

What should policy do about low earnings?

IFS/LSE/PSE Policy Panel

London, September 20th 2018

Richard Blundell

(based on joint work with Agnes Norris Keiller and Rob Joyce)

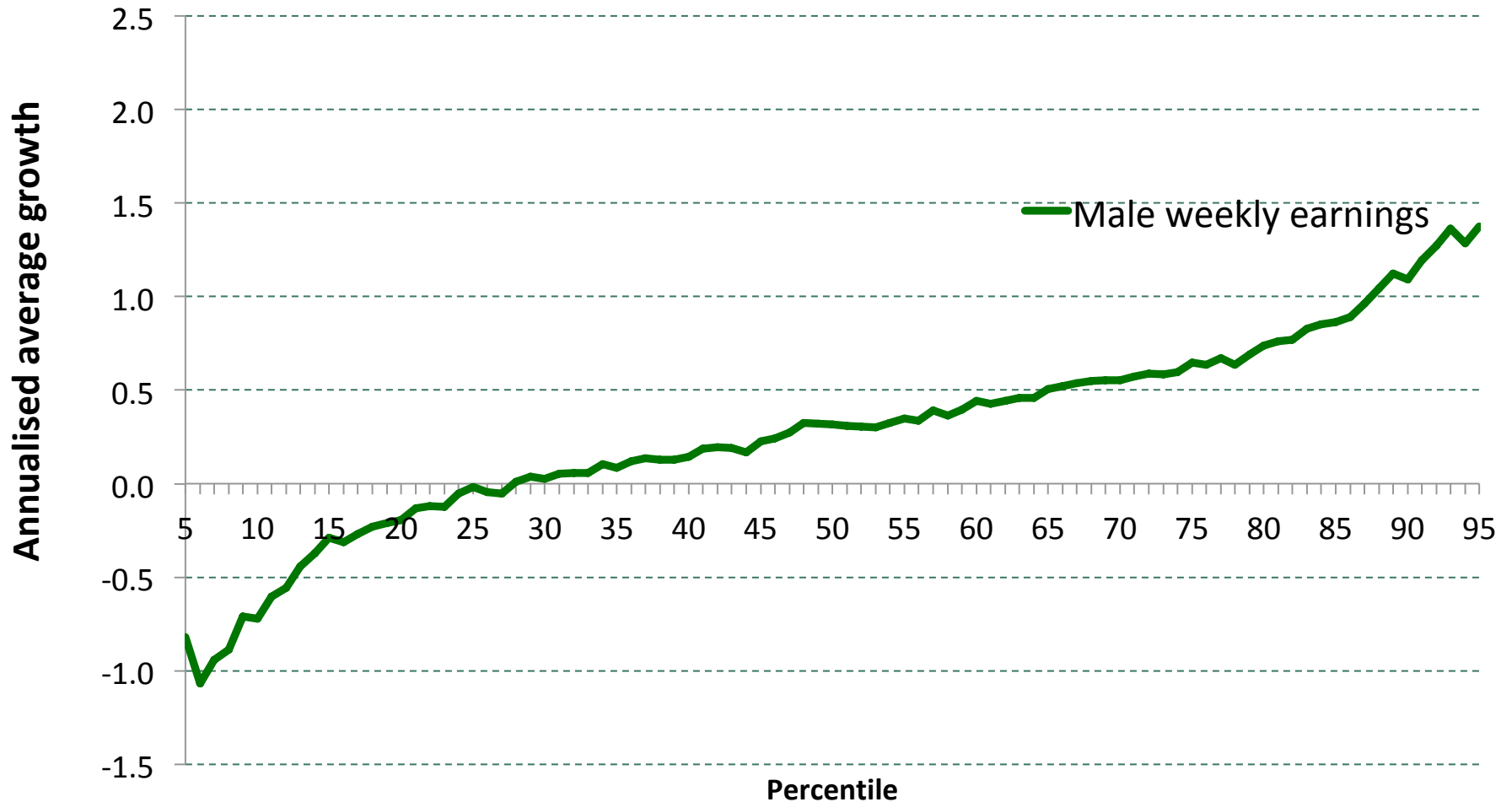
Institute for Fiscal Studies and University College London

Part of the Research Programme of the *ESRC Centre CPP* at IFS

Focus on low wages and the challenge of in-work poverty

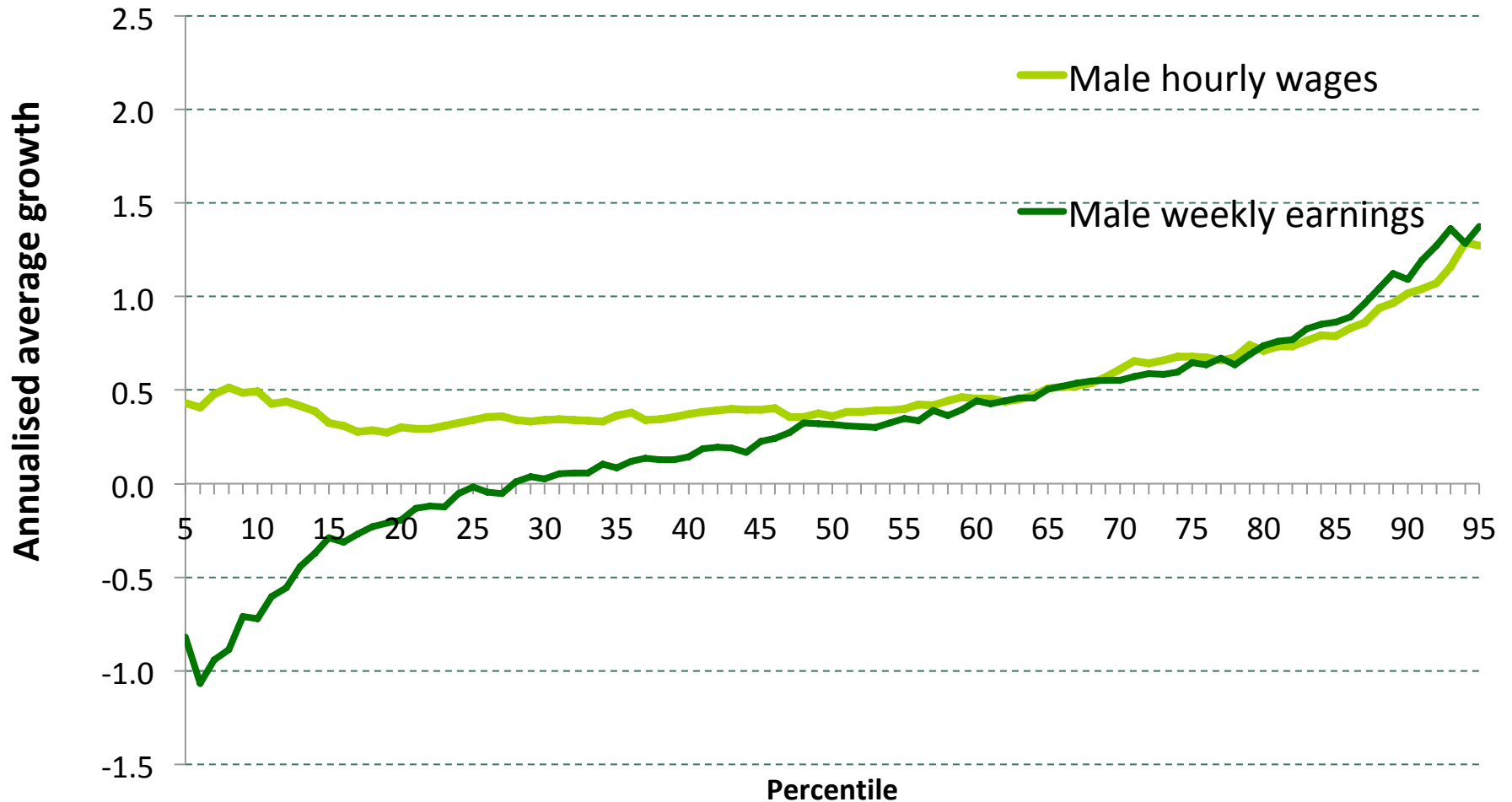
- Briefly assess how family incomes and earnings have evolved in Britain and ask:
 - How far can/should tax credit and welfare policies go to compensate low wages?
 - What role is there for other policies toward – minimum wage, training and skills, technology and ‘good’ firms?
- UK context: employment has held up, worklessness in families has fallen, but so has the real earnings of the low skilled men; poverty has shifted towards working households.
- 8 facts and some policy ideas.

1. Growth in male weekly earnings: 1994/95 – 2015/16



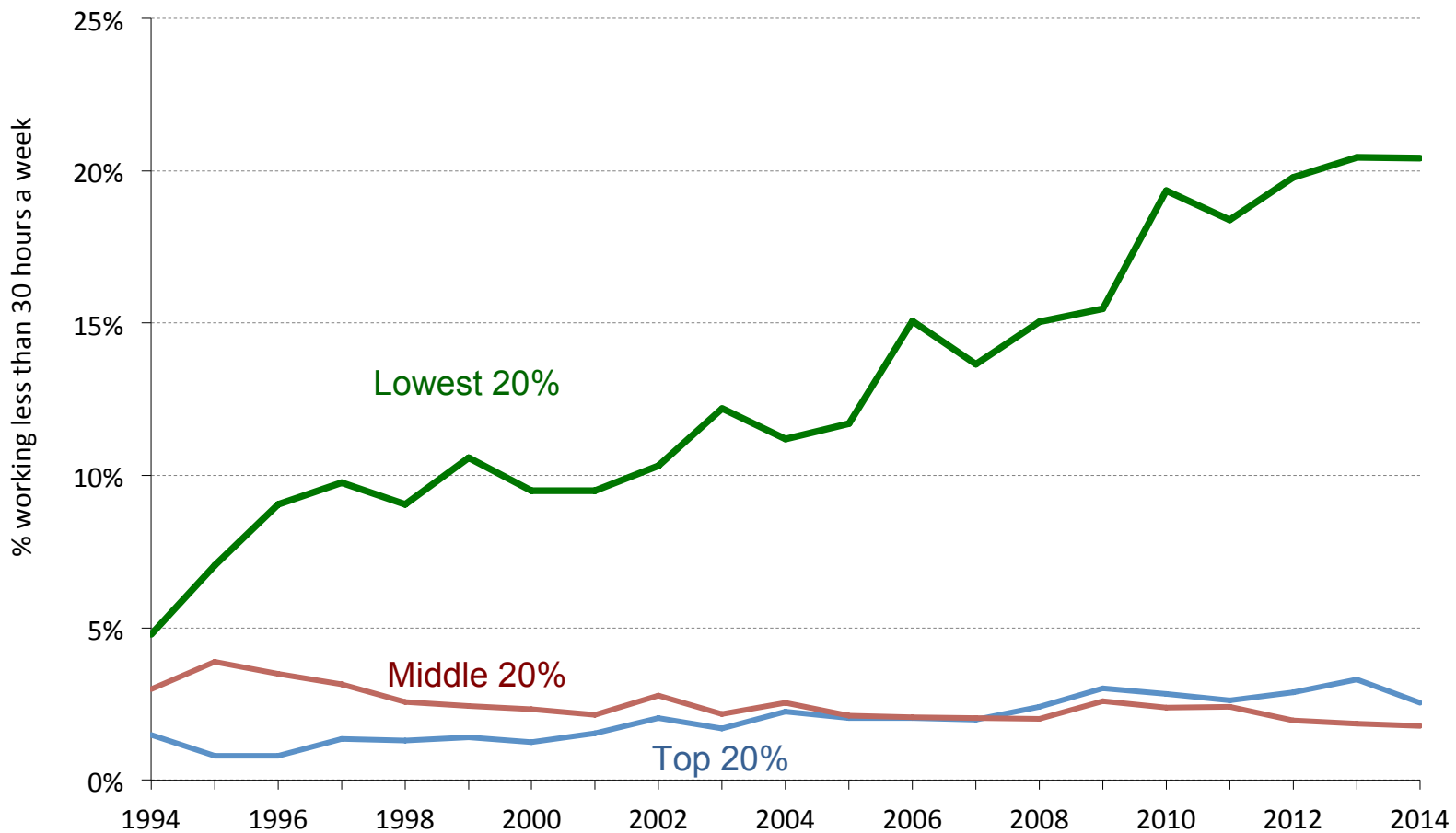
Source: Blundell, Joyce, Norris Keiller and Ziliak (2018): www.ifs.org.uk/publications/10031. Data used is UK FRS 1994-95 and 2015-16.

