



Institute for
Fiscal Studies

Wage Progression in the UK

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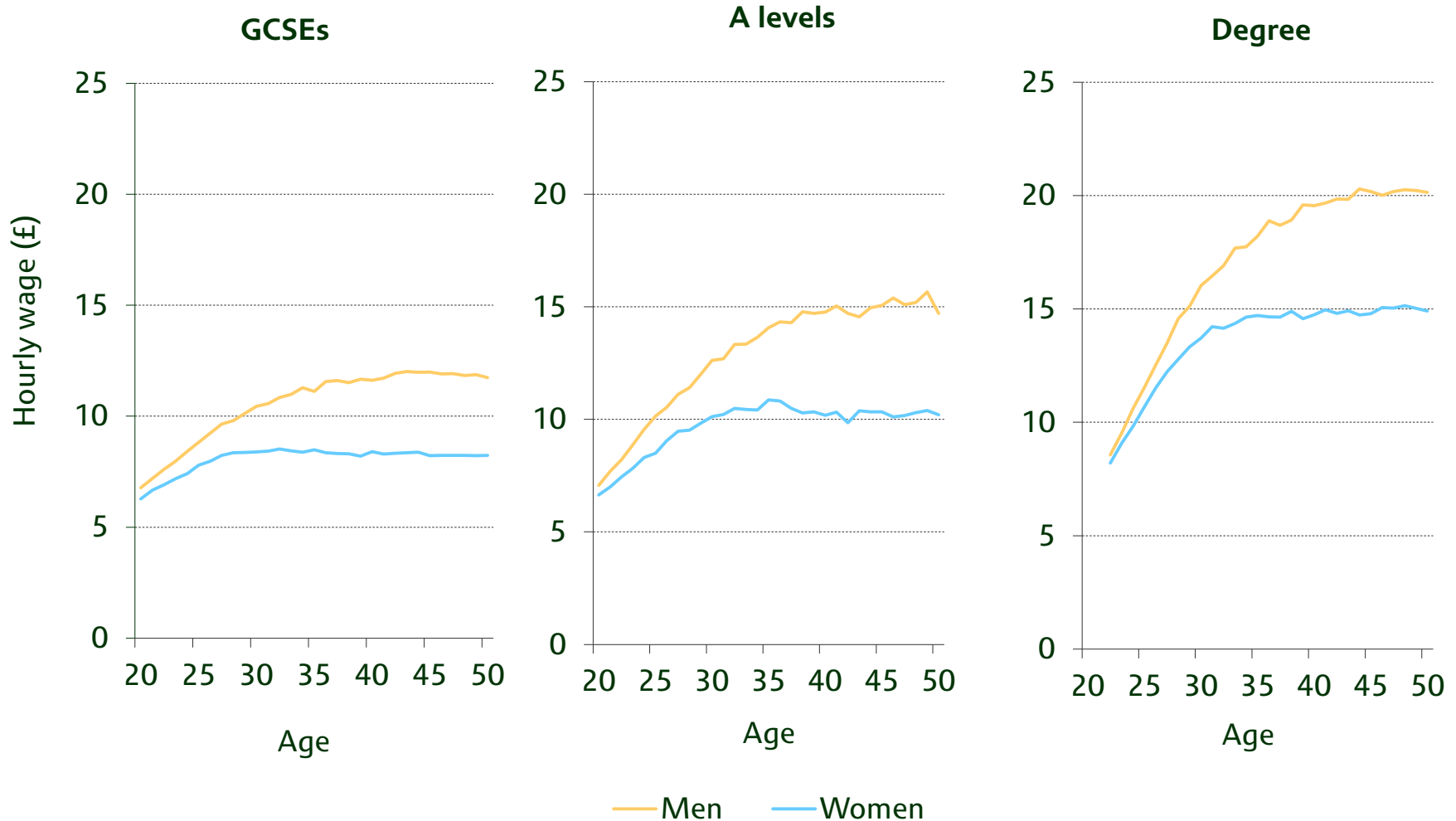
DWP meeting, January 2017

Outline

- Brief overview of recent and planned research relating to earnings progression
- Women: wages over the lifecycle, and their relationship to family circumstances and career patterns
- Men: changing work patterns and their relationship to earnings
- Plans for future research

