



The IFS Deaton Review

Inequality, Redistribution and the Labour Market

EEA/ESEM Special Session

Manchester, August 26th 2019

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Motivating theme: We can't address all the concerns about earnings inequality through the tax and welfare system alone.

Key challenge: How do we balance tax/benefit policy with other policies: min wages, competition policy, human capital policies, etc?



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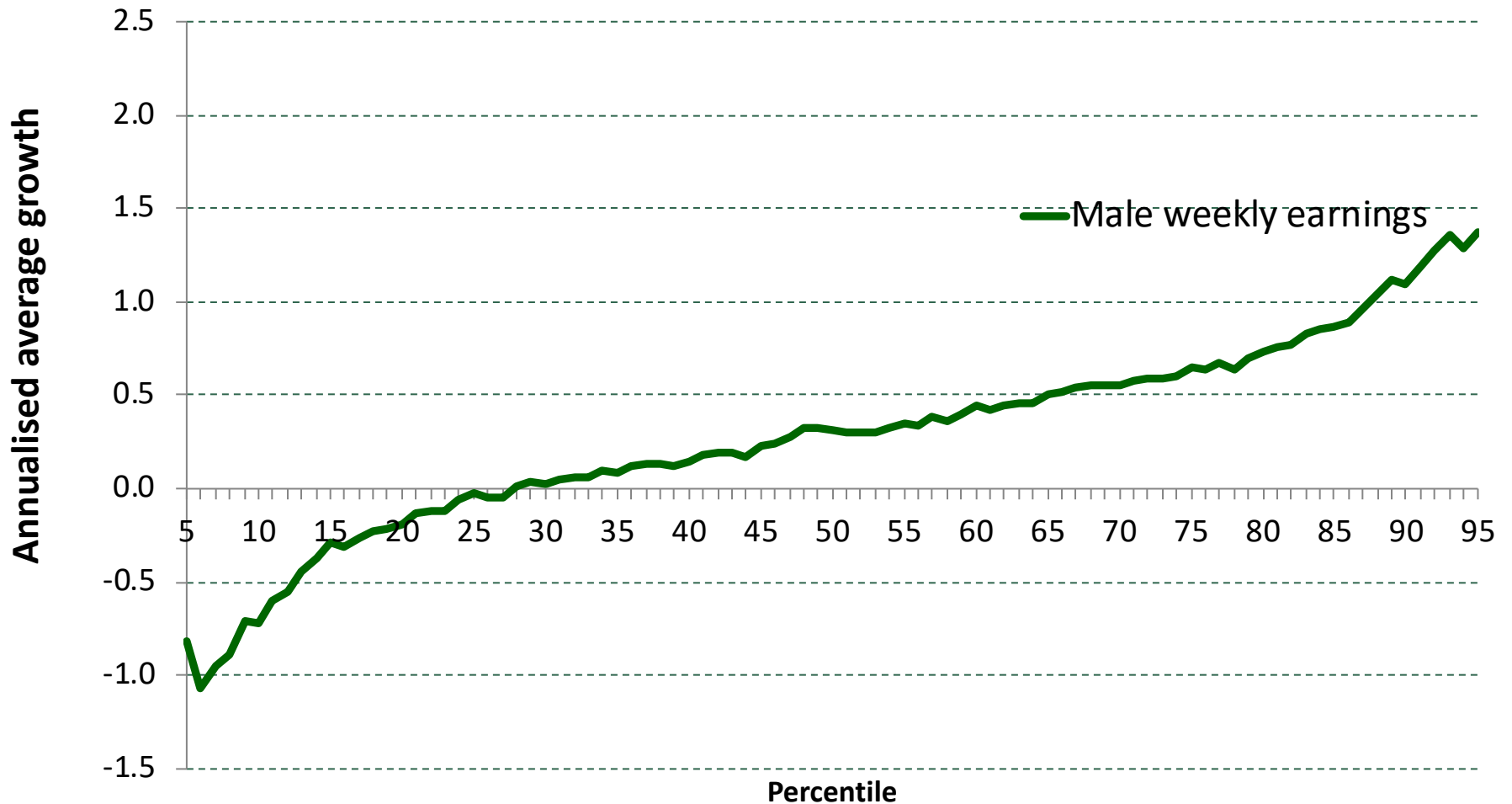


Inequality, Redistribution and the Labour Market

- The structure of work and of families has changed over the last three decades, with growing earnings inequality for men and women, and adverse labour market 'shocks' for the low educated, especially men.
 - When we place people in families in local labour markets, with childcare, marriage, savings and human capital decisions we get a different take on some key tax and welfare design questions.
 - When we put families in a dynamic context, redistribution and insurance become intrinsically linked.
- A key challenge: what is the best balance of policies? e.g.
 1. How should we balance tax & benefit reform with min wages and policies to address low levels of human capital?
 2. How should we balance the taxation of top incomes with competition policy that targets rents of firms and innovators?
- Let's turn to some facts → focus here is on the UK although point to some common features in the US and across the rest of Europe.

Growth in male weekly earnings:

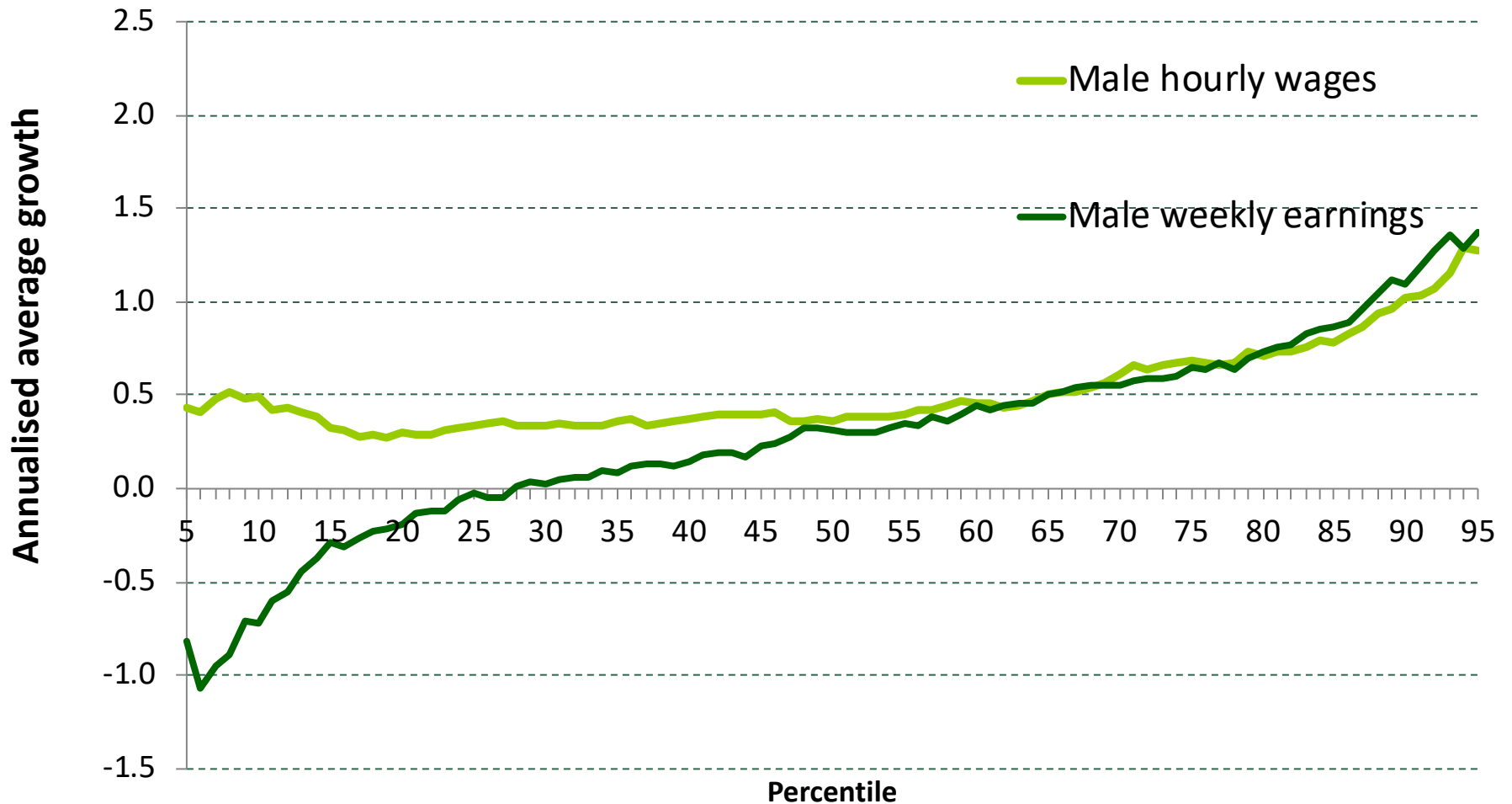
UK, 1994/95 – 2015/16



Source: Blundell, Joyce, Norris Keiller and Ziliak (2018):