1. Growth in male weekly earnings and hourly wages: 1994/95 – 2015/16



Source: Blundell, Joyce, Norris Keiller and Ziliak (2018): www.ifs.org.uk/publications/10031. Data used is UK FRS 1994-95 and 2015-16.

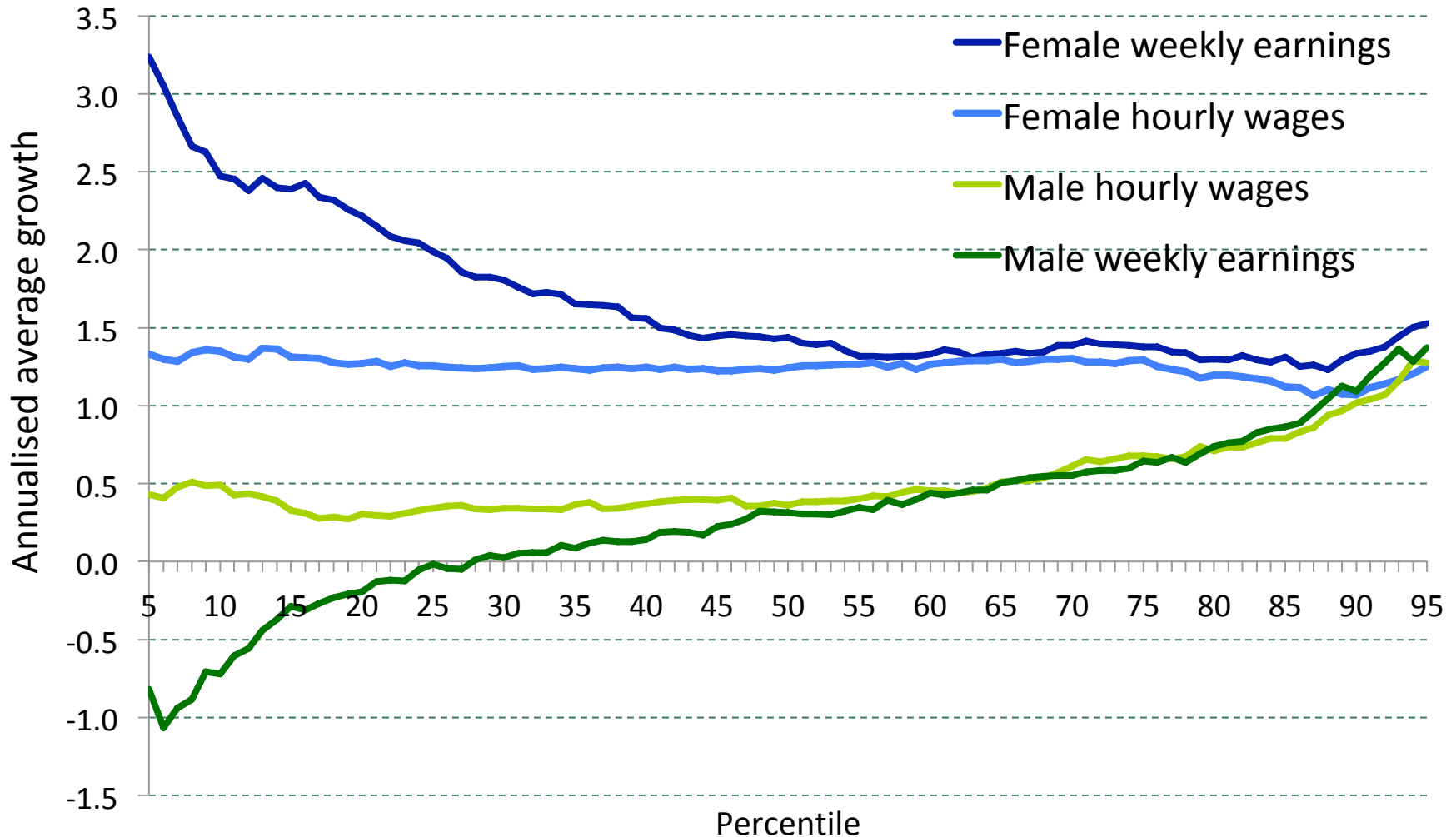
2. Proportion of men working less than 30 hours in the UK by hourly wage quintile – aged 25-55



Notes: LFS: Male employees aged 25-55.

Source: IFS calculations using Labour Force Survey

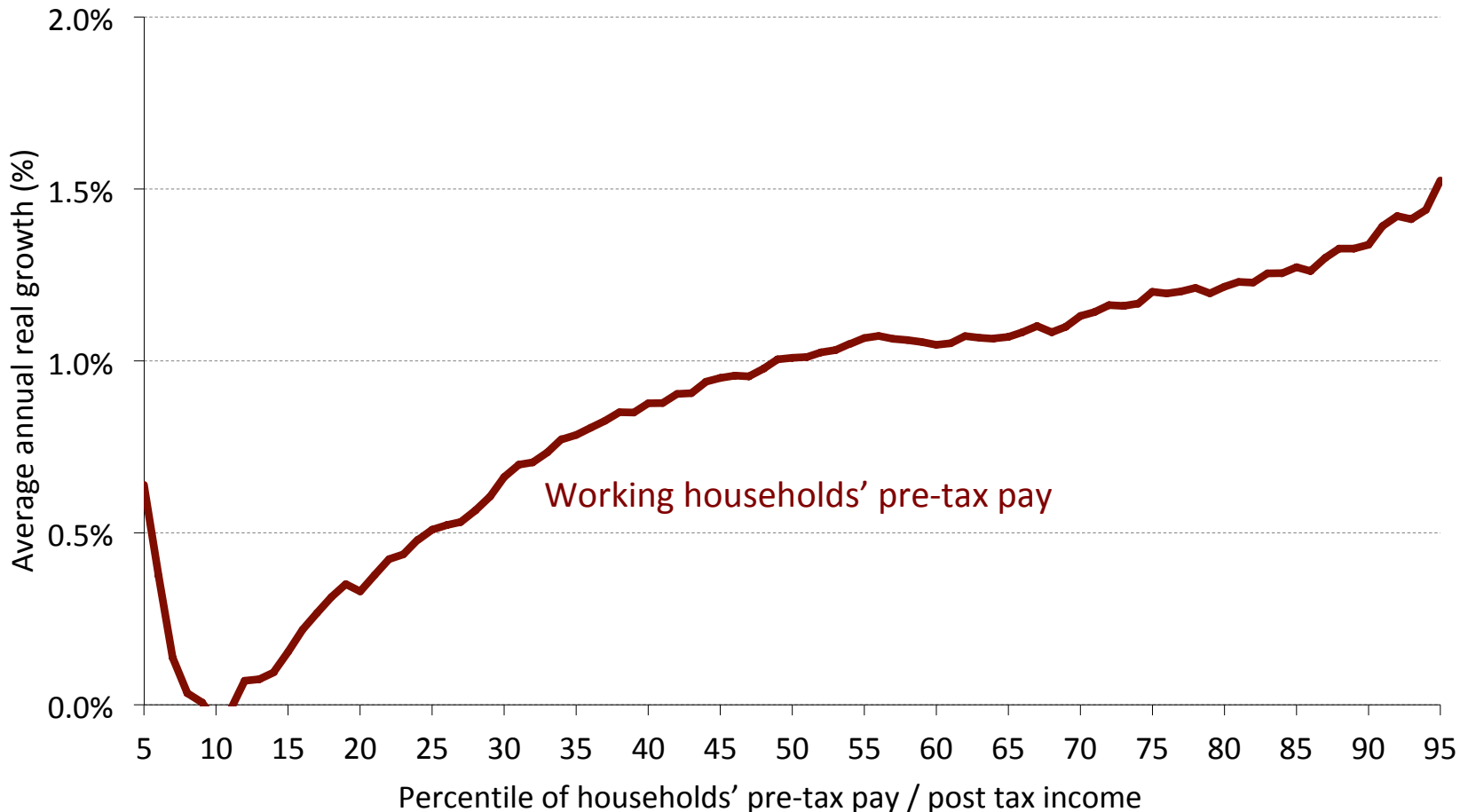
Very different growth in female hourly wages and weekly earnings: 1994/95 – 2015/16



But assortative partnering and low female earnings share implies this has not improved between family inequality....

