

Inequality and the Labour Market

Some evidence and some proposals

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Slide Presentation

Remembering Tony... thanks for everything



PhD graduation September 2016

Inequality and the Labour Market: What can be Done?

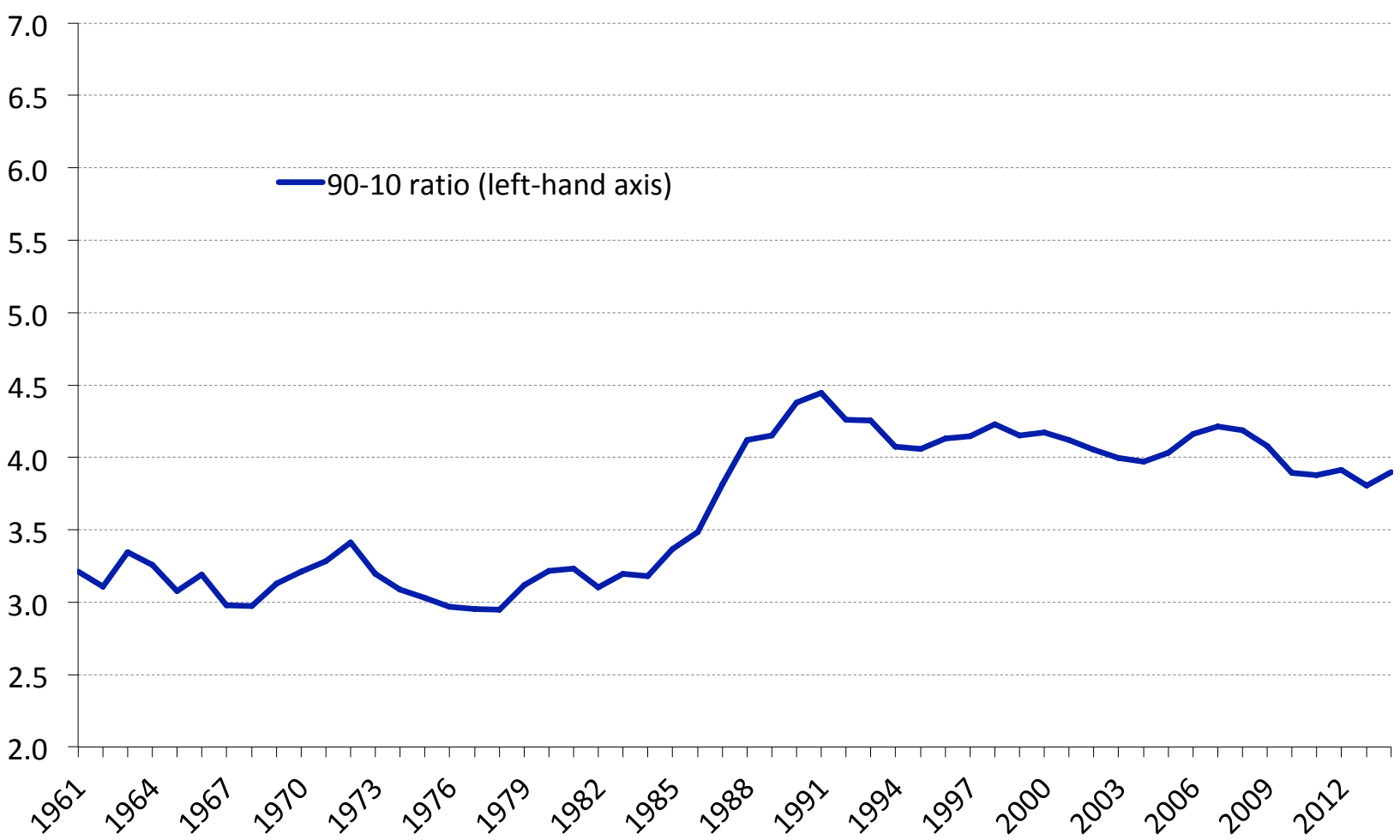
Theme: can't address excessive income inequality through the tax and welfare system alone....

So what is the balance of policies?

1. How far can/should redistribution go to compensate low wages and rents in the labour market?
 2. Technology: always bad for low skilled workers? Who gets the rents?
- First a few related facts....
 - Table 1.1 in the \neq book is a good place to start.... this links what has been going on in the labour market to family income inequality. I took this as a key idea to investigate for this discussion....

Tony's Table 1.1 on trends in UK and US income and earnings inequality

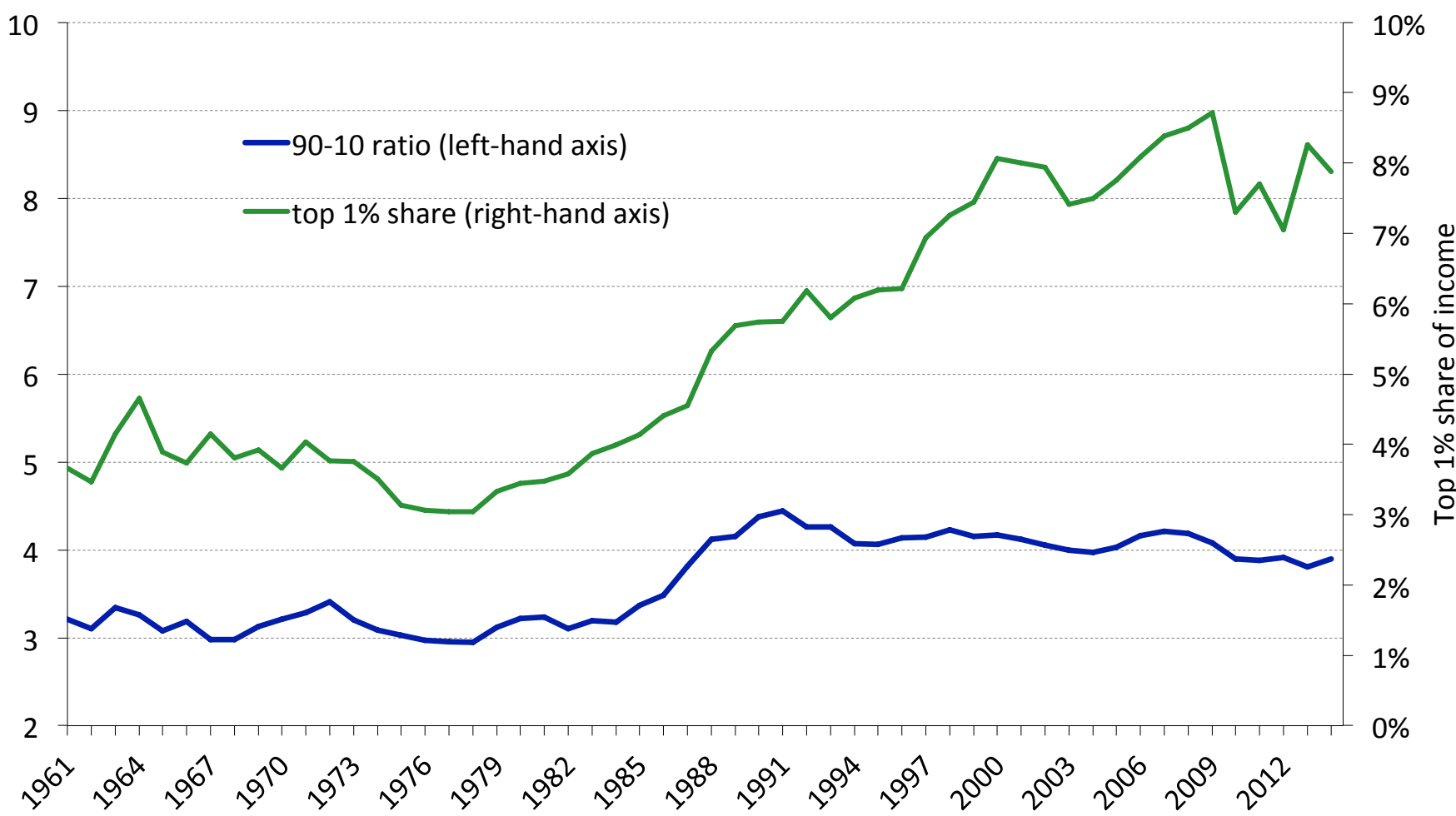
Trends in the 90:10 ratio for family income in UK



