UK: full employment, but falling incomes

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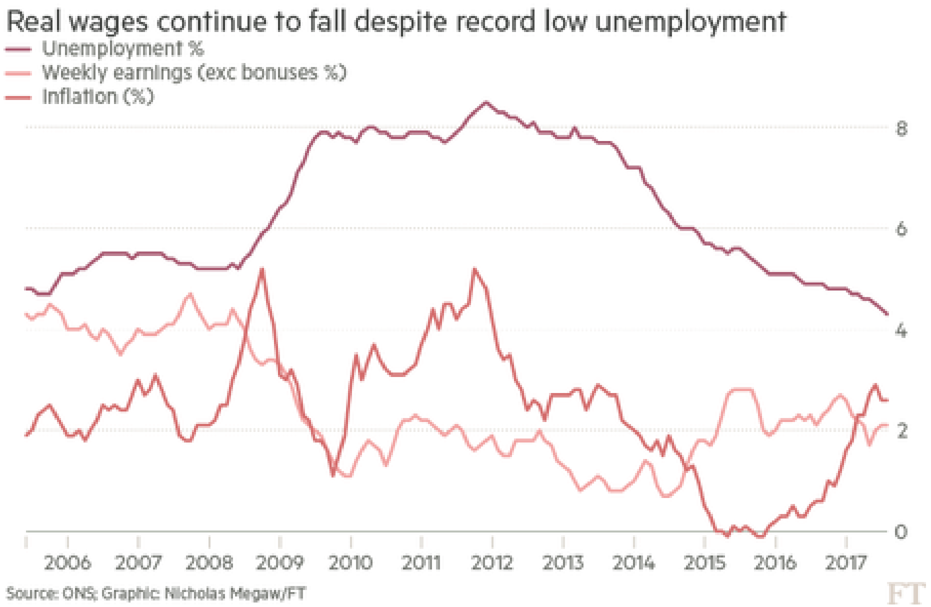
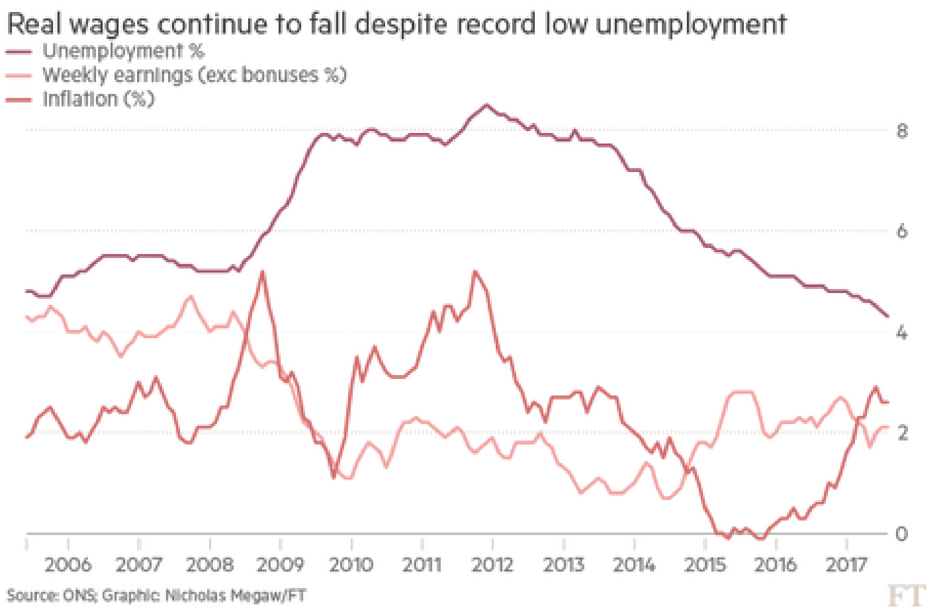


Britain's unemployment rate has fallen to a new 42-year low of 4.3% in the three months to July. That's down from 4.4% a month ago and the lowest since 1975. That sounds good news for all – until we look at what is happening to average wages for British workers after inflation is deducted. Average weekly earnings only rose by 2.1% per year in the quarter, weaker than expected and the same as last month. But inflation jumped from 2.6% to 2.9%. So real wages are falling and the decline is accelerating – for the average.



When adjusted for inflation, the real value of people's earnings has fallen 0.4% over the last year.

Why is the UK's unemployment rate so low and how is it possible that wages are not keeping up with prices when the labour market is at its tightest for over 40 years?

