

Labour Markets and Inequality

Richard Blundell (UCL & IFS)



A remarkable set of contributions, all live at <https://www.ifs.org.uk/inequality>

Chapter: Giulia Giupponi and Stephen Machin, 'Labour Market Inequality'

Commentaries/articles:

- Alan Manning and Barbara Petrongolo, 'Monopsony in local labour markets'
- Orley Ashenfelter, 'Public policy and labour market competition'
- David R. Howell and Arne L. Kalleberg, 'Labour market inequality: a political economy perspective'
- Pierre Cahuc, 'Inequalities in the French labour market: a mixed picture'
- Daron Acemoglu and Pascual Restrepo, 'A Task-Based Approach to Inequality'
- Jonathan Cribb, Robert Joyce, and Thomas Wernham, 'Twenty-five years of Income Inequality in Britain: The Role of Wages, Household Earnings and Redistribution'

Closely related to many other themes in the Review:

- Gender, race, ethnicity, and geography. Globalisation, immigration, technology and the behaviour of firms. Questions about tax and welfare. Inequalities in family background, educational and health.

Some take-aways



- Despite some recent reversals, the UK labour market is in a very challenging position with low productivity growth, stagnant real earnings and high levels of inequality.

Dramatic changes in the structure of work

- rise in solo self-employment and zero hours contracts, fall in manufacturing employment and growth in services, growth in immigration, decline in unions, growth in min wage
- large rise in the proportion with higher education, more women in work

Changes in technology and in the world of work are central to the changes labour market inequalities

- rapid growth in employment in occupations at the bottom and at the top of the skill distribution, with a hollowing out of occupations in the middle,
- low rates of on-the-job training and little overall earnings progression for lower educated workers - employment alone is no longer enough to escape poverty,
- extreme geographic differences in educational composition and in labour market opportunities
- rise in new forms of work mostly outside traditional employment contract regulation, often facing different effective taxes and not covered by certain rights, holiday pay, unfair dismissal, min wage..
- decline of unionisation and diffusion of contractual arrangements likely to have weakened the bargaining power of traditional employees, in favour of employers and top executives.
- points to a focus on real earnings growth and the generation of good jobs with career opportunities...

Implications for the policy mix



- **Cannot rely solely on in-work transfers and minimum wages**
 - In-work transfers (WTC and UC) can offset adverse means-testing, encourage employment, well-targeted to low earning families but do little for pay or pay progression.
 - Min wages raise hourly wages but are less well-targeted to poor families, provide little incentive for wage progression, and are better viewed as a complement to in-work transfers.
- **Human capital, training and technology**
 - focus on firm-based accredited training with emphasis on firm match and skills that enhance career progression and complement new technologies - a 'good jobs - good firms' agenda.
- **Solo self-employment and new forms of work**
 - line up benefit eligibility, training access and effective tax rates. Monitor labour market power of firms and examine policies that could improve outside opportunities.
- **Place-based policies**
 - policies to attract R&D firms and firms that employ a mix of educational groups, policies that are essential for agglomeration and to reverse educational flight.
- **What changes after covid?**
 - lost skill investments of young low SES and demand for e-commerce will likely enhance inequalities. But could there be a new emphasis on building a fairer society and a re-think of human capital policies and redistribution? All at a time of mounting public debt.....