Source: Blundell, Joyce, Norris Keiller and Ziliak (2017)

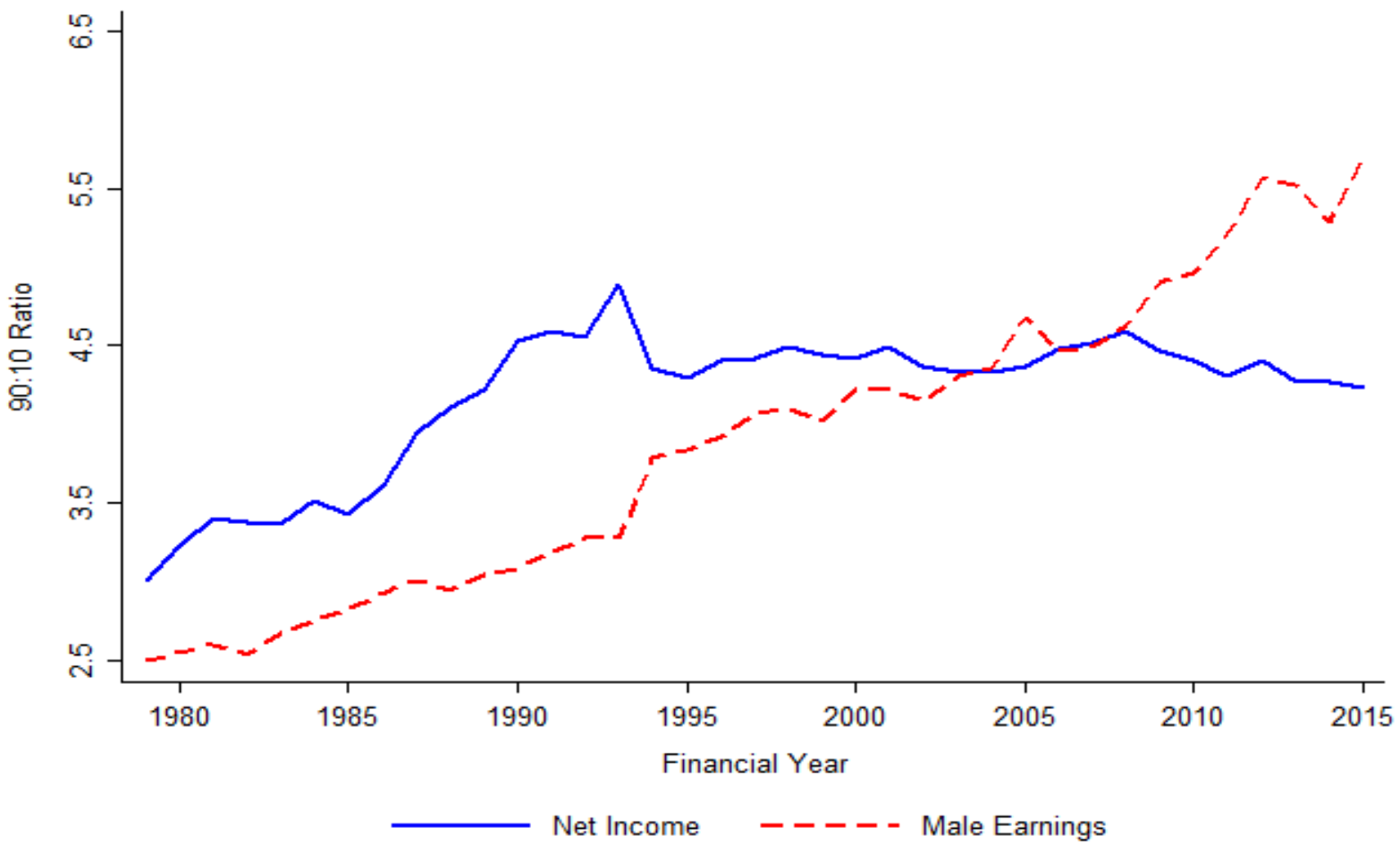
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Trends in the 90:10 ratio for family income in UK and the top 1% share



Source: Blundell, Joyce, Norris Keiller and Ziliak (2017)