Well, as several posts on the excellent Flipchartfairytales blogsite show, British employers, rather than invest in new technology that could replace labour, have opted for cheap 'unskilled' labour, both British and immigrant, with the full knowledge that with little employment protection and weak trade union backing, they can hire and fire as they please.

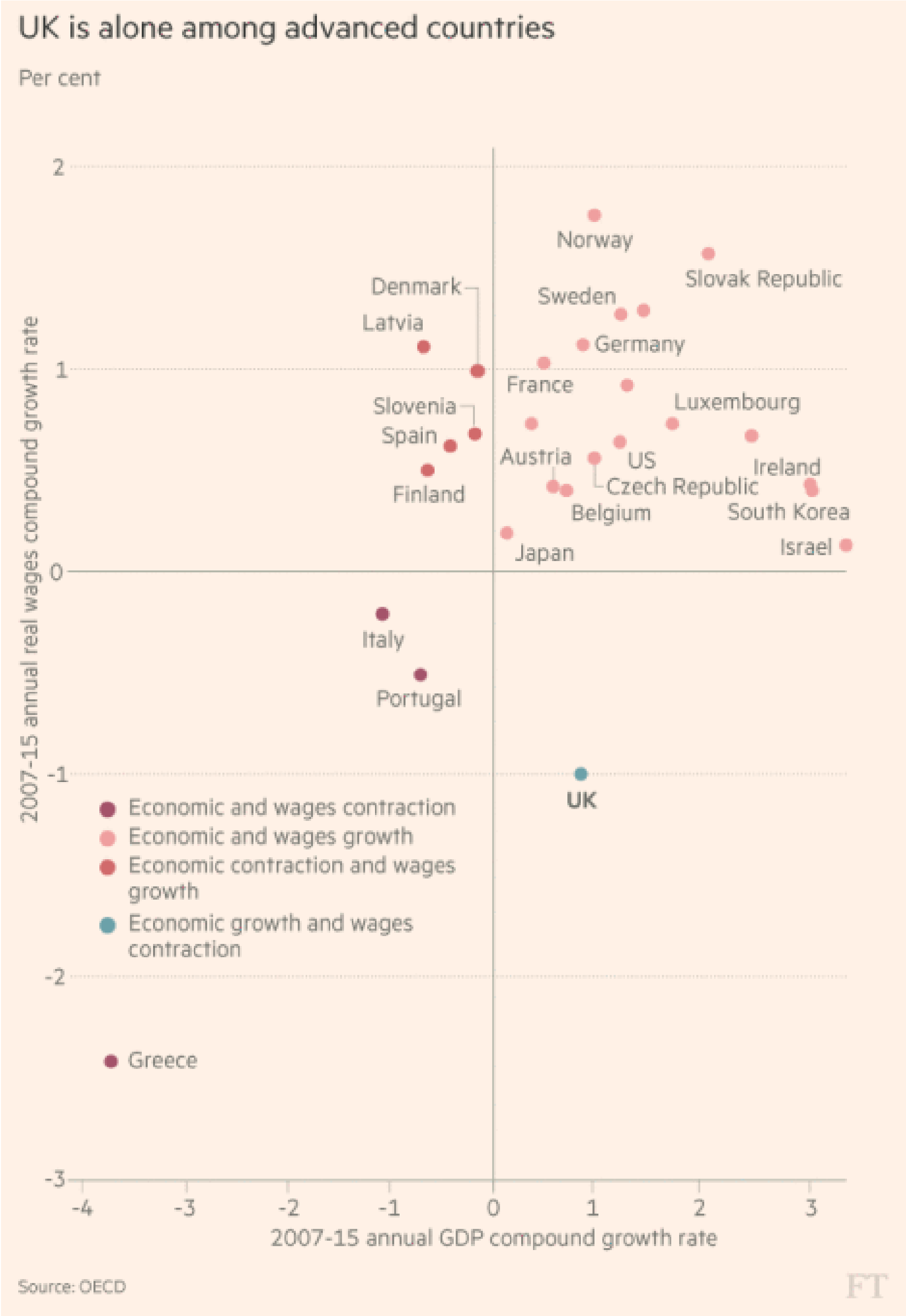
Union membership has fallen to its lowest level since the government started counting in the 1970s. This is not just a feature of the UK. In most advanced economies, union density (the proportion of those in employment who are members of unions) has fallen over the last few decades

At the same time, much of the employment increase since the Great Recession has been in low-paid self-employment as people set up themselves on-line or take jobs as taxi drivers etc that do not involve wage employment.