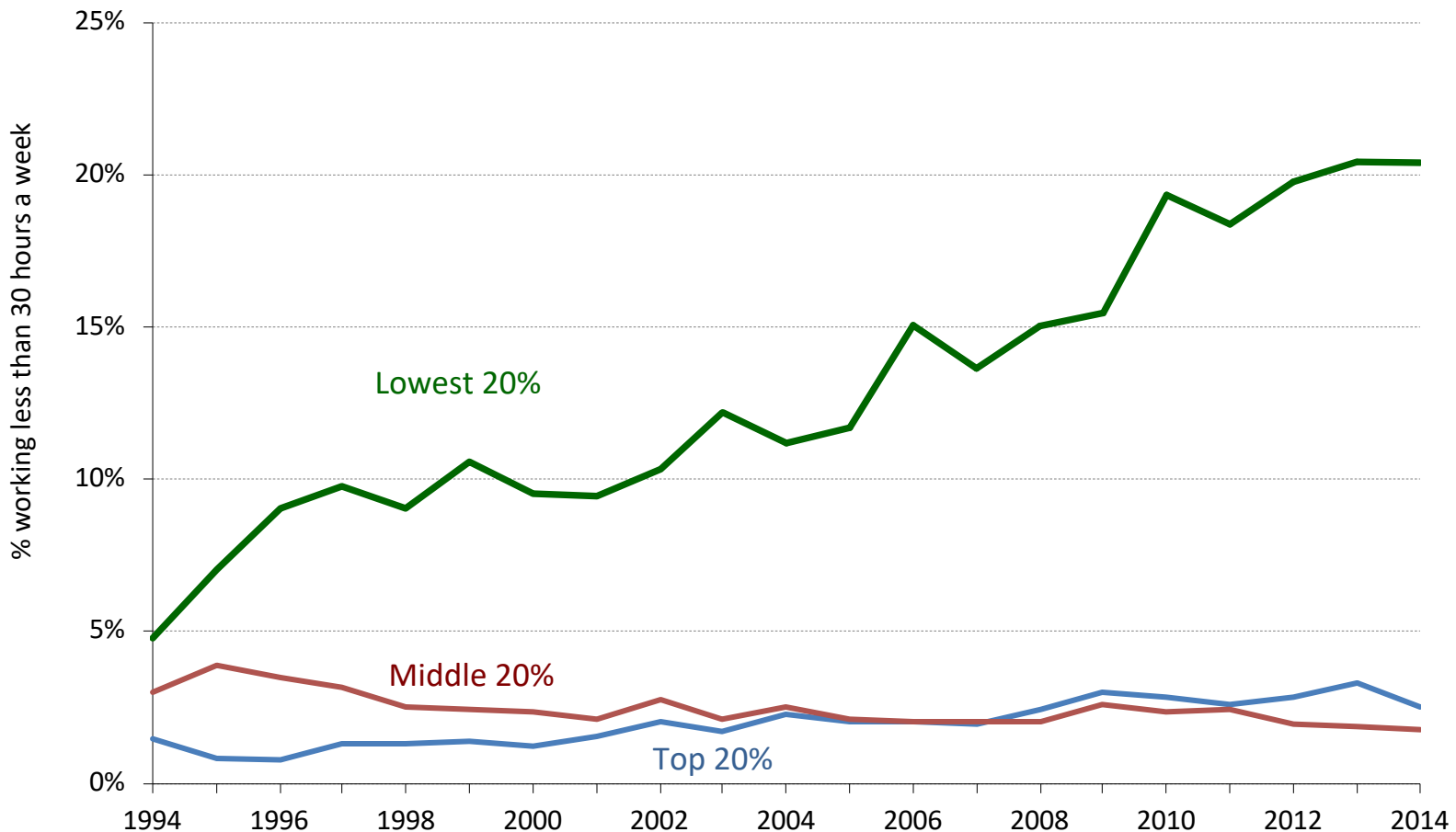
www.ifs.org.uk/publications/10031. Data used is UK FRS 1994-95 and 2015-16.

Growth in male weekly earnings and hourly wages: UK 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.

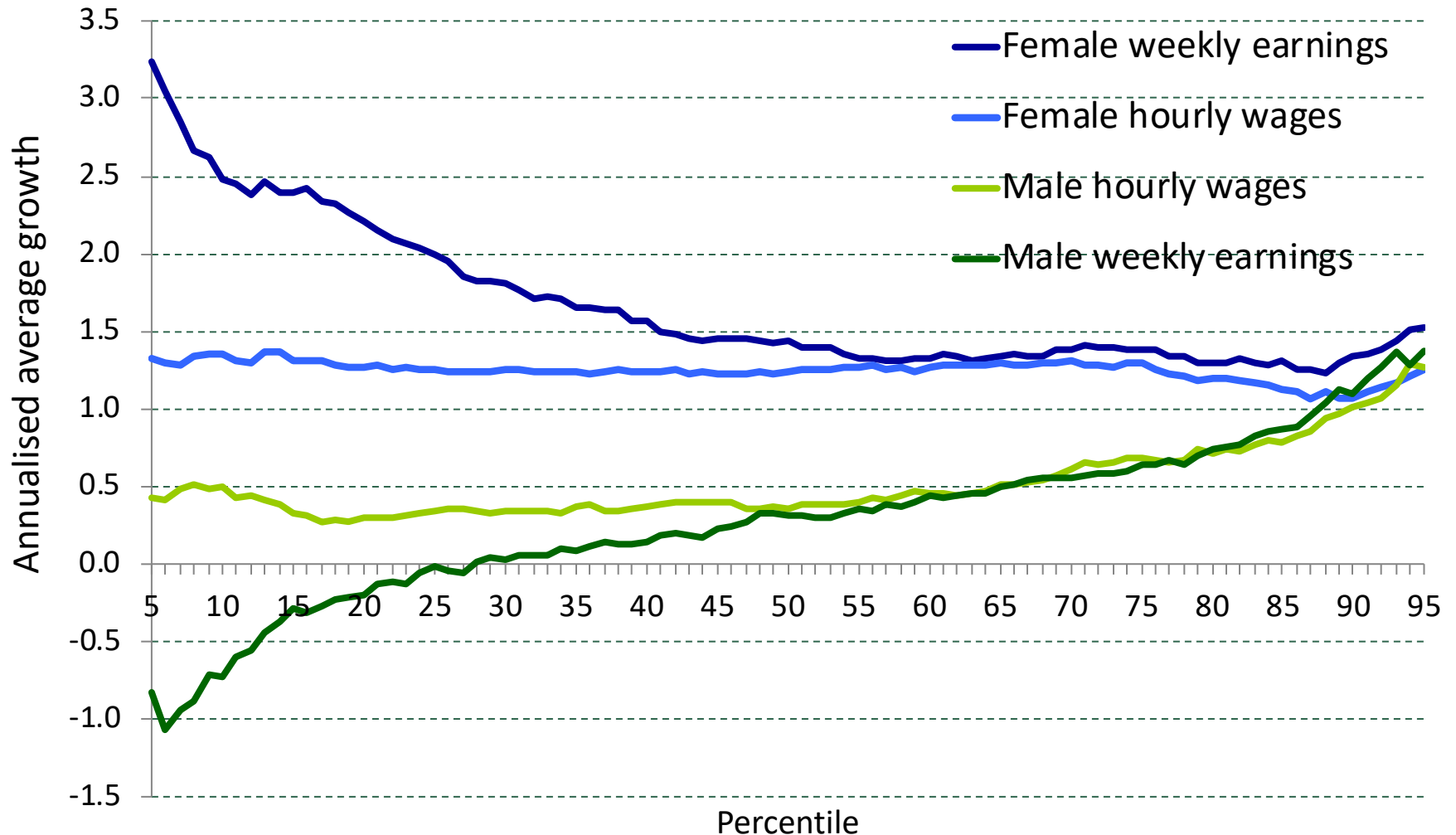
Proportion of men working less than 30 hours in the UK by hourly wage quintile – aged 25-55



Source: IFS calculations using Labour Force Survey

Notes: LFS: Male employees aged 25-55. Giupponi and Machin (2019) show even stronger for self-employed since 2008 where there has been a growing rate of Involuntary part-timers.

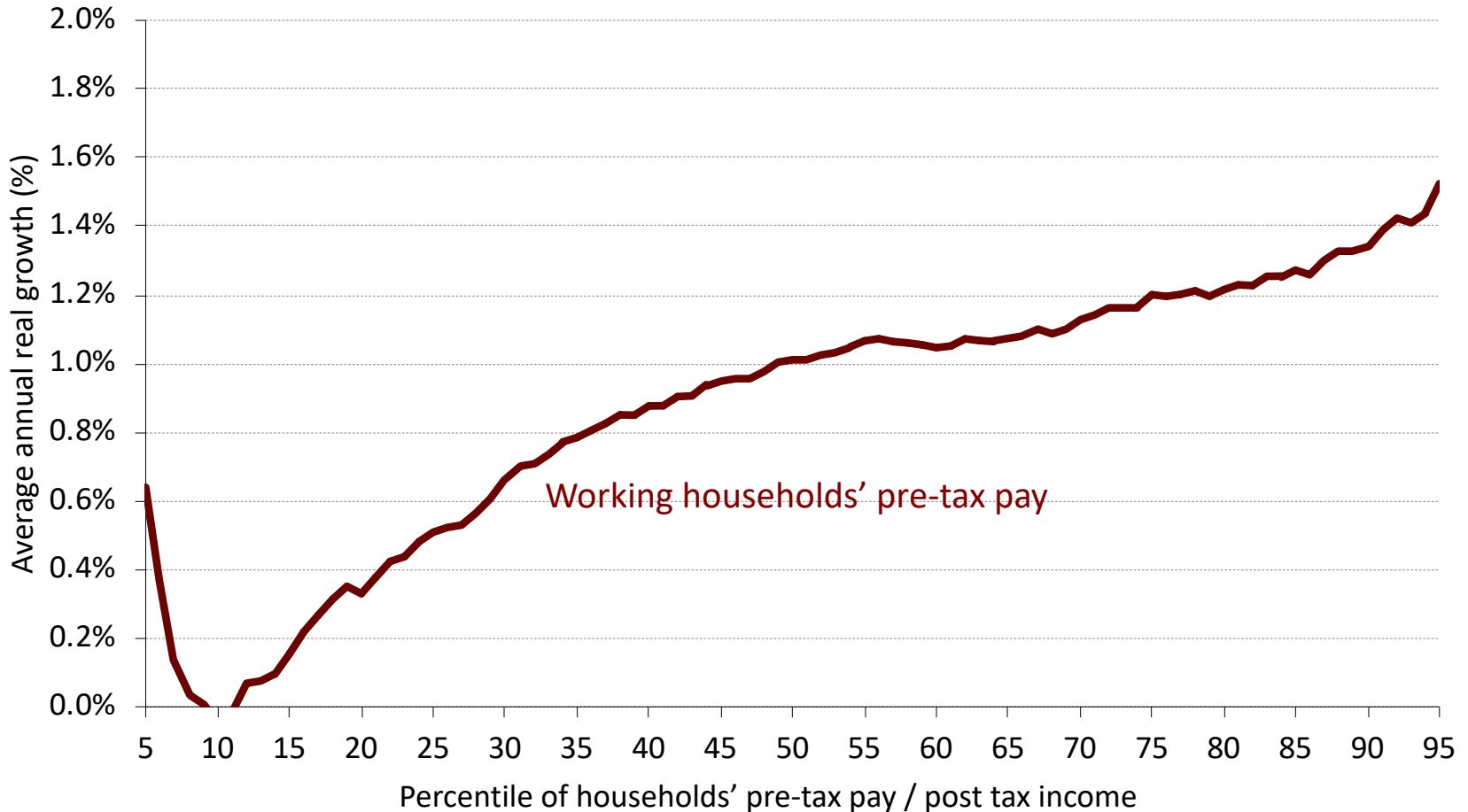
Very different growth in female hourly wages and weekly earnings: UK 1994/95 – 2015/16



But assortative partnering and the low female earnings share implies this has not improved between family inequality.... Similar results in the US.