Wage profiles by age, education and gender

Association between age and wages breaks down for women in their 30s

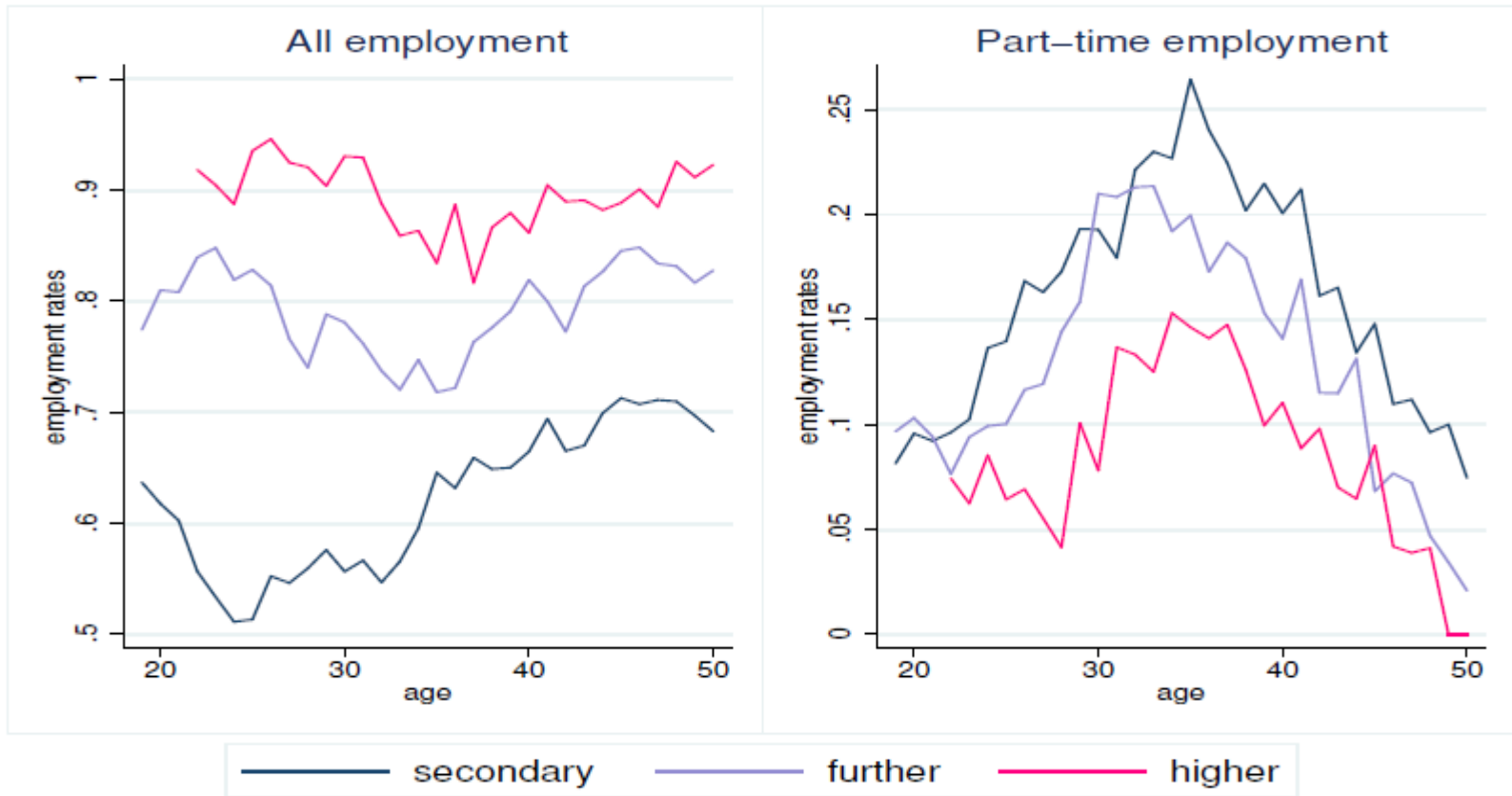


LFS 1993Q1-2015Q3.

Important note: these are in constant wage terms (effects of economy-wide wage growth are stripped out)