As the recent report on the state of the British economy (Time for Change A New Vision for the British Economy The Interim Report of the IPPR Commission on Economic Justice) states: *"The UK's high employment rate has been accompanied by an increasingly insecure and 'casualised' labour market. Fifteen per cent of the workforce are now self-employed, with an increasing proportion in 'enforced selfemployment' driven by businesses seeking to avoid employer responsibilities. Six per cent are on short-term contracts, and almost 3 per cent are on zerohours contracts. More workers are on low pay than 10 years ago. Insecure and low-paid employment is increasing physical and mental ill-health."*

"There is a huge sense of insecurity that has persisted since the recession. Even those in full-time jobs feel less secure than they did a decade ago and, when combined with the rise in more insecure forms of housing tenure, it is hardly surprising that people lack the confidence to ask for a pay rise." – Flipchart.

The UK is the only major OECD country where GDP has risen since the recession but wages have still fallen.

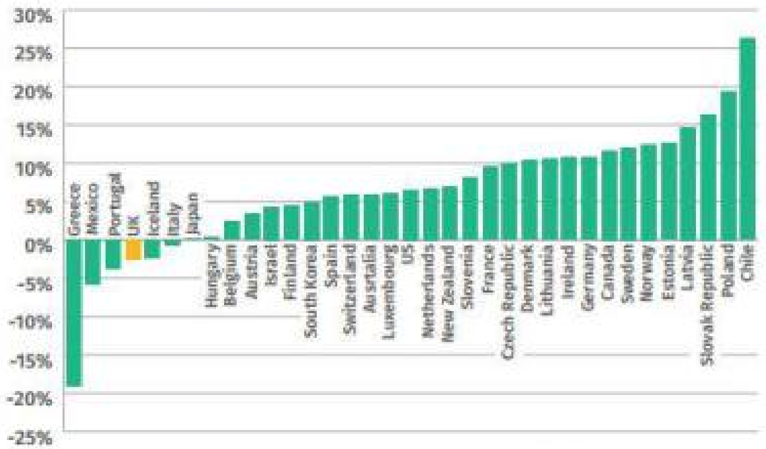


Indeed, the UK is only one of six countries in the 30-nation OECD bloc where earnings after inflation are still below 2007 levels and the UK is the worst of the top seven G7 economies.

FIGURE 2.3

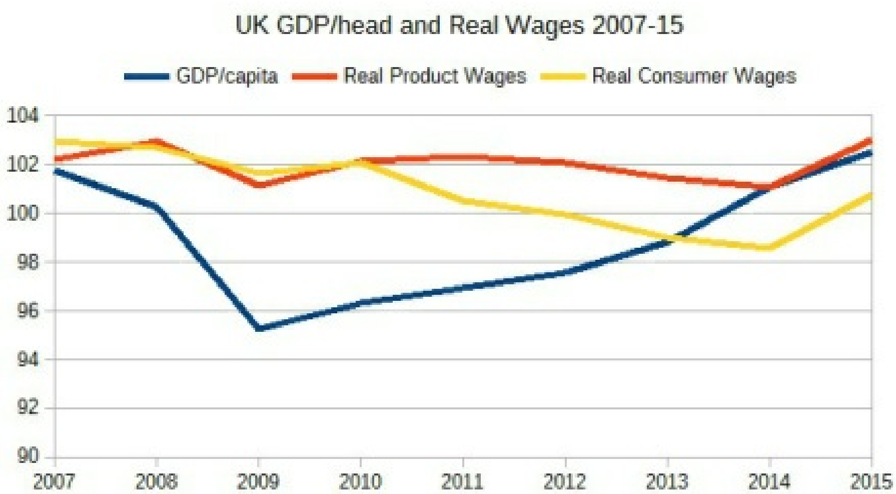
The UK is one of only six OECD countries where earnings are still below their 2007 level

Percentage change in average annual wages between 2007 and 2016, 2016 constant prices at purchasing power parity (PPP)