Earnings and Incomes

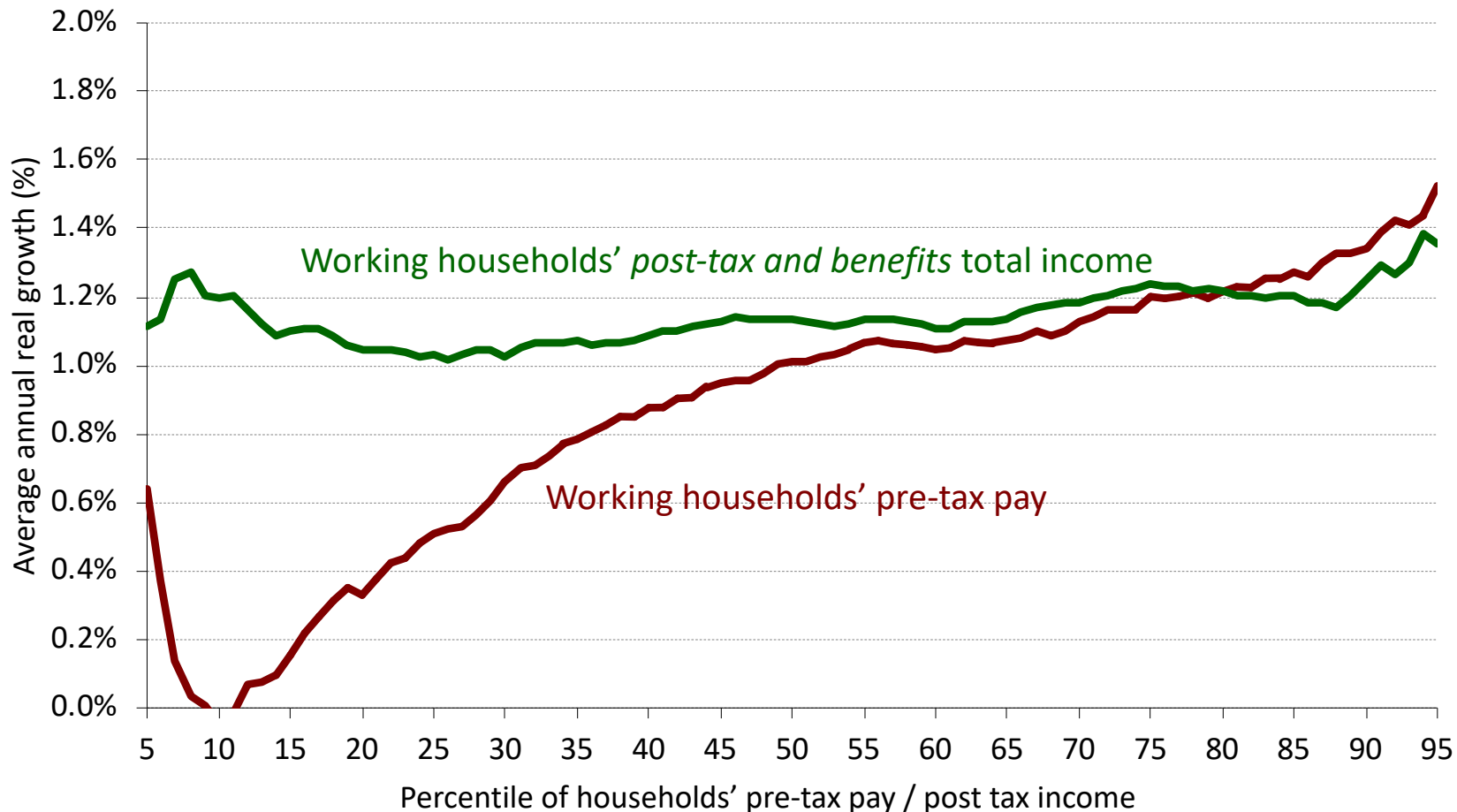
Growth in pre-tax earnings for working households in UK 1994/5 to 2015/6



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)

