



Labour Market Inequality

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Context

The economic landscape of the UK labour market is now very different to what it was 40 years ago.

Wages are significantly more unequal, employment reached record levels whilst wages of most workers have stagnated in real terms, the composition of work has significantly altered and the role of labour market institutions has changed.

Some of what is going on is common to other countries' labour markets, some is specific. Response to global and local economic shocks are important.

This, plus policy discussions, forms the focus of this Chapter of the Review.

Structure

- I. The changing nature of labour market inequality [*]
- II. How well do economic models explain the patterns of change?
- III. The role of labour market institutions [*]
- IV. Policy aspects of labour market change [*]

[*] Focus for most of today's overview and discussion, one slide on II

I.1 Trends in wage inequality and real wages

Wage inequality is significantly higher now than 40 years ago.

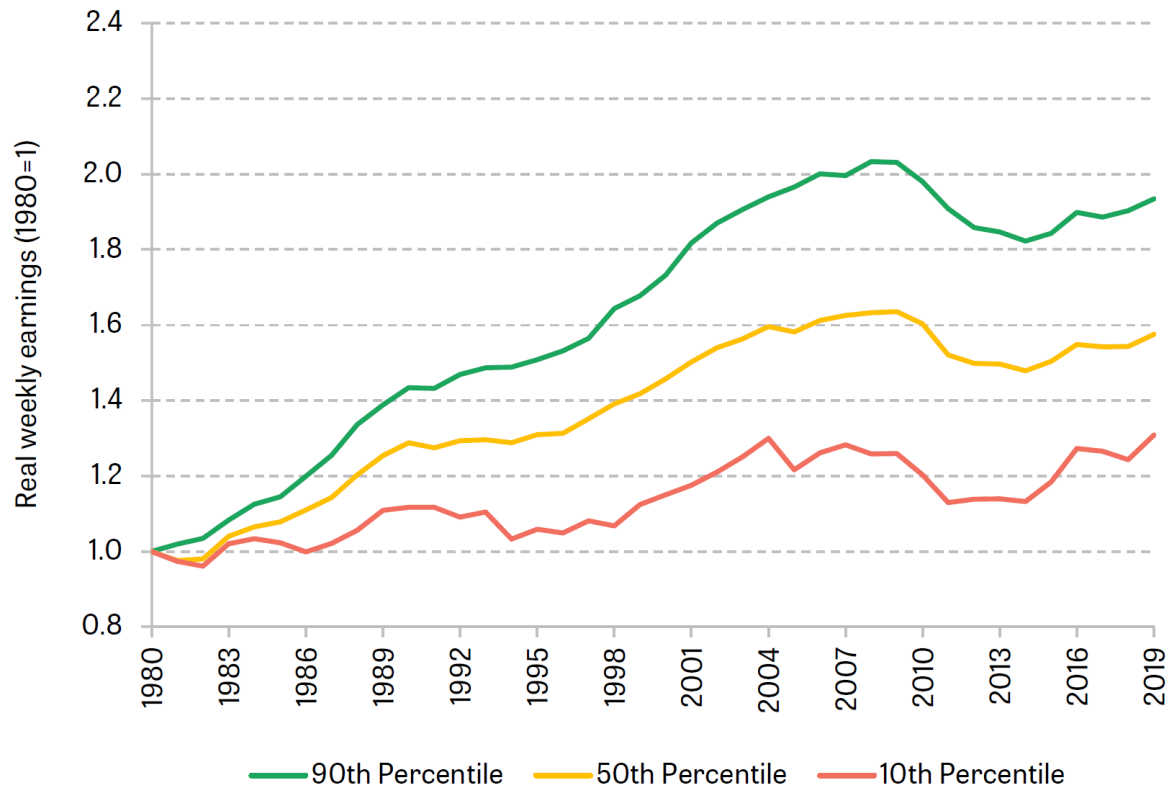
The UK moved up to being one of the higher earnings inequality countries in the developed world by 2019.

Decades – unevenness and uniformity.

Real wage stagnation.

