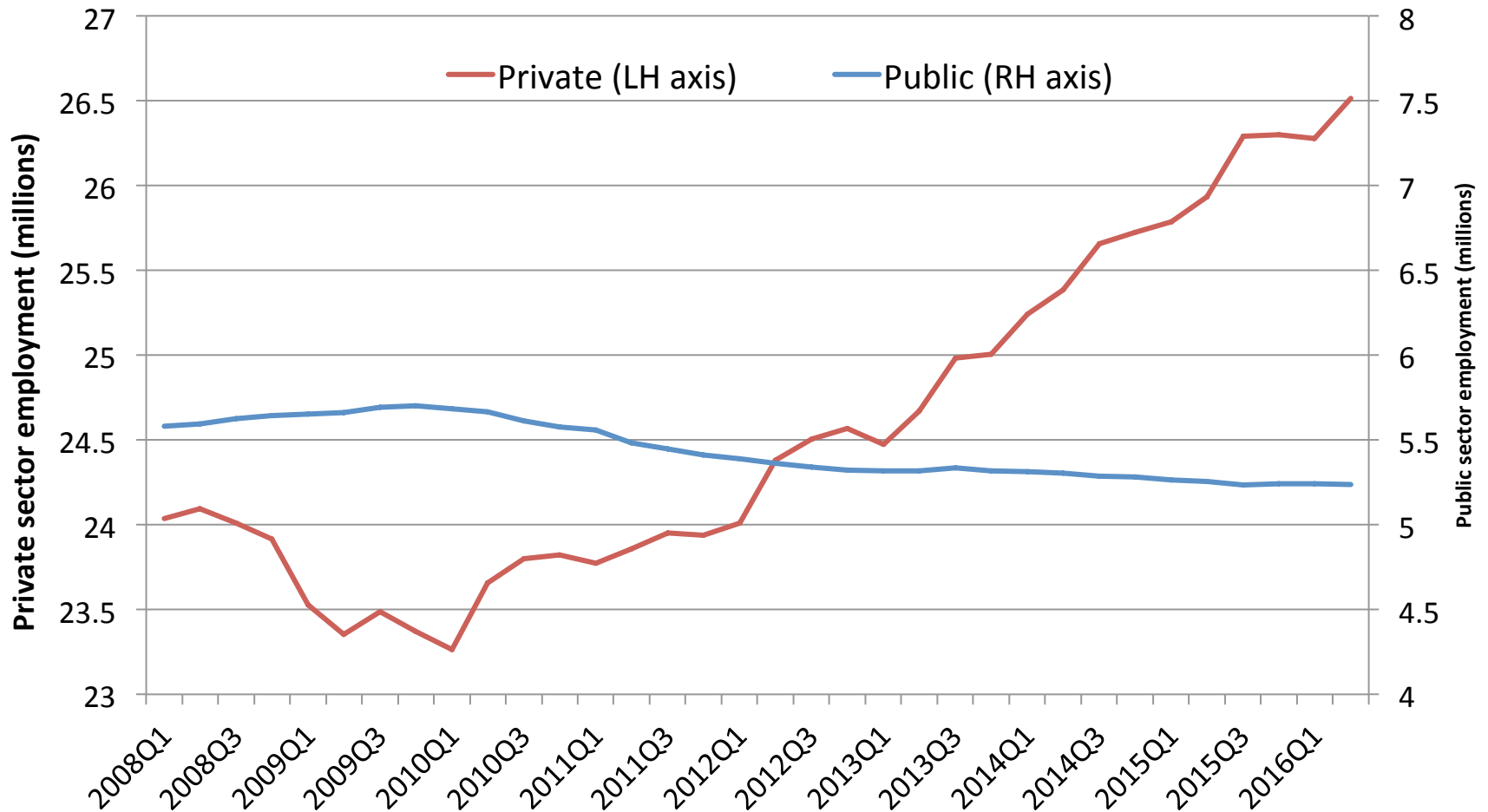


# Employment rates have rebounded (16 to 64 year olds)

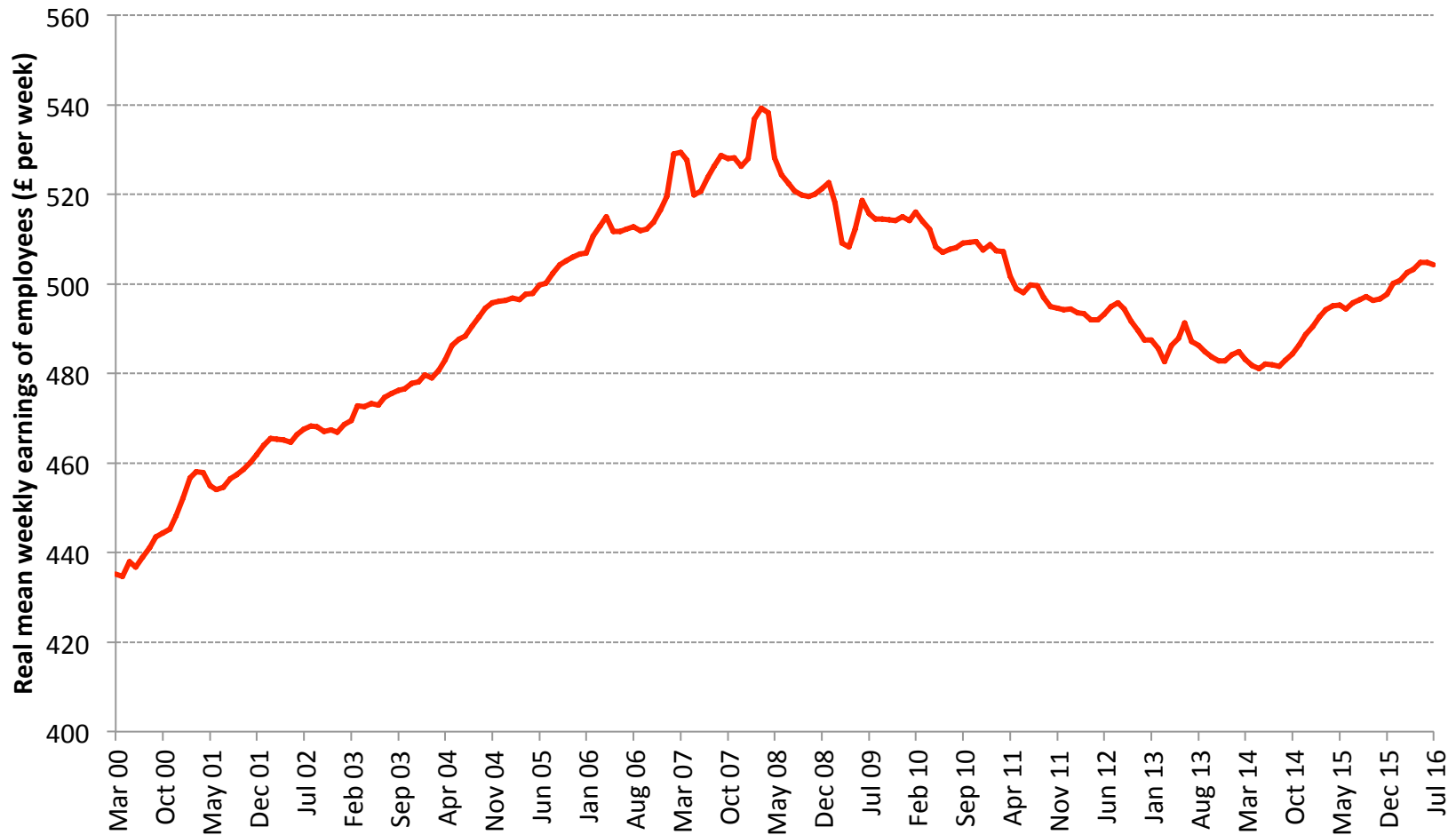


Source: Office for National Statistics (Labour Force Survey) series LF24, LF25 and MGSV.

# Particularly strong growth in private sector



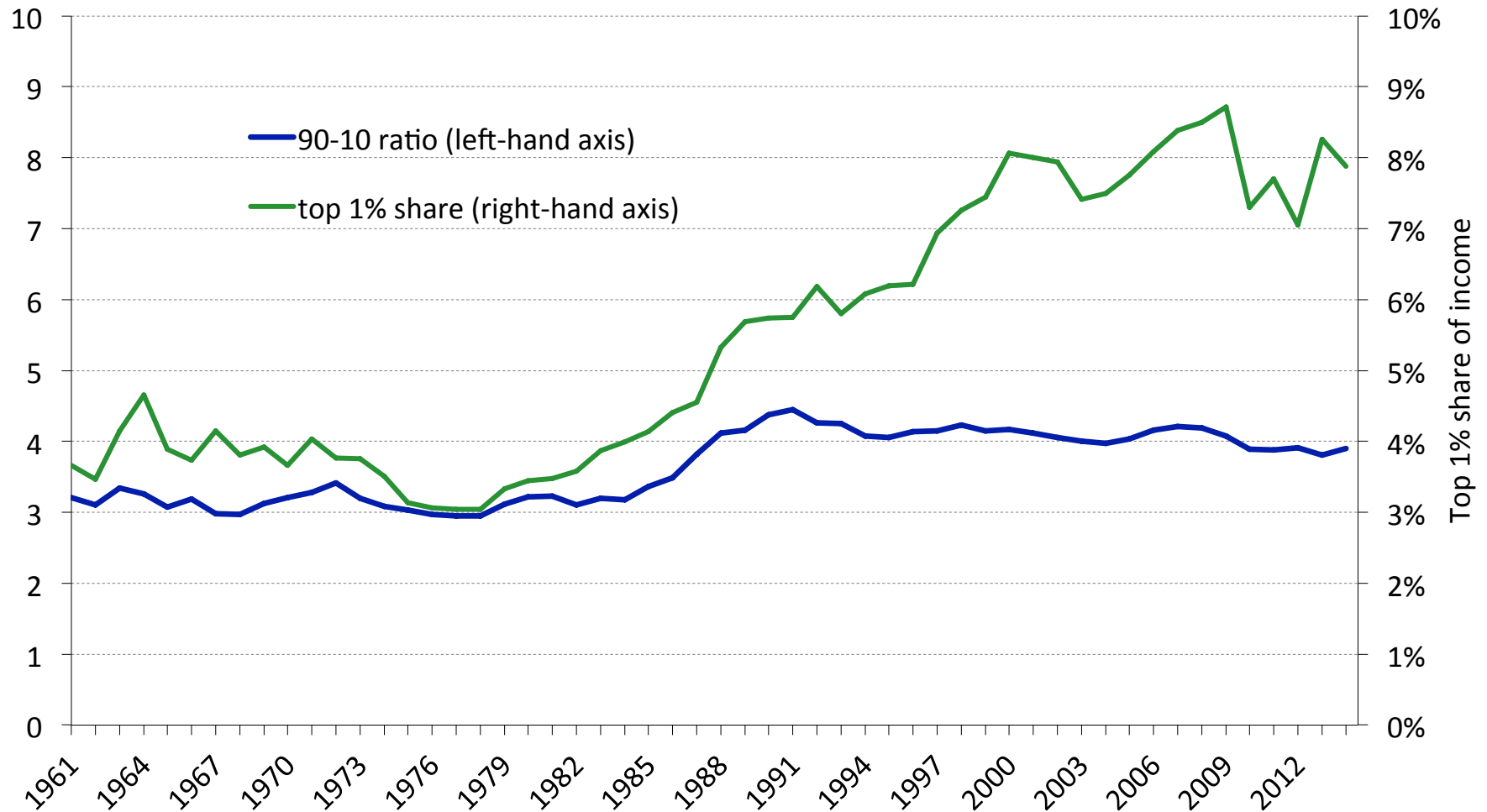
# Large falls in labour market earnings, followed by a partial recovery since mid 2014



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.