Female employment and working hours

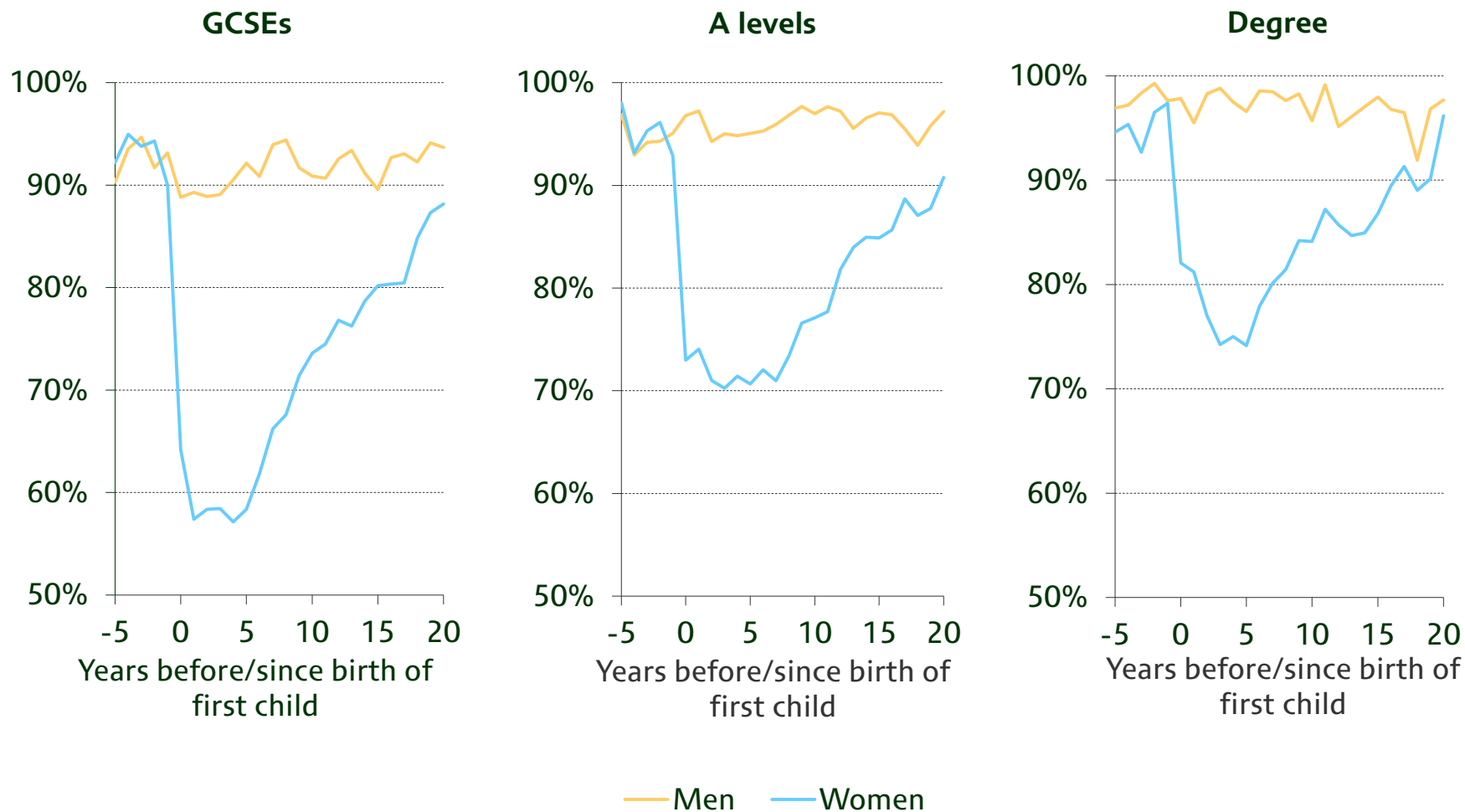
Work intermittency may explain wage stagnation for women



British Household Panel Survey, 1991-2008

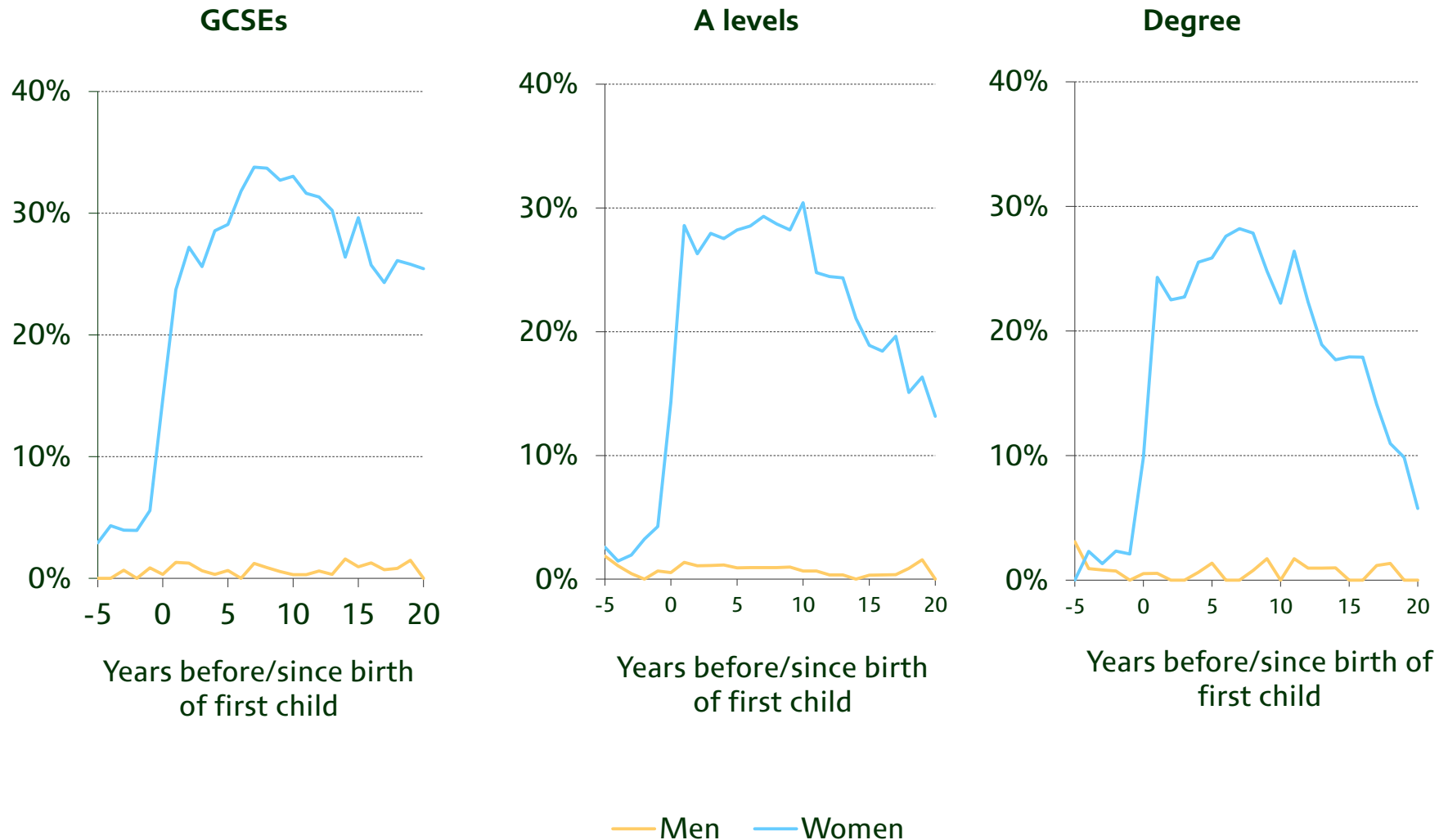
Employment before and after birth of first child