3. Earnings and Incomes

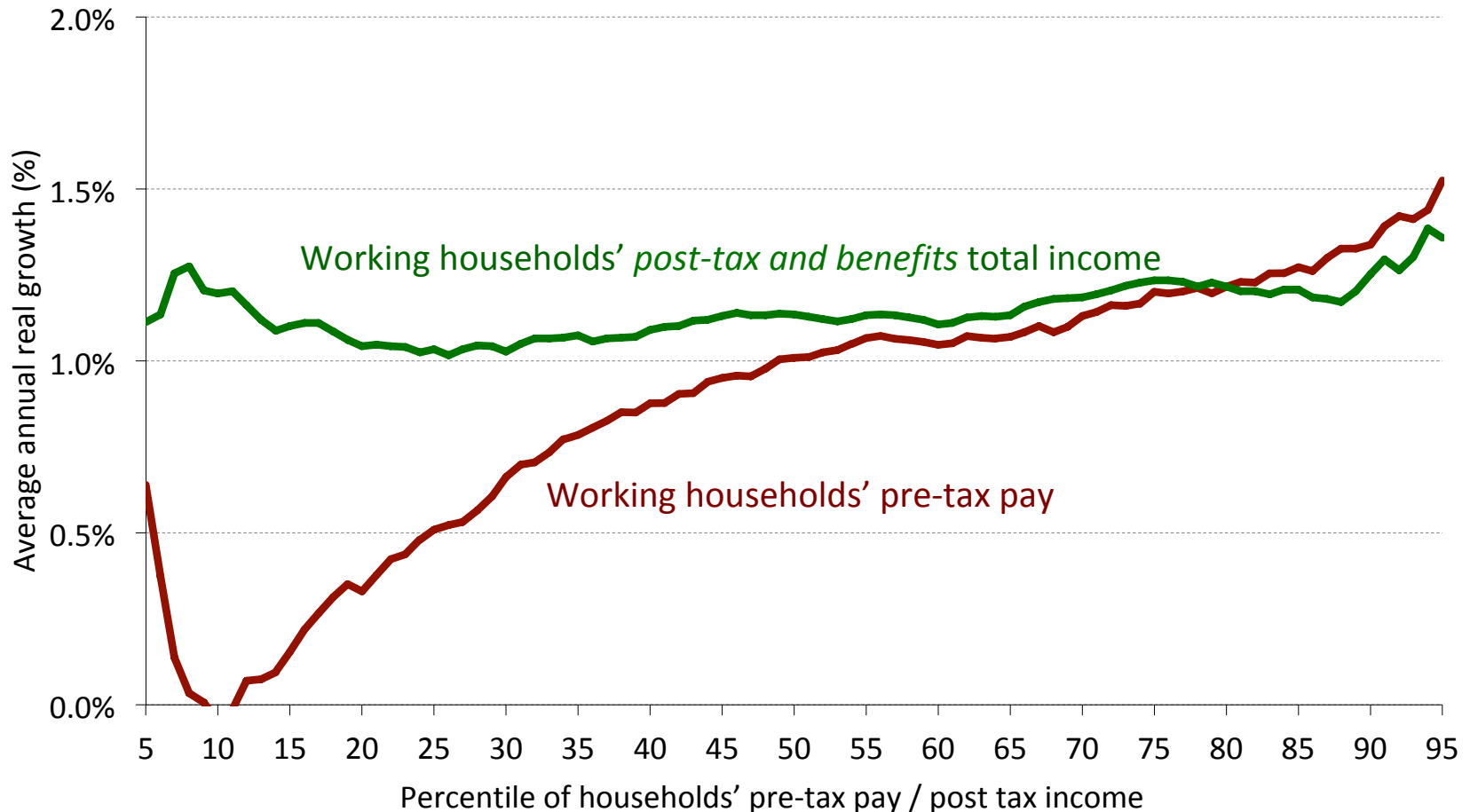
Growth in pre-tax earnings for working households 1994/5 to 2015/6



Notes: Includes self employment income and self employed households.
Family Resources Survey. All income measures are equivalised.
Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

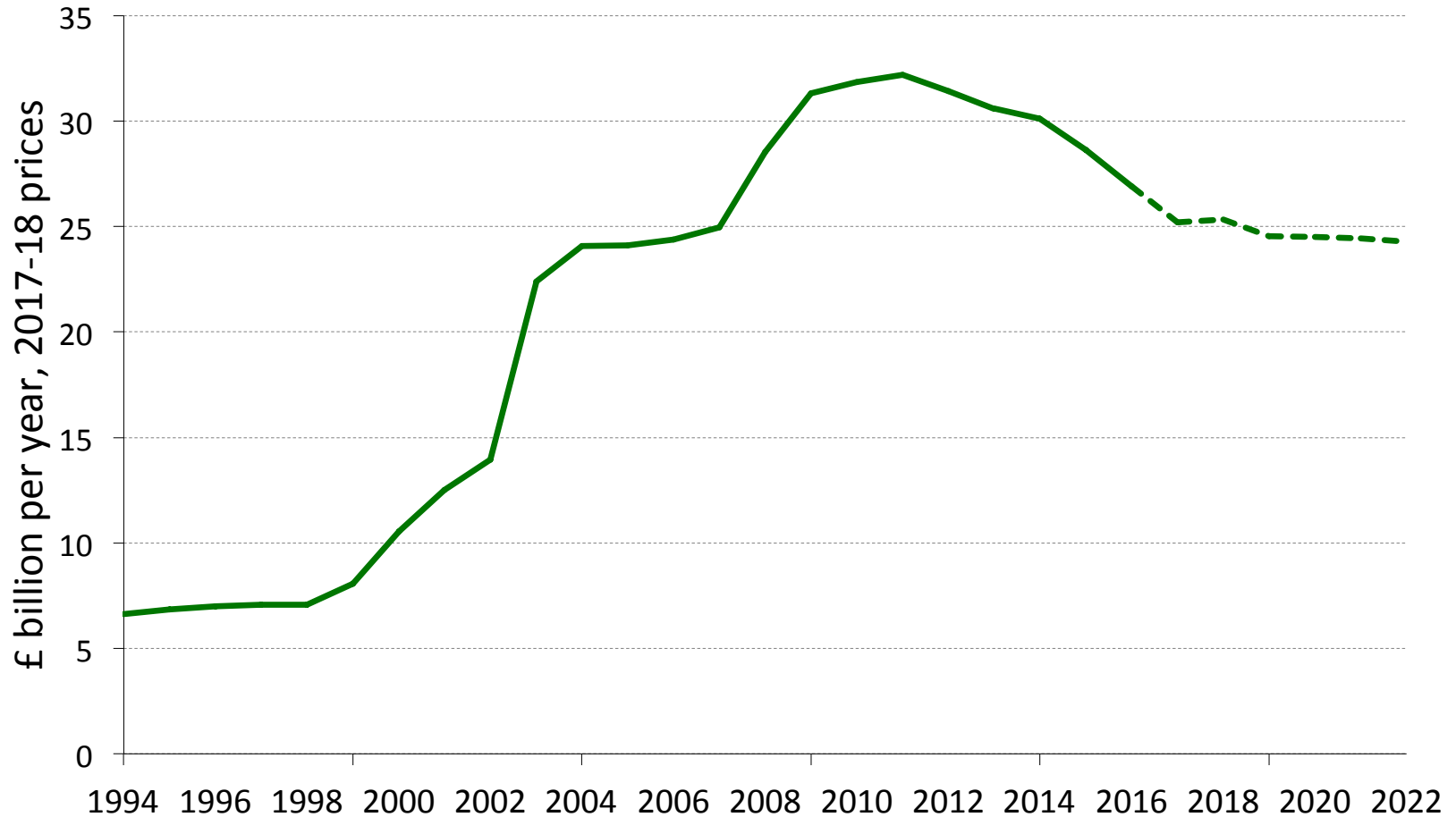
3. Earnings and Incomes

Household income growth for working households 1994/5 to 2015/6



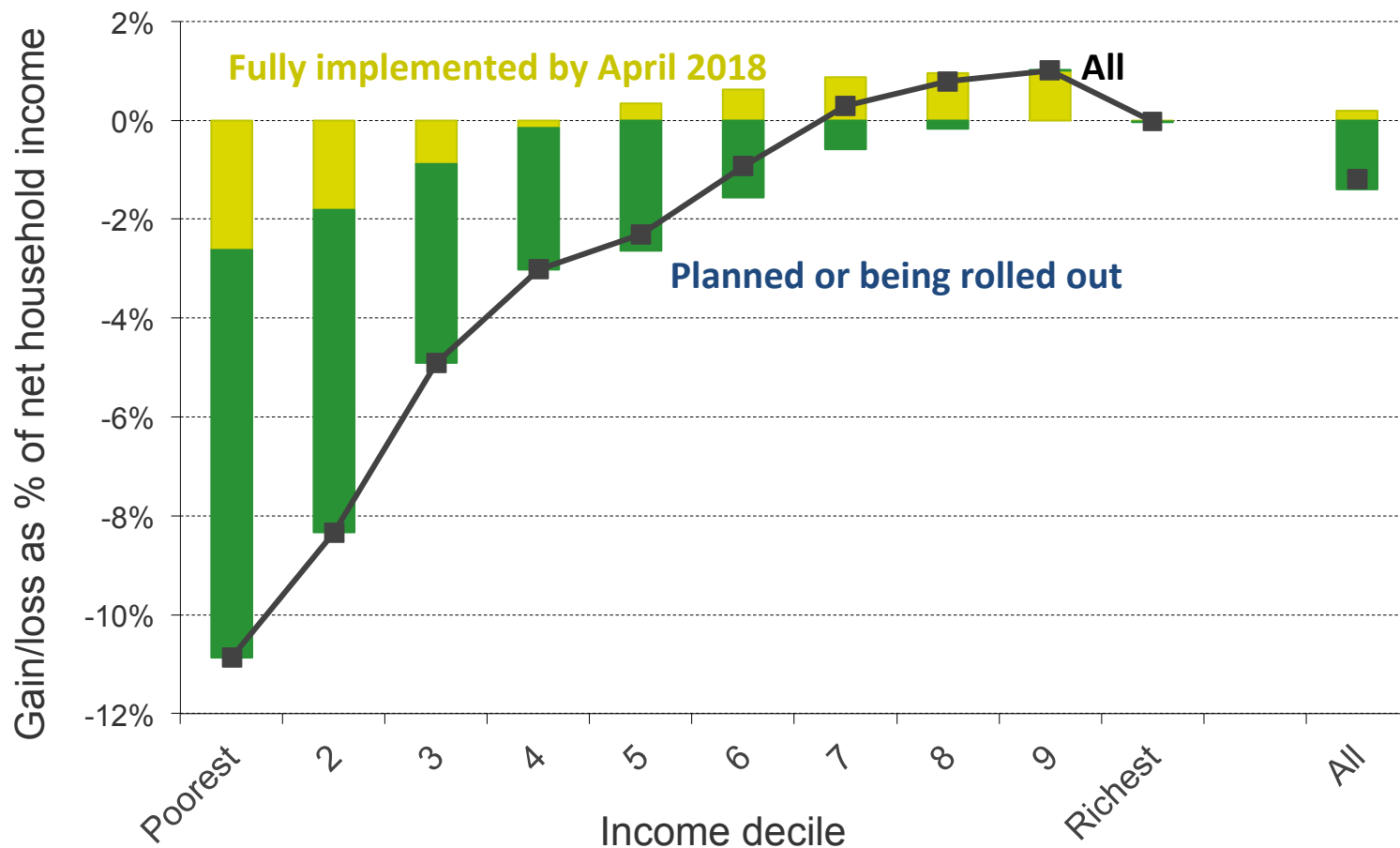
Notes: Includes self employment income and self employed households.
Family Resources Survey. All income measures are equivalised.
Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