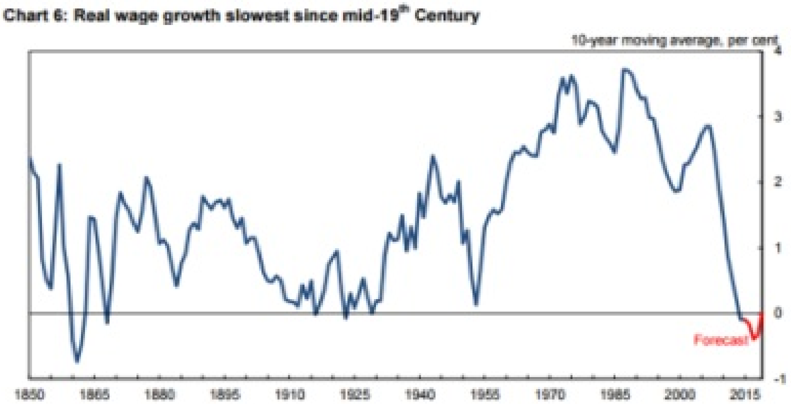
Source: IPPR analysis of Organisation for Economic Co-operation and Development (2017) 'Average annual wages' https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE

And what is also forgotten is that, if you allow for population growth (mainly immigration), the UK has barely seen any economic growth, with GDP per person only just above the level of 2007 and real consumer purchasing power still lower than in 2007.



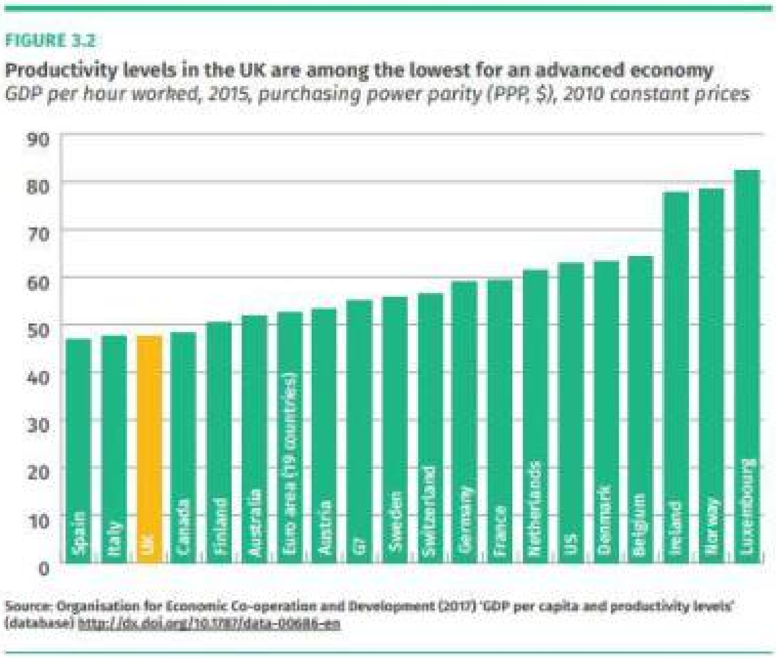
Indeed, according to the Bank of England, UK workers are suffering from the lowest real wage growth in 160 years!

Chart 6: Real wage growth slowest since mid-19th Century



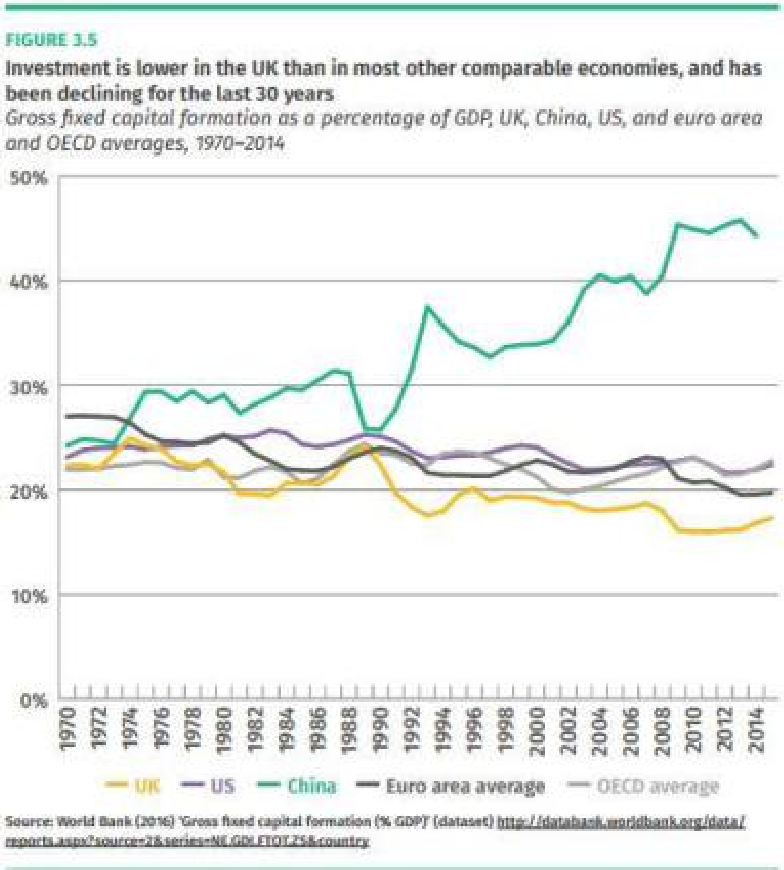
Source: Thomas, R. and Dimsdale, N. (2016) "Three Centuries of Data - Version 2.3", Bank of England, based on average weekly wages and the CPI; and November *Inflation Report*.