Breaks in careers are related to motherhood



Proportion working part-time

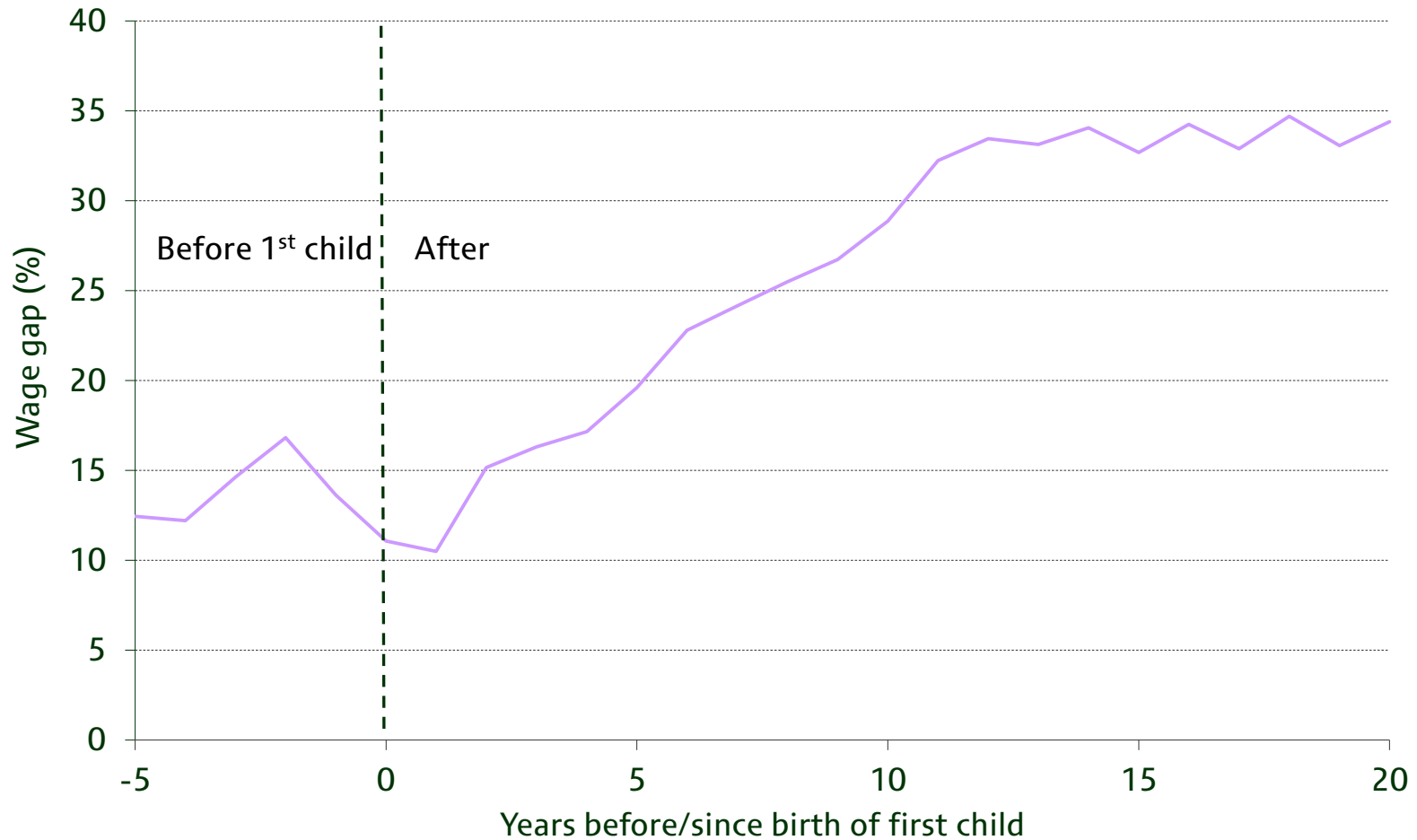
Short working hours prevalent among mothers of all education levels



British Household Panel Survey, 1991-2008

Wage gap around childbirth for parents

The arrival of children is a key driver of gender differentials in wage progression