4. Real spending on tax credits and equivalents



Source: DWP benefit expenditure tables

Long run distributional impact of personal tax/benefit reforms since 2015

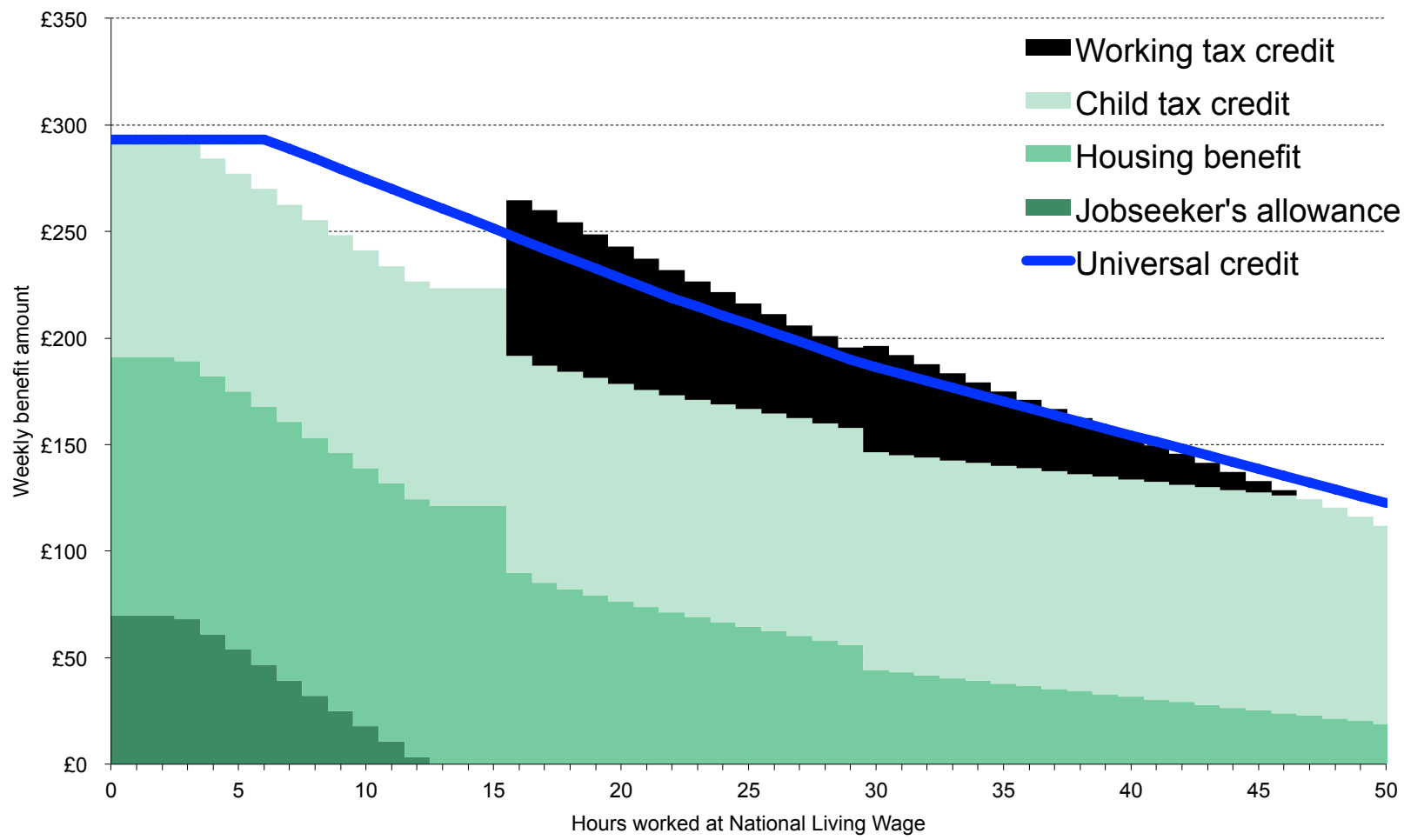


Note: Assumes full take-up of means-tested benefits and tax-credits. Policies partially rolled are Universal Credit, the 2-child limits, the replacement of DLA with PIP and the abolition of the WRAG premium in ESA.

Source: IFS calculations using the IFS micro-simulation model run on updated data from the 2015–16 FRS and 2014 LCFS.

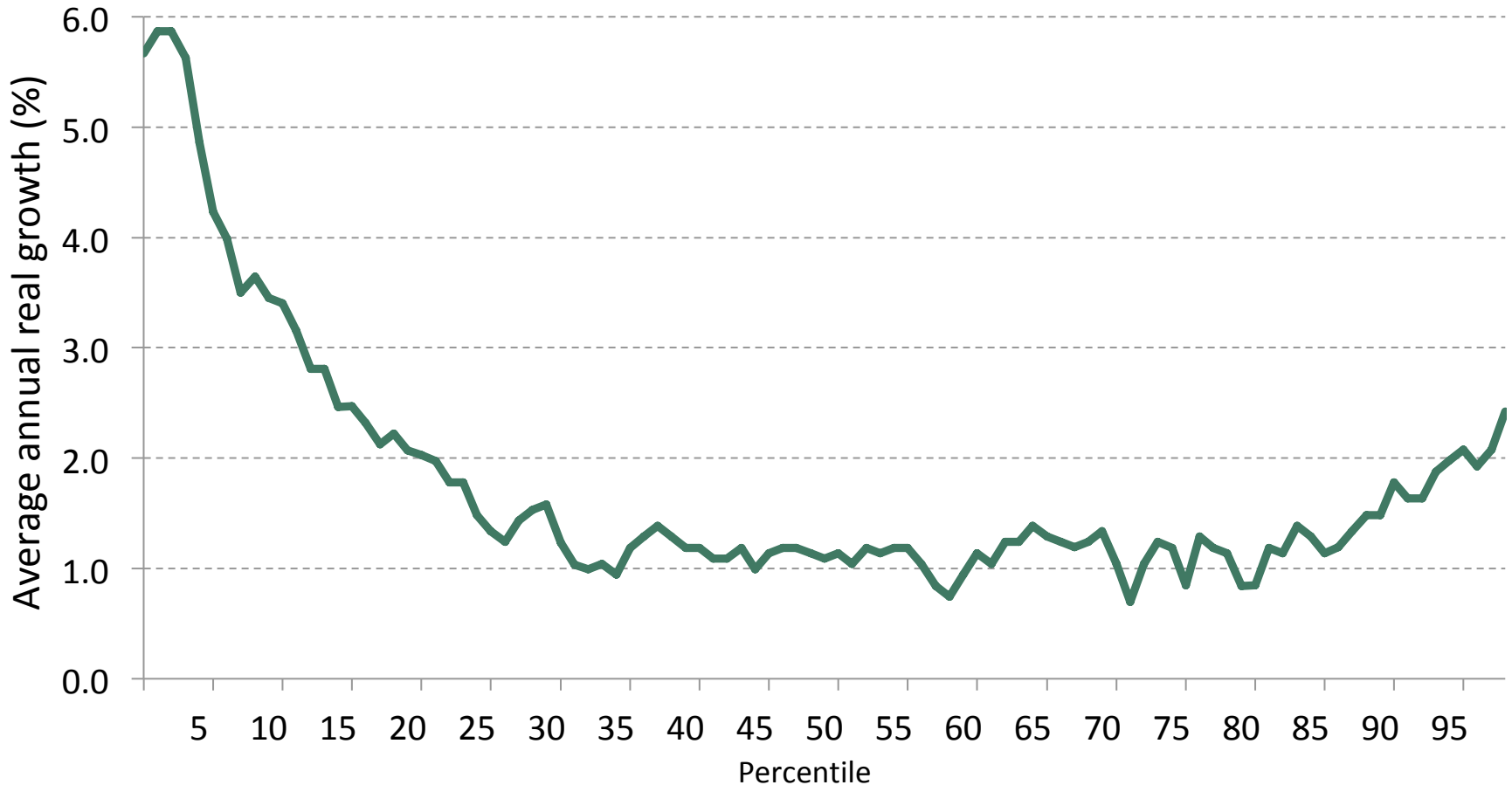
Universal Credit and Legacy benefit entitlements by hours worked

lone parent with two children



5. Min wage is having clear effects on hourly wages at bottom end

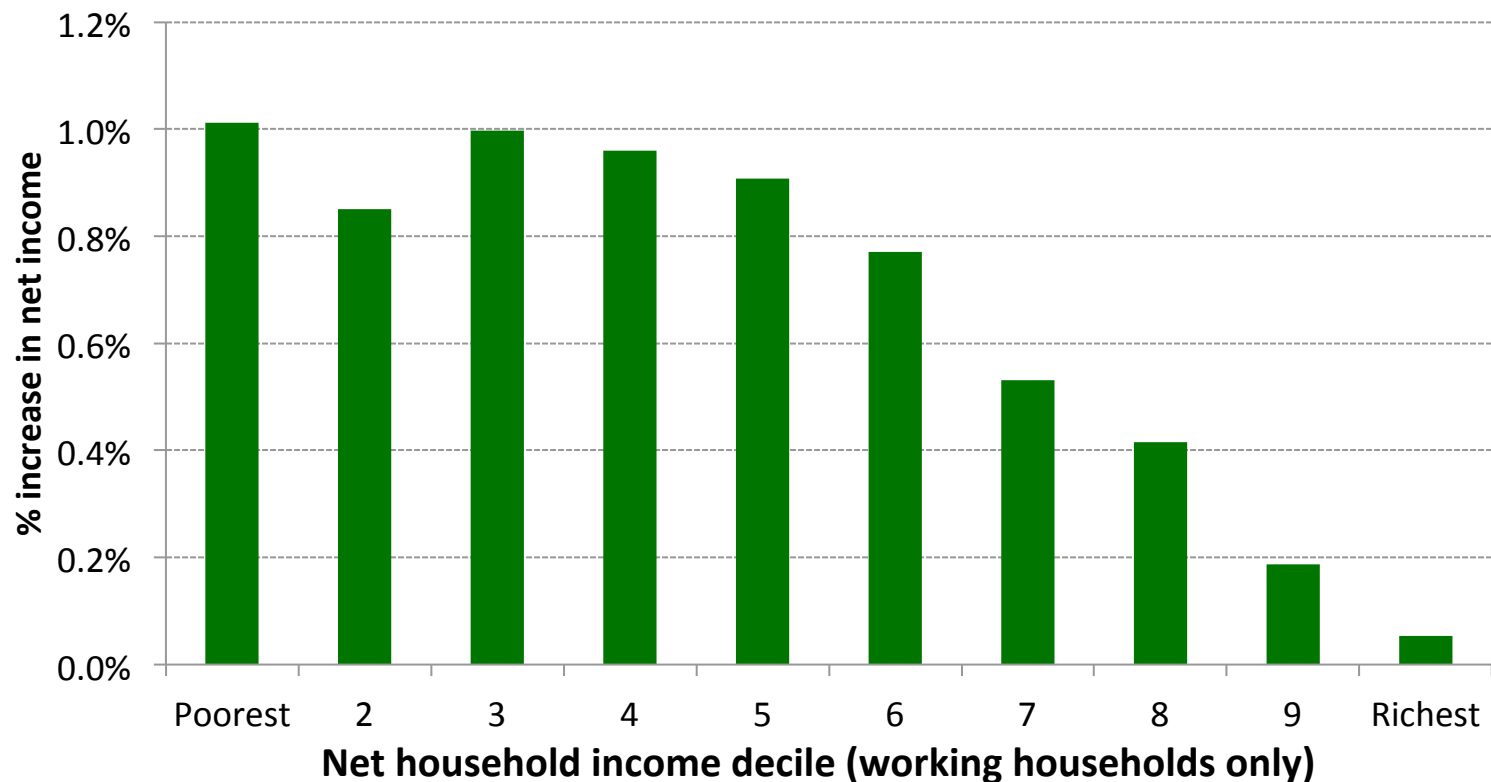
Real growth in hourly wages by percentile, April 2015-April 2017



Source: Calculations using Figure 2.11 of Low Pay Commission 2017 Report (<https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-report-2017>), deflating figures using CPI. Underlying data used is ASHE.

Higher minimum wage targets the lowest-wage people, *not* the lowest-earning households

The increase in the NLW between now and 2020: which *working households* get the extra money?