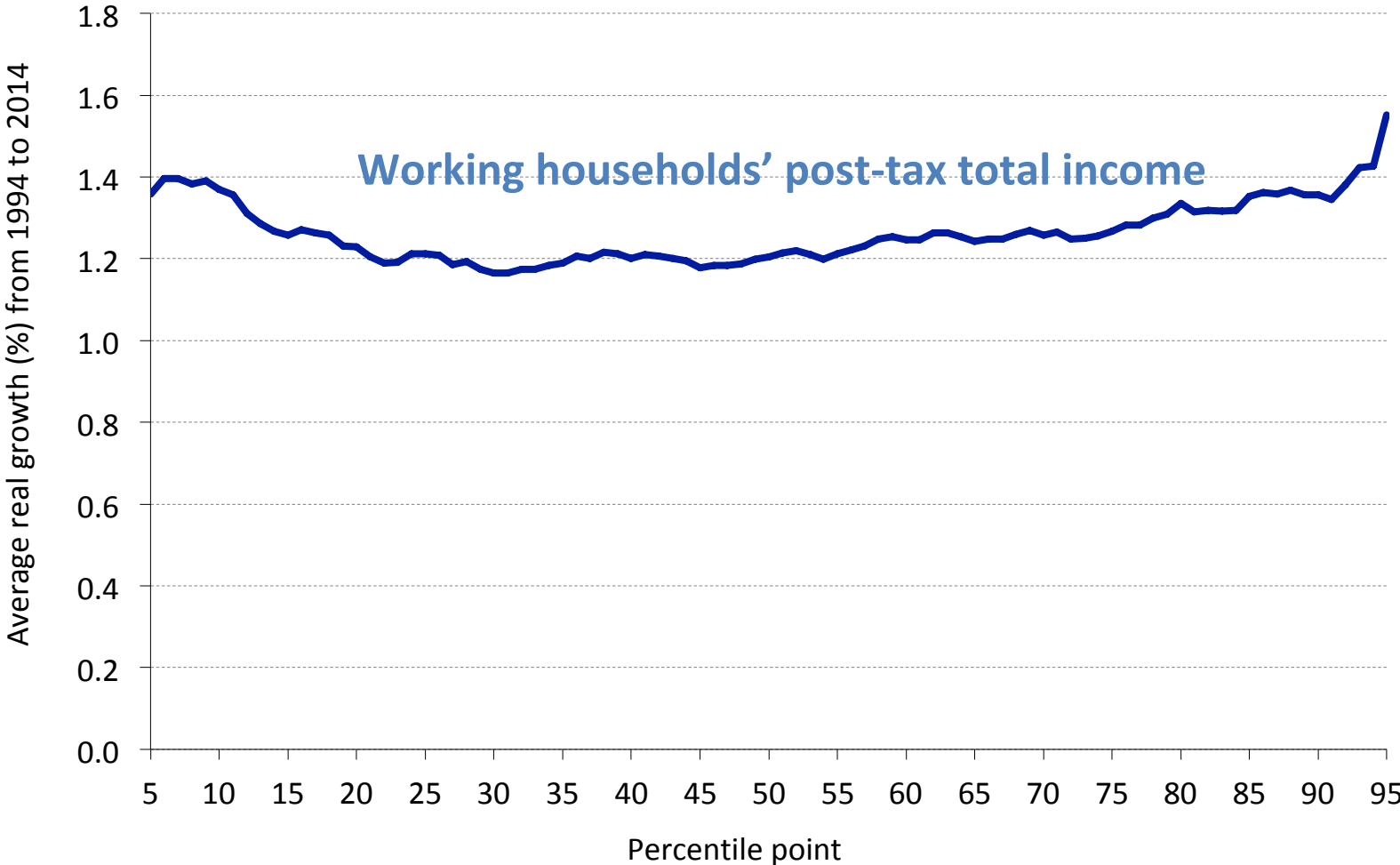
Trends in the 90:10 ratio for income and for male earnings



Notes: Includes self employment income and self employed households. Family Resources Survey. All income measures are equivalised.
Source: Blundell, Joyce, Norris Keiller and Ziliak (2017)

In the UK there has been a key role for benefits and tax-credits:

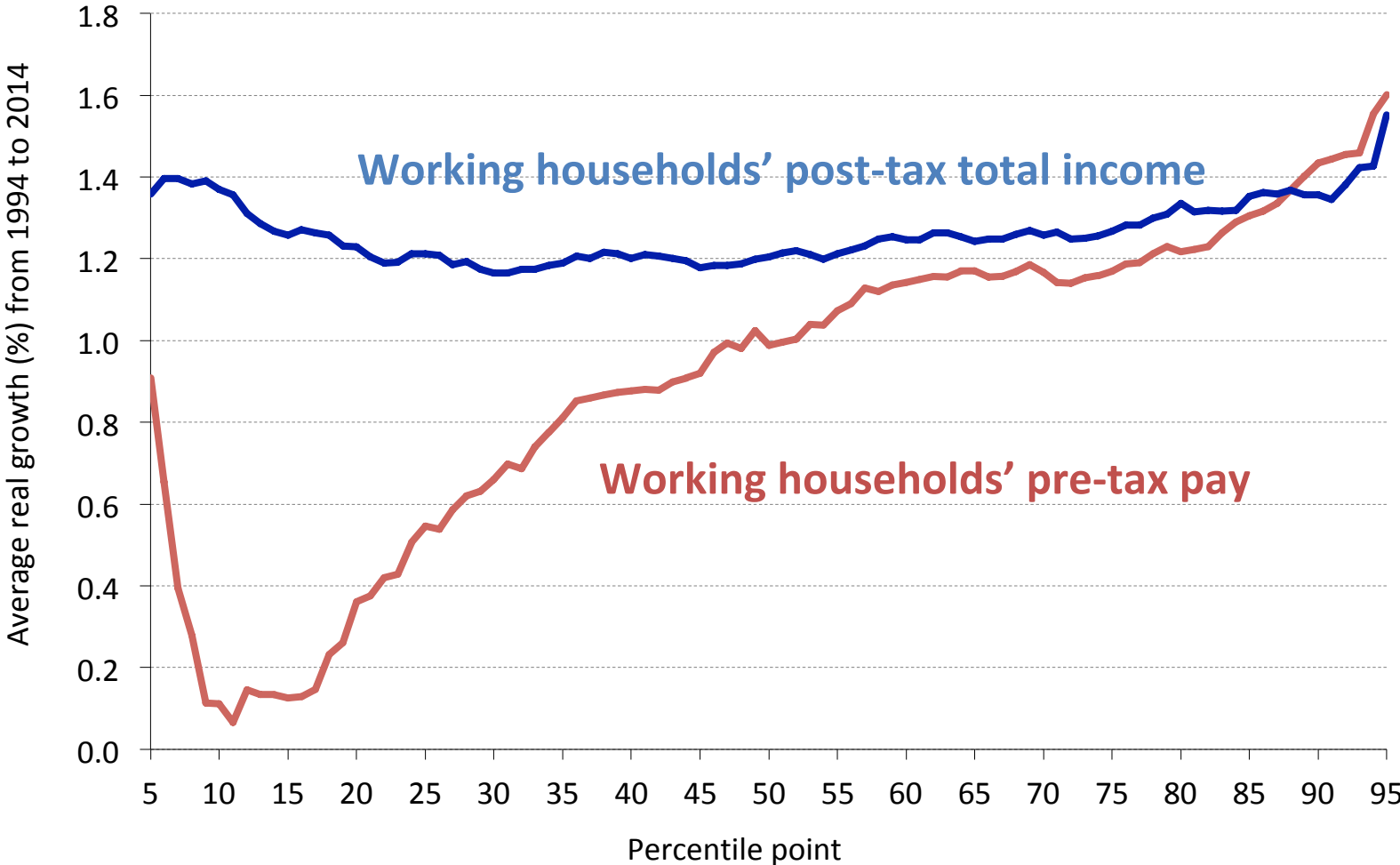
Household income growth for working households 1994/5 to 2014/5



Notes: Includes self employment income and self employed households. Family Resources Survey. All income measures are equivalised.
Source: Blundell, Joyce, Norris Keiller and Ziliak (2017)