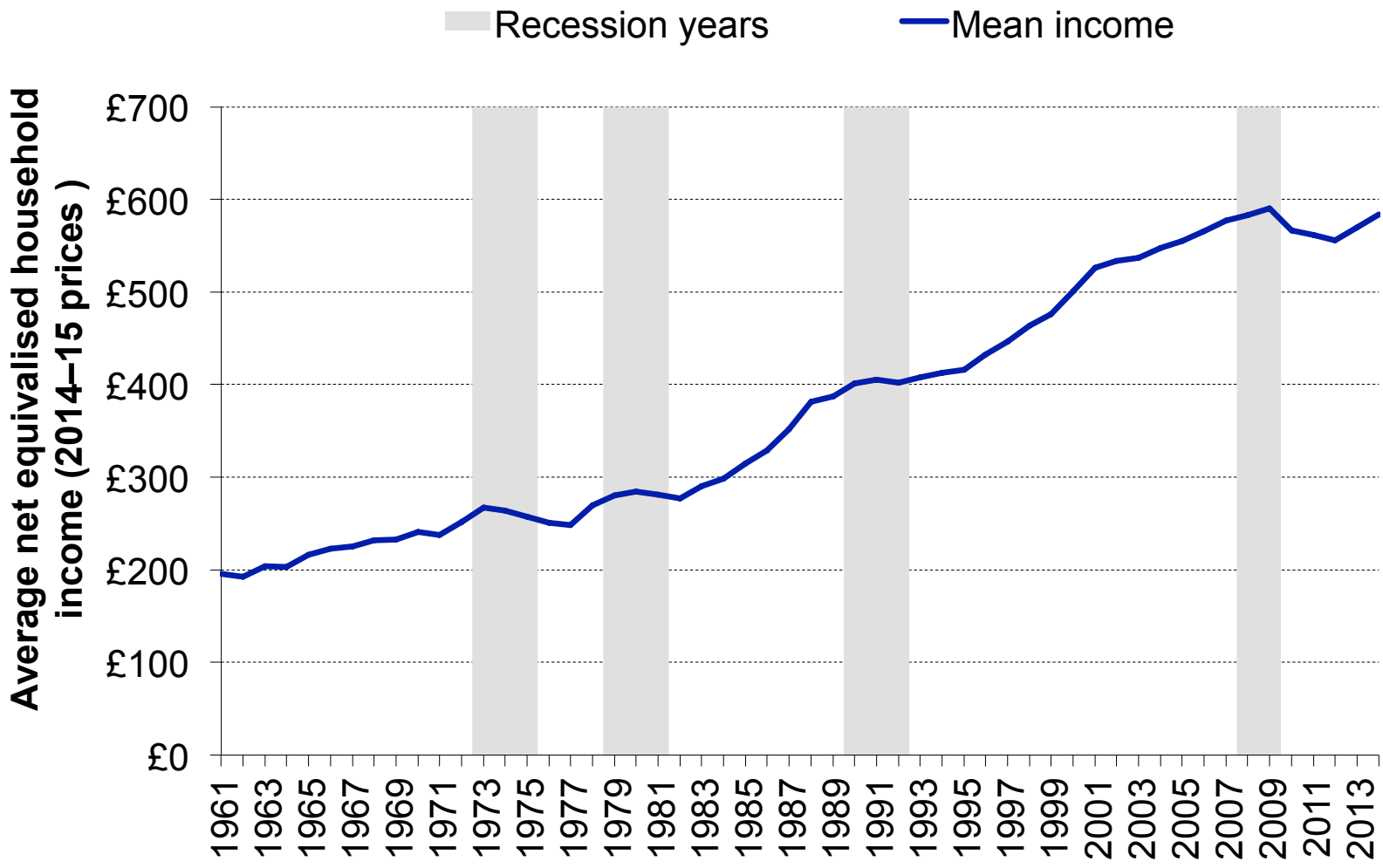
Source: IFS calculations using ONS Average Weekly Earnings series KAB9

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

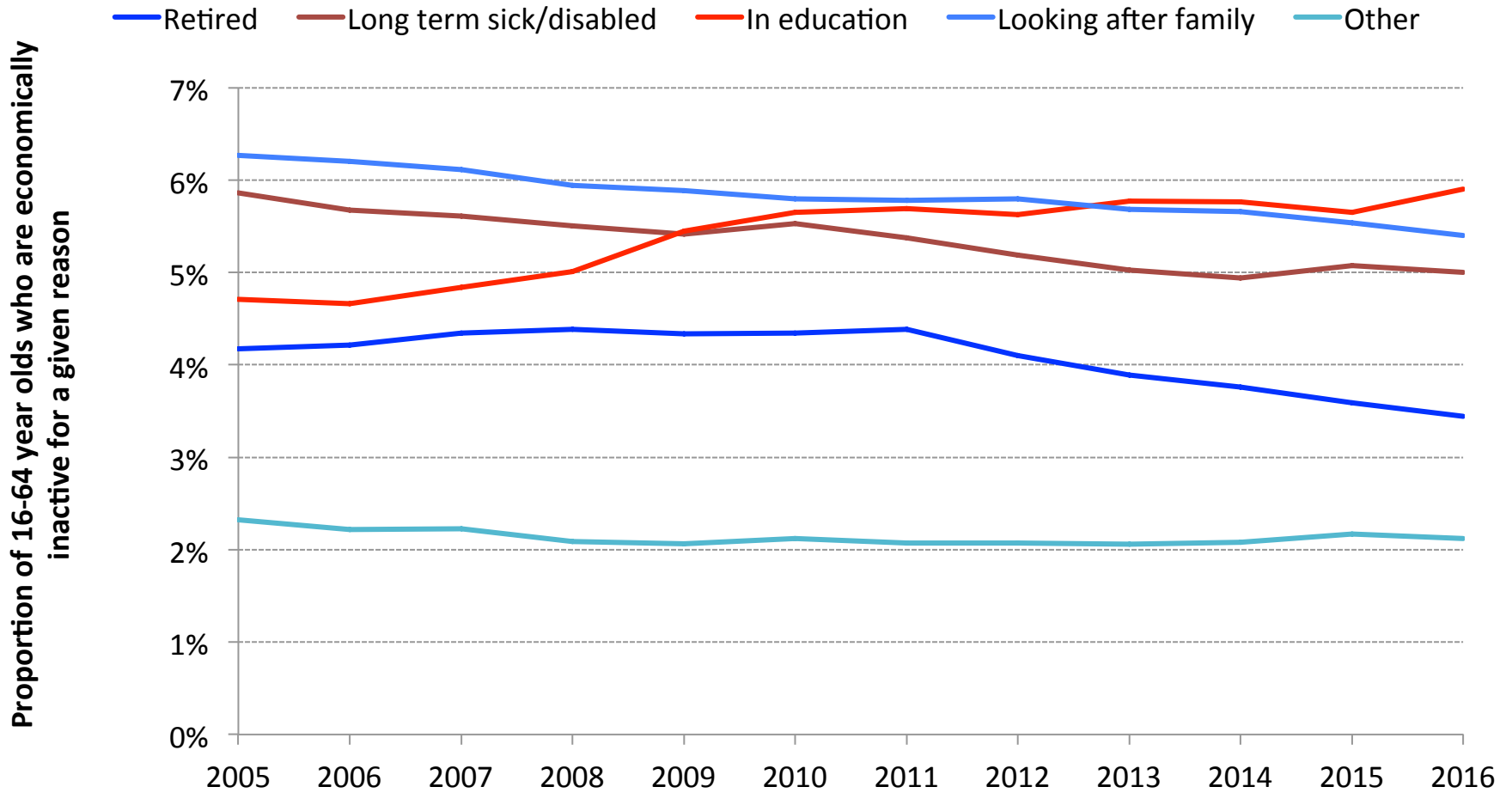


=> 1995 – 2007 was a relatively inclusive growth period in terms of the 90:10 family income (less in terms of male earnings or the top 1%!)  
Mean real household income since 1961...

Mean real household income since 1961...