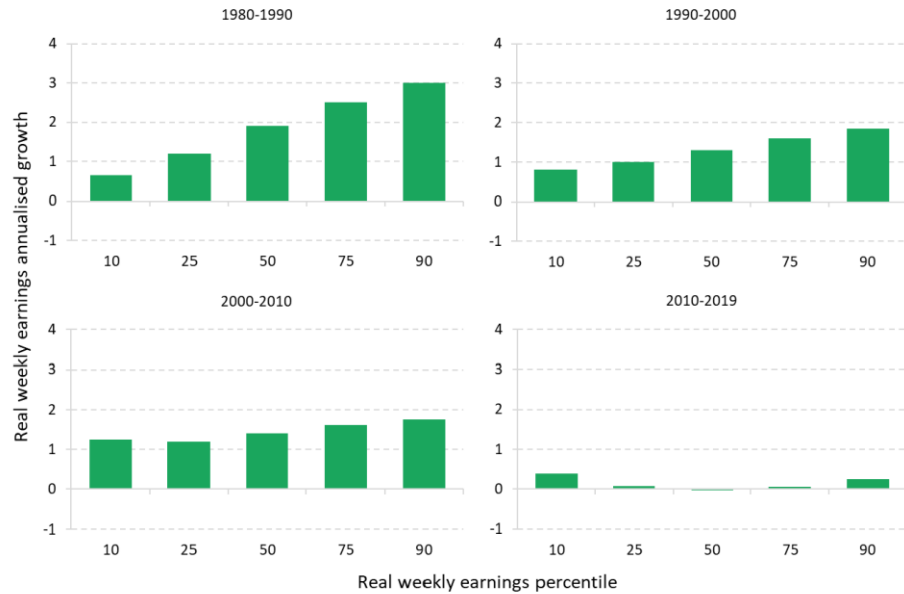
I.1 Trends in wage inequality and real wages