British Household Panel Survey, 1991-2008

Time spent out of paid work associated with lower wages when returning

- What is the importance of career breaks for the progression of female wages?
- Using BHPS data, we take women who are observed moving out of paid work and then later moving back in to paid work
 - Compare women whose career gaps were of different lengths
 - Controlling for past work experience
- We find:
 - Each extra year out is associated with 2% lower wages when returning
 - But this association is essentially zero for the low-educated...
 - And about 4.5% per year for those with A-levels and graduates

A 'part-time wage penalty' is an important part of the gender wage gap

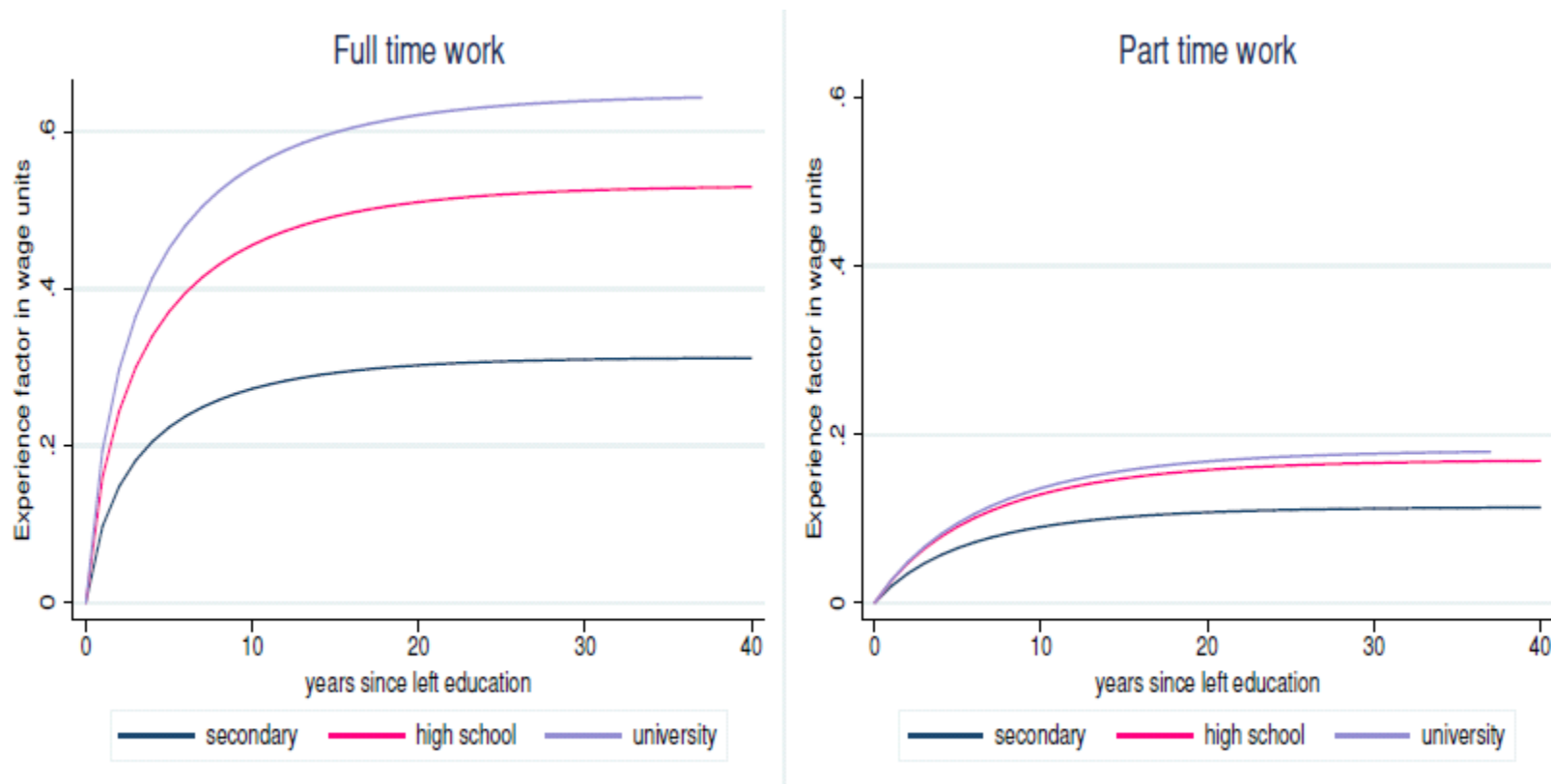
- PT work is not associated with an instantaneous fall in hourly wage
- Instead, it is associated with *lack of wage progression*
- BHPS data shows that women working FT hours see real wage growth of 3-4% per year, depending on education
- These growth rates drop to zero for those working PT
- PT workers earn less than FT workers not because they work PT now, but because more likely to have worked PT in the past

What are the returns to working experience?