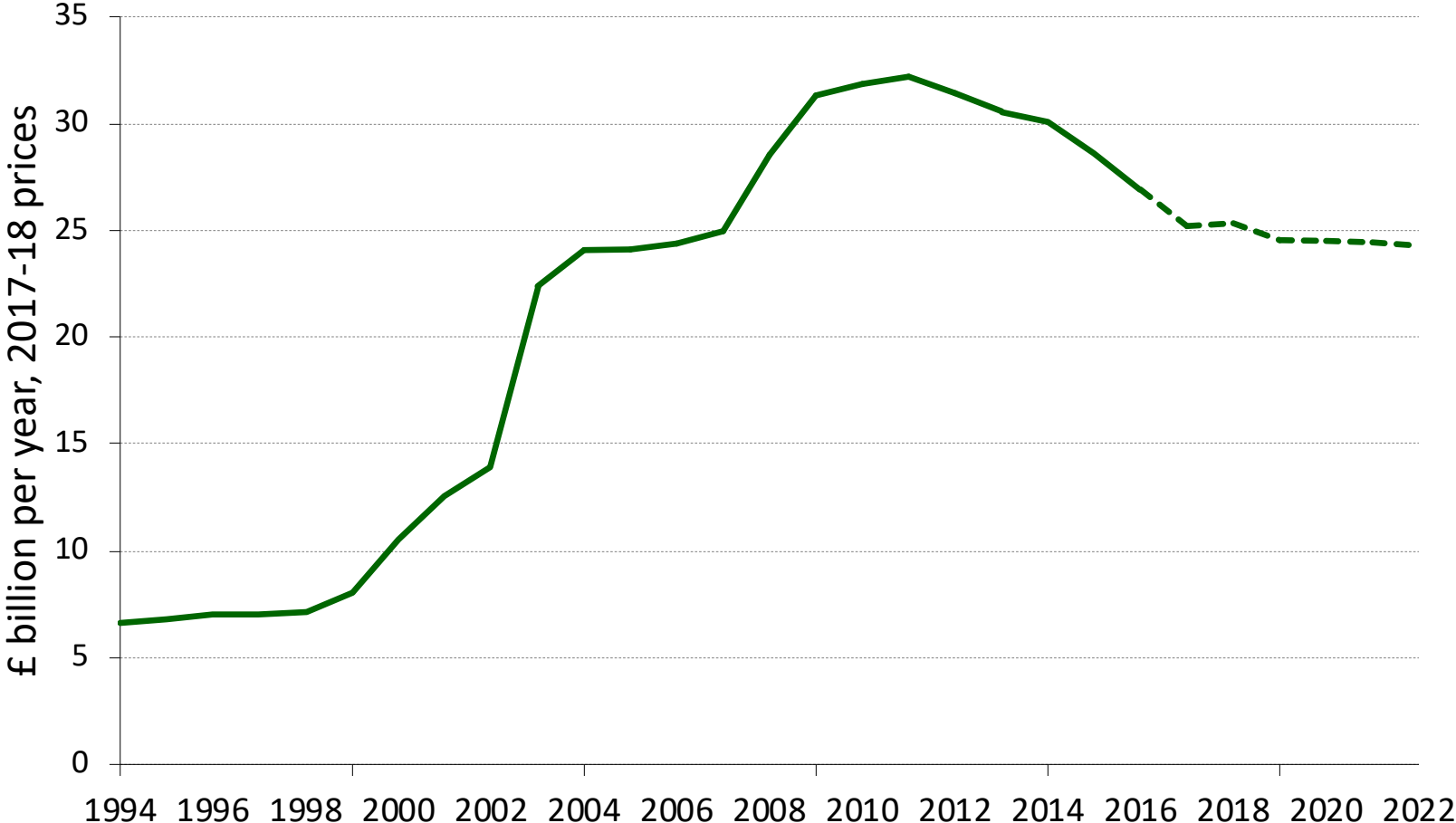
Family Earnings and Family Incomes

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



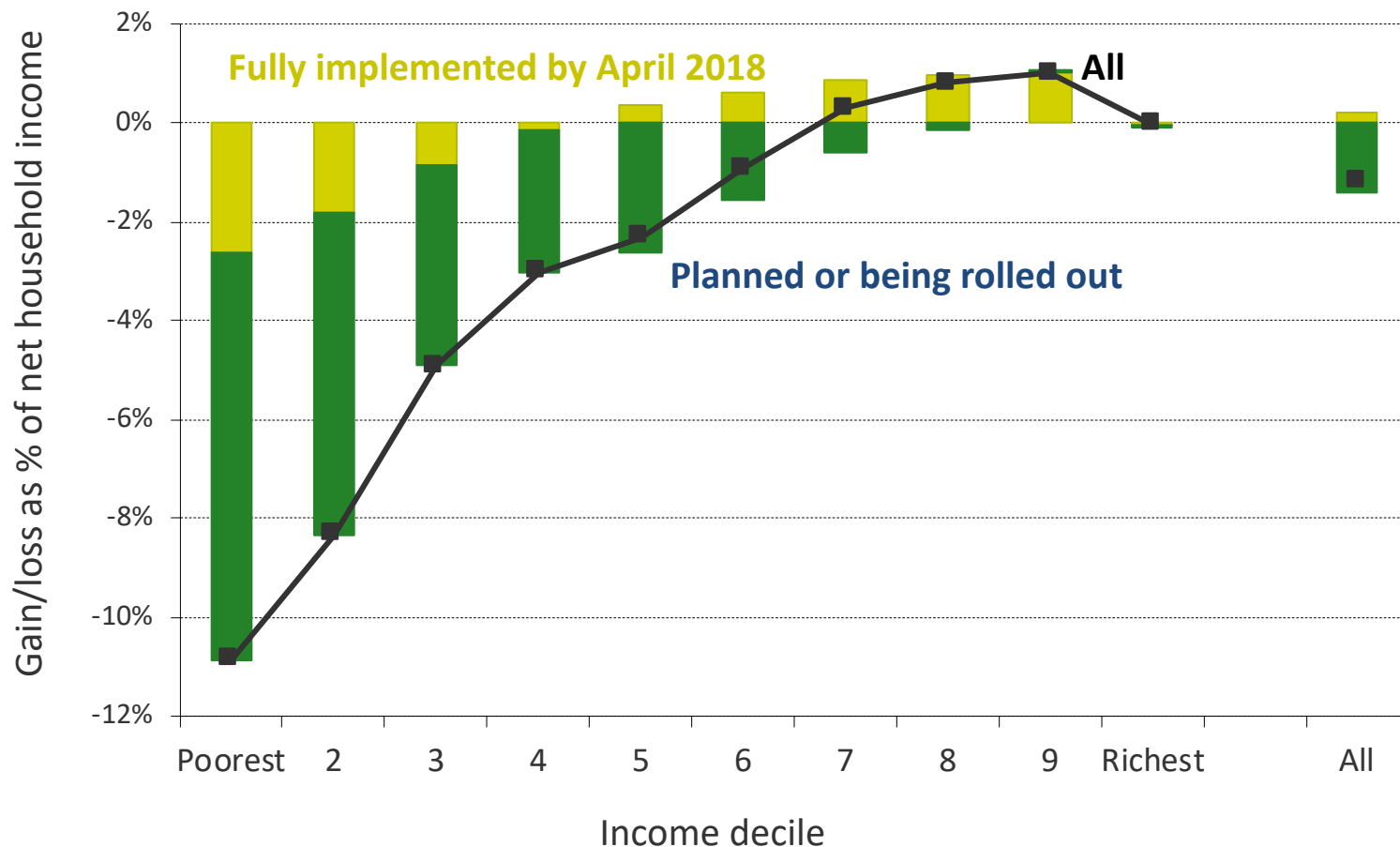
Notes: Includes self employment income and self employed households. Family Resources Survey. All income measures are equivalised.
Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

Real spending on tax credits and equivalents in the UK



Source: IFS calculations from DWP (UK) benefit expenditure tables.

Long run distributional impact of personal tax/benefit reforms in the UK since 2015 going forward...

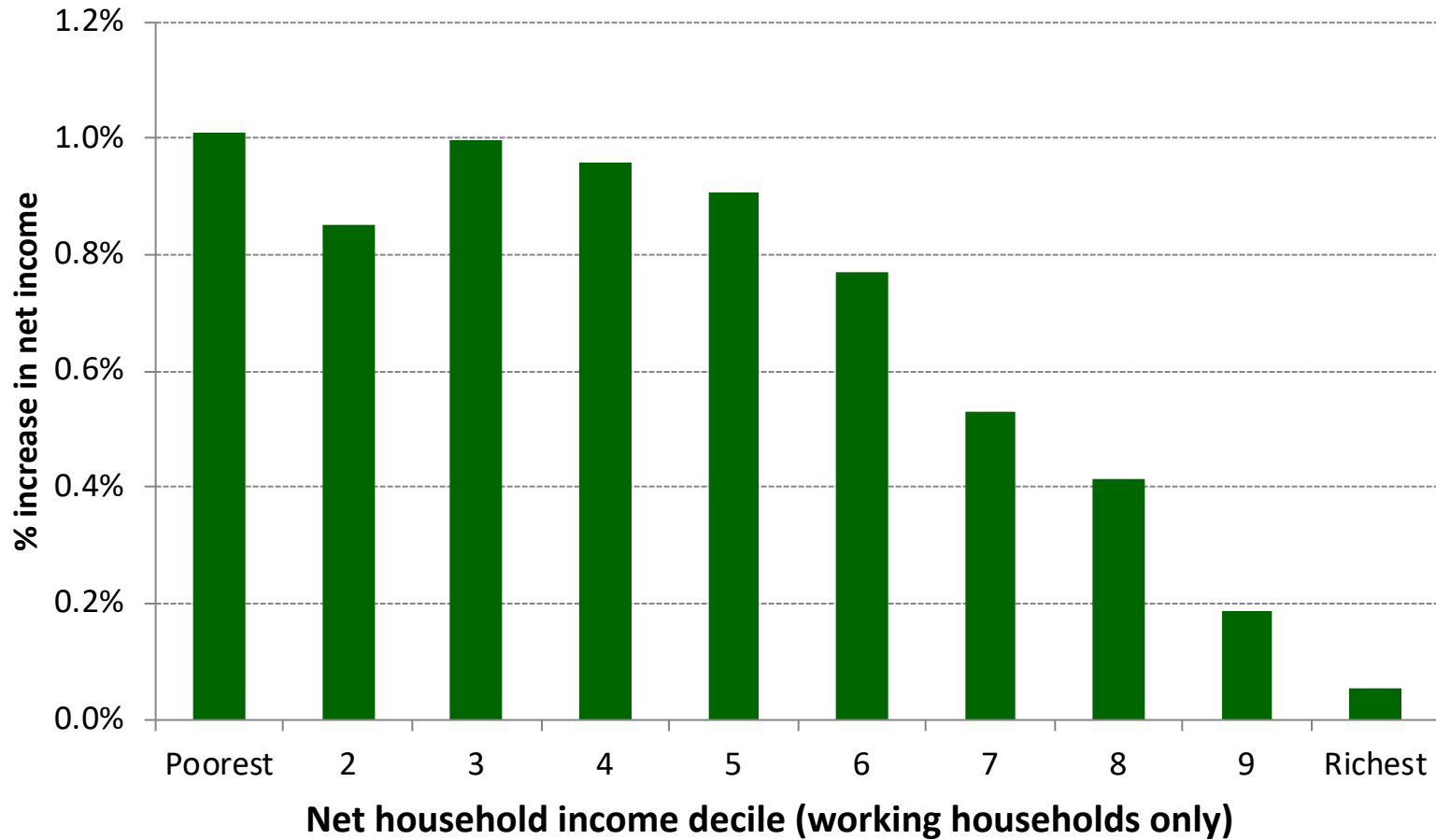


Note: Assumes full take-up of means-tested benefits and tax-credits. Policies partially rolled are Universal Credit, the 2-child limits, the replacement of DLA with PIP and the abolition of the WRAG premium in ESA.

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

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

Figure shows the increase in the minimum wage between now and 2020 in the UK. Which *working households* get the extra money?



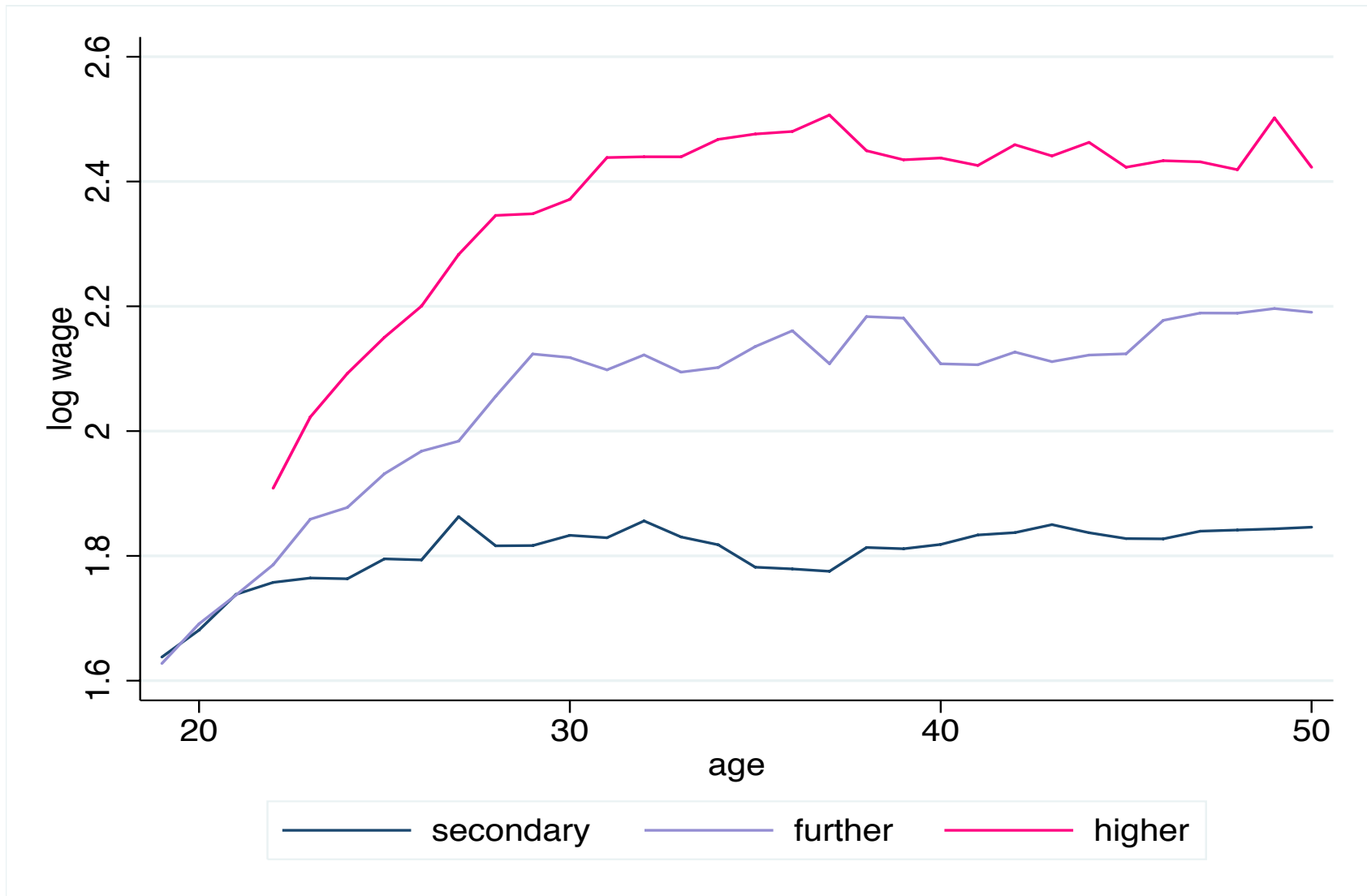
Note: Shows mechanical increase in net income arising from minimum wage rises planned between now and 2020, allowing for interaction with tax payments and benefit entitlements.