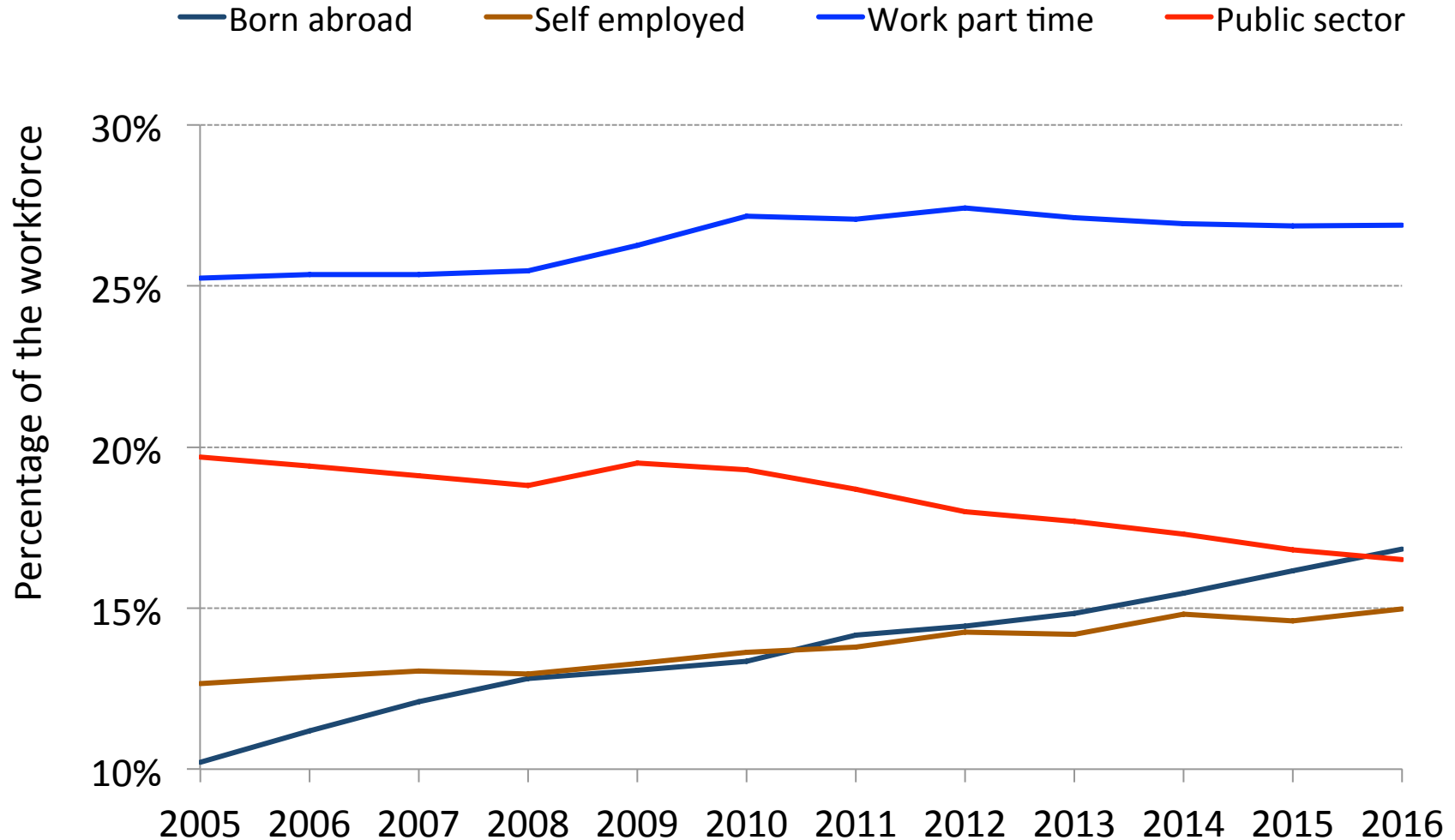
# Reductions in all forms of 'inactivity' other than being in education



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

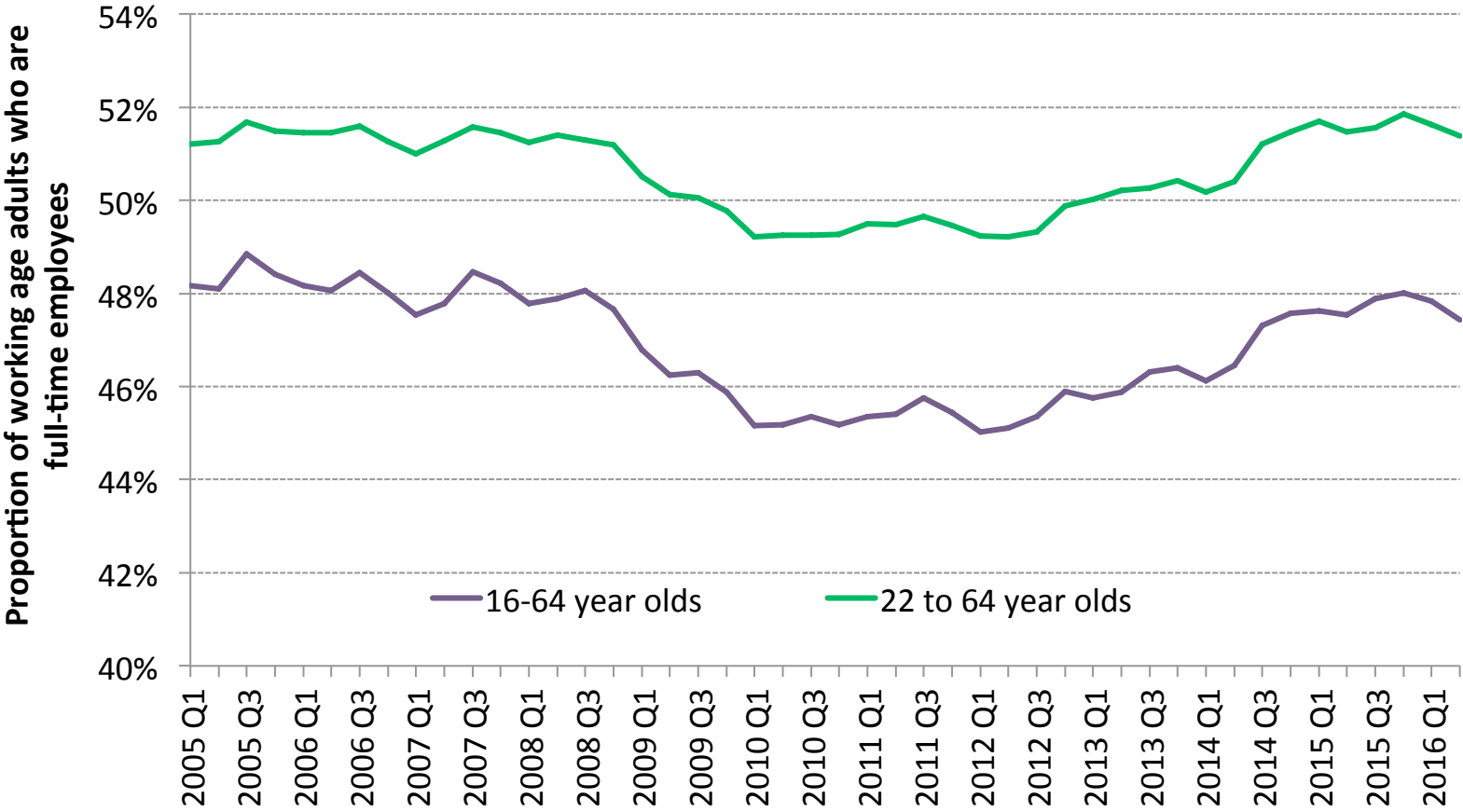


# Big changes in other characteristics



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

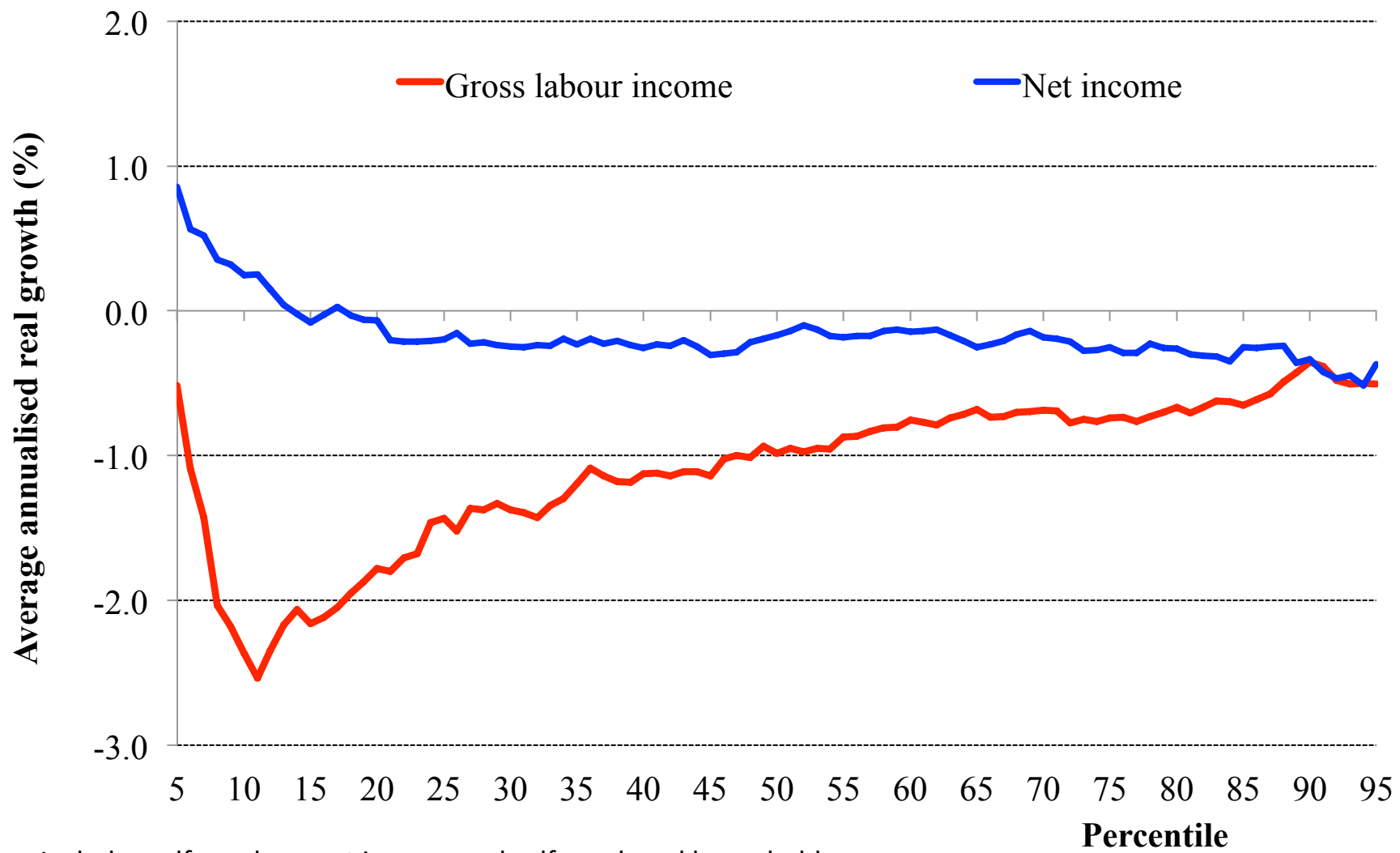
# But same proportion in full time employment as in 2005



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:

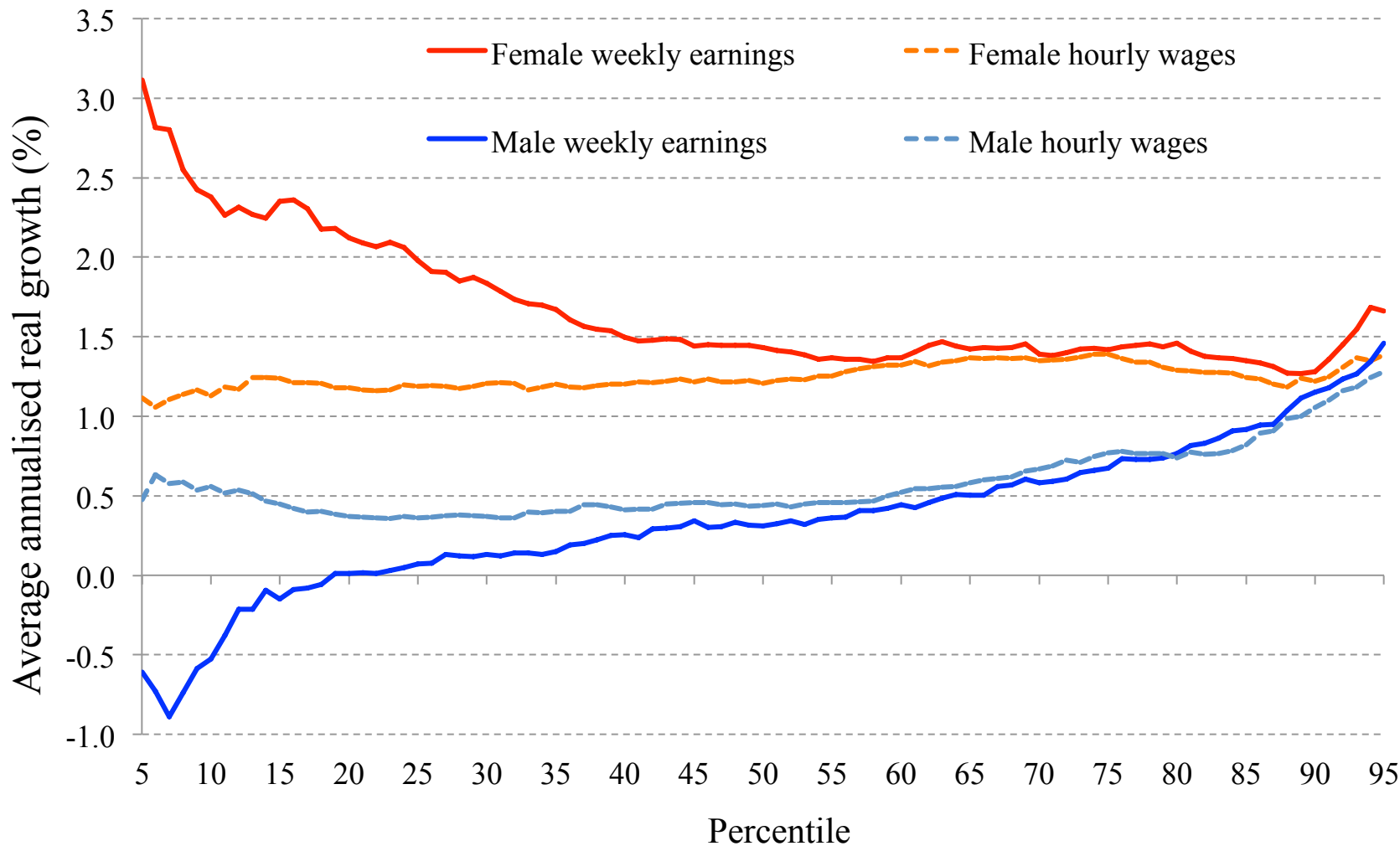
*Household income growth for working households 07/08 to 14/15*



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

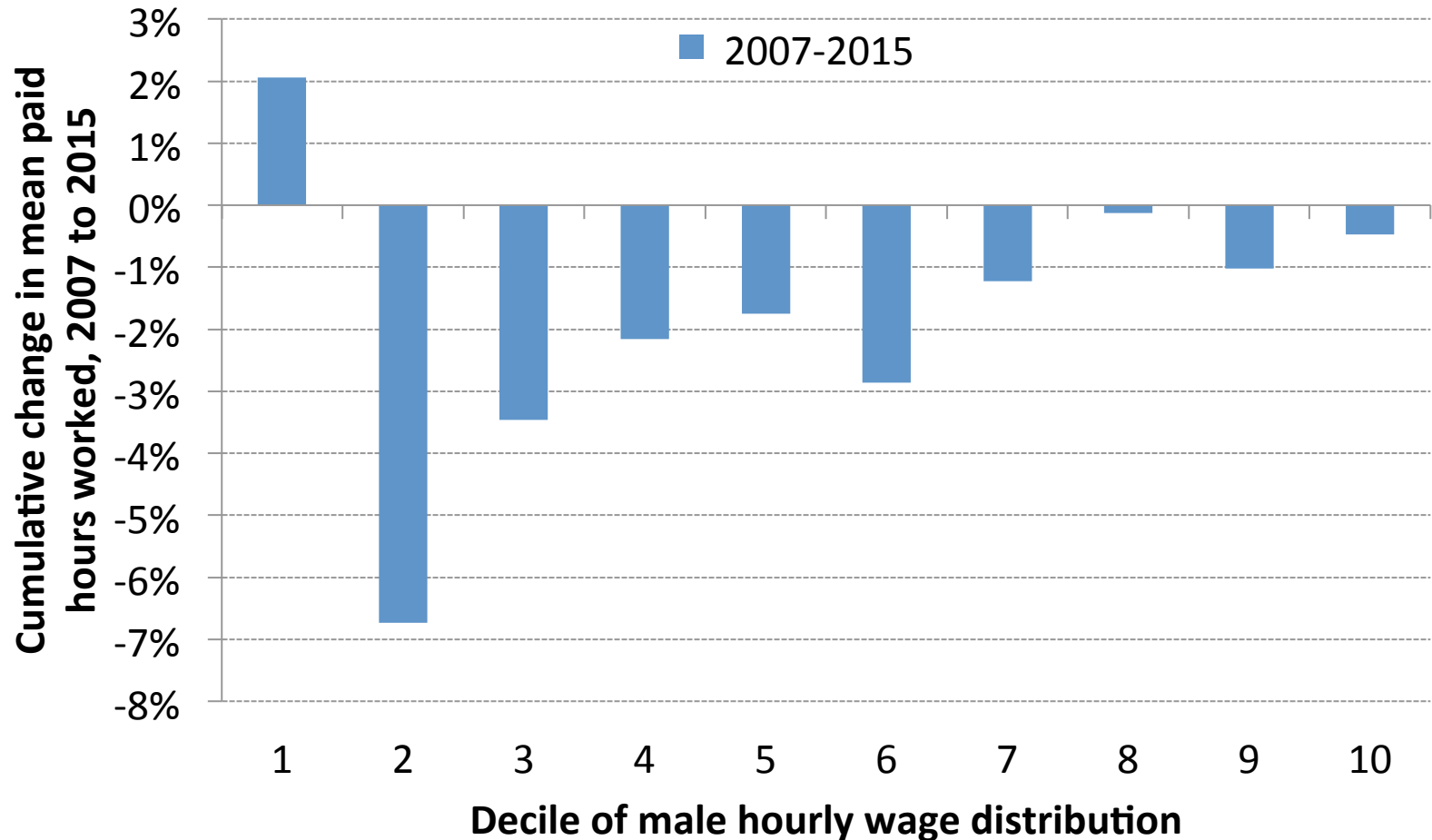
## Weekly earnings and hourly wage growth, men and women, 1994–95 to 2014–15



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

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

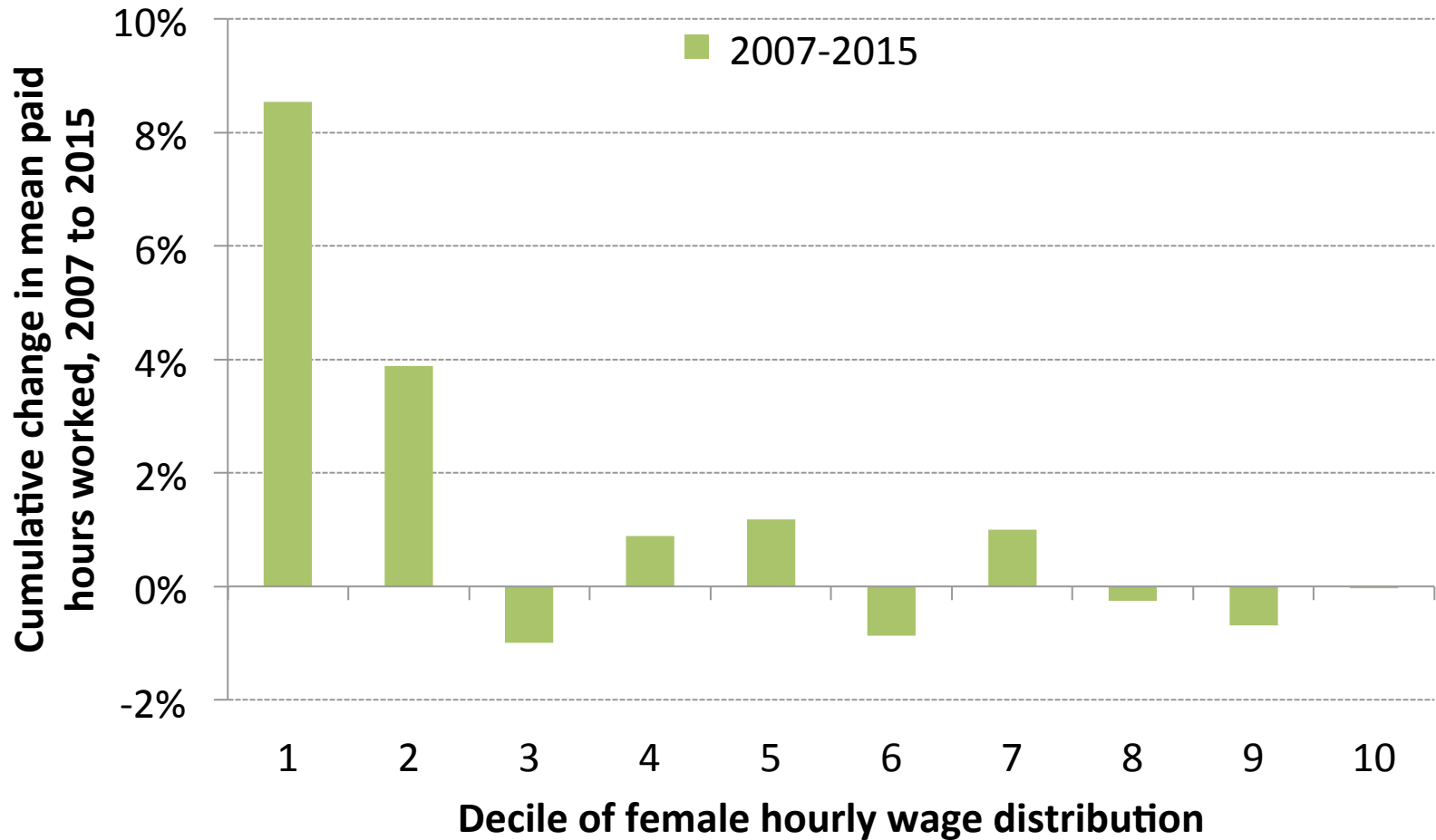
# Partly explained by fall in hours worked for lower wage men (a secular shift in the UK)