- To study the *causal* relationship between the wages of women and the experience they accumulate in FT and PT jobs we develop a dynamic model of female labour supply, experience accumulation and wages
 - Experience accumulation depends on working hours
 - Returns to experience vary by education
- The model captures the variation in female labour supply by family circumstances
- We estimate this model on BHPS data for years 1991-2008

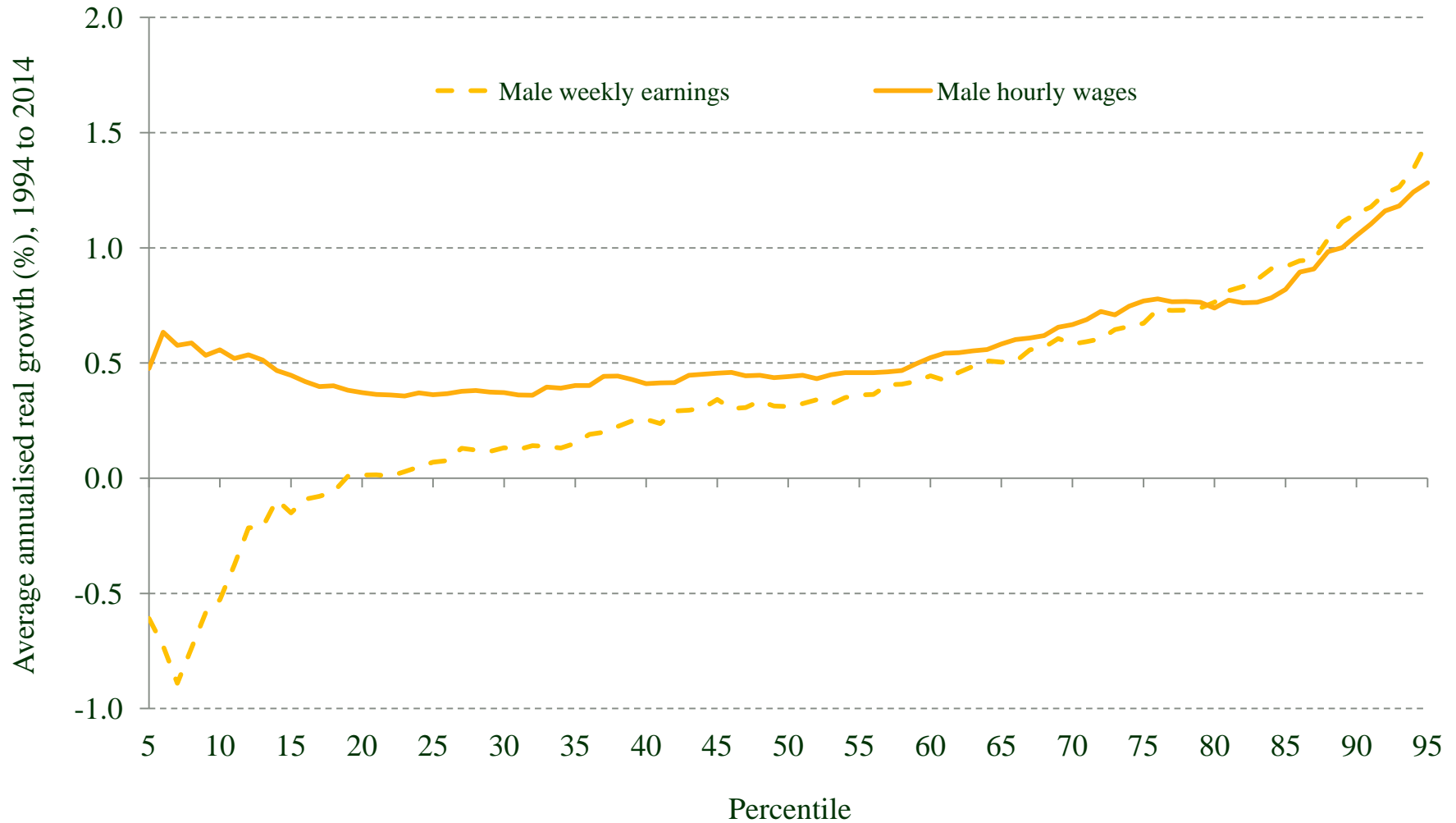
Returns to working experience

Gains in wages for one extra working year vary by accumulated experience, working hours and education



Model predictions.