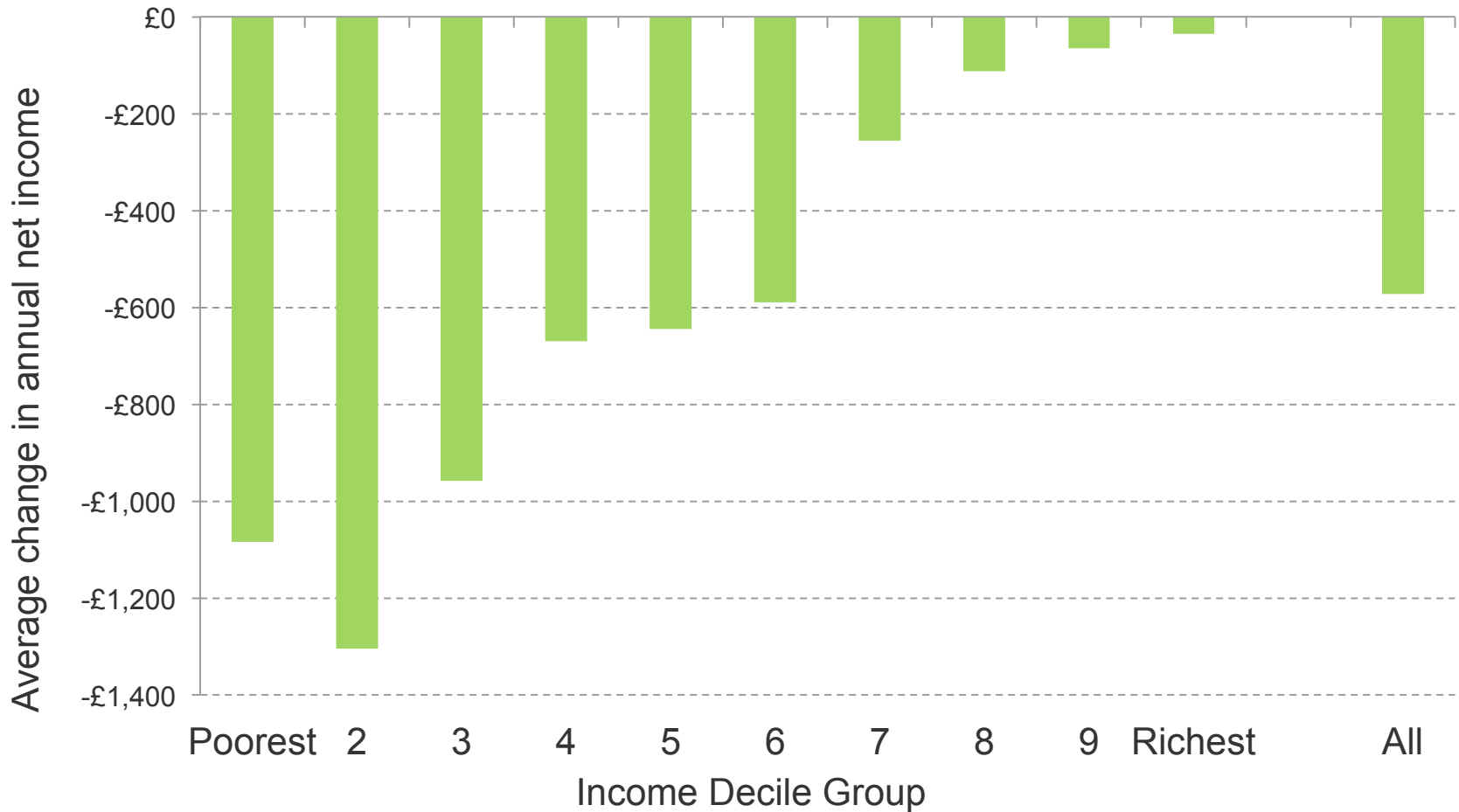
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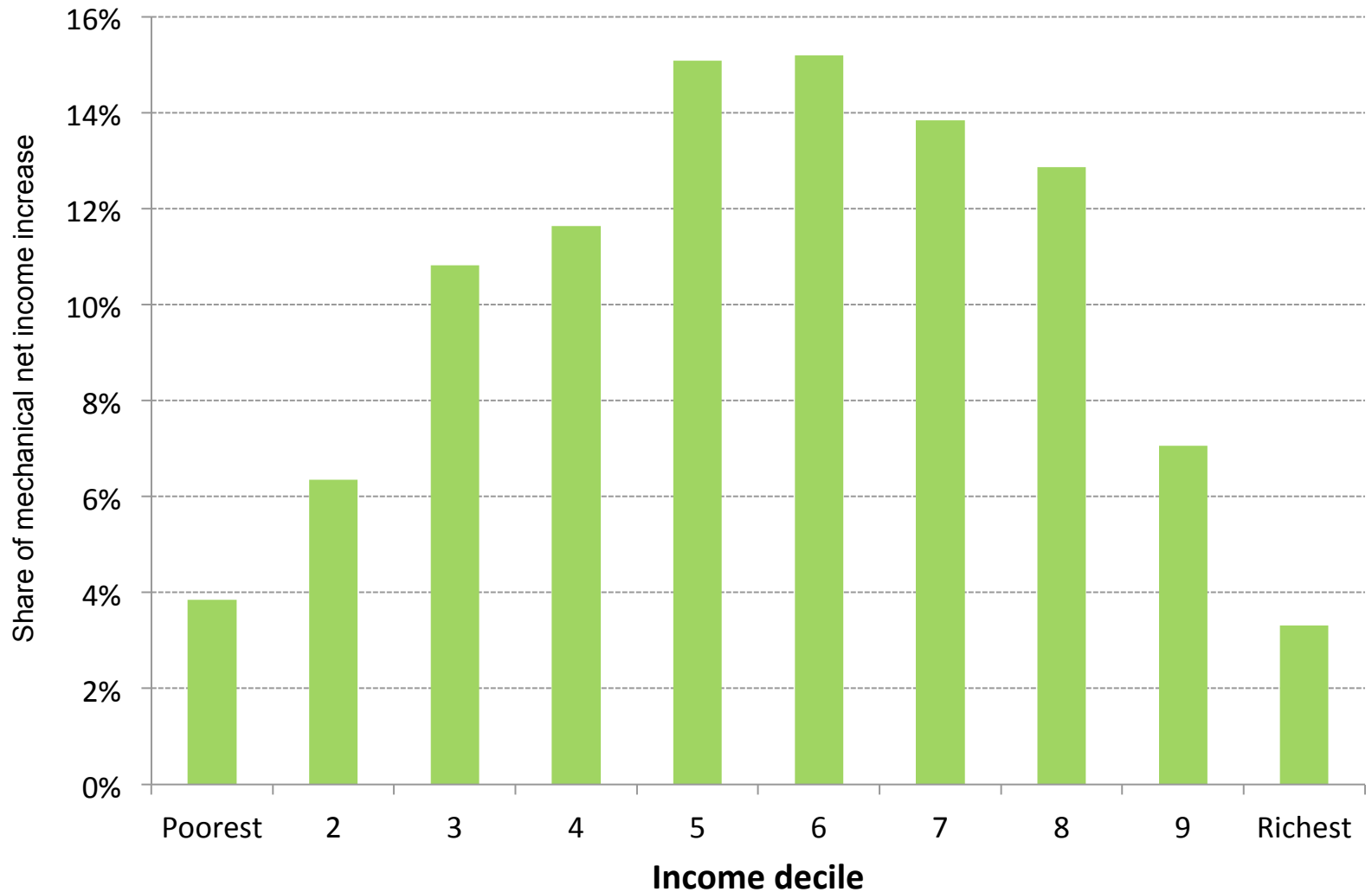
Long run distributional impact of planned personal tax and benefit measures in the UK



Notes: Income is measured as total net equivalised household income. Calculations use the IFS tax and benefit model.