Panel A. Real weekly earnings, all workers

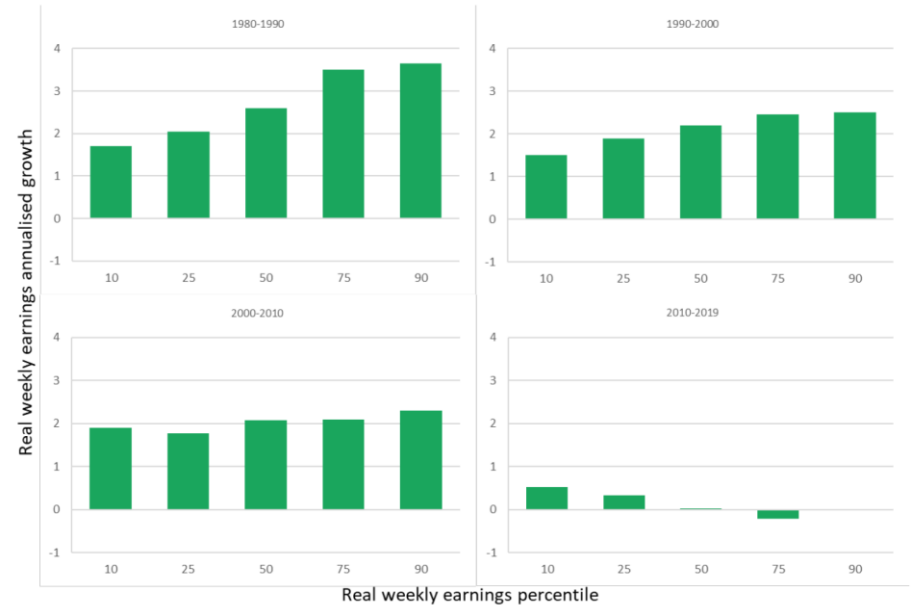


I.1 Trends in wage inequality and real wages

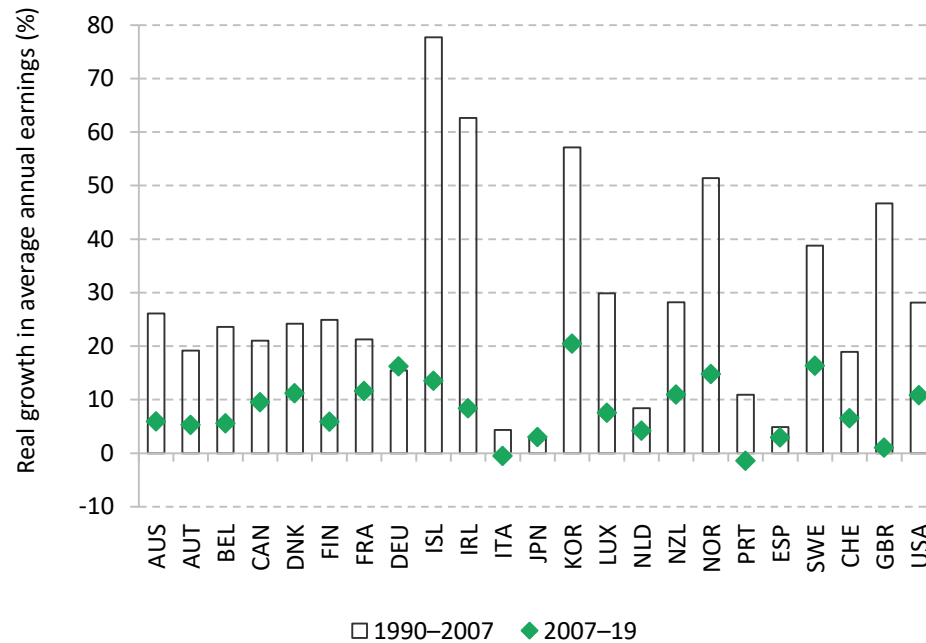
Panel A. Men



Panel B. Women



I.1 Trends in wage inequality and real wages



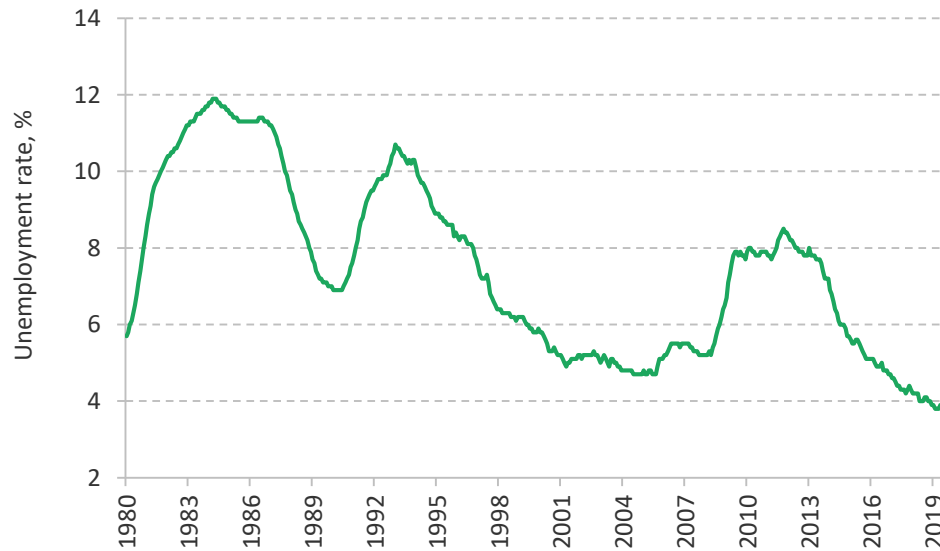
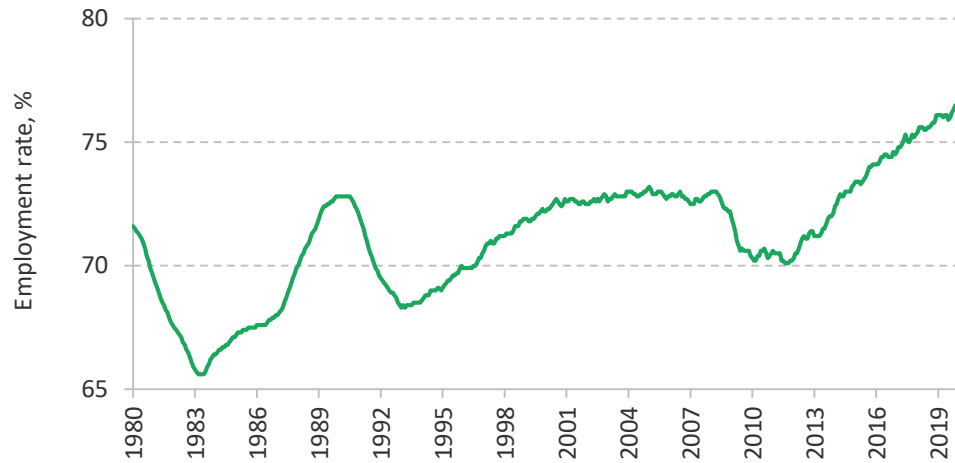
I.2 Employment and unemployment

Record levels in work by 2019 (employed and self-employed).

Decades – the unemployment rate mirrors this, very high in early 1980s recession, smaller rises in subsequent recessions

Compositional shifts in the nature of work (gender, education, employment/self-employment).