This is affecting earnings inequality among men

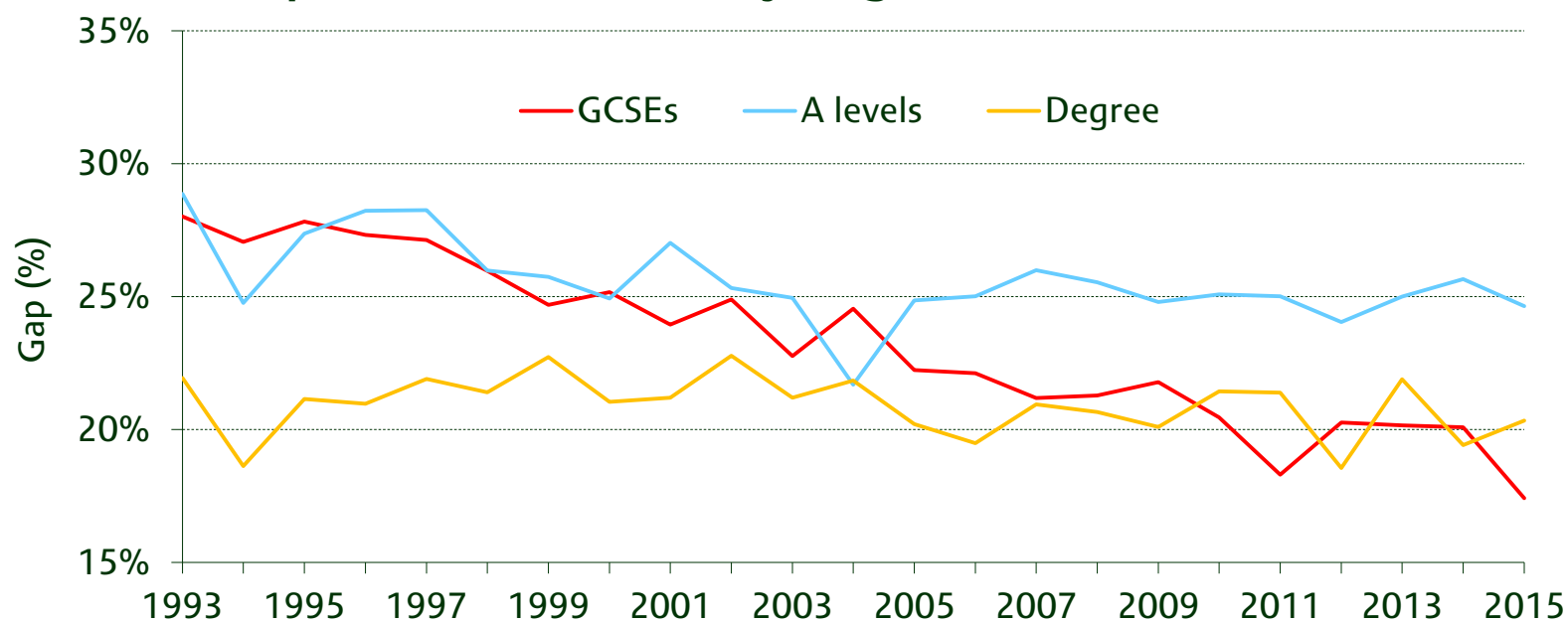


Source: Family Resources Survey

Research questions

1. Why are hours of work falling for low wage men?
2. What implications does it have for human capital and wage progression for low-skilled men?
 - And could it explain fall in gender wage gap among low-educated?

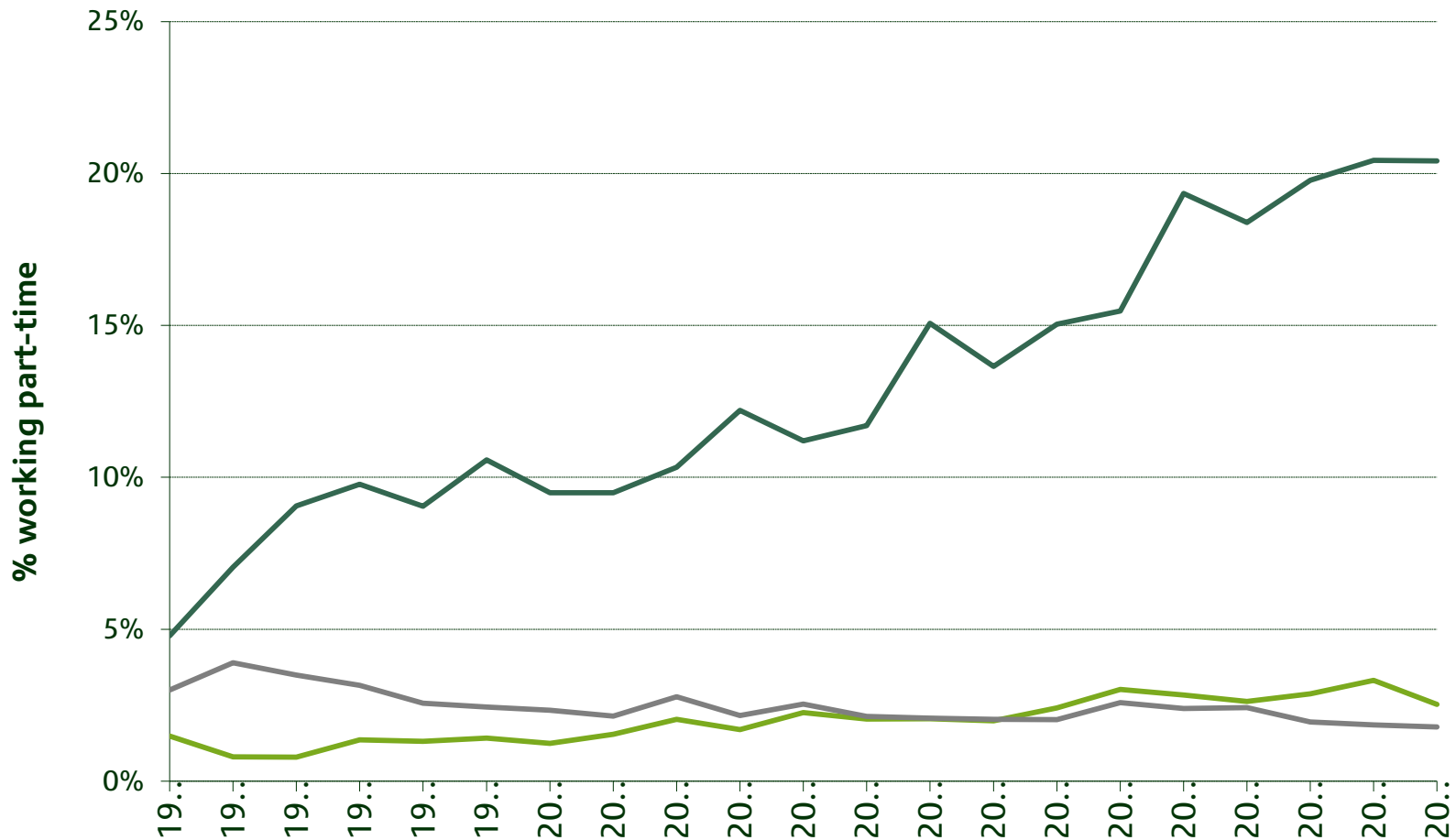
Gap between mean hourly wages of men and women