Source: Tax and Benefit Policies, IFS (2017)

Rises in minimum wage between now and 2020: share of uplift to net household income going to each decile

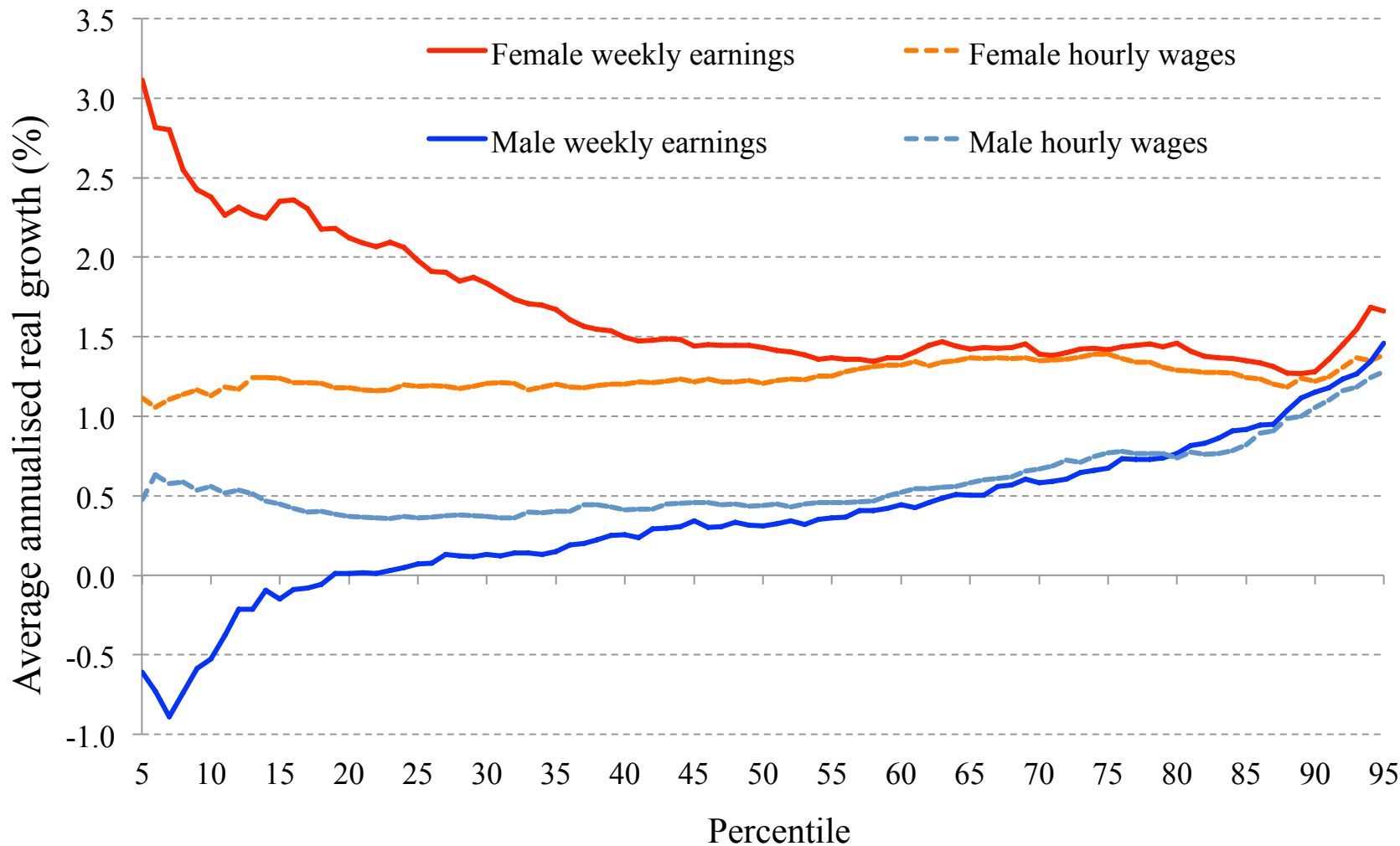


Notes: Income is measured as total net equivalised household income (bhc). Calculations use the IFS tax and benefit model, TAXBEN, run on the 2015–16 Family Resources Survey and the 2015–16 LFS.

Source: Cribb, Joyce and Norris Keiller (2017)