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

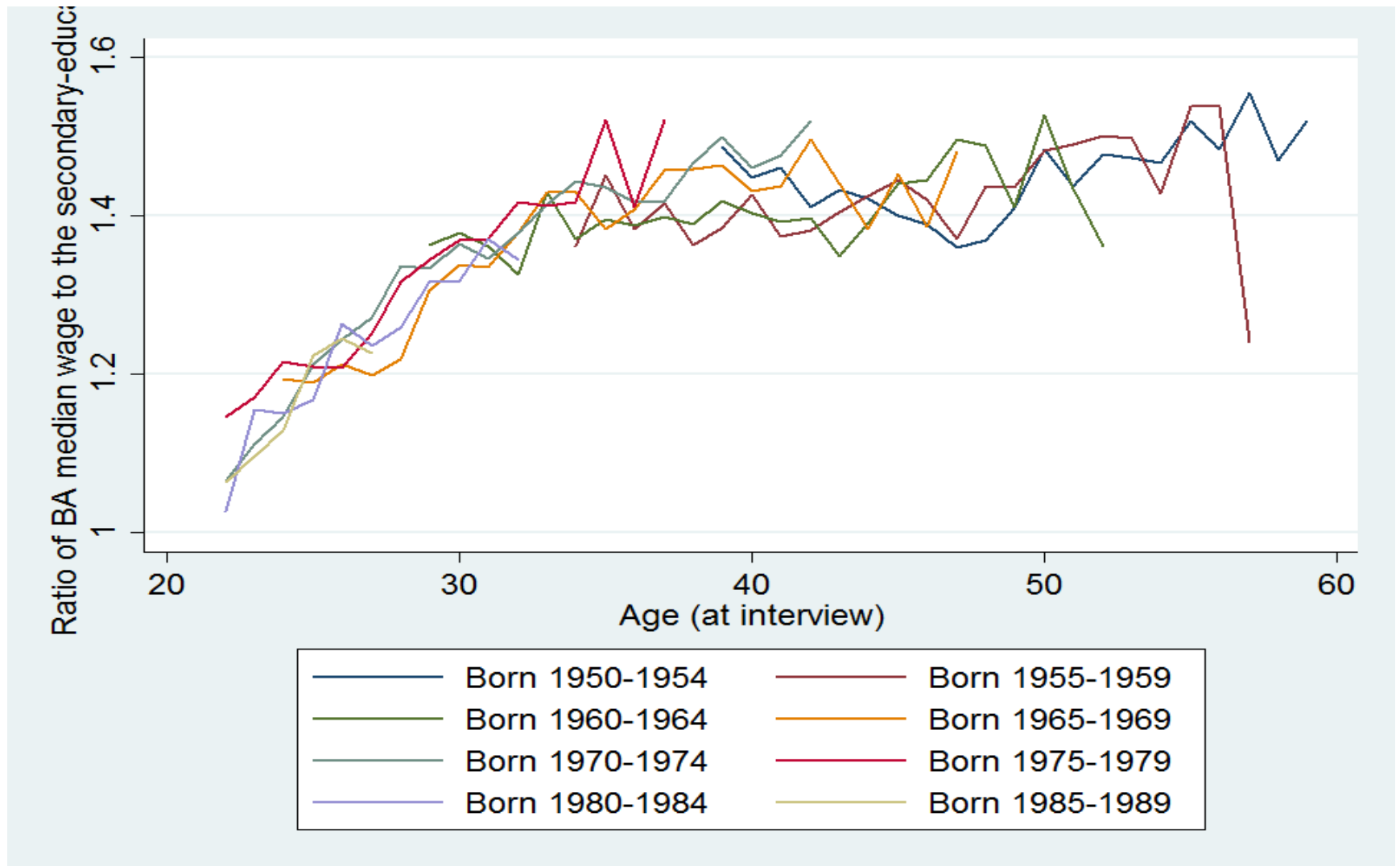
# Human capital trends show a rapid increase in the % of workers who are highly educated.

## 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

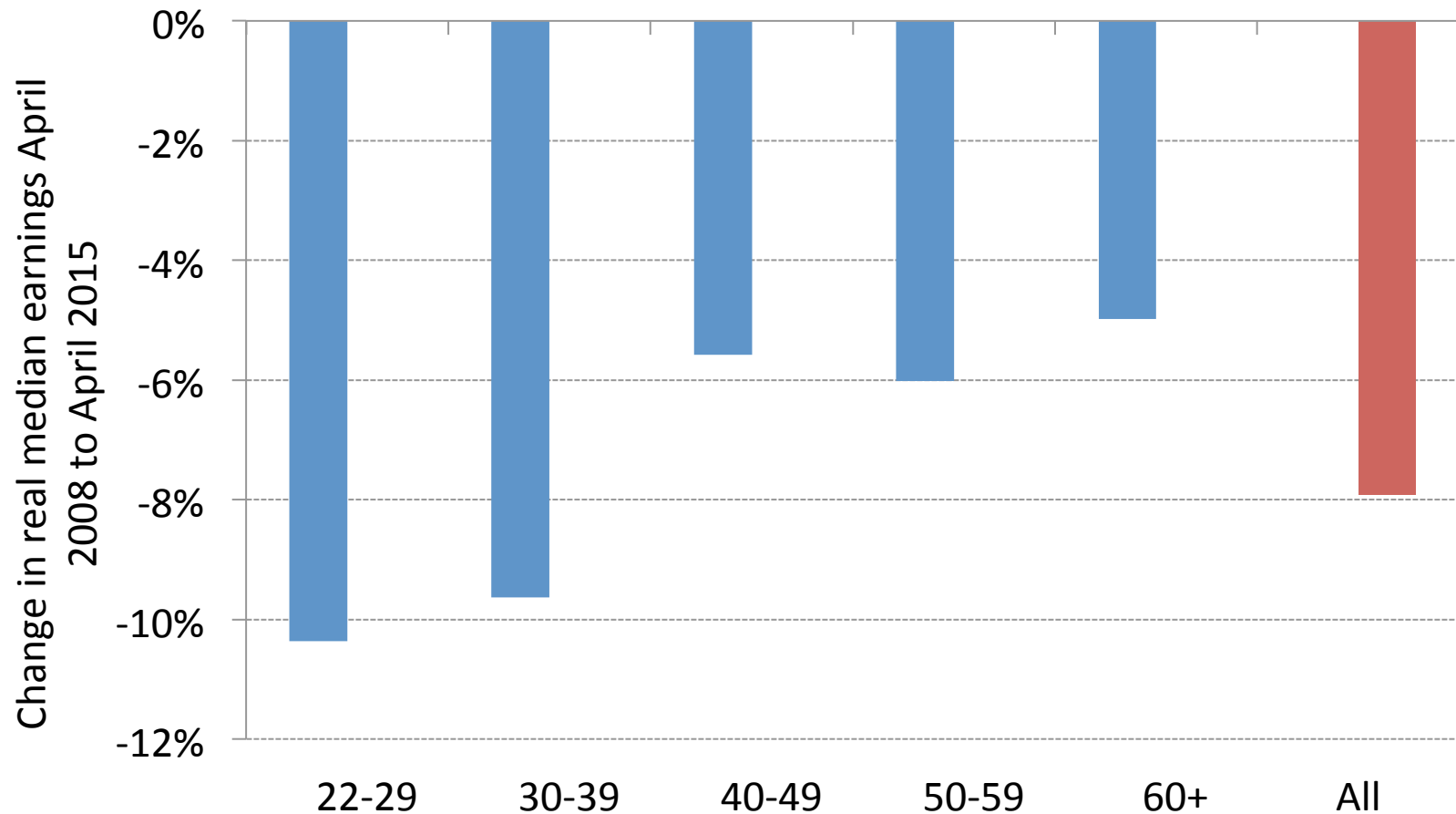


Source: Blundell, Green and Jin (2016)



# Age and Generation:

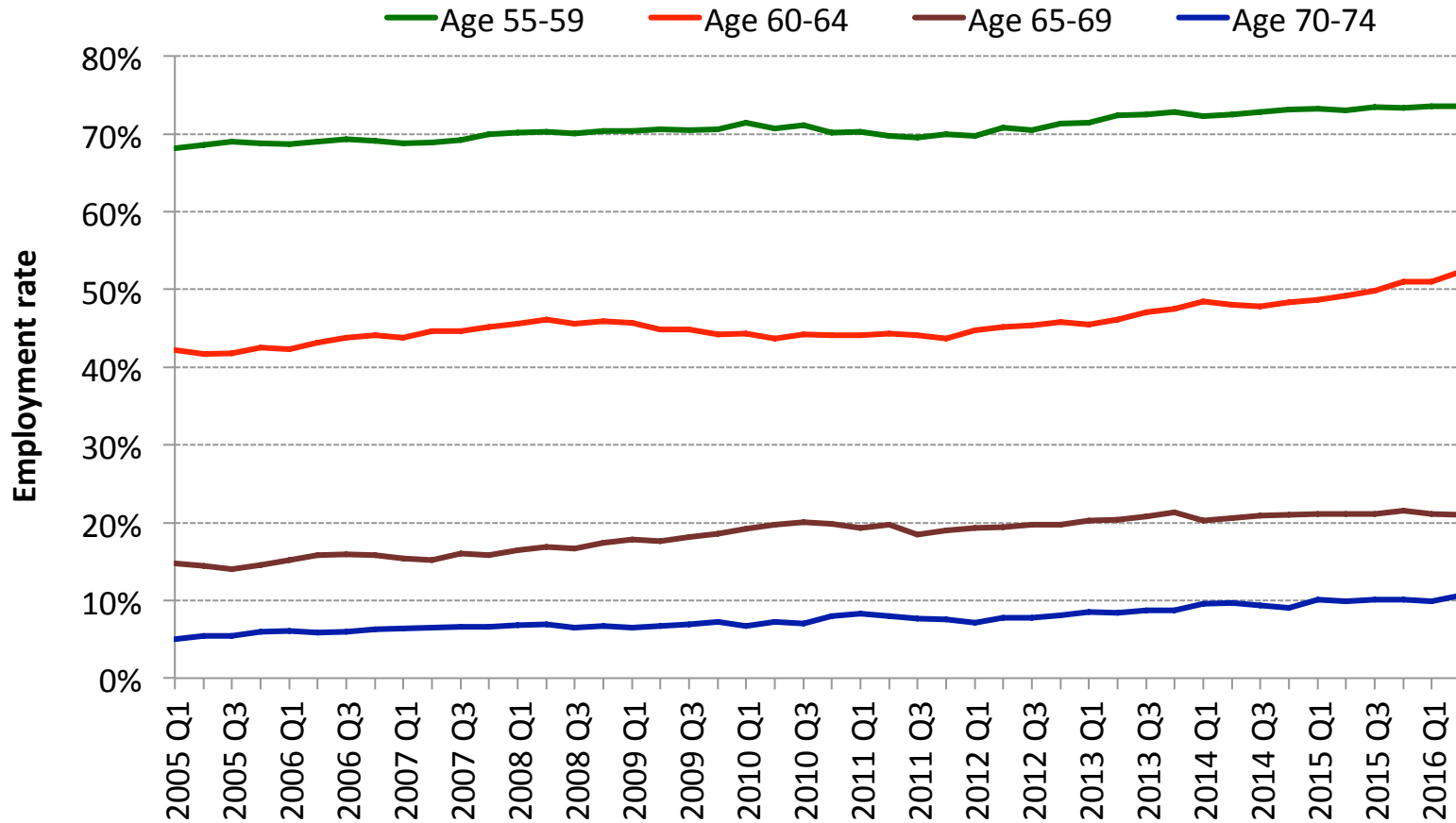
## Bigger falls in earnings for younger employees



Notes: Earnings deflated using the CPI.