Source: Calculations using data underlying Figure 9 of Cribb, Joyce and Norris Keiller (2017):

www.ifs.org.uk/publications/9205

It's depressing at the bottom: wage profiles by education and age

- returns to experience appear strongly *complementary* with education



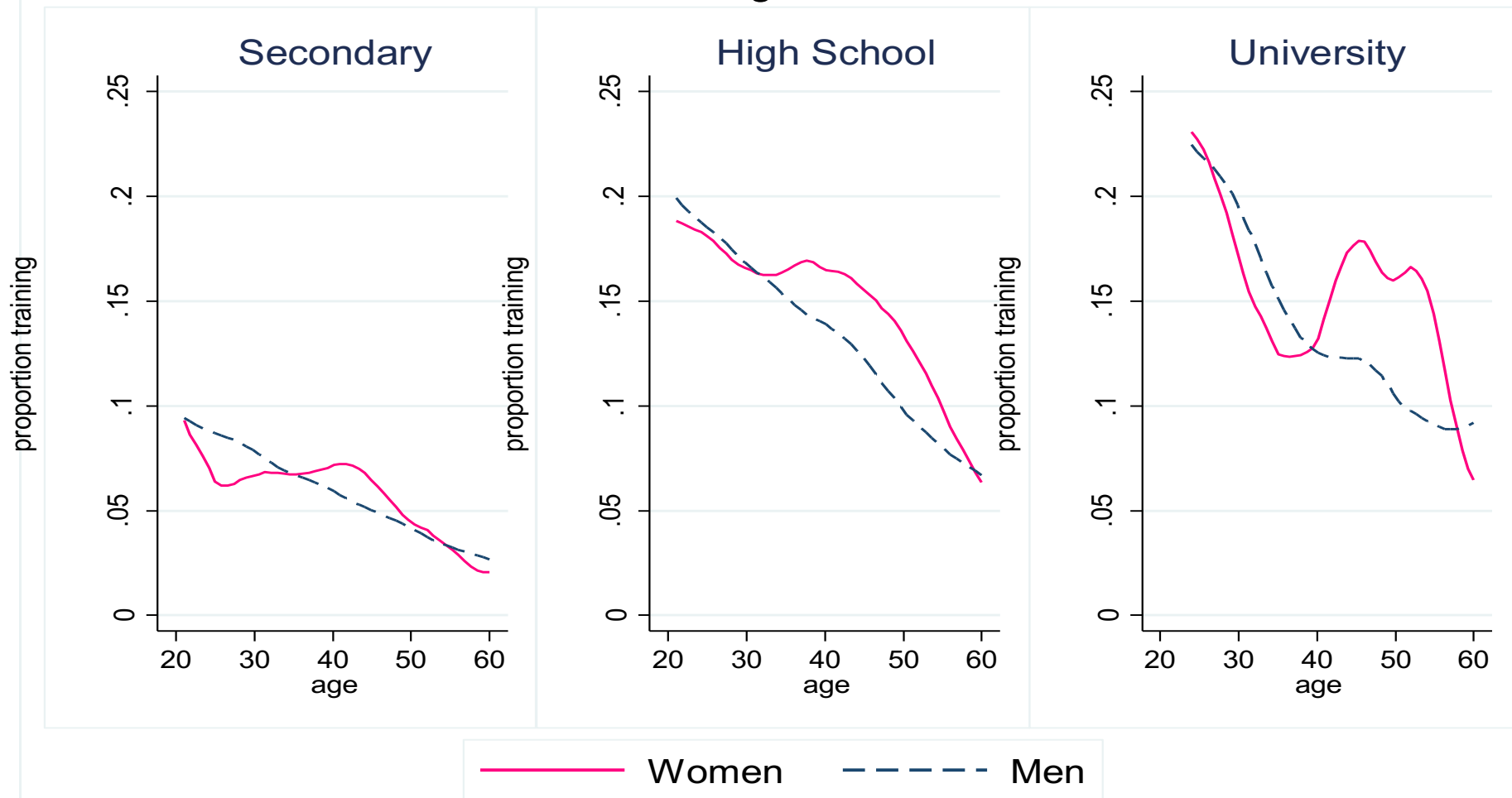
Source: Blundell, Dias, Meghir and Shaw (2016),

Notes: Women, UK BHPS. See similar for UK men and for recent cohorts in the US.

Training strongly complementarity with education.

Prevalence of training over past year

All training, 50+ hours



Source: Blundell, Costa-Dias, Goll and Meghir (2018), Notes: UK BHPS

Inequality, Redistribution and the Labour Market

- A depressing finding – *little wage progression for low skill, why?*
- Employment is *increasingly* not enough to move out of poverty or for longer run self-sufficiency – **diverging profiles by education?**
- Female employment has not offset family earnings inequality- **assortativeness?**
- **Policy options:**
 1. **Earned income tax credits?** - encourage employment and well-targeted to low earning families, but may preserve low progression & have large incidence effects
 2. **Minimum wage?** - not so well-targeted, due to family earnings and falling male hours/attachment. Should be a *complement* to tax credits. Basic income?
 3. **Competition policy and contract regulation?** - increasing mark-ups, solo self-employment and gig economy may signal declining bargaining power....
 4. **Human capital/training incentives/tax credits for low educated?** – focus on soft skills for low educated and training for women returning after children.
- *Challenge: finding the appropriate balance between tax policy & min wage, human capital, and competition policies that impact earnings inequality.*



Appropriate policy mix will differ depending on what explains changes in earnings inequality

- Technical change: skilled workers more productive; easier to automate routine tasks.
 - Education and skills policy may be effective long-run responses
- Globalisation: competition for mobile skilled labour; import competition and offshoring
 - Regional policies, industrial policy and policies to facilitate mobility
- Loss of bargaining power: falling union membership; self-employment, gig economy
 - Policies to empower workers, regulation of contracts and min wages
- Pay and profits at the top: bonuses and stock option; market power and super-star firms
 - Corporation tax, competition policy, corporate/governance regulation
- Redistributive tax and benefit policies will be a key policy instrument
 - *But not the only one!*

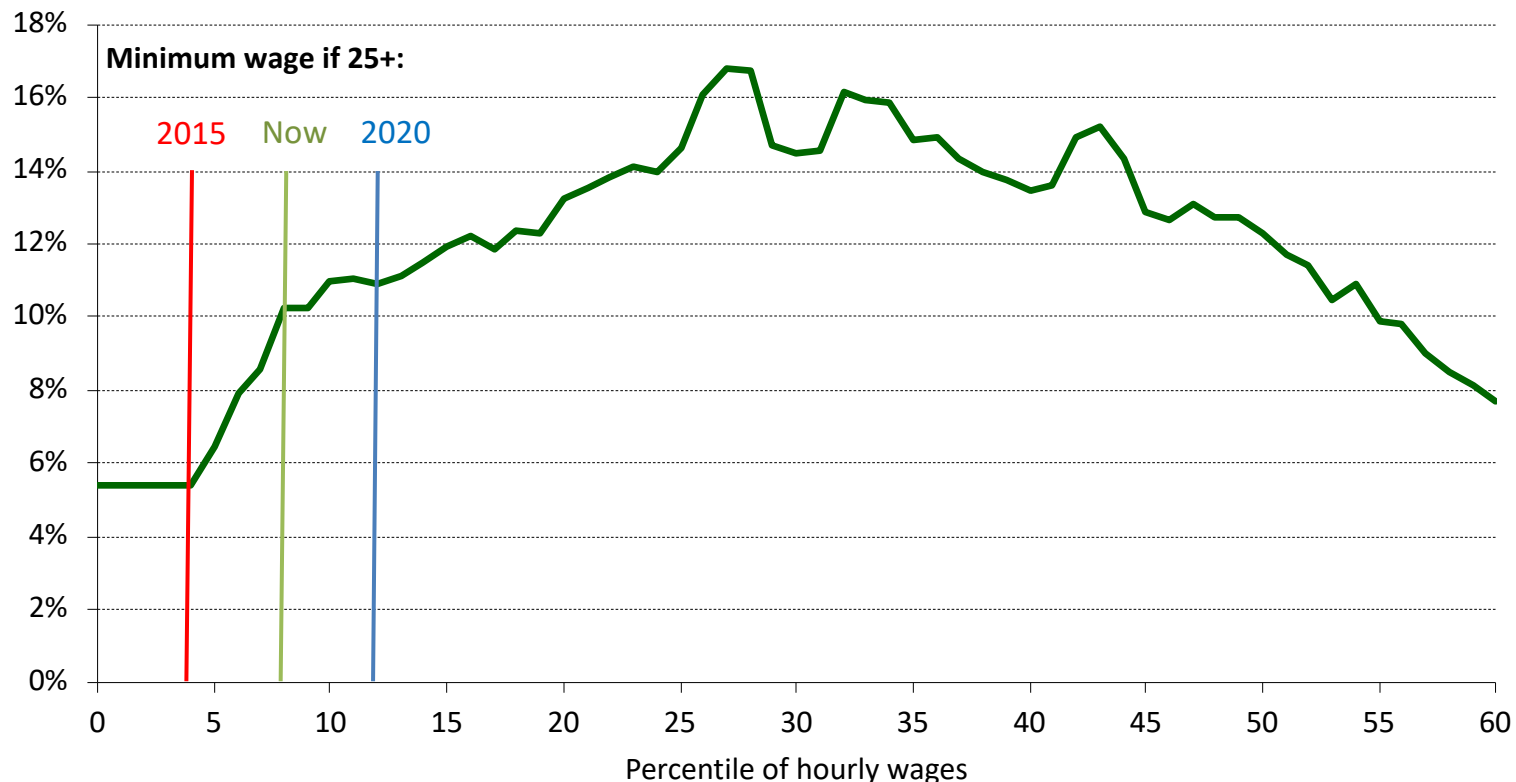
EXTRA SLIDES

Inequality, Redistribution and the Labour Market

- Little wage progression for low educated & those in part-time work
 - employment is not enough to escape poverty or for self-sufficiency,
 - diverging profiles with education, US and UK evidence.
- Increased female labour supply
 - not overcome growth in family earnings inequality;
 - assortativeness and low earnings share.
- Tax credits well targeted to low earning families
 - offset means-testing at the extensive margin for parents,
 - but earnings progression and 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 -> *complementary* to tax credits
 - 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”)