I.2 Employment and unemployment



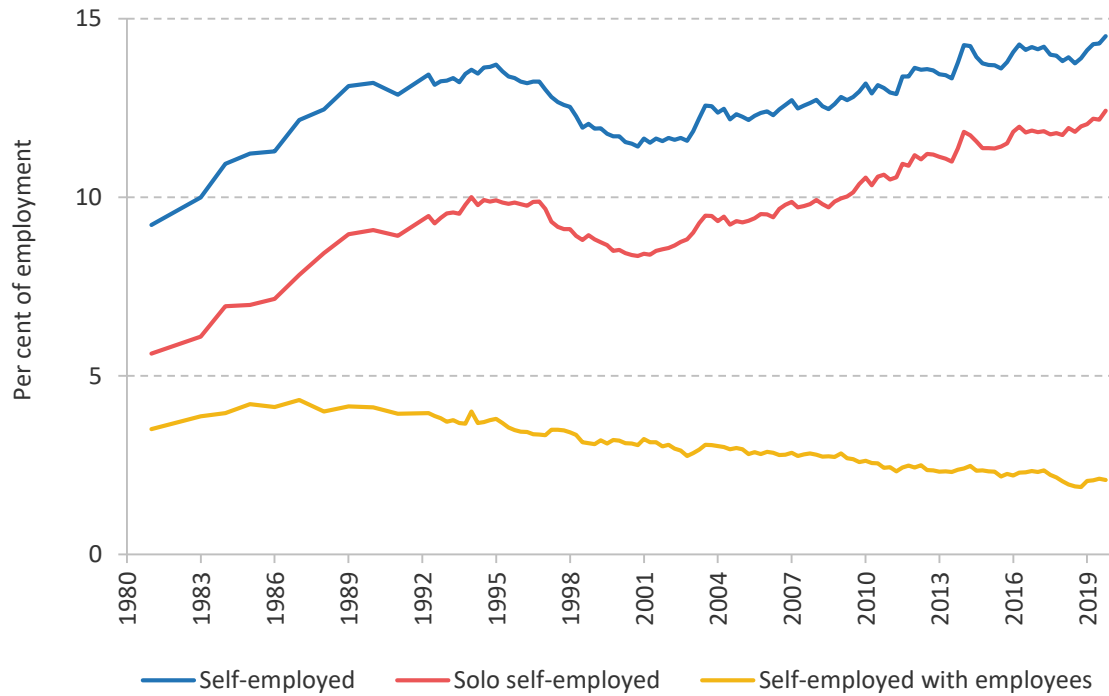
I.3 Self-employment

Big rise in self-employment (much more than other countries) and all from the solo self-employed.

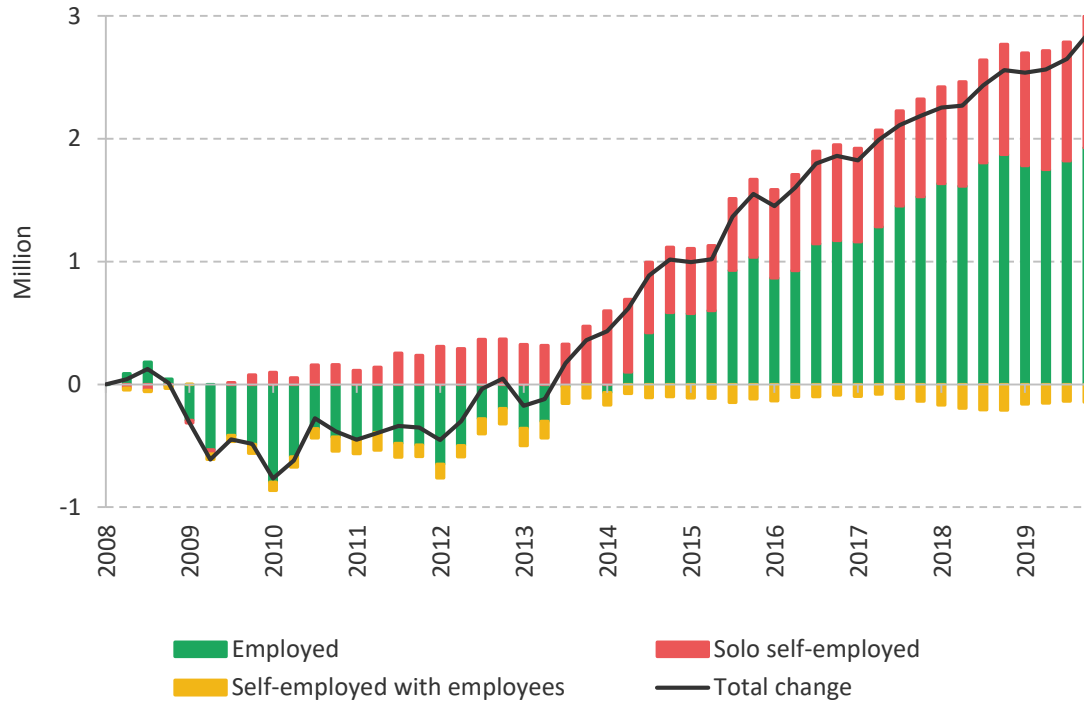
Since GFC, the rise in aggregate employment is disproportionately driven by the rise in solo self-employment.

Income levels of the self-employed have fallen significantly, and more sharply than for employees, in the era of real wage stagnation.

