

Inequality, Redistribution and the Labour Market

ES Panel Session, ASSA2020

Richard Blundell

University College London and Institute for Fiscal Studies

Motivating theme: Can't address all the concerns about low wages and earnings inequality through the tax and welfare system alone.

Key challenge: How do we balance tax/benefit policy with other policies: min wages, human capital policies, competition policy, etc?
Let's turn to some facts -> focus here is on the UK although point to some key points of comparison in Europe and North America.



Growth in UK 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.

Growth in UK 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.

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 (Deaton Review, 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; elsewhere?

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018): Data used is FRS 1994-95 and 2015-16.

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



90-10 (and Gini) has not risen over this period in the UK. The top has!

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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) UK has a relatively high level of inequality, but household disposable income Gini has not risen in recent years...

Gini coefficient and the 90:10 ratio in Great Britain, 1961–2017





Source: Joyce and Xu, 2019

The top 1% share has nearly tripled in the last 4 decades

Top 1% share of net household income, UK 1961–2017



Gini and household survey income data do not capture the very top well.

Note: Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards, corrected with tax data. Source: Joyce and Xu, 2019



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.

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 'skills' of low educated are complementary with technology, they get training and the jobs are not outsourced....

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Notes: Skill allocated by occupations in ASHE. Source: Aghion, Bergeaud, Blundell and Griffith (2019)

Summary

- > A depressing finding little wage progression for low educated & part-time.
- Employment is *increasingly* not enough to move out of poverty or for longer run self-sufficiency – diverging profiles by education and part-time work.
- Female employment and family earnings inequality assortativeness.
- Some policy options:
 - 1. Earned income tax credits? encourage employment, well-targeted to low earning families, but preserve low progression, & adverse incidence.
 - 2. Minimum wage? not so well-targeted, due to family earnings and falling male hours/attachment. Should be a *complement* to tax credits.
 - 3. Basic income? difficult to square once families are brought in.
 - 4. Human capital/training incentives/tax credits for low educated? focus on soft skills 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.





The IFS Deaton Review

The IFS Deaton Review: Inequalities in the 21st Century

Sources and Consequences of Inequality

ES Panel Session, ASSA2020

Angus Deaton'Inequality: why do we care?'John Van Reenen'Firms and Inequality'Margaret Levi'The Political Economy of Political Inequality'Orazio Attanasio'Inequality and Human Development'Stefanie Stantcheva'Perceptions of Inequality'Richard Blundell'Inequality, Redistribution and the Labour Market'



EXTRA SLIDES



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Inequality, Redistribution and the Labour Market

Motivating theme: Can't address all the concerns about low wages and earnings inequality through the tax and welfare system alone.

Key challenges:

- 1. How should we balance tax & welfare-benefit reform with min wages, contract regulation and human capital policies to address low incomes?
- 2. How should we balance the taxation of top incomes and corporations 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 key points of comparison in Europe and North America.
- The structure of work and of families has changed over the last three decades and continues to change apace,
 - growing earnings inequality for men and women, and adverse labour market 'shocks' for the low educated, especially men.



Designing a policy mix

- What limits wage progression?
 - less training and networking, constraints on build-up of skill in low-hours jobs, labour market for part-time workers less competitive;
 - avoid part-time incentives & incorporate training incentives in part-time work.
- What skills among those with lower education are valued by 'good /growing' firms?
 - skills that complement innovation are less likely to be out-sourced;
 - 'soft skills' seem key => re-think qualification firm-based 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, solo self-employment and the gig economy may signal declining bargaining power of lower educated workers..
 - improve access to training, non-wage benefits and job search information.



Some take-aways:

- 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; elsewhere?
- Increased female labour supply
 - has not overcome family earnings inequality;
 - assortativeness and low earnings share.
- In-work tax-credits/benefits 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.



2. Training also appears complementarity with education



Source: Blundell, Costa-Dias, Goll and Meghir (2019), Notes: UK BHPS

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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 'skills' of low educated are complementary with technology, they get training and the jobs are not outsourced....

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Notes: Skill allocated by occupations in ASHE. Source: Aghion, Bergeaud, Blundell and Griffith (2019)

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

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



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



Self-employment and 'alternative work arrangements'

Self-employment as percent of workforce



Source: Giupponi and Machin (Deaton Review, IFS, 2019)



Alternative work arrangements across countries

Alternative work as percent of workforce



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Earnings inequality:

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



Notes: CPS, Includes self employment income and self employed households. Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)



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



Notes: CPS, Includes self employment income and self employed households. Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)



The US experience

Growth in expenditure per capita on welfare transfers and EITC



Source: Moffitt (2018)



% of those in poverty by work and family type



Source: IFS calculations see Figure 1 of Bourquin et al. (2019)

NLW and the Proportion of Employees on ZHC in the UK



Source: Giupponi and Machin (Deaton Review, IFS, 2019)

Min wage across countries

Monthly equivalent min wage



Source: Eurostat

A little more detail on three key issues:

- 1. Wage progression
- 2. Training
- 3. The role of good/innovative firms



Similar wage progression age profiles in the US

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)



Understanding wage progression: summary results

- The returns to work experience show strong complementarity with education,
 - much lower returns for low educated,
 - much lower returns for part-time work.
- These effects seem to be getting stronger over time.
- We find reduced work experience and the part-time penalty explain around 60% of the gender wage gap,
 - note too the growth of younger men in part-time work.
- What about the role of on-the-job training?