When you run of out more workers, then growth in output is dependent on raising the productivity of each worker. In the UK, 'full employment' plus low economic growth has meant low productivity growth ie overall, output per worker is hardly rising. UK productivity is 13% below the average for the richest G7 countries and has stalled since 2008. According to the IPPR report, *"UK leading firms are as productive as elsewhere, but we have a longer 'tail' of low-productivity businesses, in which weak management and poor use of skills leads to 'bad jobs' and low wages. A third of adult employees are overqualified for their jobs, the highest proportion in the European Union. This has been enabled by a labour market that is one of the most flexible, or deregulated, in the developed world. Too many sectors have effectively fallen into a low-pay, low-productivity equilibrium."*

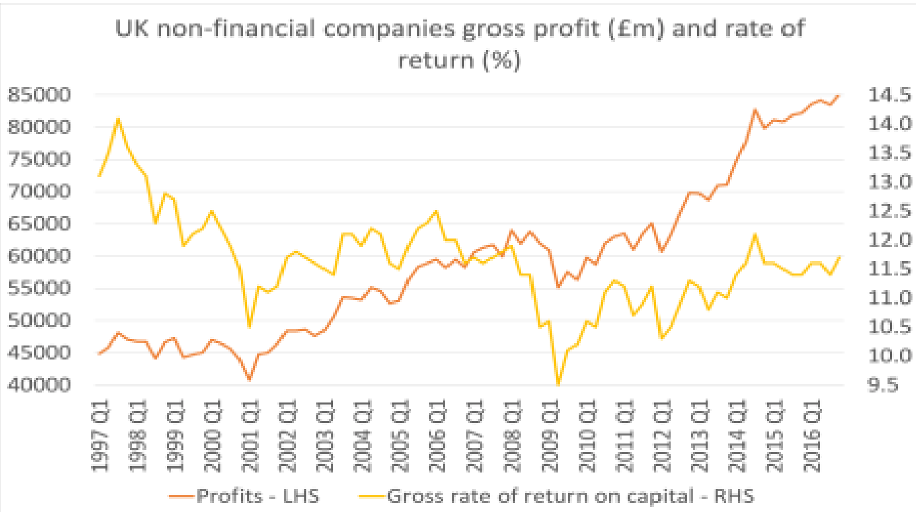


The irony is that, since the Brexit vote, there has been a sharp reduction in immigration from the EU. With 'full employment' now achieved and the UK-born population no longer increasing, if EU labour stops coming to the UK, then serious shortages will appear in important sectors like hospitals, education, farm work, leisure staff etc. And these 'low-skilled' jobs won't be filled by British citizens or even those from outside the EU.

The reason that productivity has stalled is because British capital won't invest in new technology. Again, here is the IPPR report: *"Public and private investment is around 5 percentage points of Gross Domestic Product (GDP) below the average for developed economies, and has been falling for 30 years. Corporate investment has fallen below the rate of depreciation – meaning that our capital stock is falling – and investment in research and development (R&D) is lower than in our major competitors. Among the causes are a banking system that is not sufficiently focussed on lending for business growth, and the increasing short-termism of our financial and corporate sector. Under pressure from equity markets increasingly focussed on short-term returns, businesses are distributing an increasing proportion of their earnings to their shareholders rather than investing them for the future."*



As I showed in a previous post, the rise in UK business investment since 2010, has mostly been in 'real estate' purchases and there has been no rise at all in hi-tech investment. UK businesses have invested not in productive capital that could boost productivity and sustain economic growth and rising living standards but in speculative non-productive capital. Total profits have risen as a result (red line in graph), but overall profitability against capital invested (orange line) is still below levels before the crisis.



The UK is probably at the peak in employment growth but not with inflation. Real wages are set to fall further, while productivity and investment stagnates at best.