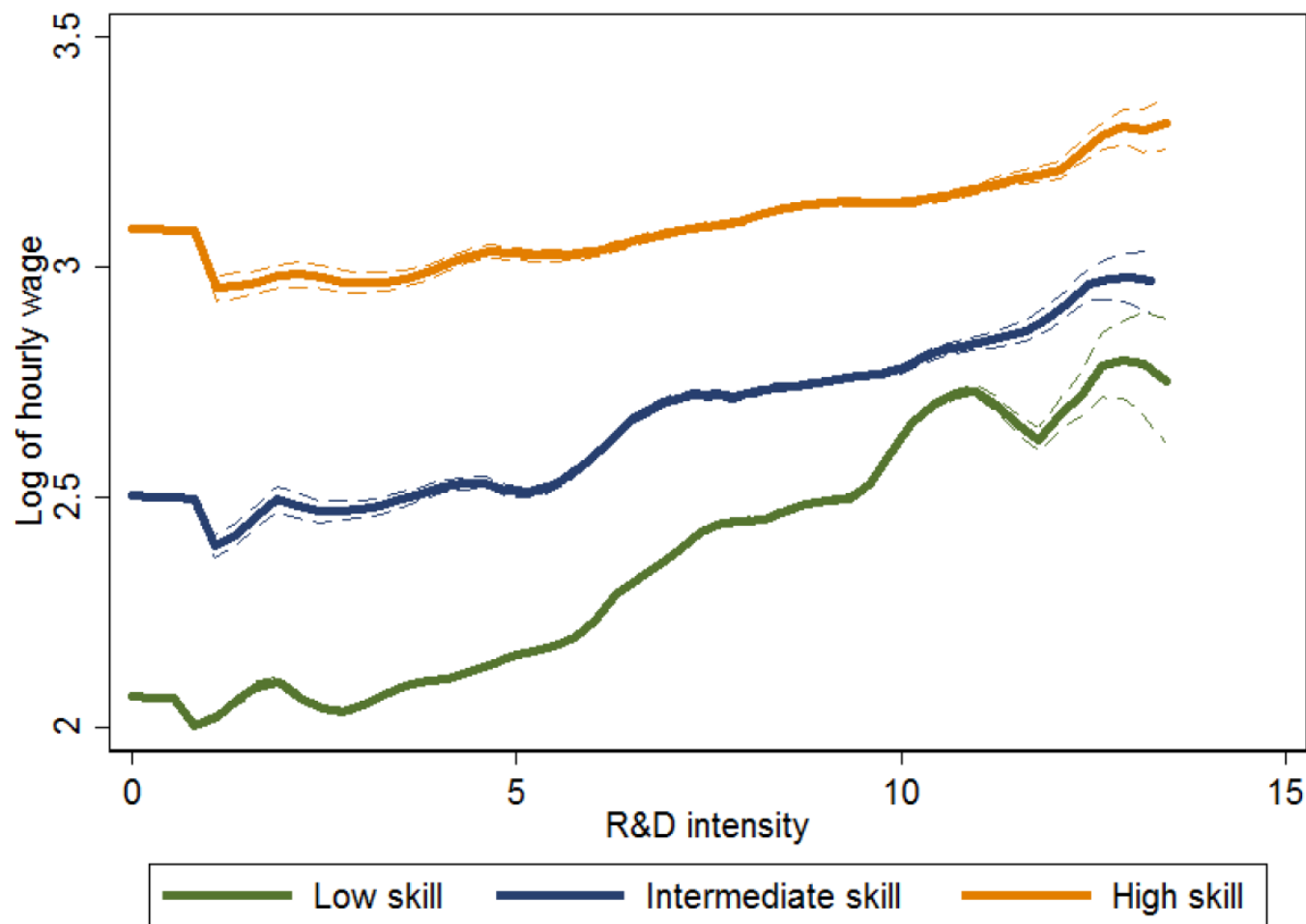
Source: Cribb, Joyce and Norris Keiller (2018): www.ifs.org.uk/publications/10287. Data used is ASHE, 2015.

Designing a policy mix to complement tax credits and min wages

- What limits wage progression?
 - why does part-time experience bring such little wage uplift?
 - less training and networking, constraints on build-up of skill in low-hours jobs?
- What skills for those with lower education are valued by ‘good’ 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?
 - increasing mark-ups, solo self-employment and the gig economy may signal declining bargaining power of low educated workers....
 - the share of solo self-employment has been increasing, see Giupponi and Machin, 2019; they have little access to non-wage benefits.
- We can't address all the concerns about earnings inequality through the tax and welfare system alone!

Low skilled workers and 'good' firms: not all bad at the bottom

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

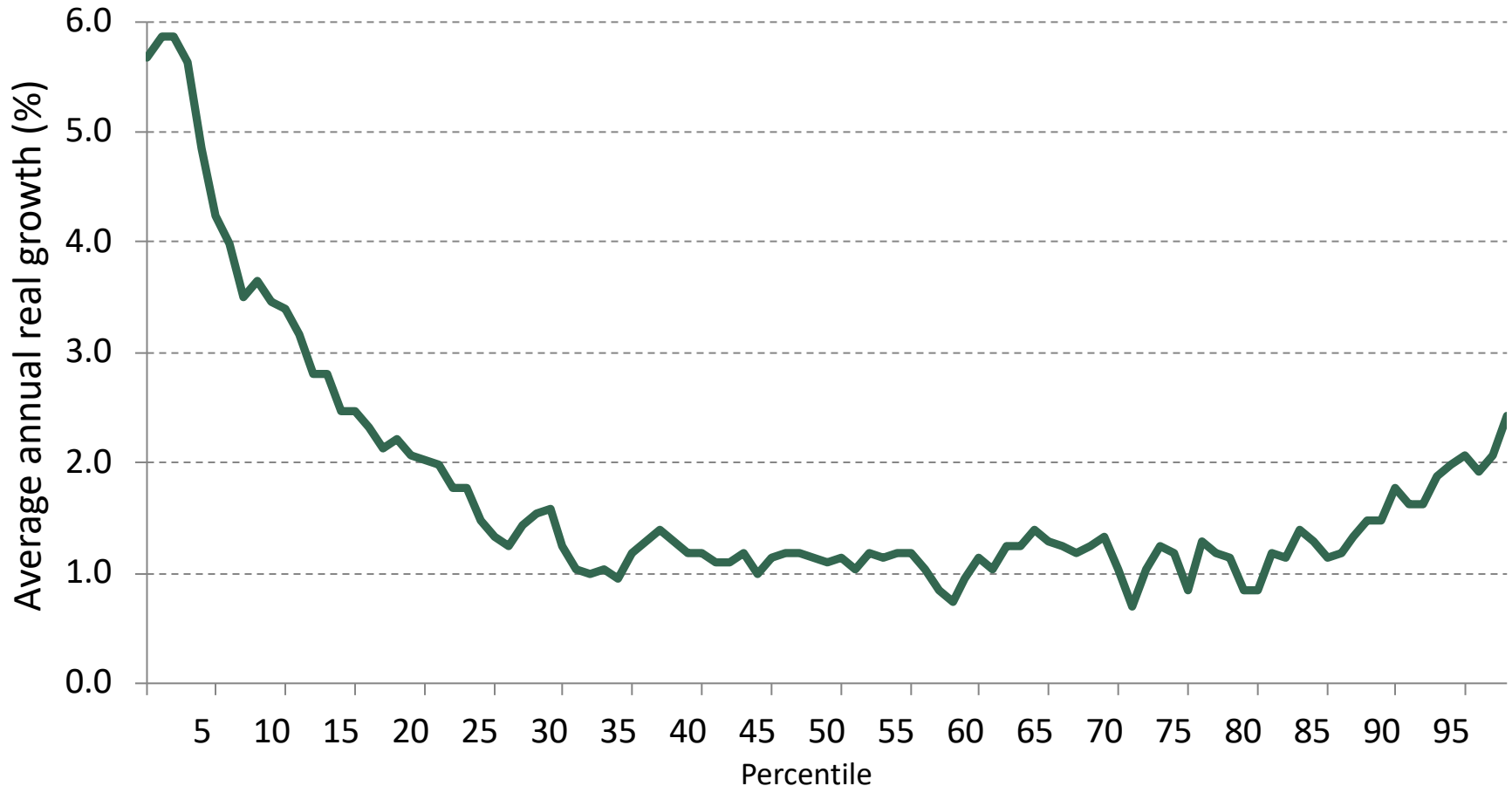


Not all selection, some abilities of low educated are complementary with technology, they get training and the jobs are not outsourced....