Market income is much more unequal in UK and Ireland

Gini coefficient of equivalised net household incomes in selected countries, 2016



Source: Sweeney (2018), OECD Income Distribution Database.



Wage progression and training: empirical results

- Add training to the determination of wage progression as an additional human capital investment
 - offsetting the depreciation of experience capital,
 - allow for job-induction training.
- The training impact on wages is significant, conditional on education, experience, family background, heterogeneity,
- Firm-based qualification training is key,
 - with return equivalent to that in formal education.
- Particularly strong effects for middle education group



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.



Wage progression for workers in low-skilled occupations



Notes: matched employer-employee data for UK 2004-2016; average hourly wage for workers in low-skilled occupation in innovative and non-innovative firms Source: Aghion, Bergeaud, Blundell and Griffith (2019)



3. Wage progression and firms

- Do firms matter?
- Why and when do some low education workers do well?
- What are 'good' firms?



Firms and wage progression: empirical findings

Implications of using new employee-employer matched data,

- workers in innovative firms earn higher wages on average than workers in non-innovative firms,
- some workers in low skilled occupations attract higher wages in innovative firms and see wage progression with tenure.

The idea: workers who perform tasks *complementary* to high skilled workers, capture a higher share of the surplus than equivalent workers in low innovation/R&D firms.

- Show this reflects 'soft skills' for low educated workers,
- Find workers with these skills are less likely to be out-sourced and more likely to receive training.



Growth in market power? Average markups across different regions



Source: De Leocker and Eeckhout (2018)



Training questions

READ OUT

I would like to ask some details about all of the training schemes or courses you have been on since September 1st 1999, (other than those you have already told me about), starting with the most recent course or period of training even if that is not finished yet.

	D69.	D70.	D71.	D72.
Event no.	SHOWCARD D13 Where was the main place that this course or training took place?	Was this course or training READ OUT AND CODE FOR EACH	Since September 1st 1999 how much time have you spent on this course or training in <u>total</u> ?	SHOWCARD D14 Which statement or statements on this card describe how any fees were paid, either for the course or for examinations? CODE ALL THAT APPLY
1	WRITE IN MAIN PLACE AND ENTER CODE FROM SHOWCARD CODE ONE ONLY WRITE IN PLACE ENTER CODE FROM SHOWCARD	Yes No To help you get started <i>JTRWHYA1</i> in your current job?12 To increase your skills in your current job for example by learning <i>JTRWHYB1</i> new technology?12 To improve your skills <i>JTRWHYC1</i> in your current job?12 To prepare you for a job or jobs you might <i>JTRWHYD1</i> do in the future?12 To develop your skills <i>JTRWHYE1</i> generally?12	ENTER NUMBER	No fees01 JTRFEEA1 Self/family02 JTRFEEB1 Employer/ future emp03 JTRFEEC1 New Deal scheme05 JTRFEEE1 Training for work, Youth/Emp training/ TEC06 JTRFEEF1 Other arrangement (SPECIFY) 07 JTRFEEG1

Source: Blundell, Costa-Dias, Goll and Meghir (2019), Notes: UK BHPS



Subsidy policy simulation £500 subsidy per year available when child is age 0-7.



Source: Blundell, Costa-Dias, Goll and Meghir (2019), Notes: UK BHPS



Redistributive impact of taxes and transfers in LACs and Europe

Inequality of Disposable and Market income in Latin America and Europe (Gini coefficients)



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Source: Figure 1: Goñi, Lopez and Serven, 2008; and Lustig (2011).

Self-employment across countries

Self-employment as percent of workforce





Alternative work arrangements across countries

Alternative work growth



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Real wage growth across countries



Note: Data for Germany start in 1991. Source: OECD.



Weekly hours of work

Density of weekly hours worked for workers on alternative work arrangements (solo self-employed and zero hours contract workers)



Notes: kernel density; who desire to work more hours (solid line) and who are satisfied with their hours or would like to work fewer hours (dashed line). Source: LSE-CEP Survey of Alternative Work Arrangements.



Appropriate policy options 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
- <u>Globalisation</u>: 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!