Individual earnings and the role of hours of work

Weekly earnings and hourly wage growth, men and women, 1994–95 to 2014–15

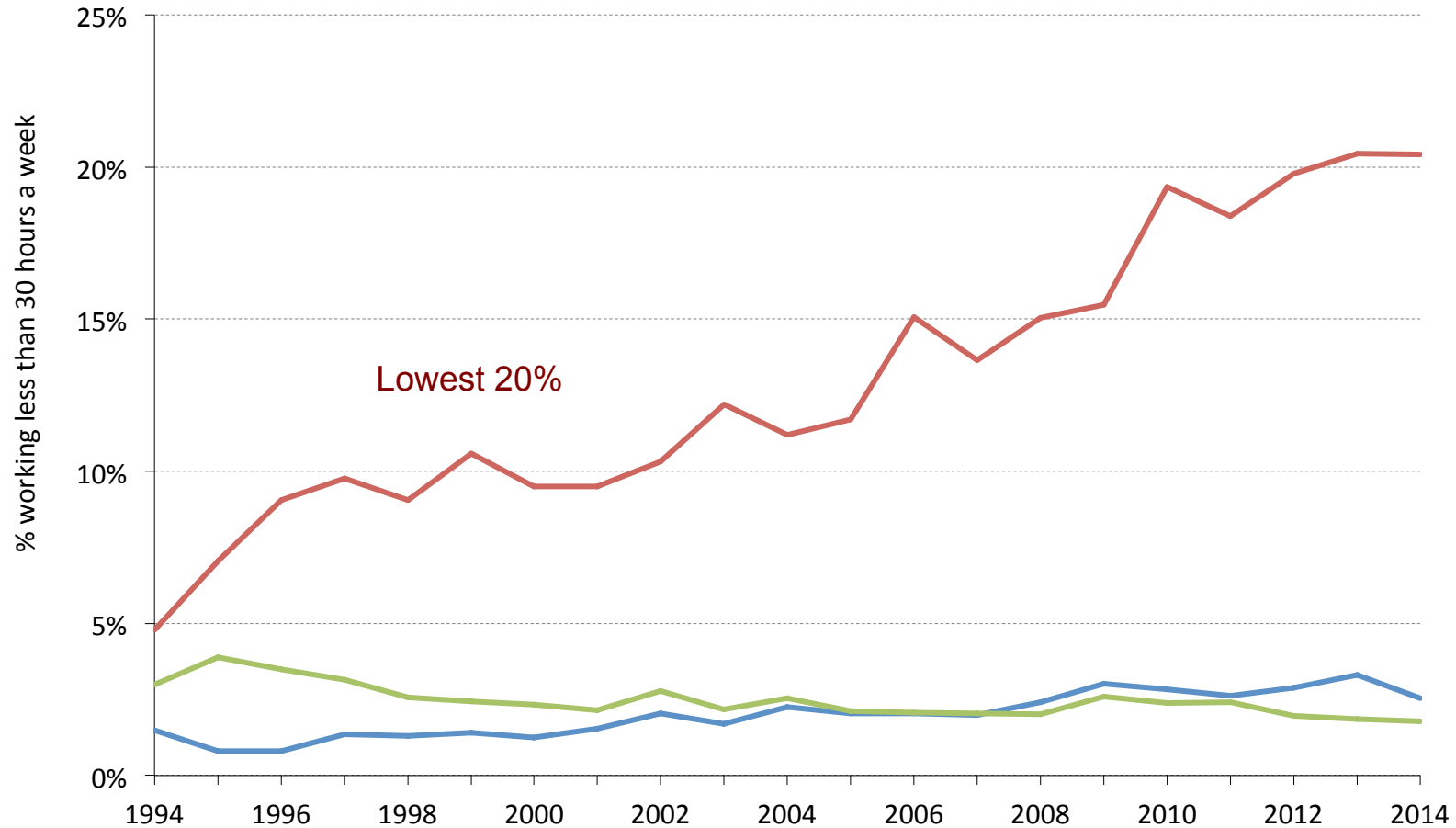


Note: assortative partnering implies this has not improved between family inequality

Source: Blundell, Joyce, Norris Keiller and Ziliak (2017)

Low hours for low skilled men:

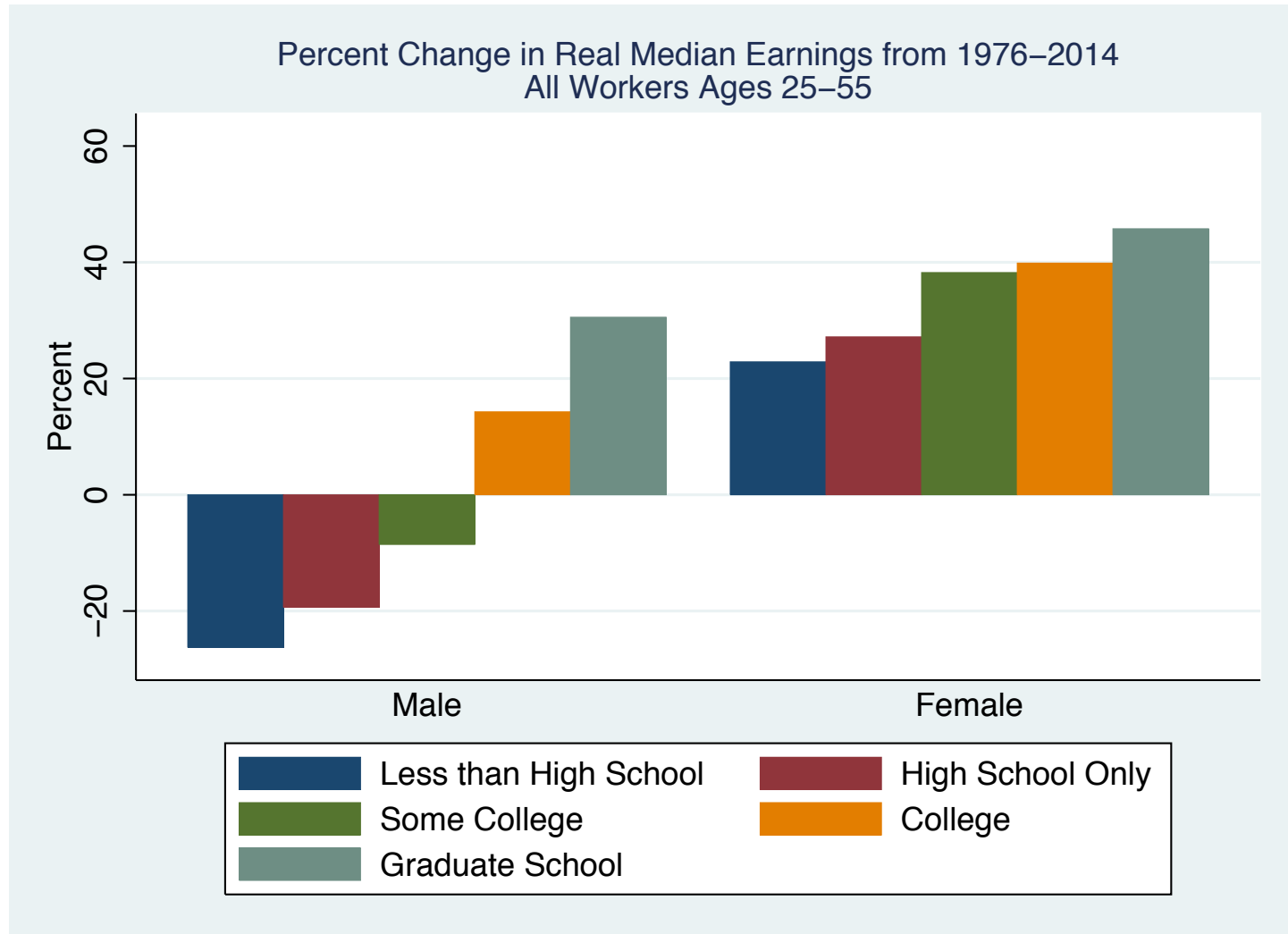
Proportion of men working less than 30 hours in the UK by hourly wage quintile – aged 25-55



Notes: LFS: Men aged 25-55.