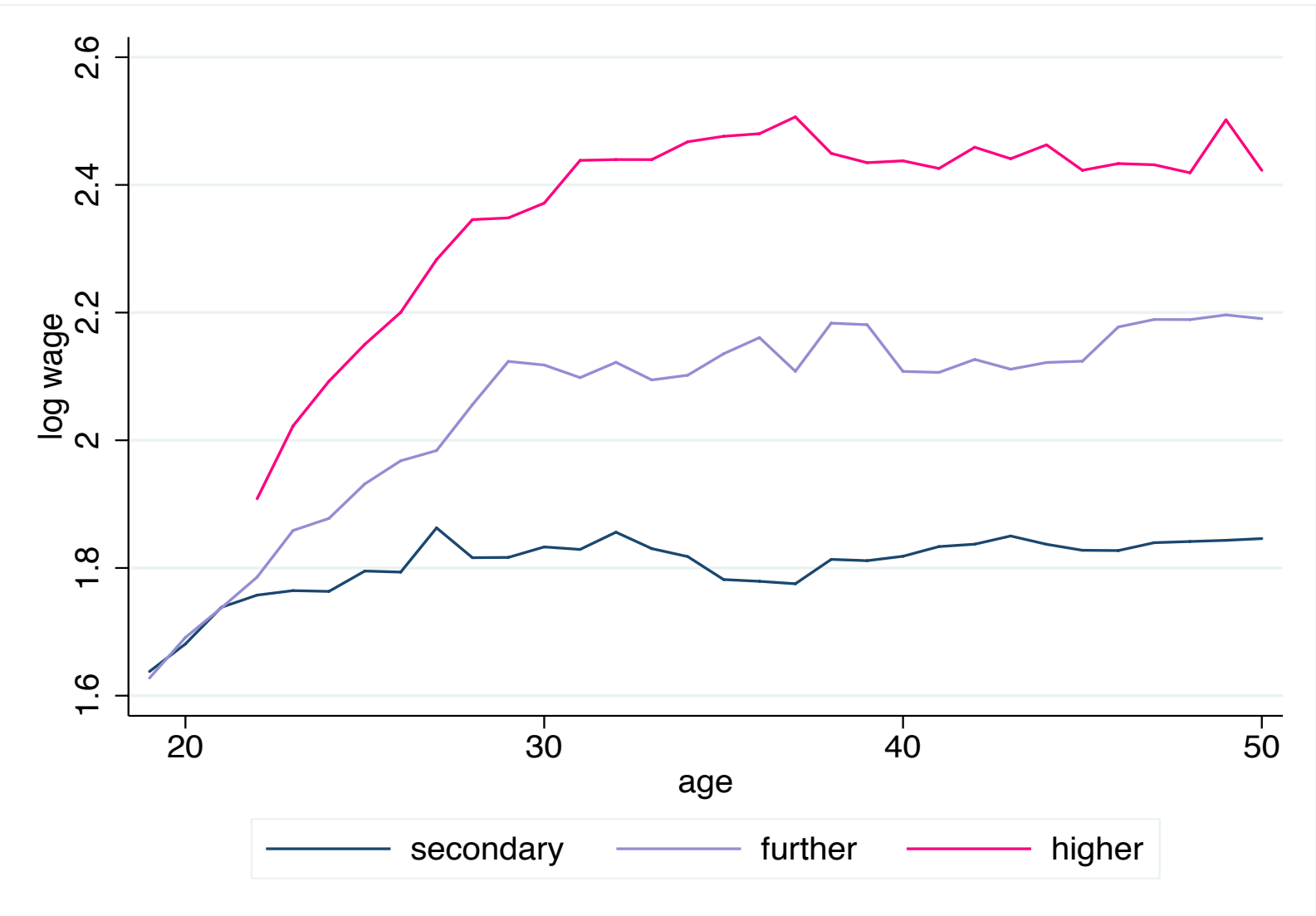


Note: Shows mechanical increase in net income arising from minimum wage rises planned between now and 2020. Ignores all knock-on effects of higher minimum wages, such as impacts on company profits, the wages of other workers, employment and hours worked. Does account for interaction with tax payments and benefit entitlements.

Source: Calculations using data underlying Figure 9 of Cribb, Joyce and Norris Keiller (2017): www.ifs.org.uk/publications/9205

6. Wage profiles by education and age

- returns to experience appear strongly *complementary* with education



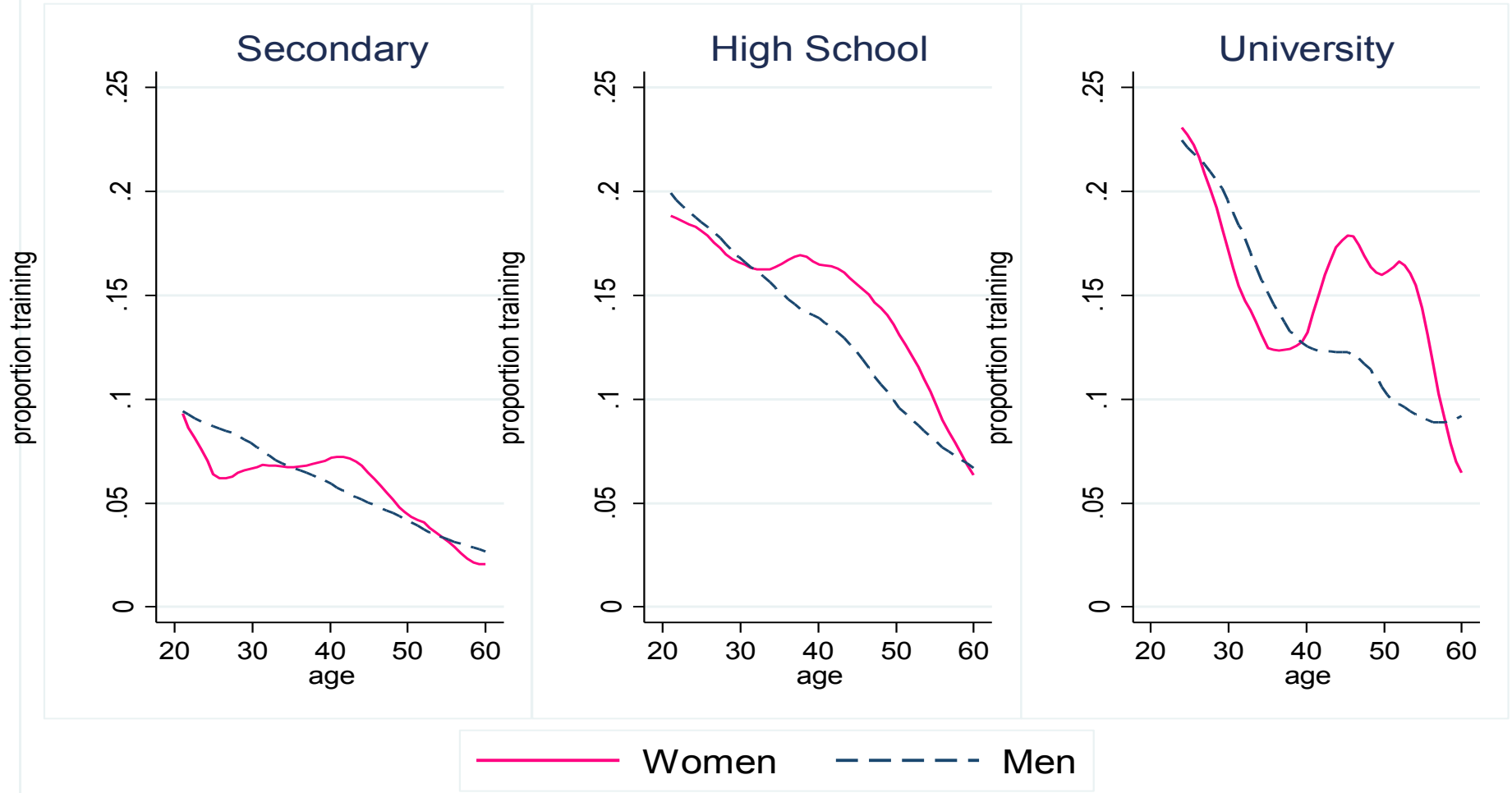
Source: Blundell, Dias, Meghir and Shaw (2016), Notes: Women, UK BHPS

7. Training

a strong complementarity with education too!

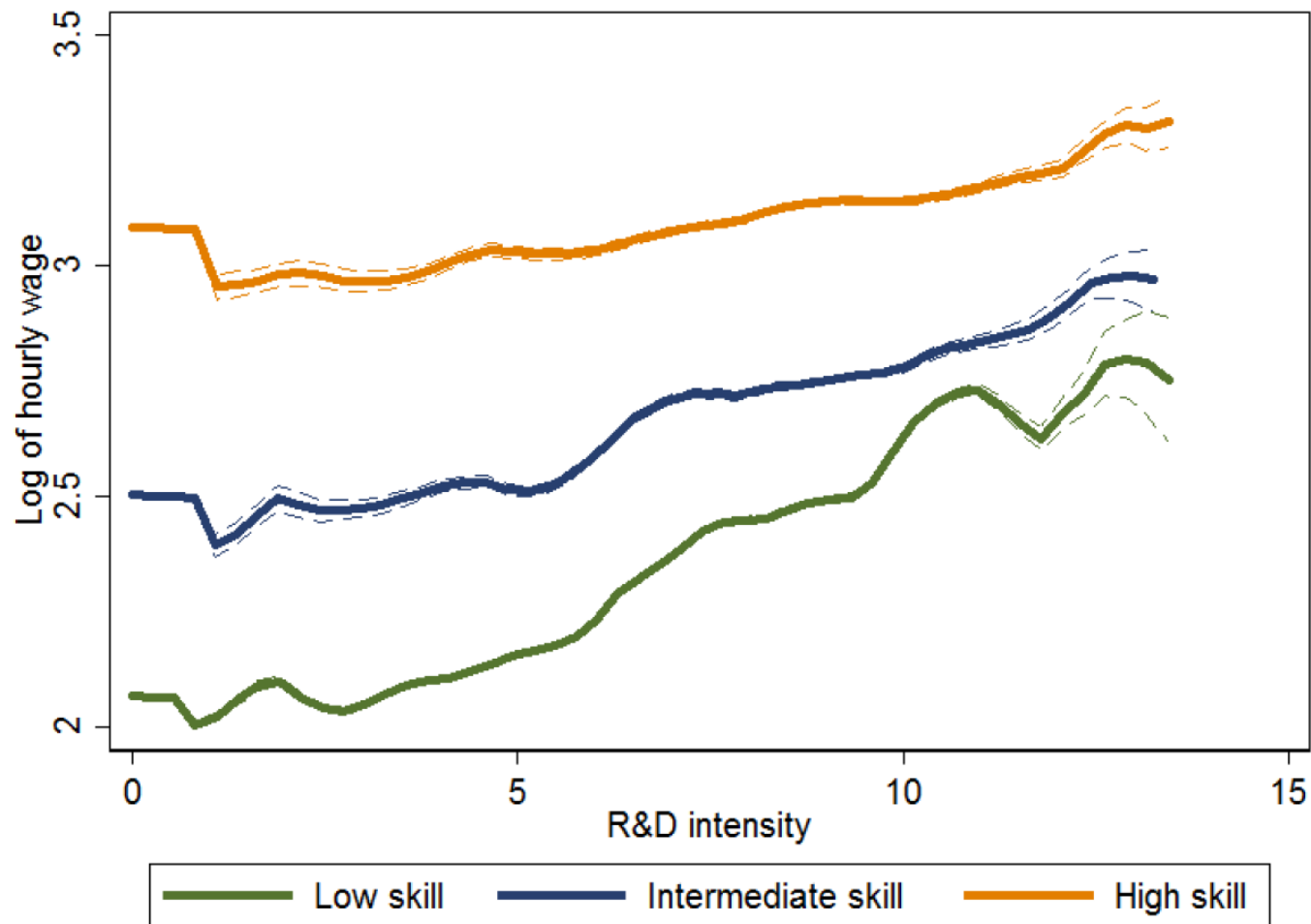
Prevalence of training over past year

All training, 50+ hours



8. Low skilled workers and 'good' firms

log hourly wage rate and R&D intensity: by skill group



Not all selection, some abilities of low educated are complementary with technology, they get training and the jobs are not outsourced....