I.3 Self-employment



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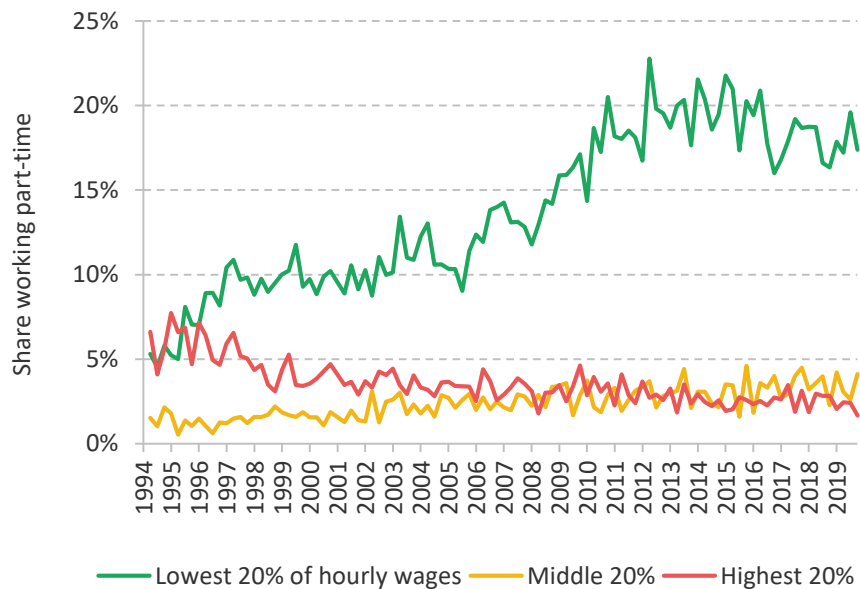
I.4 Hours

Hours composition has shifted – now more part-time workers than 40 years ago, including more men working part-time.

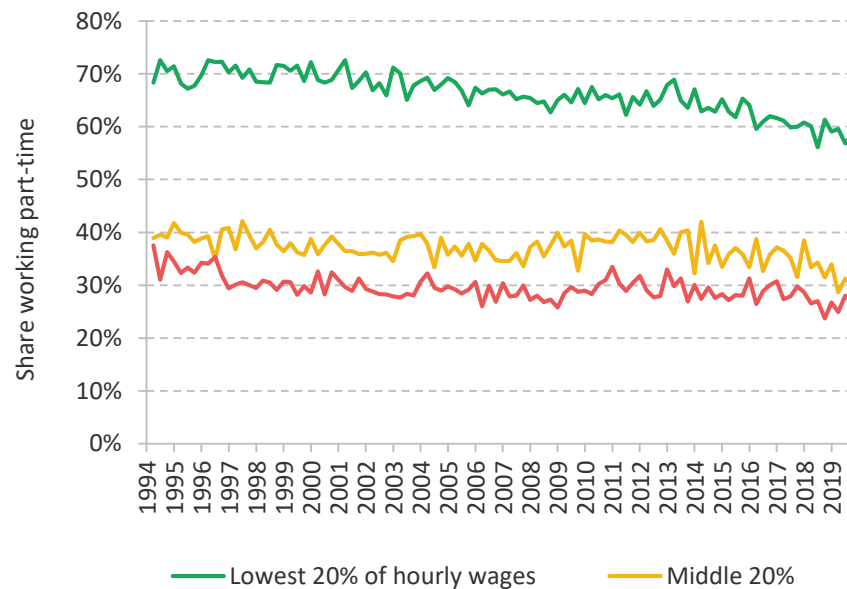
Average hours of work increased in 1980s, but for women remained stable since. For men, there have been large reductions in hours worked by those in the bottom quintile of the hourly wage distribution, due to both a reduction in long hours and an increase in part-time work.