Source: IFS calculations using Labour Force Survey

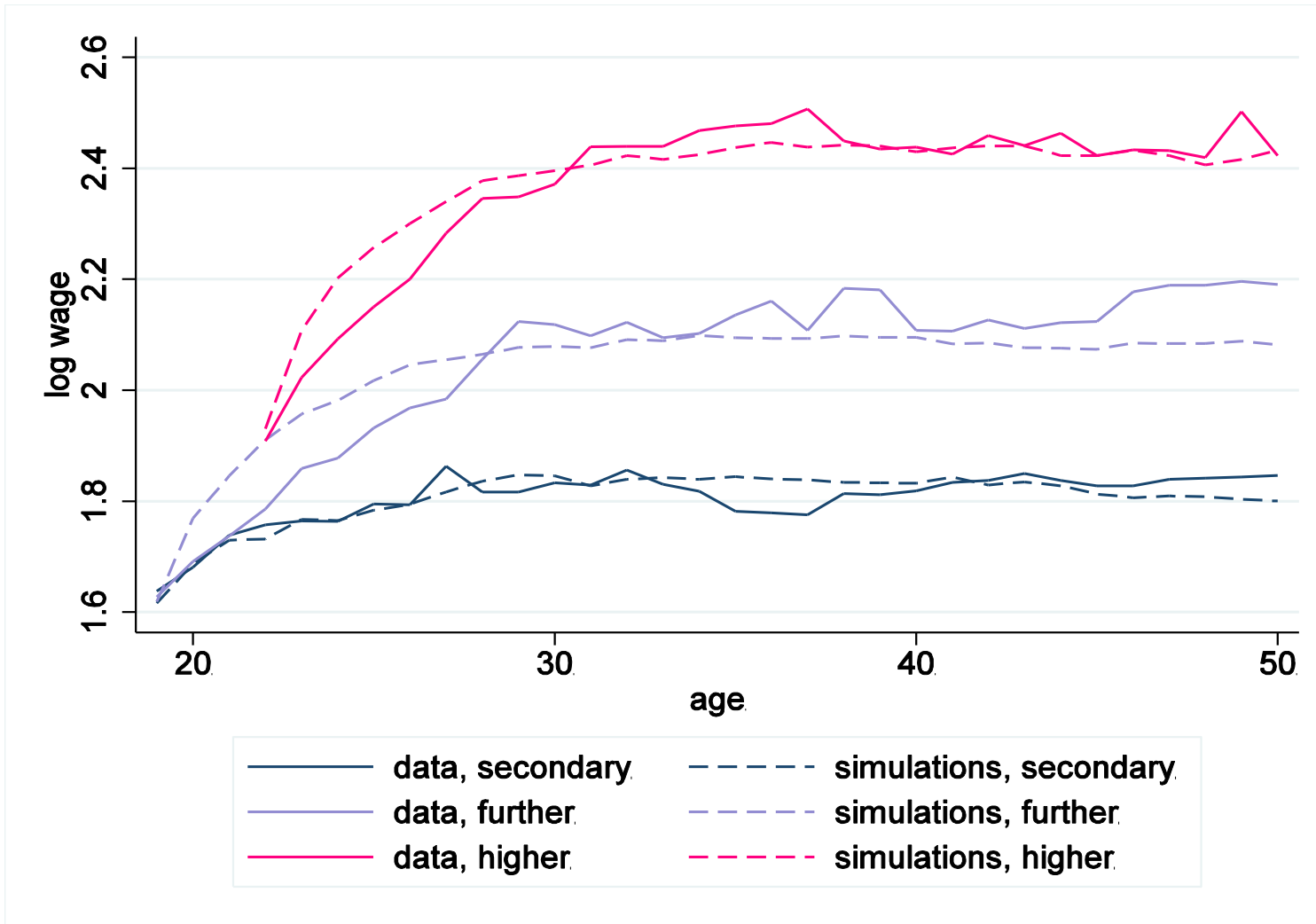
Percent Change in Median Real Earnings for Men and Women from 1979-2014, for US by Education



Note: assortative partnering implies this has not improved 'between family inequality'.

Source: Blundell, Joyce, Norris Keiller and Ziliak (2017)

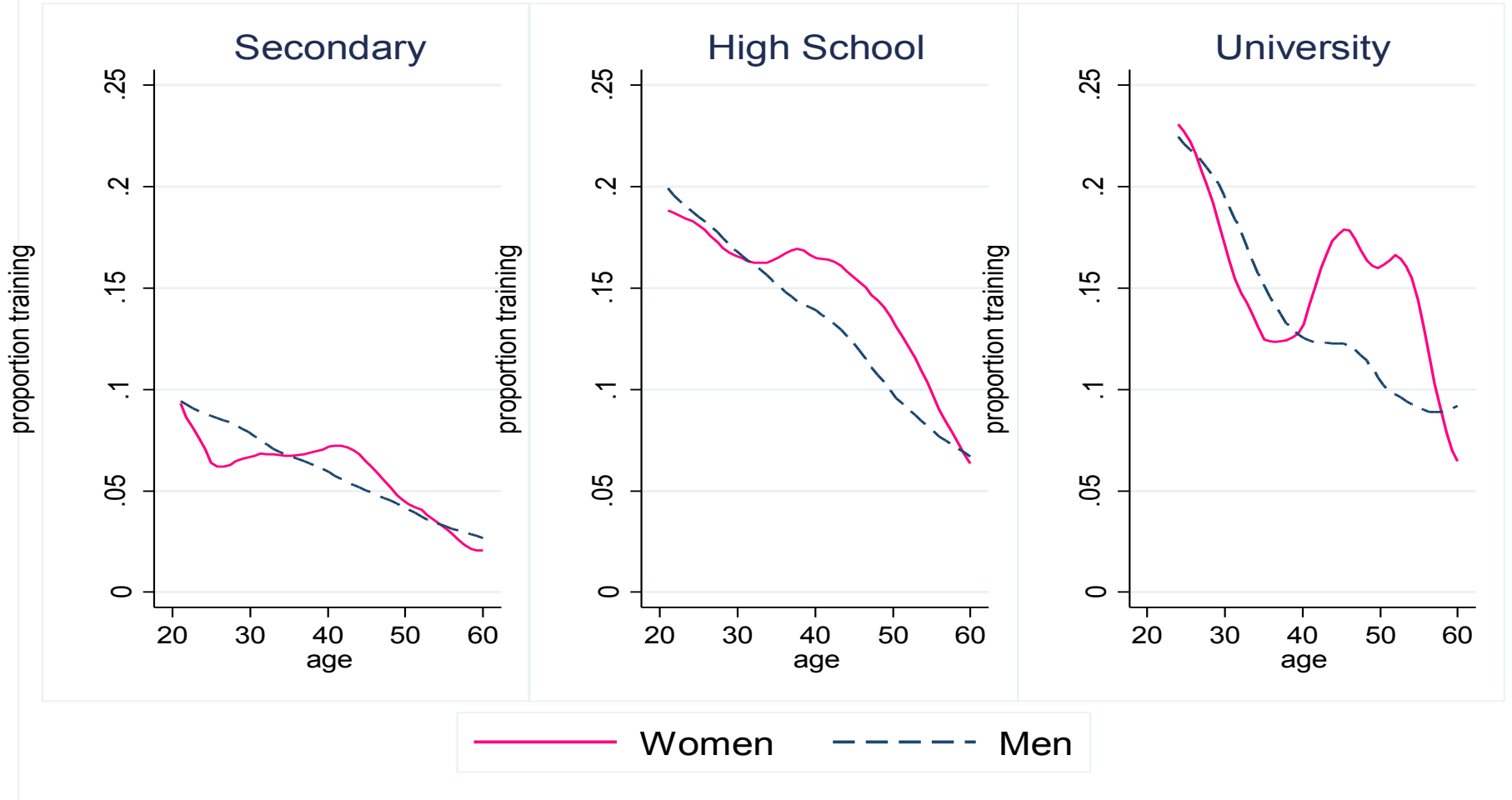
Returns to experience are strongly *complementary* with education