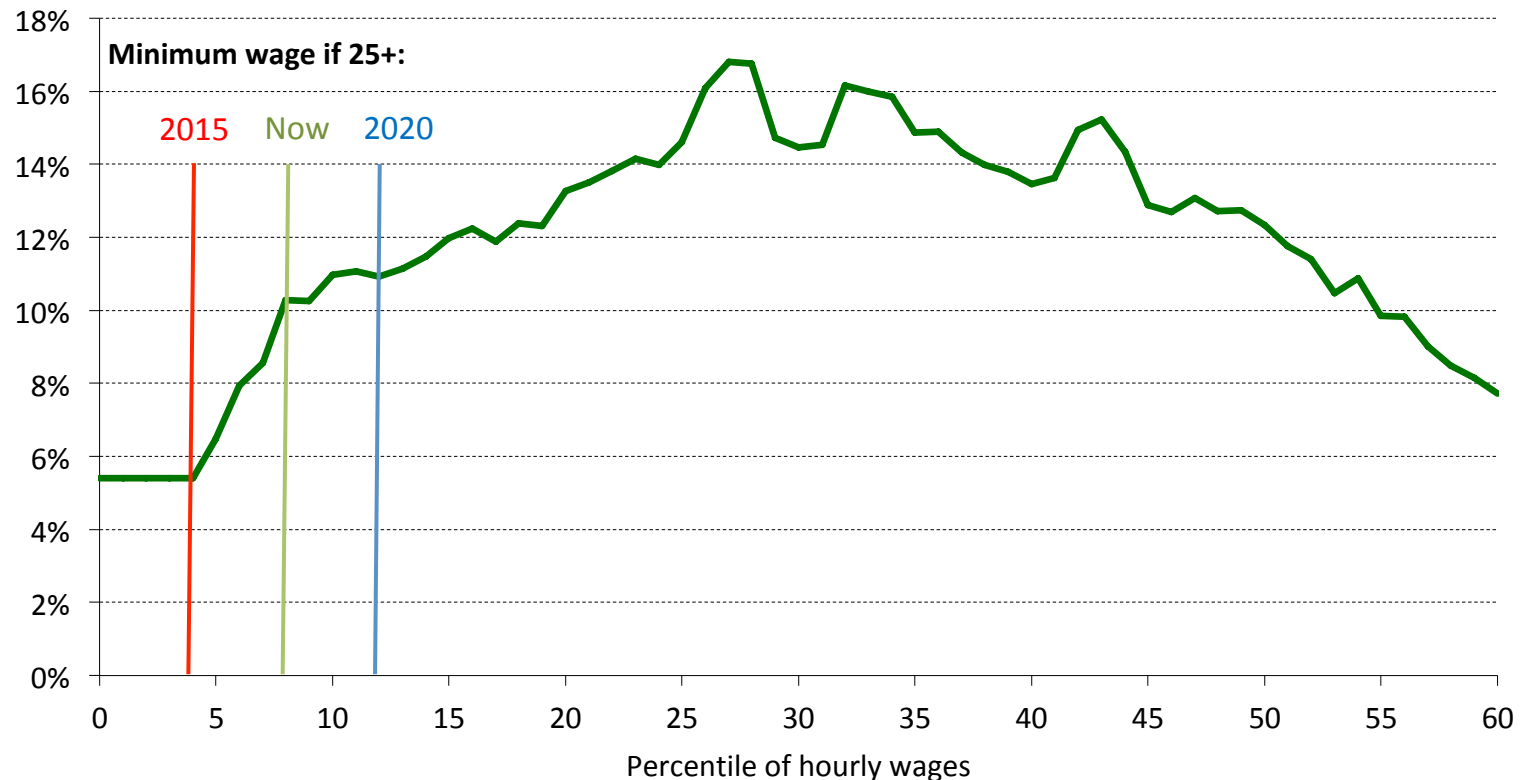
Note: Skill allocated by occupations in ASHE. Source: Aghion, Bergeaud, Blundell and Griffith (2018)

The challenge of in-work poverty and low wages in the UK

- Depressing finding: little wage progression for low educated & those in part-time work
 - employment is not enough to escape poverty or for self-sufficiency
- Increased female labour supply has not overcome family earnings inequality.
- Tax credits increasingly, until recently, used to support low earnings
 - offset means-testing at the extensive margin for parents,
 - WTC and UC well-targeted to boost incomes of low earning families but incidence?
- Minimum wage has lifted *hourly* wages at the bottom
 - but not well-targeted to low earning families, due to secondary workers and falling male hours,
 - should be seen as a *complementary* policy to tax credits,
 - also increasingly affecting workers vulnerable to automation.

Jobs affected by higher minimum are not the same as those previously affected

Proportion of employees aged 25+ in the most “automatable” jobs (top 10% of routine task intensity”)



Source: Cribb, Joyce and Norris Keiller (2018): www.ifs.org.uk/publications/10287. Data used is ASHE, 2015.

Designing a policy mix to complement tax credits and min wages

- What limits wage progression?
 - why does part-time experience brings such little wage uplift?
 - less training and networking, constraints on build-up of skill in low-hours jobs, labour market for part-time workers less competitive.
- What skills among those with lower formal education are valued by 'good/growing' firms?
 - skills that complement innovation are less likely to be out-sourced,
 - reliability and other non-cognitive skills seem key,
 - => re-think vocational training and the role of technology.
- Do we need stronger competition policy and contract regulation alongside redistributive tax credit and min wage policies?
 - increasing mark-ups, self-employment and the gig economy may signal declining bargaining power of low skilled workers..

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How far can/should redistribution go to compensate low wages?