Source: IFS calculations using Annual Survey of Hours and Earnings

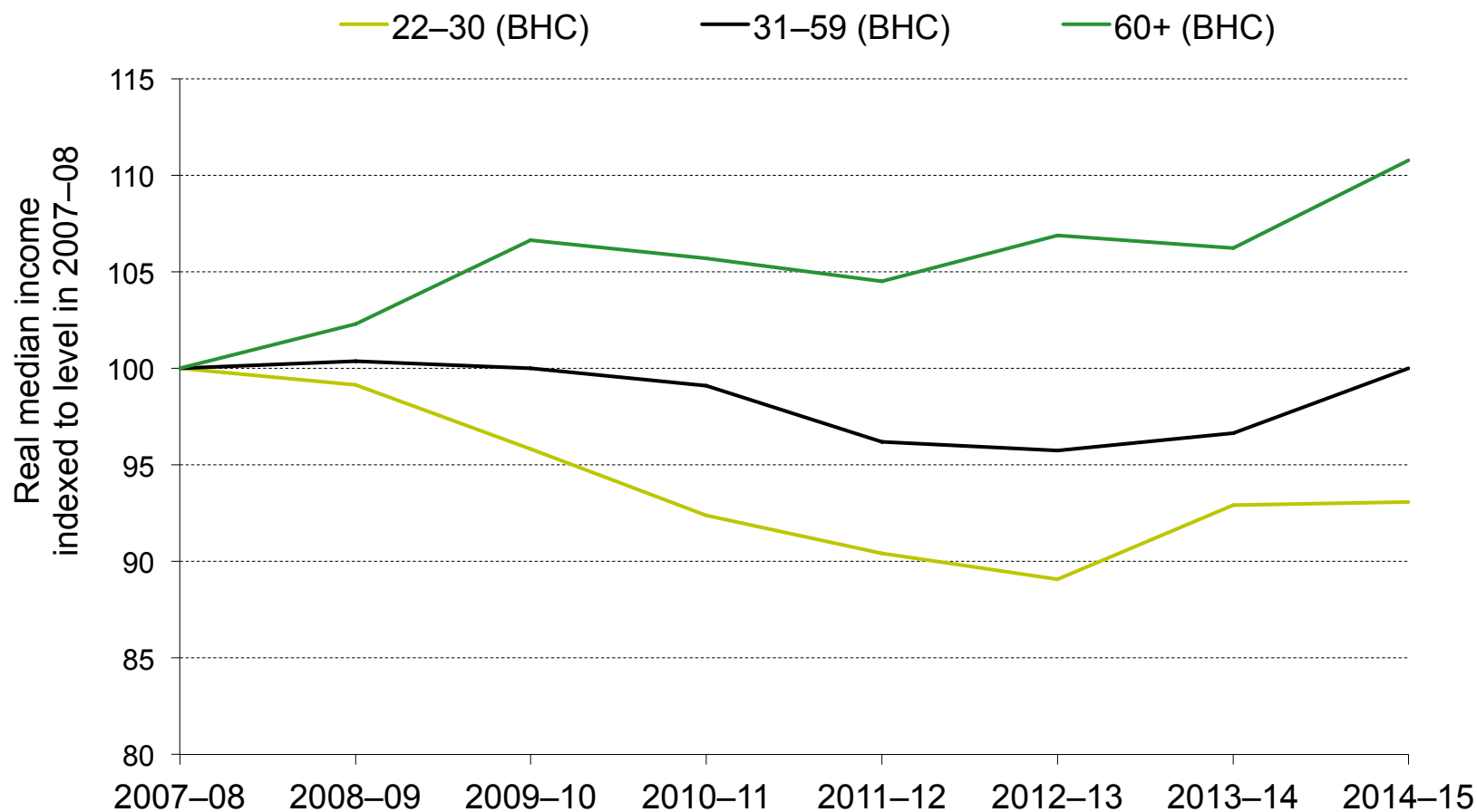
# Higher employment rates for older people



Source: IFS calculations using the Labour Force Survey.

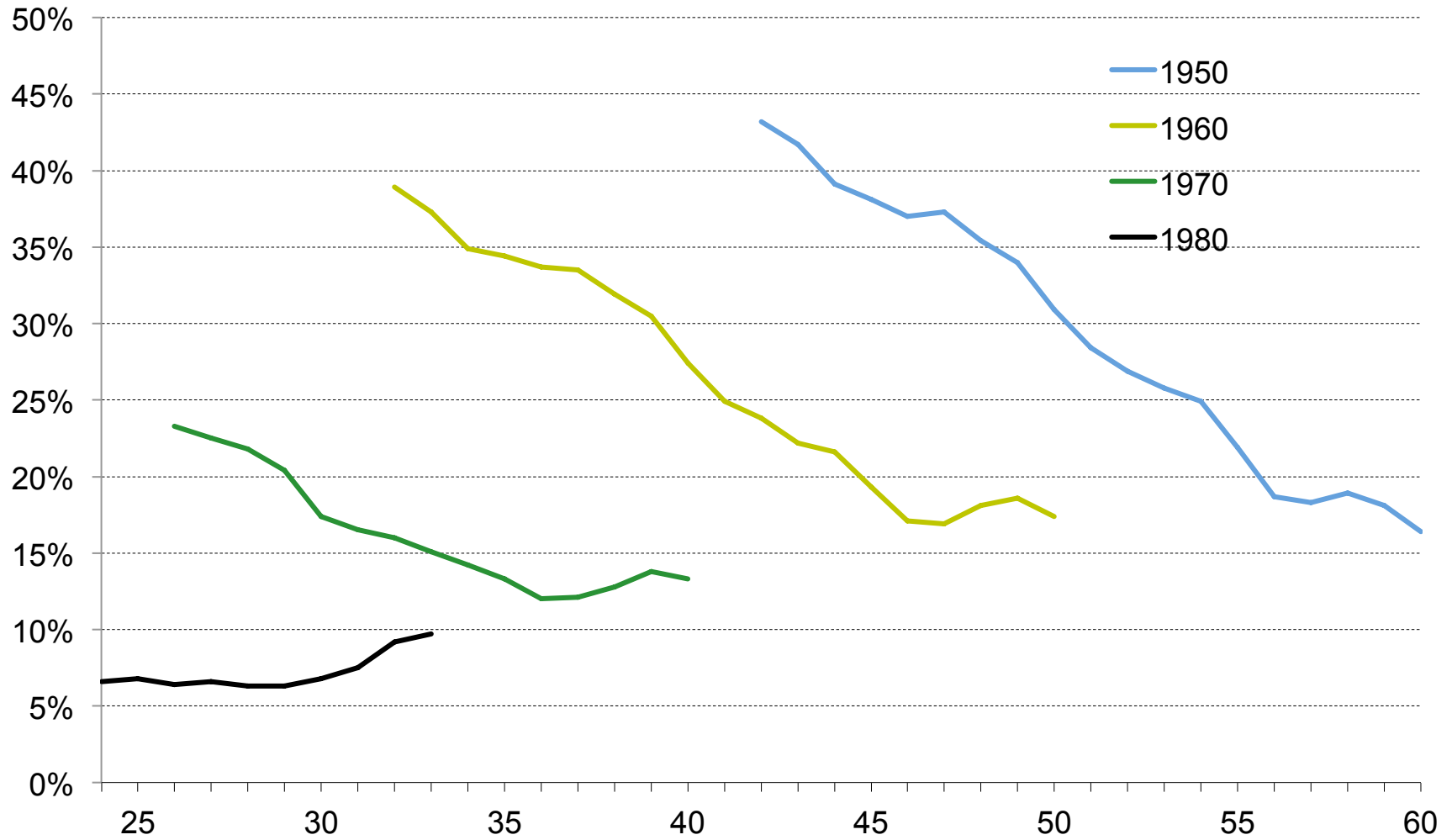
## Translates into real income changes:

### 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

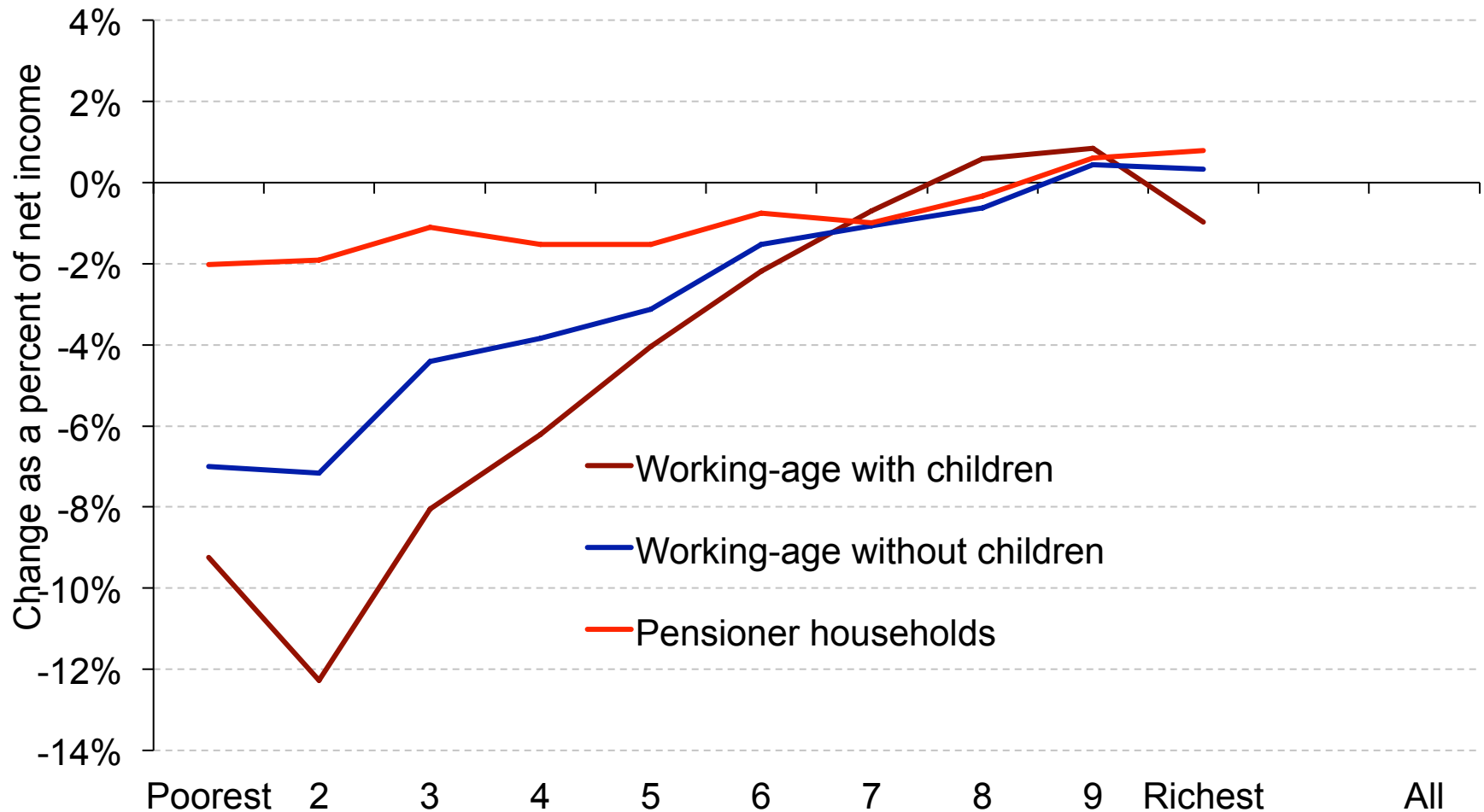


# Prospects and Policies

- 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.

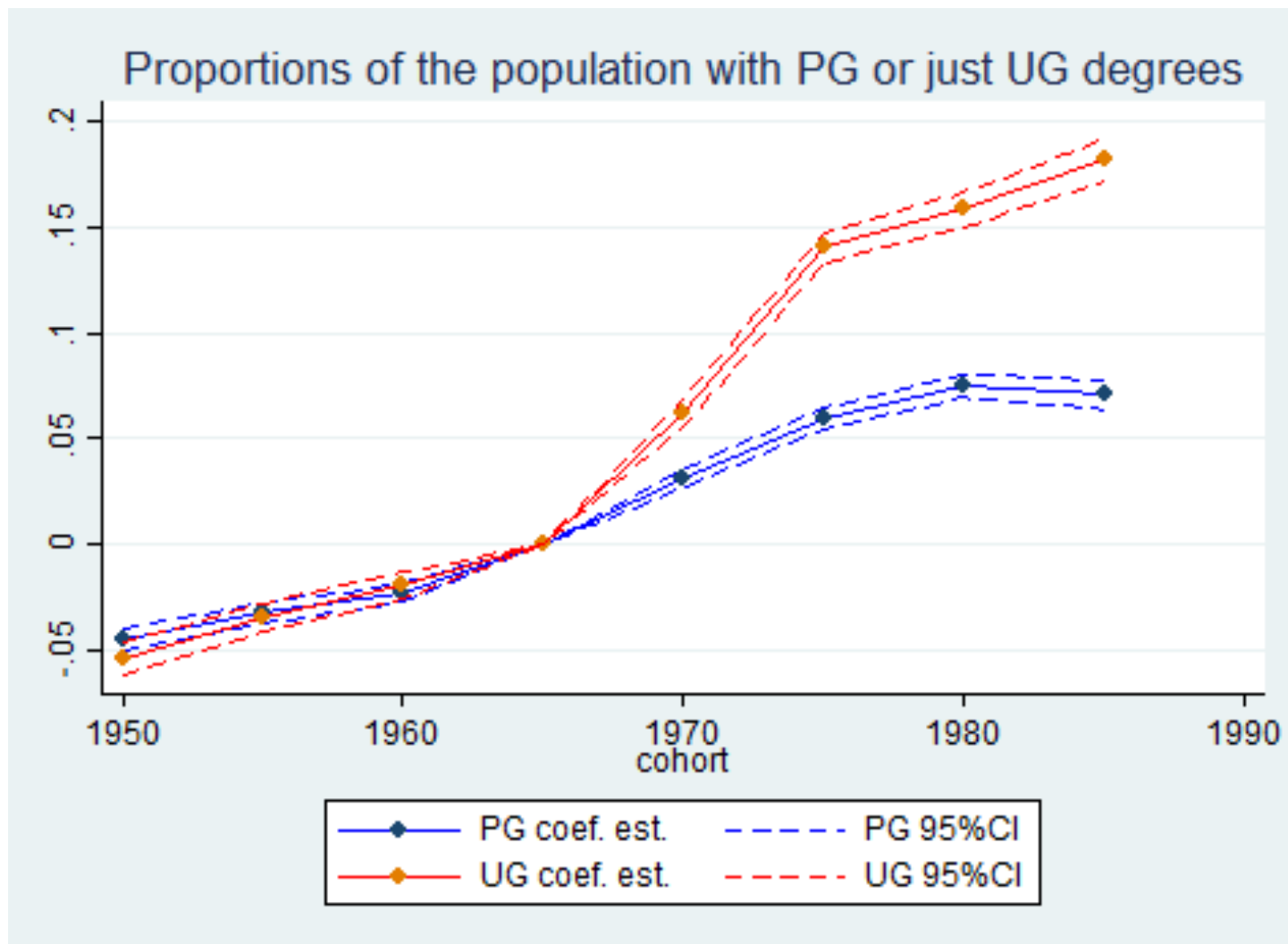
Then unpicking the parts of the picture. What is the role of:

- 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

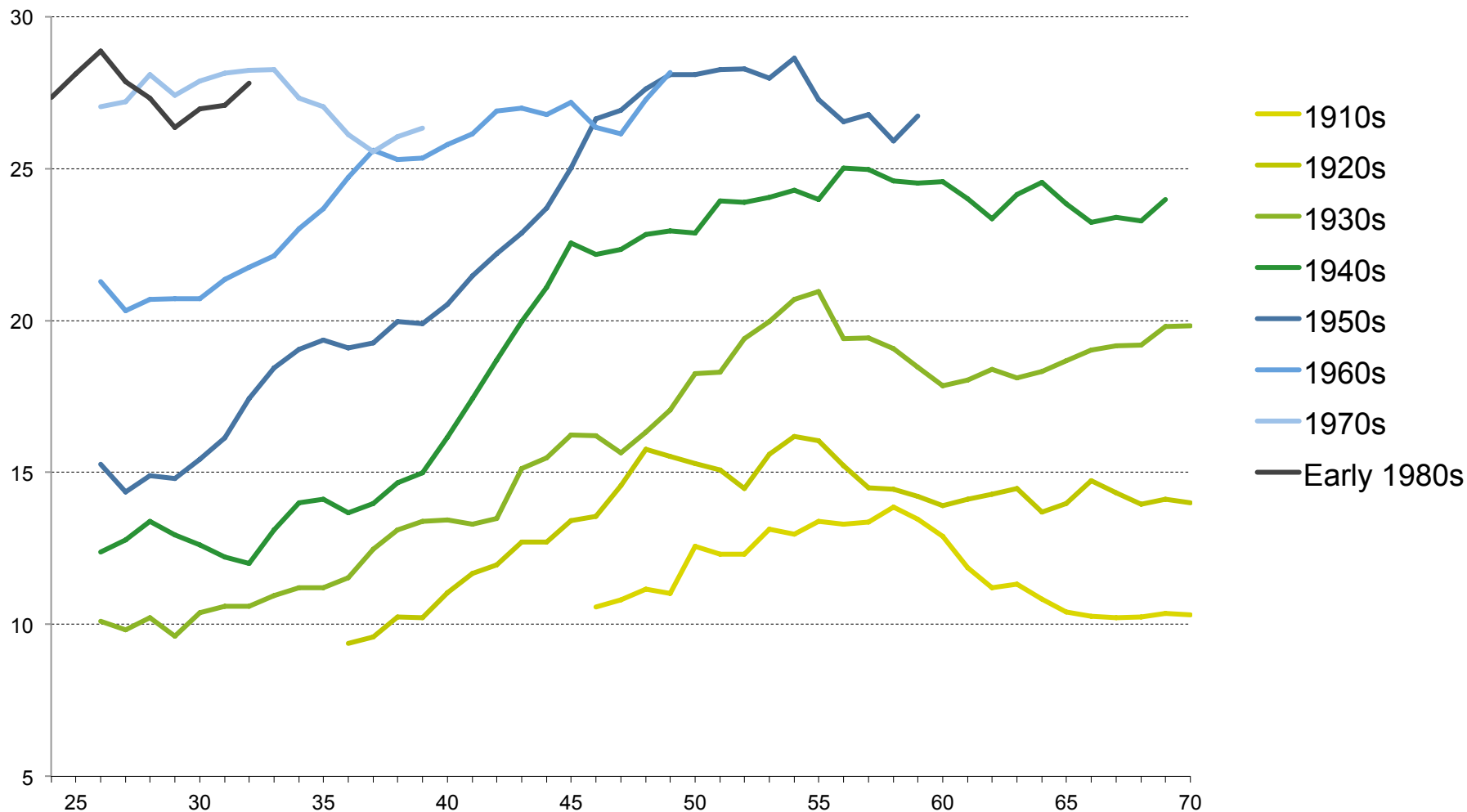


# Proportion in each birth cohort with post-graduate degrees



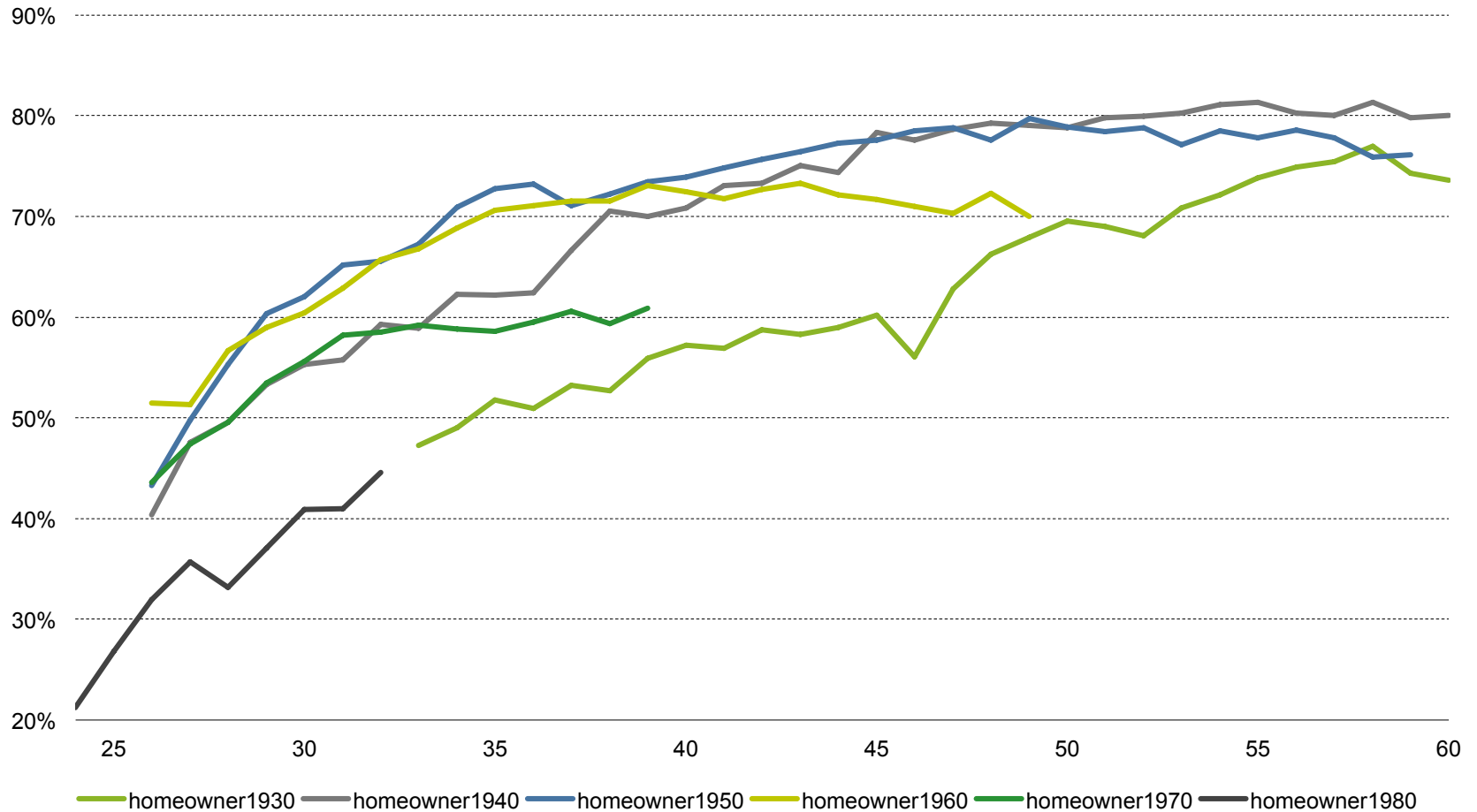
## And generational differences:

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



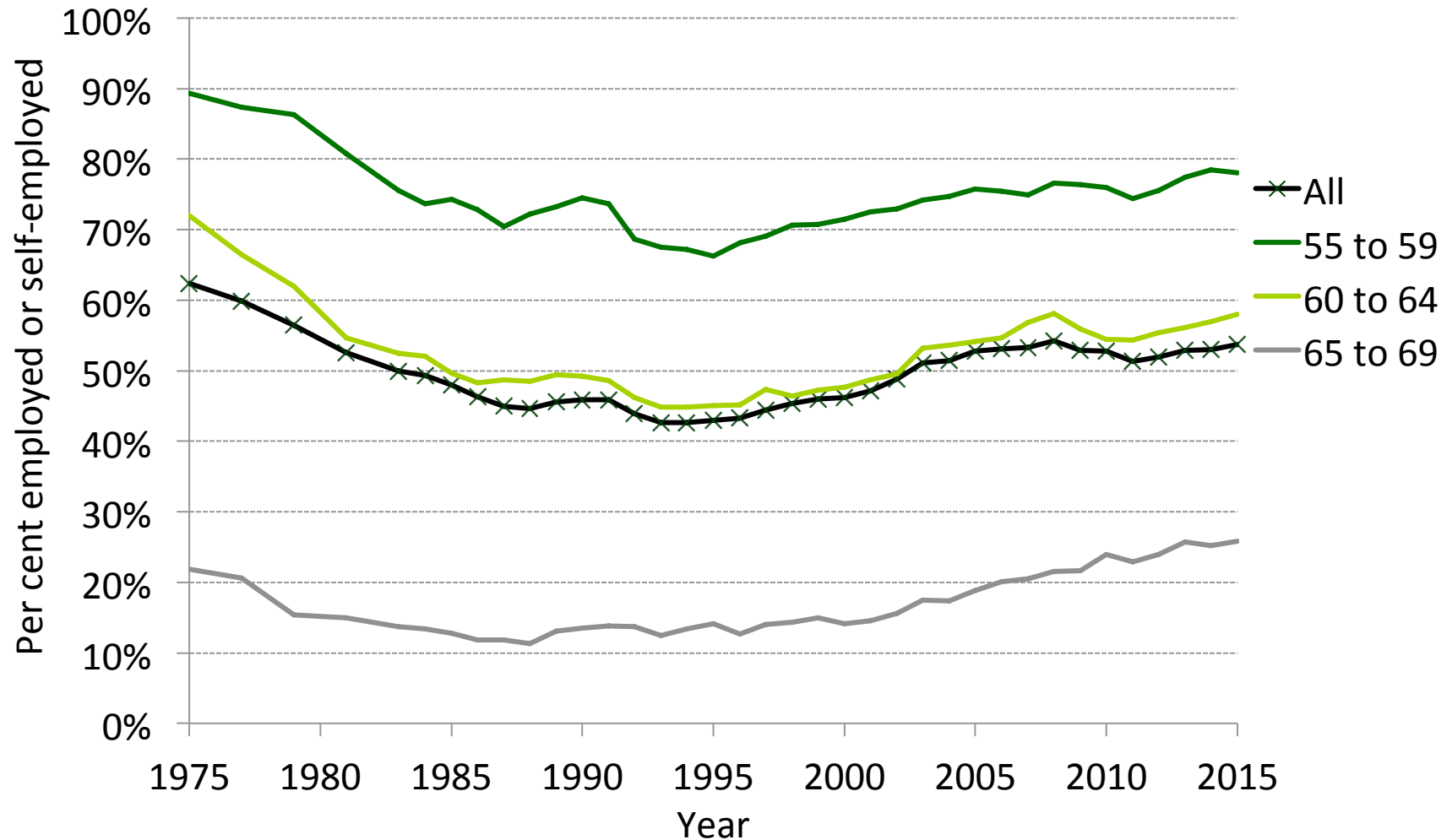
Source: Cribb, Hood and Joyce, 2016

# Homeownership by age, for people born in different decades

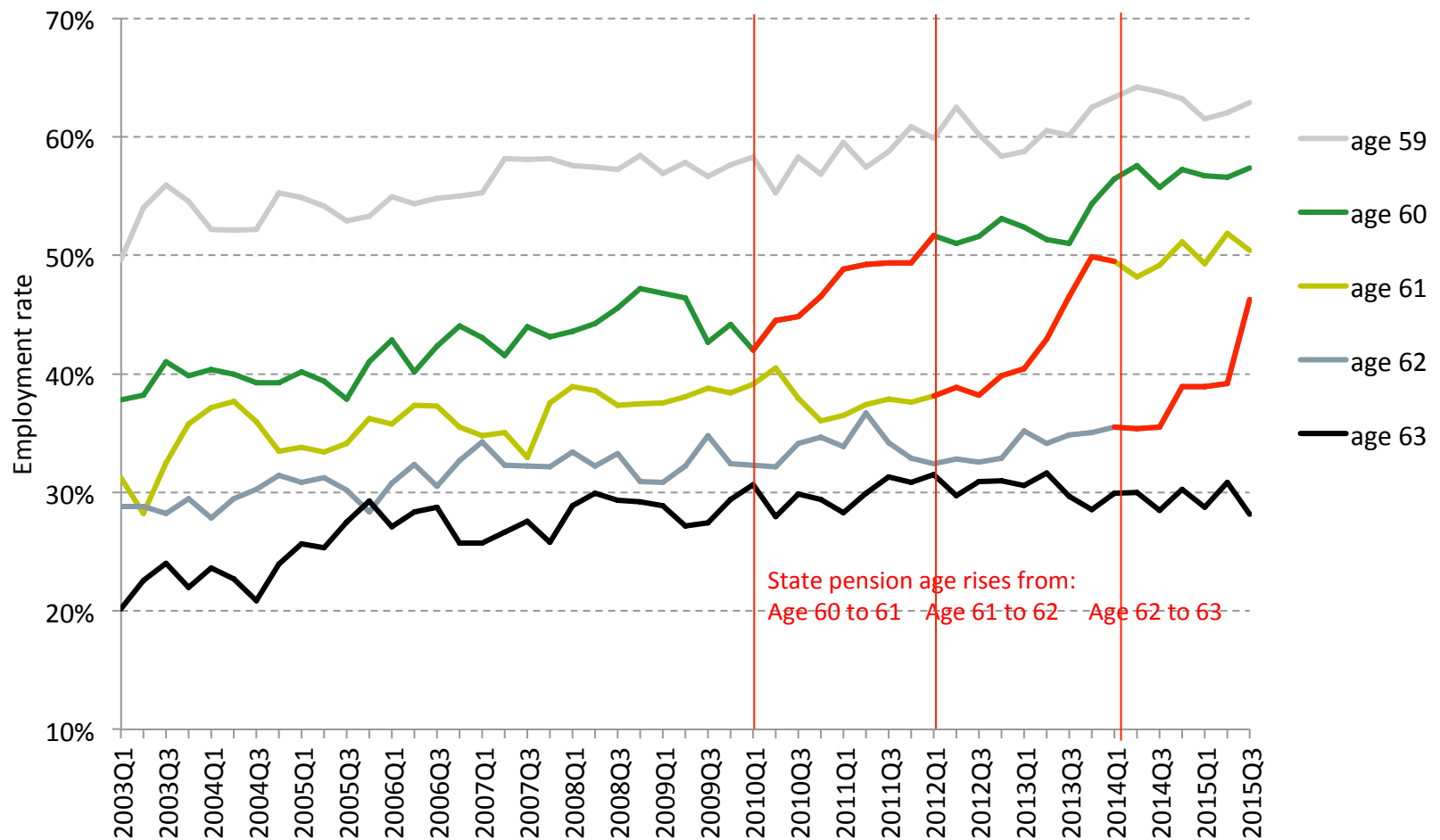


Source: Cribb, Hood and Joyce, 2016

# Employment rates of older men over time



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



Source: Labour Force Survey.

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