I.4 Hours

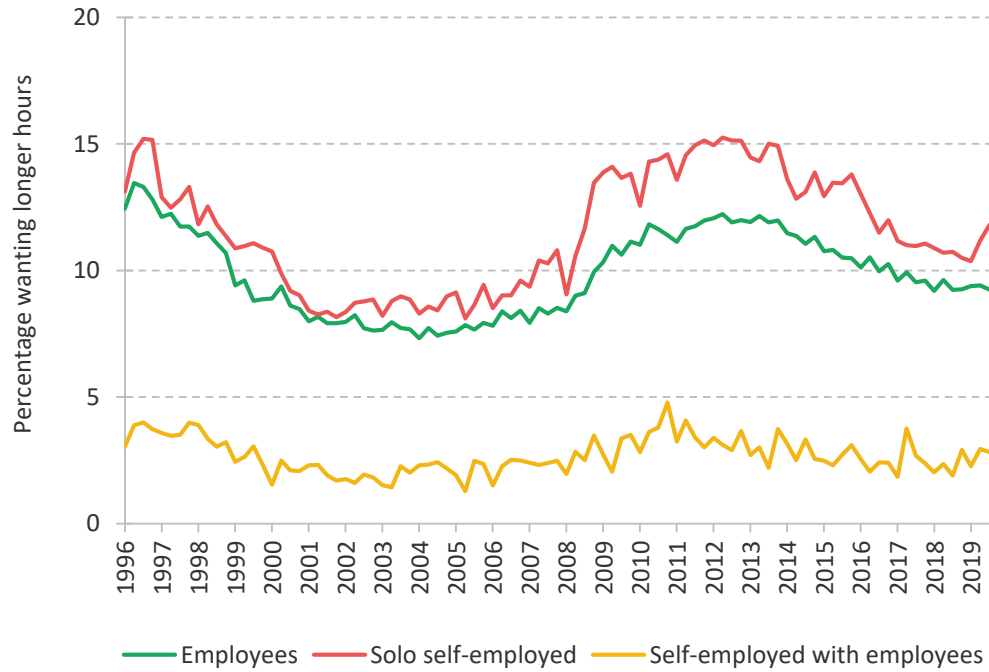
Men



Women



I.4 Hours



I.5 Real wage stagnation

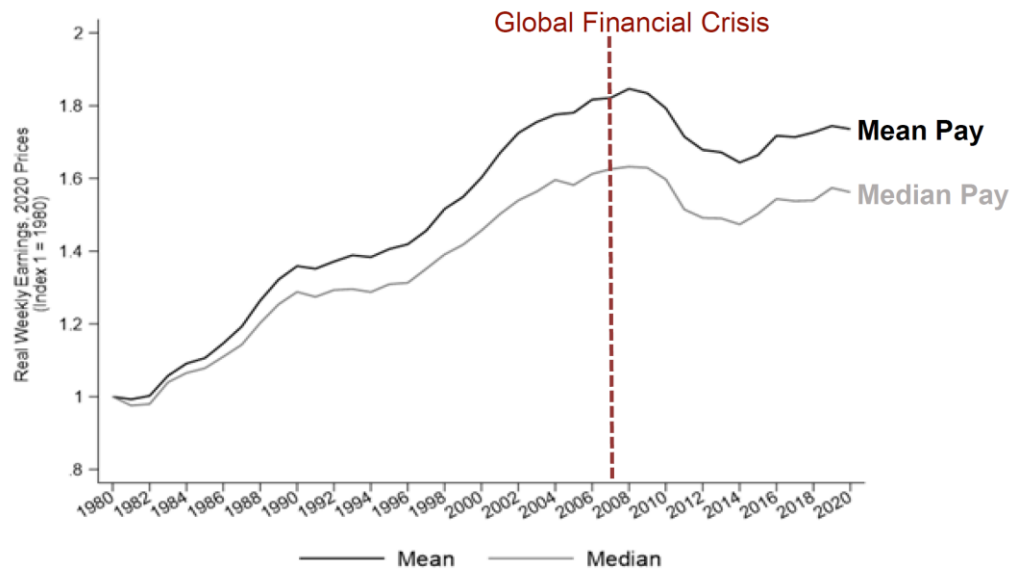
Real wage growth and sluggish productivity growth

Solo-self employment and downward pressure on real wages

Most in work have not done well – exceptions are the bottom end (due to labour market policy) and the extreme top.

I.5 Real wage stagnation

The Challenge: Macro Productivity growth dismal since Global Financial Crisis, Output per hour 1981-2020



II Economic Models

Explain the long run rise in labour market inequality, at least over the past four decades.

Technological changes that are complementary to skills and tasks:

- Increased demand for skills
- Polarization of work by task complementarity or substitutability.
- Coupled with a role for the changing strength of labour market institutions.

III Labour market institutions

1) Minimum wages

2) Unions and collective bargaining

→ Pulling in different directions

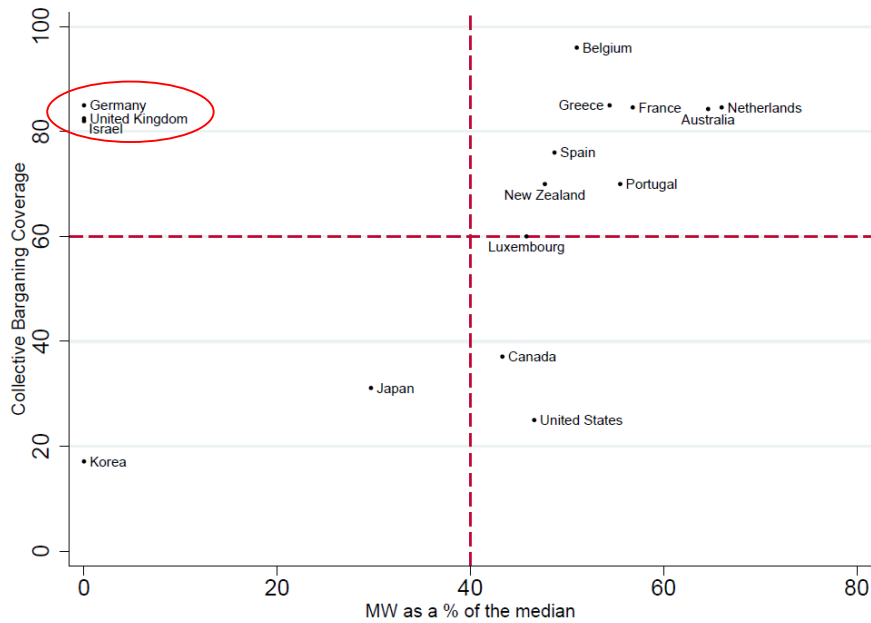
→ Union decline connected to rising wage inequality