Source: Labour Force Survey

Big increase in part-time work among low-wage men

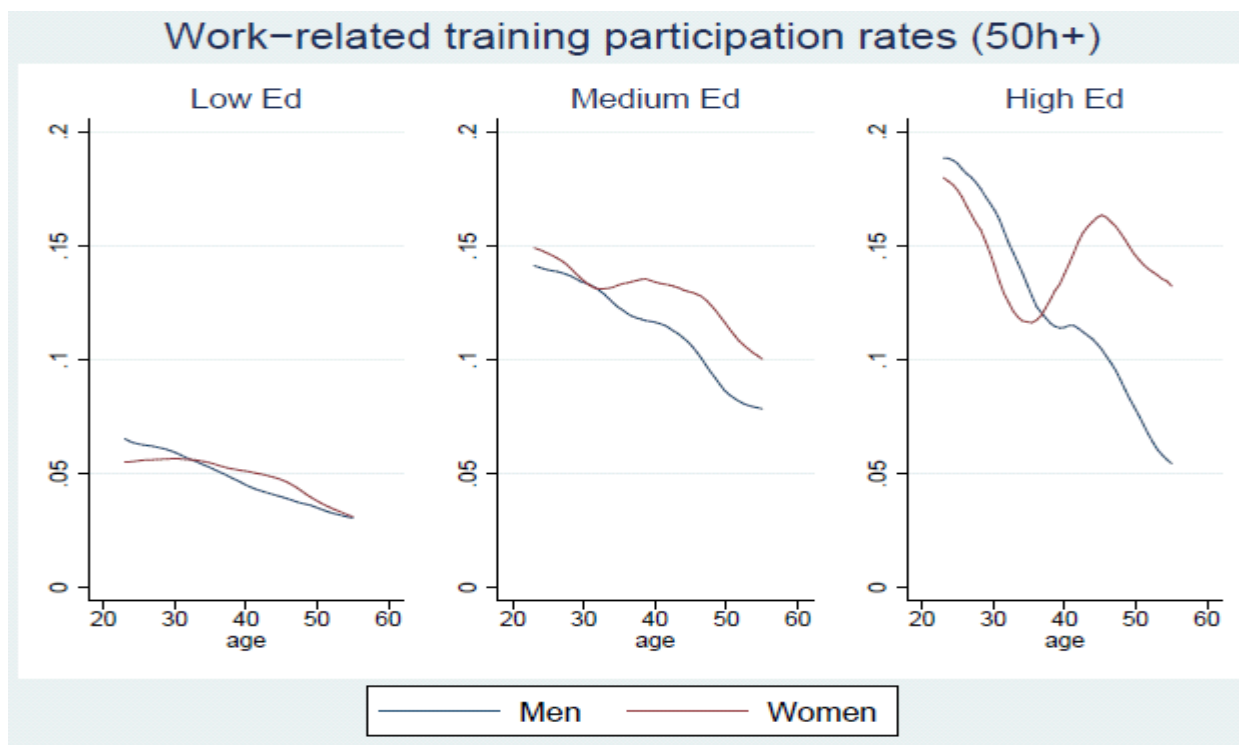
% working fewer than 30 hours per week, by hourly wage level (age 25-55)



Source: Labour Force Survey

Questions we are considering for further work

- What else drives the wage profiles of women and men?
 - Job-to-job transitions
 - Sector and occupation
 - Investments in training during working life



Questions we are considering for further work

- ‘Scarring’ impacts of entering labour market during downturns
 - Project looking at long-term impacts on unemployment and earnings
 - As well as how these are insured against (e.g. tax-benefit system)
- Looking at the end of working life (50+), health may become a critical driver of employment and productivity
 - We find that around 5-15% of non-working spells are driven by new health issues
 - These effects are very persistent
 - The questions now are:
 - How does the interaction between health and employment affect productivity in the long-term?
 - Do these effects feedback into employment and retirement decisions?