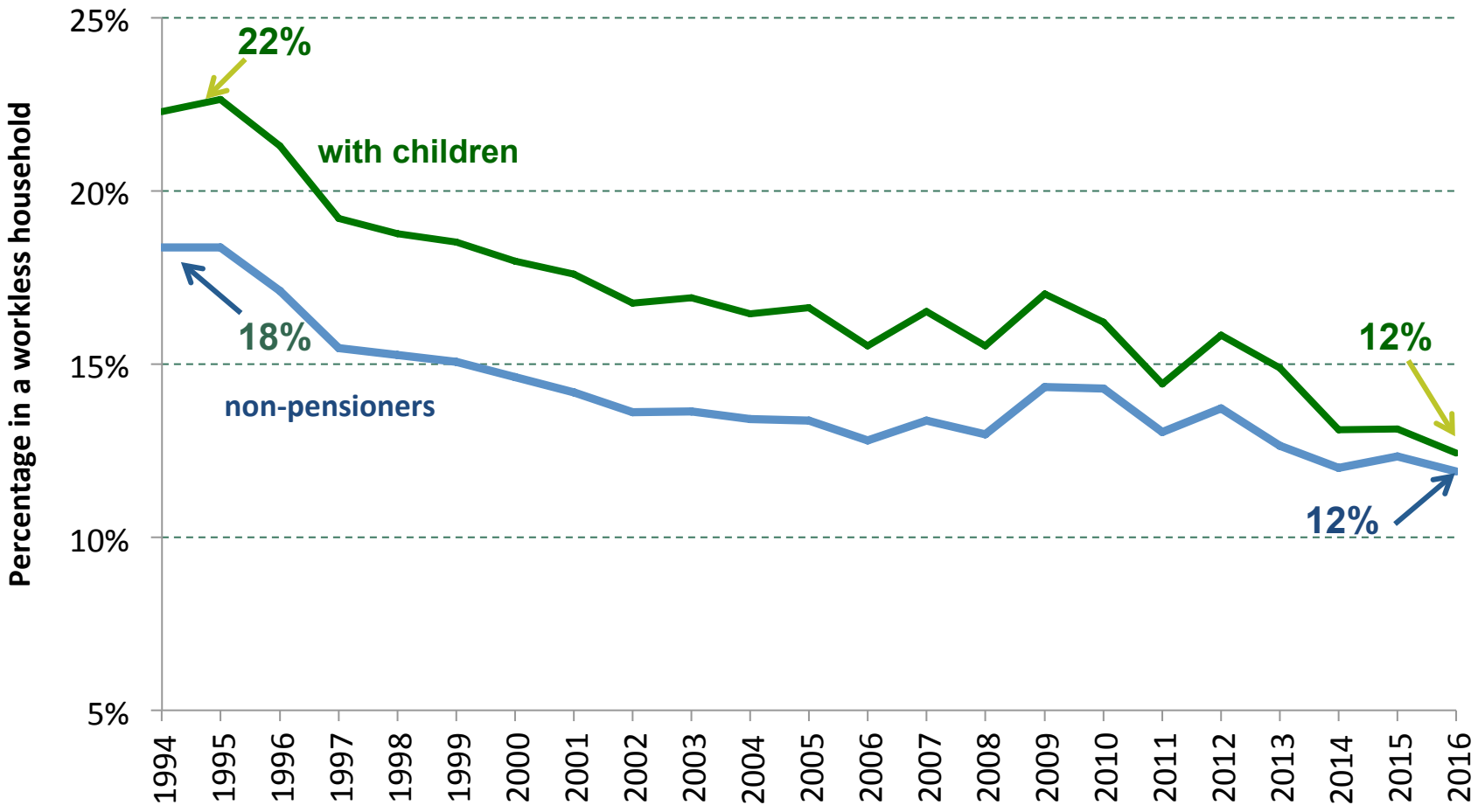
Extra slides

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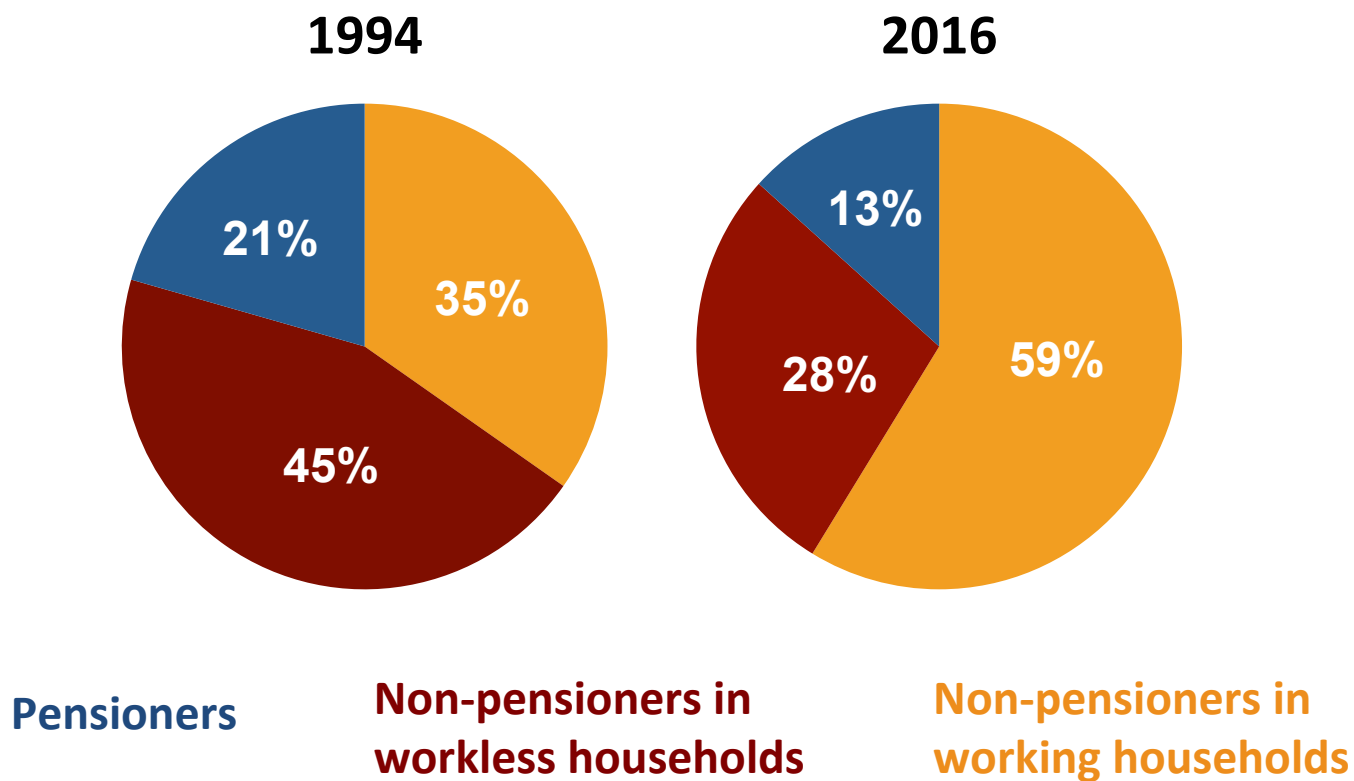
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Falls in household worklessness and high rates of employment



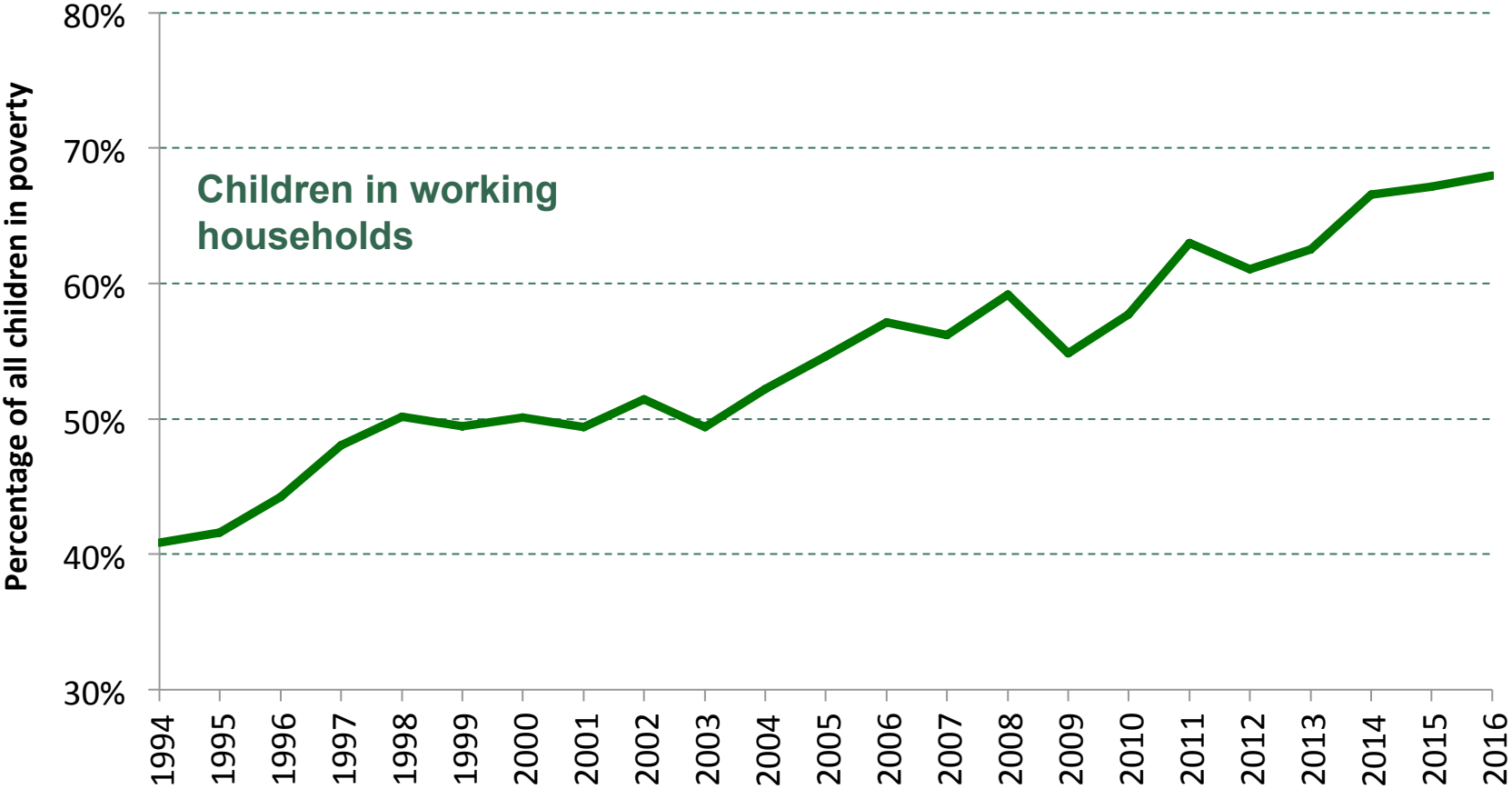
Note: Years refer to financial years.
Source: IFS calculations using the Family Resources Survey, various years.

The changing face of poverty



Note: Years refer to financial years. Chart shows the composition of the population in relative AHC poverty.
Source: IFS calculations using Family Resources Survey, 1994-95 and 2016-17.

Majority of child poverty due to in-work poverty

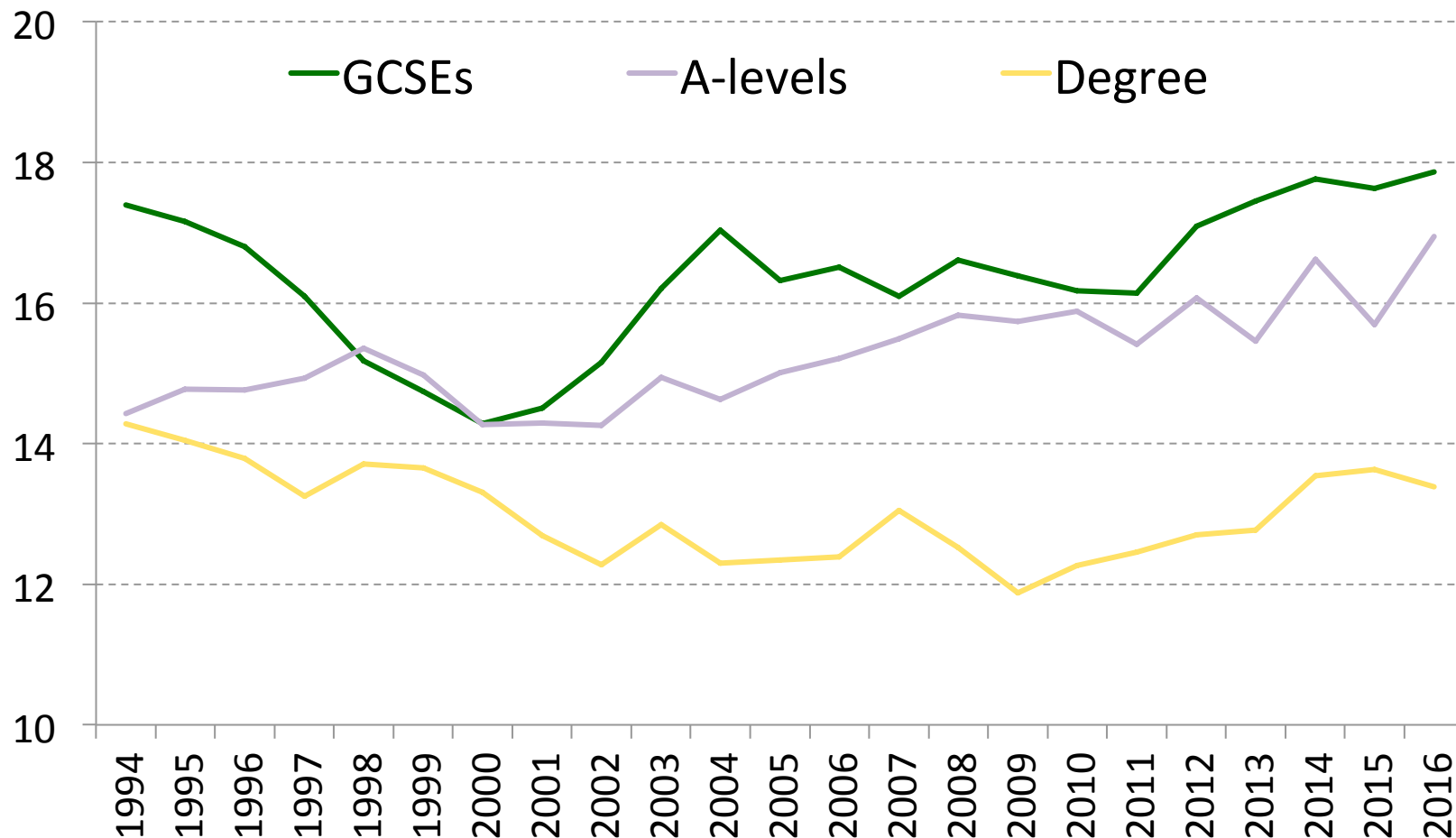


Note: Years refer to financial years. Series shows the percentage of children in relative AHC poverty that live in a household containing at least one working member

Source: IFS calculations using the Family Resources Survey, various years.