→ Big effects of minimum wages in the period of slow productivity growth and real wage stagnation

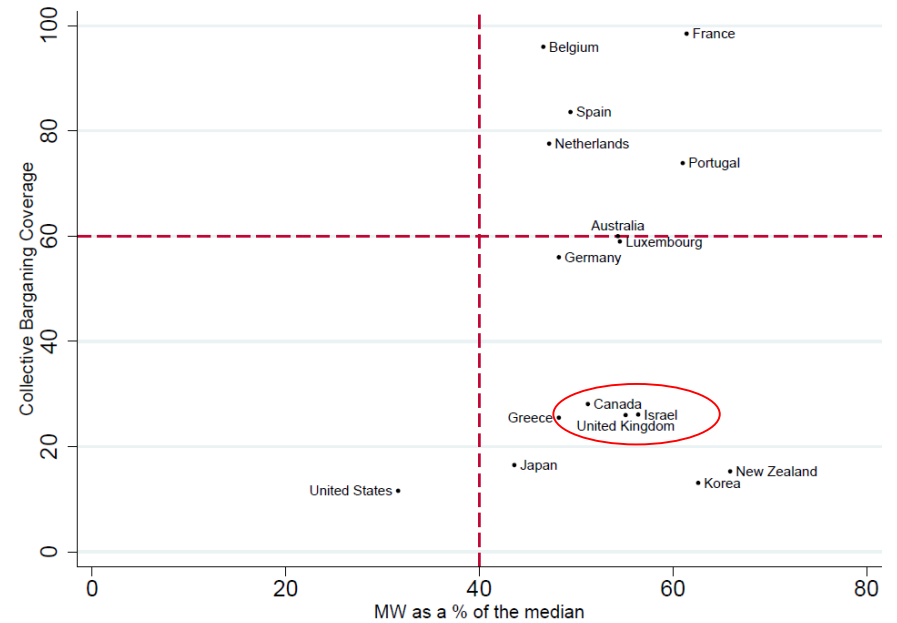
III.1 Different roles

Collective Bargaining Coverage and the Minimum Wage Bite

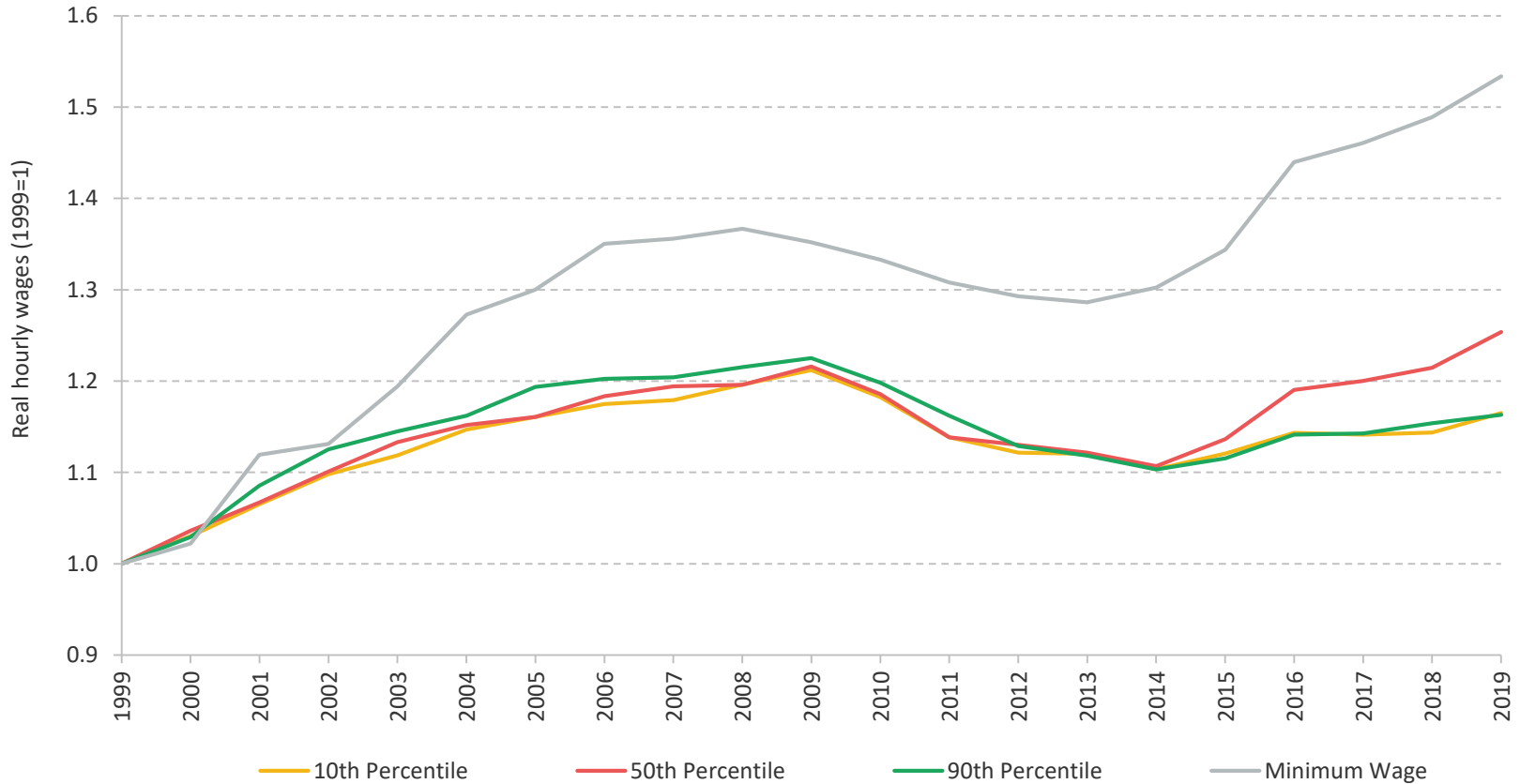
1980



2019

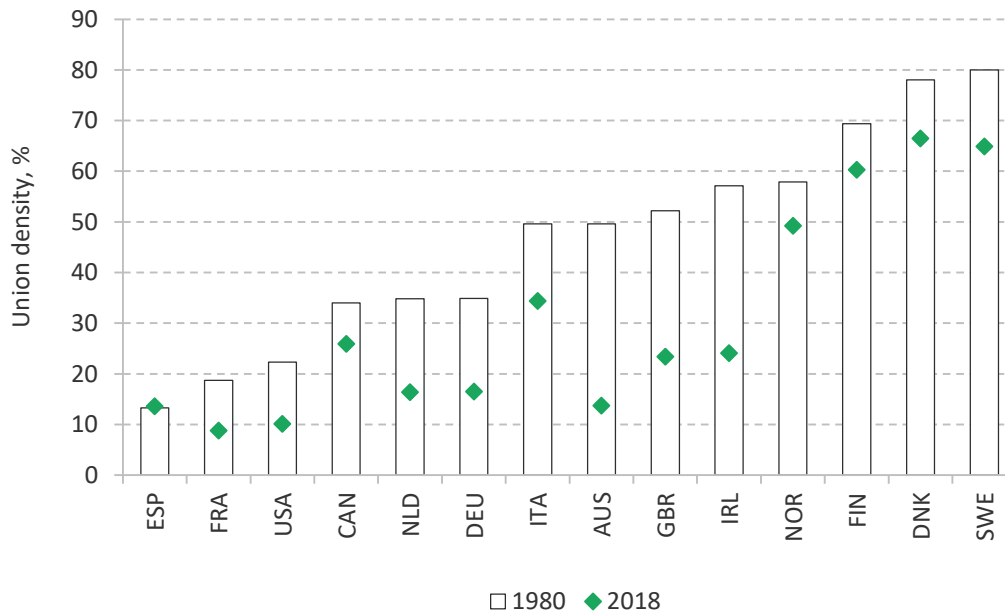


III.2 Minimum wages



	50-10	90-50
2000	1.80	2.19
2010	1.70	2.26
2019	1.47	2.20

III.3 Unions and collective bargaining



Decomposition - Union decline accounts for 1/3 of 1983 to 2019 rise in male wage inequality in the private sector; less important for women.

IV. Policy aspects of labour market change

Leveraging real wage growth

Provision of good quality jobs

Minimum wage design

Role of collective bargaining

Contract regulation

Response to big shocks, GFC, Brexit, Covid.

Conclusions

Wage inequality increased in the past 40 years, in distinct phases, and by more than most international comparators (including big moderation lower tail from minimum wage in the weak real wage growth era).

The nature of work has changed, and some important aspects have passed researchers and policymakers by, especially the rise of work with poor prospects of wage progression and career advancement.

In this light, is not surprising that calls for “decent” jobs and inclusive wage growth across the distribution have come more to the fore.

Response to economic shocks is going to be vital for coming decade. This message, and the need to act on it to improve wages and living standards, what we want to get over in this part of the Review.