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

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

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

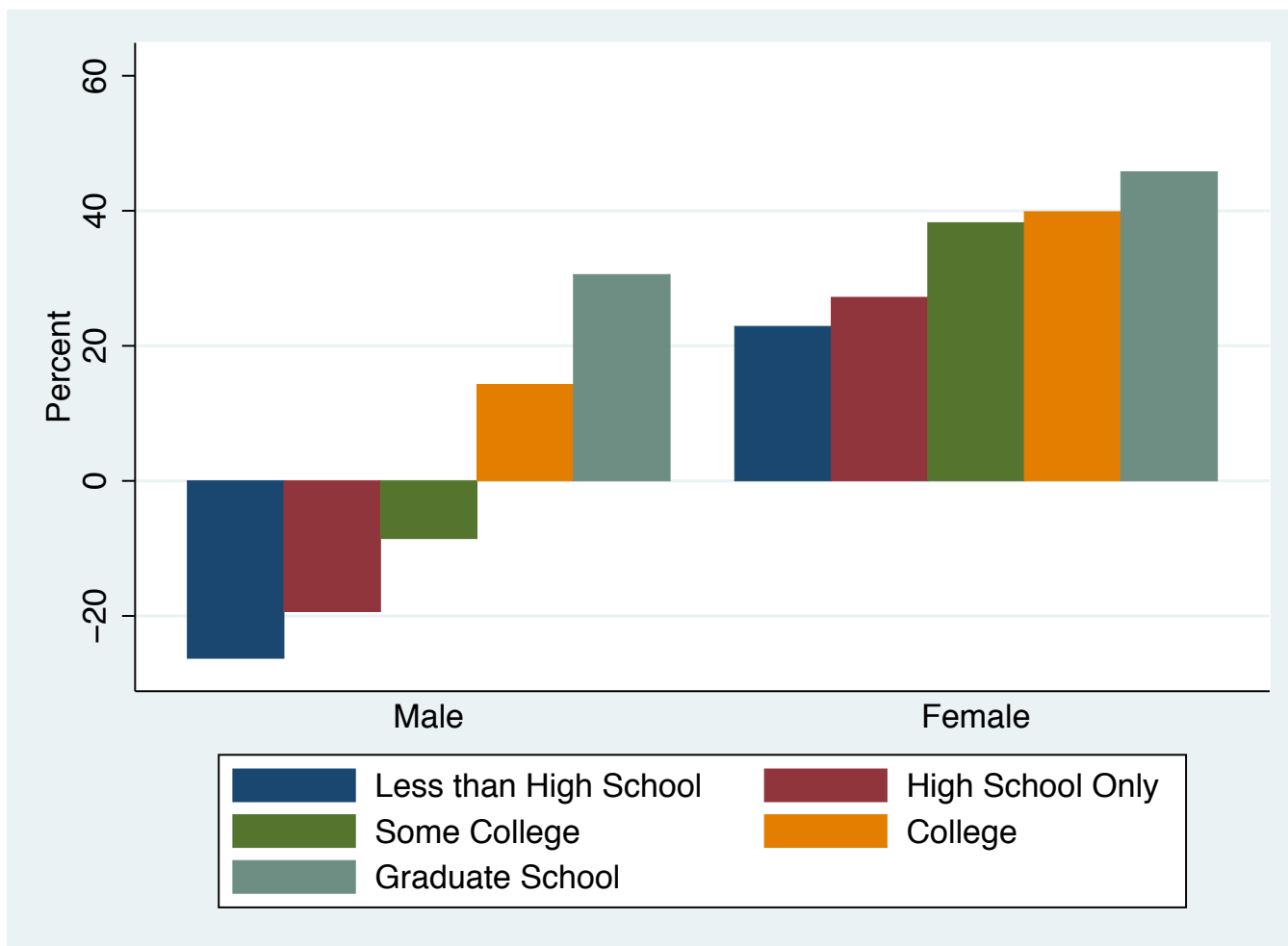


Source: Calculations using Figure 2.11 of Low Pay Commission 2017 Report

(<https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-report-2017>), deflating figures using CPI. Underlying data used is ASHE.

In the US related trends and policy issues

Growth in pre-tax earnings 1974/5 to 2015/6

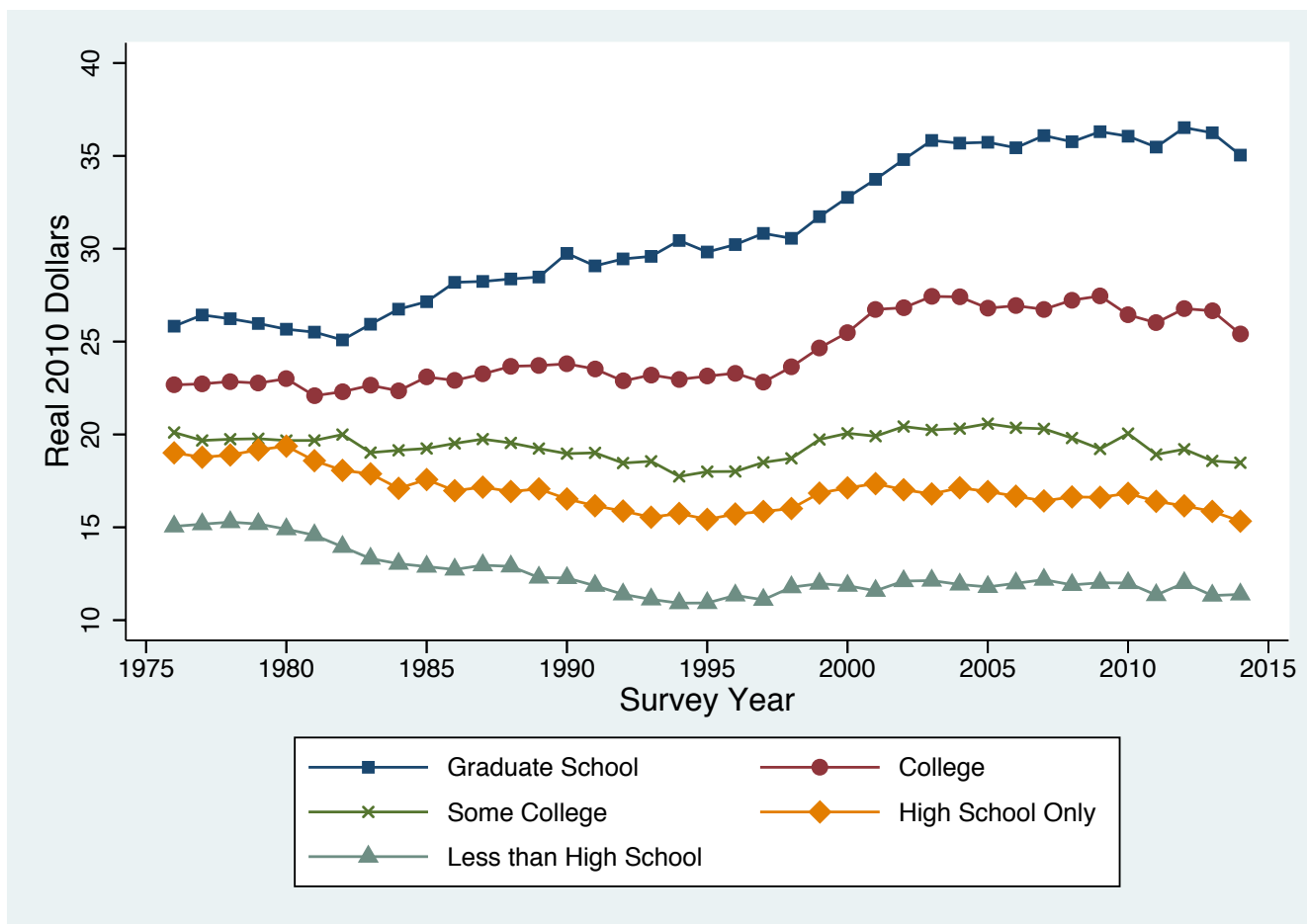


Notes: CPS, Includes self employment income and self employed households.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

In the US and other economies related trends and policy issues

Growth in median male wages by education group 1974/5 to 2015/6



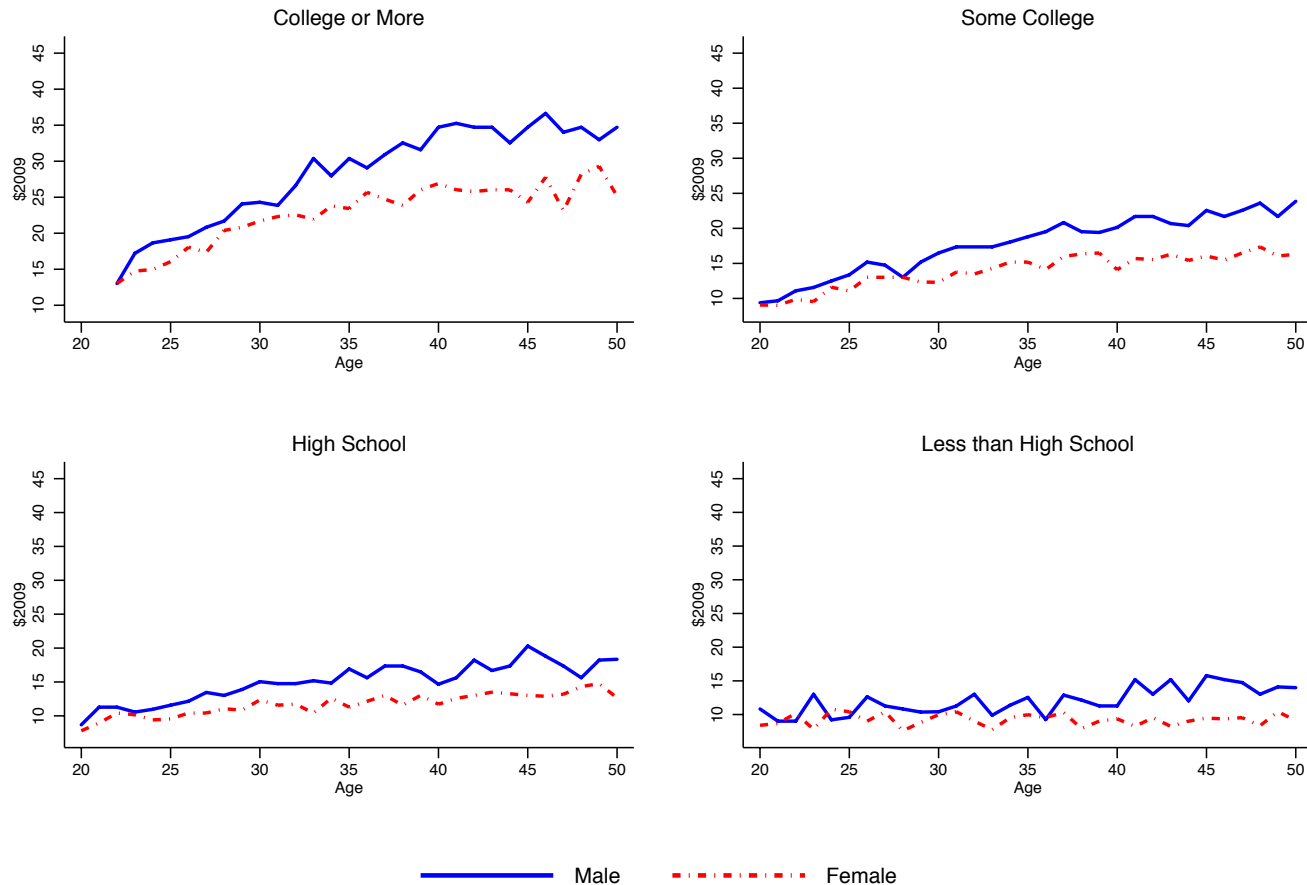
Notes: CPS, Includes self employment income and self employed households.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