Self-employment

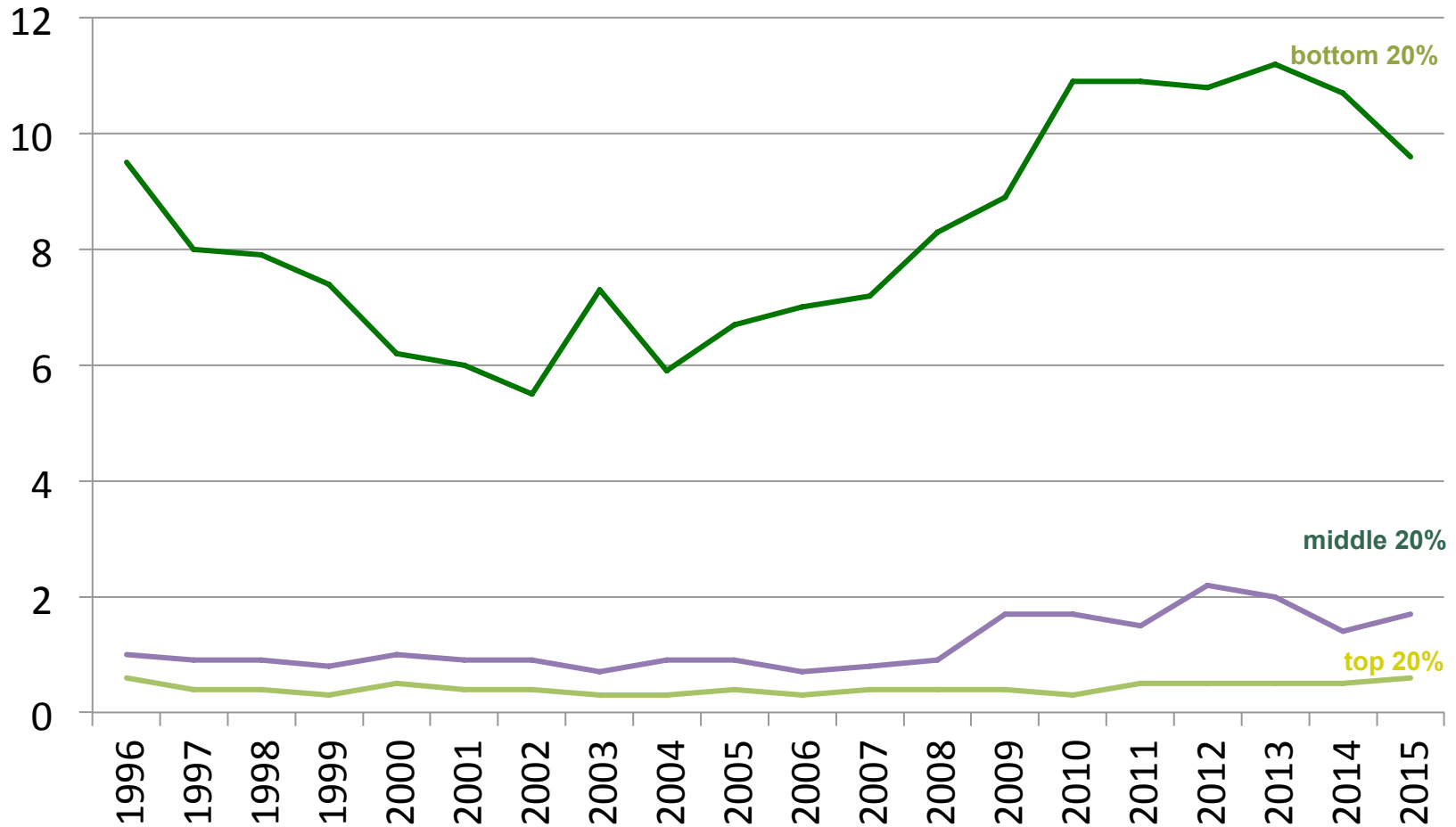
Percentage of men aged 25-55 self-employed



Source: LFS

Underemployment

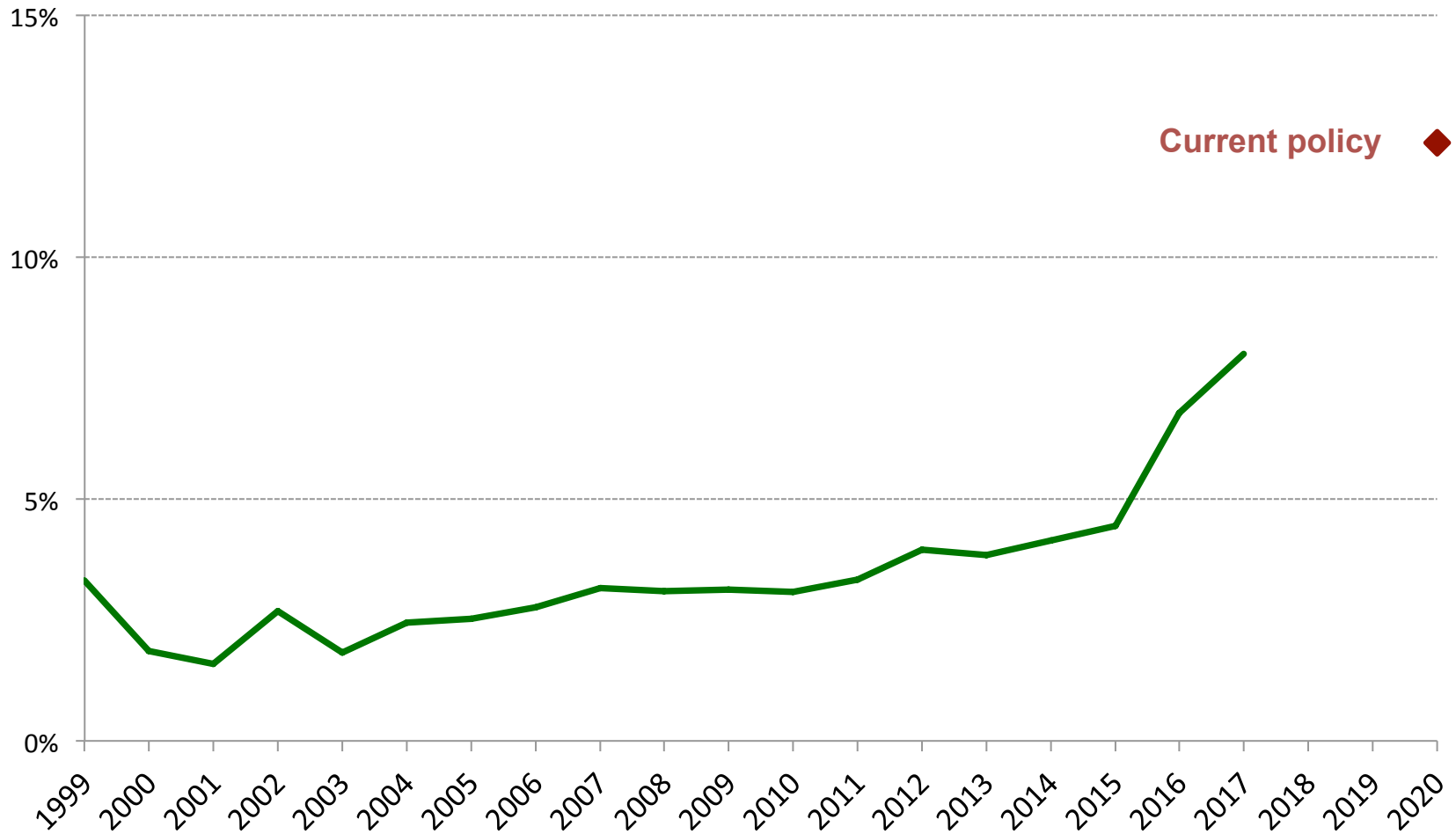
Percentage of male employees aged 16-64 working part-time in their main job and want to work more hours



Source: DWP benefit expenditure tables

Minimum wage

% of employees aged 25+ paid the minimum wage



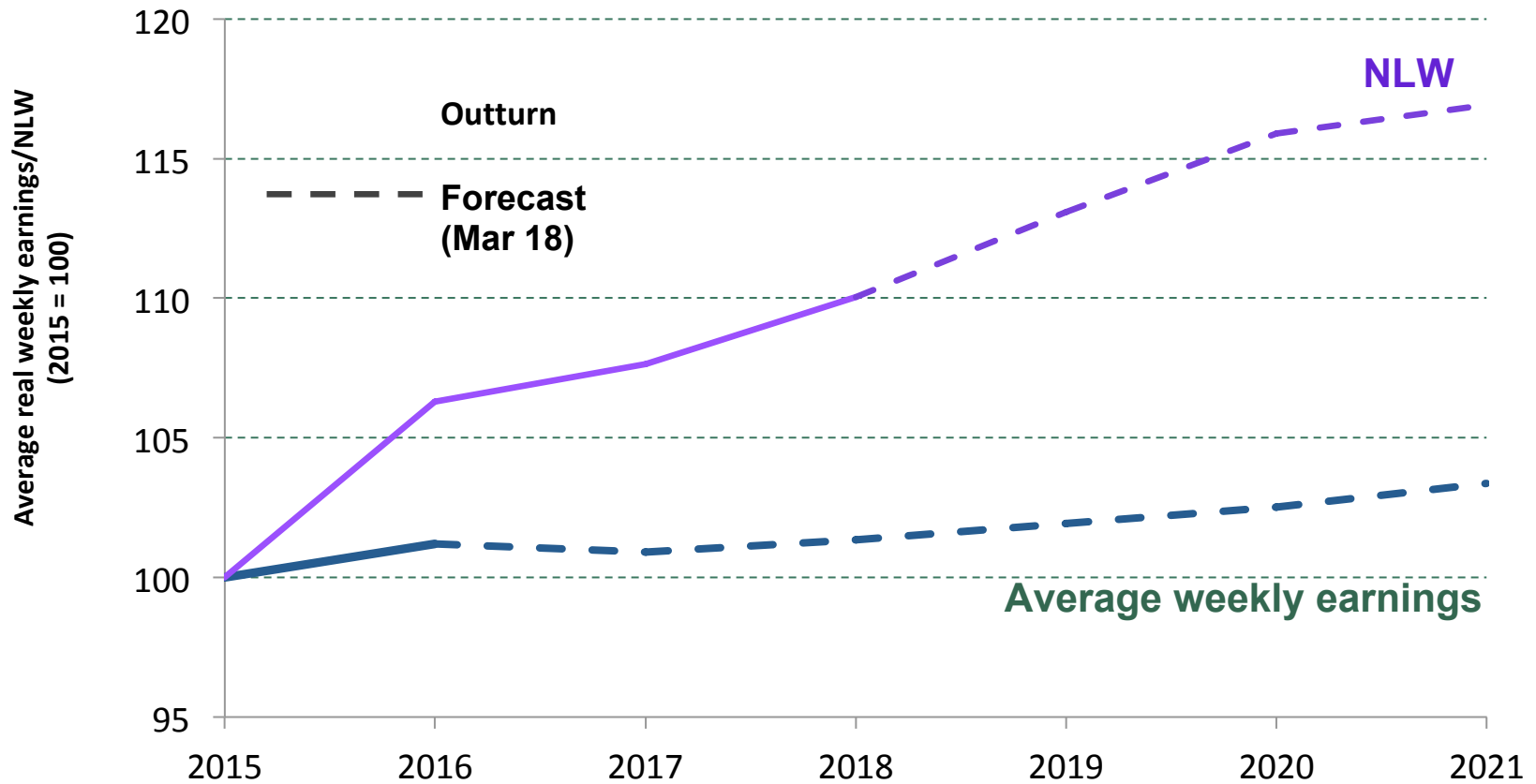
Source: Figure 5 of Cribb, Joyce and Norris Keiller (2017): www.ifs.org.uk/publications/9205.

Training incidence has fallen



Source: Blundell, Dias, Meghir and Webb (2018), Notes: UK BHPS/USoc

Earnings projections



Note: Years refer to the financial years.

Source: Authors' calculations using Annual Survey Hours and Earnings Table 1, various years, and OBR Economic and fiscal outlook: Economy supplementary tables, various years.

Percentage of women aged 25-55 self-employed