Source: Blundell, Dias, Meghir and Shaw (2016), Notes: UK Women BHPS

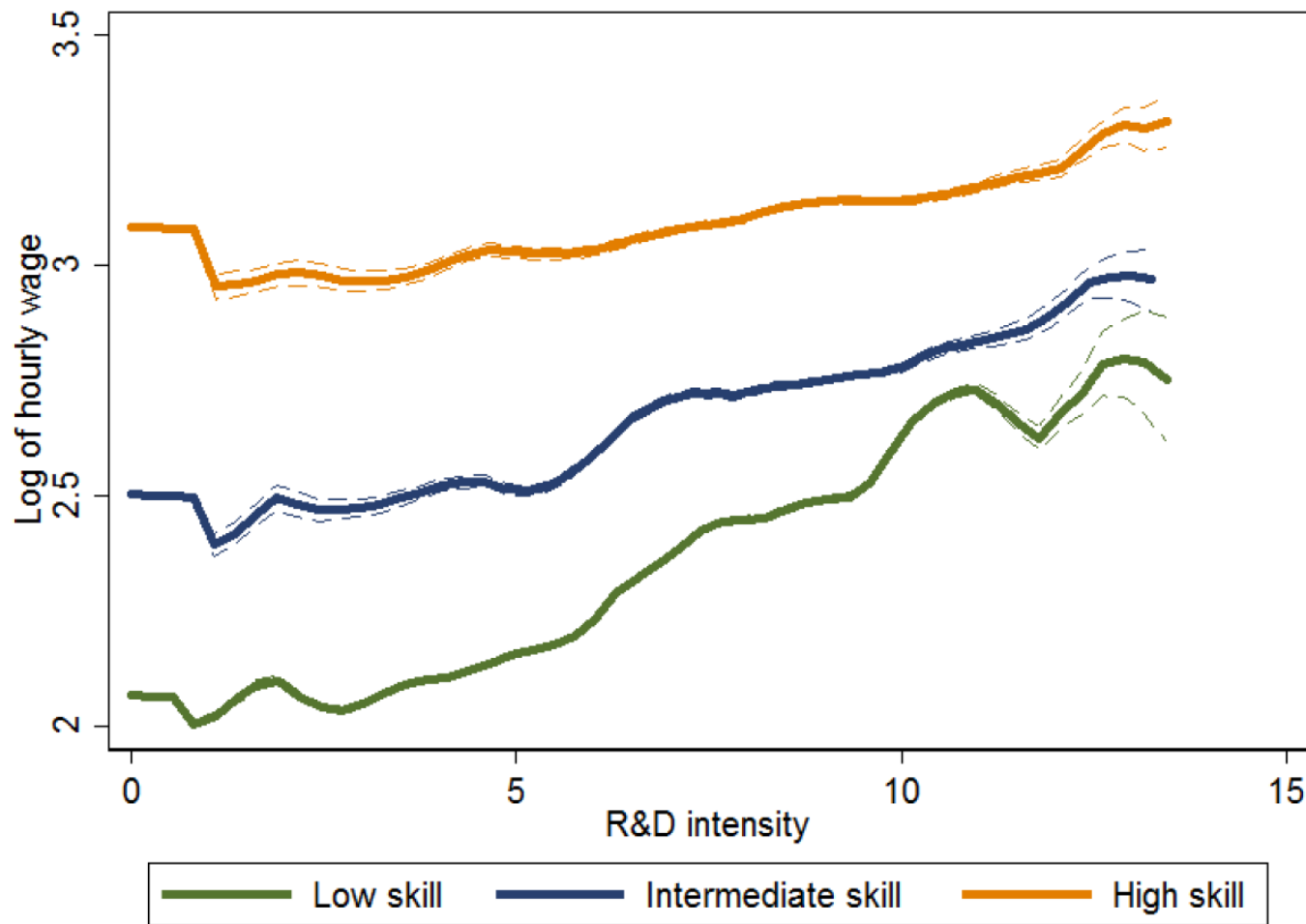
Training is also strongly complementary with education

Prevalence of training over past year All training, 50+ hours



Source: Blundell, Dias, Meghir and Webb (2017), Notes: UK BHPS

'Good' firms and R&D intensity: log hourly wage by skill group



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

Inequality and the Labour Market: What can be Done?

- Theme: can't address excessive income inequality through the tax and welfare system alone.
- 1. How far can/should redistribution go to compensate low wages in the labour market?
 - A depressing, but robust finding - little wage progression for low educated, & part-time. Employment is no longer enough for moving out of poverty or longer run self-sufficiency. Female employment has not overcome growth in family earnings inequality.
 - Earned income tax credits bring in lots of low wage female workers, as expected. Off-setting means-testing at the extensive margin – where incentives are large. They boost incomes of low earning families and are well-targeted. But incidence and equilibrium effects? Role for minimum wage – but alone not well-targeted, partly due to secondary workers and falling male hours. Relate to *Taxable Participation Income and Child Benefit with Earned Income Discount* and *Min Wage* – Tony's proposals.
 - Stigma - one of Tony's two arguments against (too much) means-testing. Universal Credit in the UK could have been a success but cut coincident back the real value of benefit system.
 - Non-poaching agreements are extensive in the US, especially in low-wage and high turn-over industries. Policy toward anti-competitive practises. Another of Tony's proposals. Note UK tax system is skewed towards self-employed and the gig economy.

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- 1. How far can/should redistribution go to compensate low wages in the labour market?
- 2. Technology: always bad for low skilled workers? Who gets the rents?
 - 'R&D intensive firms pay all workers better – even the lower educated.
 - What skills do well among low educated are valued by good firms? What skills complement innovation? – if more valuable, stronger bargaining position, less likely to be out-sourced. It seems reliability and other non-cognitive skills. Incentivise technology (and skills) that help at the bottom – one of Tony's proposals.
 - What about technology and top earners? Innovations account for around 20% of top 1% incomes (in US). But may be increasingly on the wrong side of the "inverted U"? – where incumbents face too little competition and slow down innovation, growth and social mobility. The good firms have high rents too. Need competition policy to complement tax policy – a Tony proposal.
 - Can't address excessive income inequality through the tax and welfare system alone!