In the US and other economies related trends and policy issues

Life-cycle growth in real median wages

Real Median Hourly Wage—Age Profile of Male and Female Workers in the U.S., 2016



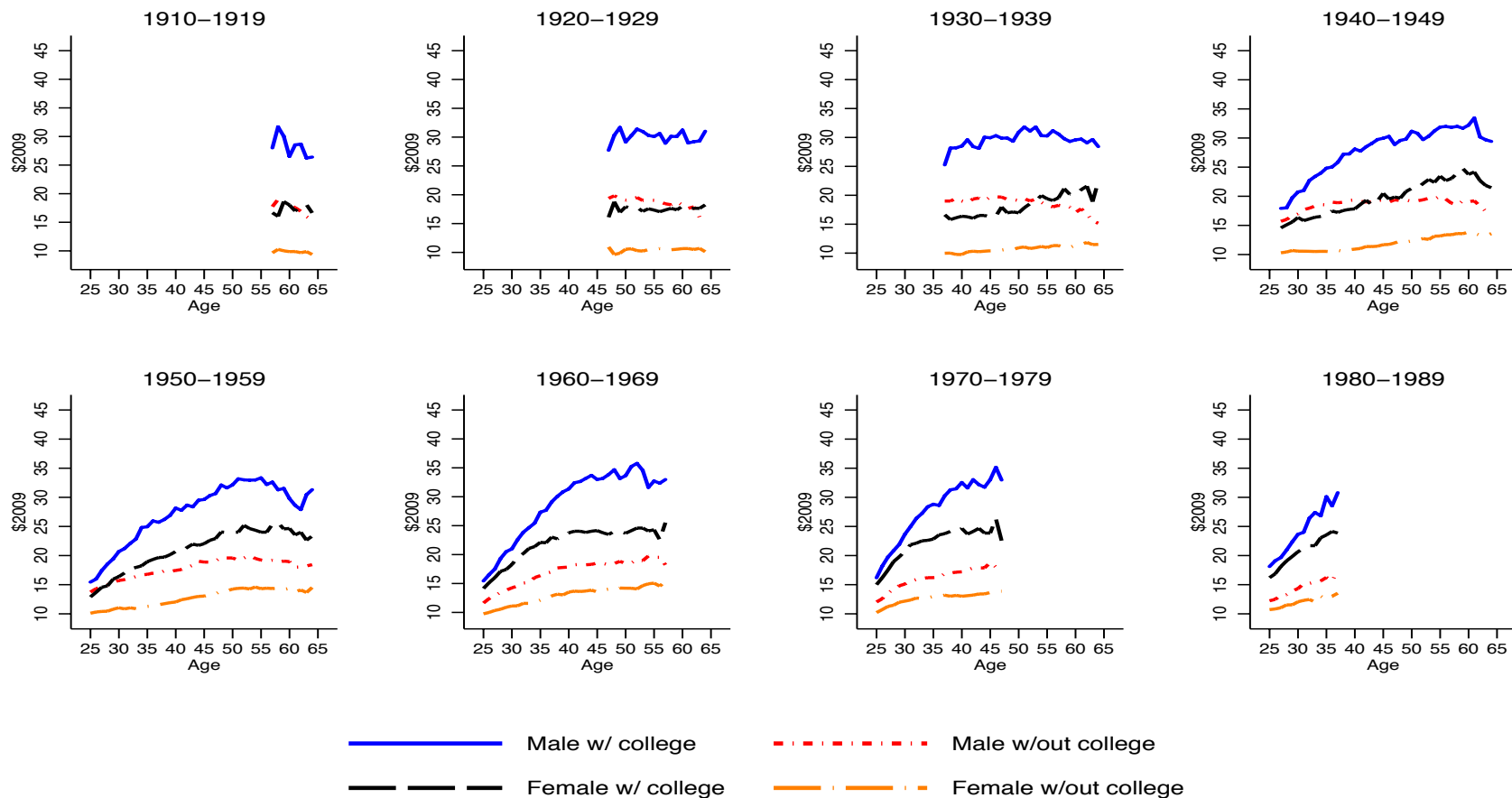
Notes: CPS, Includes self employment income and self employed households.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

In the US and other economies related trends and policy issues

Life-cycle growth in real median wages by birth cohort

Real Median Hourly Wage–Age Profile of Male and Female Workers Ages 25–64 in the U.S. by Birth Cohort

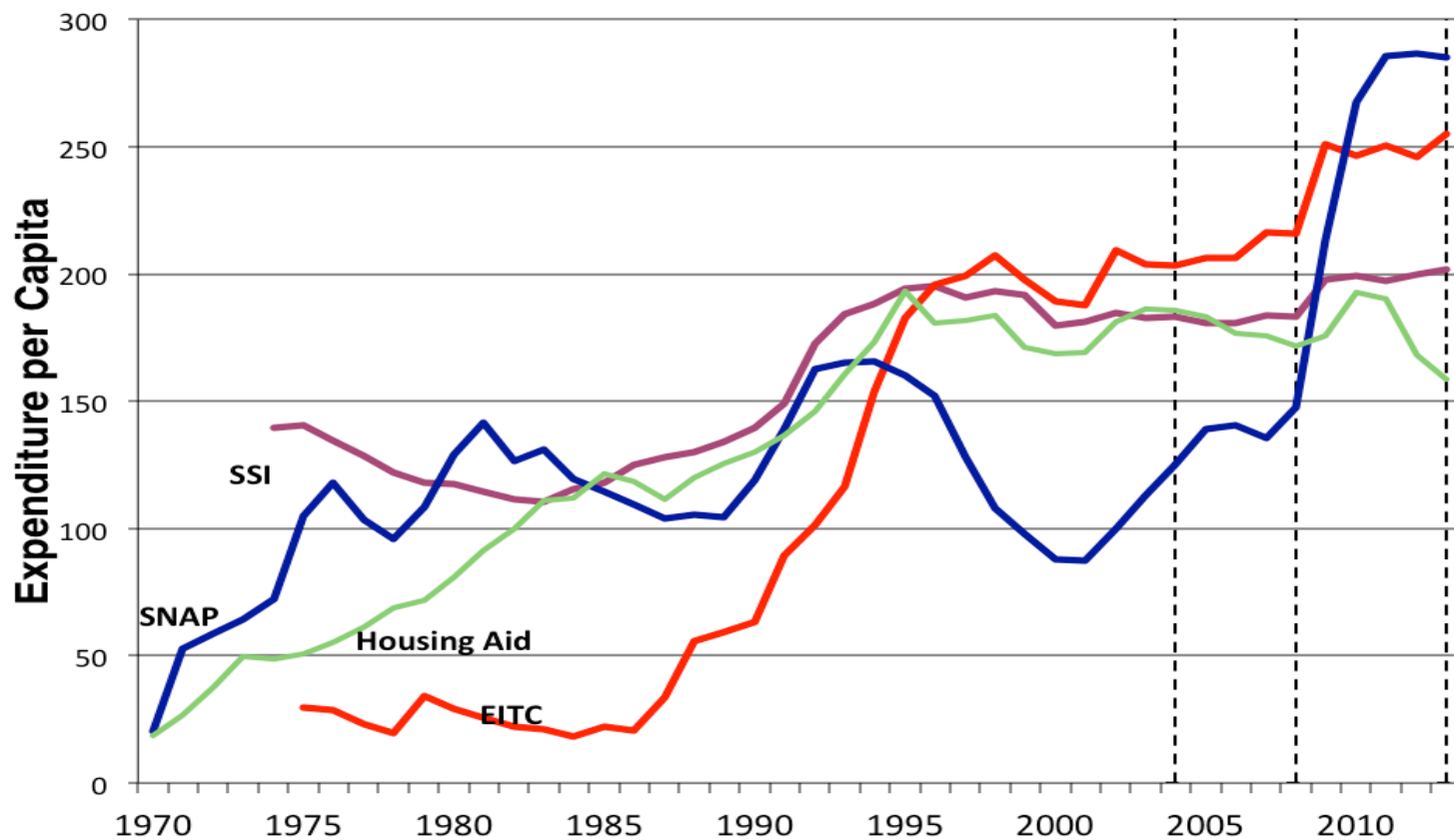


Notes: CPS, Includes self employment income and self employed households.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

In the US and other economies related trends and policy issues

Growth in expenditure per capita on welfare transfers and EITC



Source: Moffitt (2018)