

**Draft**

**Labour Market Efficiency, Equity and Economic Performance**

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## **Labour Market Efficiency, Equity and Economic Performance**

**Jonathan Wadsworth**

Many commentators, policy makers and academics regularly work with broad aggregate labour market measures as the means to assess and compare economic performance across time or across countries. For example, the unemployment rate is often used as the gauge of the extent of spare capacity in the labour market and also as an indicator of likely wage and inflationary pressure. Yet the unemployment rate is also used as a measure of social distress caused by the absence of work. A low unemployment rate is thought to signal that most workers have been allocated jobs and that the economy, as a result, is performing reasonably well and efficiently. However, there are reasons to think that this view may be a little too simplistic and that reliance on a single indicator as a summary statistic of many different aspects is perhaps a little ambitious. Given two economies both with the same measure of labour market performance, then the country that manages to provide good labour market prospects for all, would probably be judged to be doing better than one in which there were large variations in job prospects around a high average measure of performance. Yet reliance on a simple aggregate indicator like the national unemployment rate will never allow analysts to distinguish between these two outcomes. Equity and efficiency issues are not necessarily features to be traded off. This paper provides evidence from readily available household survey data to argue that labour market performance can instead be captured better by regular use of a broader range of labour market indicators in which the aggregate unemployment rate is just one factor. Only regular use of a broader range of measures accurate assessments be made between countries or within countries over time.

Generating employment, in a country like Britain, is reasonably straightforward at an aggregate level. Historically the evidence suggests that GDP growth has to exceed around 2% a year and jobs begin to flow but that the rate of job generation has been limited, by macro policy intervention, because of fears of inflationary pressures that may arise when labour becomes scarce. Britain now has the lowest unemployment rate for twenty years and an employment-to-population rate that is one of the highest among developed nations. Yet despite this, the rate of inflation is currently lower than for any sustained period since the 1960s. However, this good news masks mounting evidence that worklessness is increasingly concentrated on selected individuals, households, socio-economic groups and geographical areas. Simply focussing on the aggregate unemployment rate by-passes many of these issues. Likewise, concentration on average wages and wage growth obscures the effects of the highest level of wage inequality observed for more than one hundred years, (Gregg and Machin (1994)). In other words, whilst the macro-economic signals coming from the labour market can look good, the evidence on the distribution side can be less welcome.

Moreover, there is often more than one way to achieve a given a level of labour market performance and this distinction in policy direction can not be ascertained simply by looking at aggregate indicators. The US economy, for example, has managed to achieve low unemployment alongside an extremely uneven level of income inequality, whereas many European economies have achieved similar unemployment levels with much more equal distributions of income. This suggests that efficiency and equity are not necessarily substitutes to be traded off against each other in the effort to improve performance.

This study therefore advocates the regular use of a wider range of labour market performance indicators – all taken from the information contained in internationally comparable household survey data sets - that can also be used to highlight distributional and equity issues, as a means of informing the debate about the direction and performance of labour market policy and which can be readily assembled in countries where there is access to comparable household survey data. In what follows we give examples, mainly for Britain but which can be replicated for any country that has a labour force survey, where concentration on average statistics can conceal important changes and offer suggestions of how best to capture these events that would be otherwise overlooked.

### **Non-Employment**

Although the unemployment rate is the most commonly used measure of labour market performance, the labour market status of individuals is often characterised as comprising one of three states: employment, unemployment and inactivity. The OECD and the ILO rules for determining labour market status, together with the responses to questions in household surveys are used to classify individuals accordingly. The linkages between these three states is summarised by the identity

$$E/P = (1-U/L)*L/P \quad (1)$$

So that any change in labour market status can be written as

$$d\ln(E/P) = d\ln(1-U/L)+d\ln(L/P) \quad (2)$$

Hence the unemployment rate can fall if the employment rate goes up or the inactivity rate rises.

The ILO definition of employment is reasonably clear. Anyone who has worked or was temporarily absent from a job that involved at least one hour's work in the survey reference week is deemed to be in employment. However, the divide

between unemployment and inactivity is less tangible. To be counted as unemployed an individual has to have been out of work but looked for work within the last 4 weeks and be available to start work within the next two weeks. Anyone not satisfying these criteria is classified as economically inactive. The economically inactive in Britain, are a broad group, currently comprising some 7.5 million people, consisting of students, lone parents, the sick and disabled, those with household commitments, as well as many smaller groups. Many of those not in work or currently searching for work will be experiencing income deprivation and many of those deemed inactive want work and will start to search if jobs become more plentiful. Indeed some are already searching but are not counted as unemployed because they are not available to start within two weeks.

Figure 1 outlines changes in the employment rates for four countries over the past twenty-five years. The data are obtained using a time series of cross-section of UK Labour Force Surveys (LFS) aggregated up from individual responses. The data refer to the population of working age excluding full-time students<sup>1</sup>. The employment definitions are ILO based and therefore should be comparable across different countries with similar data sources. The aggregate rate moves with the economic cycle, but the 2000 rate is essentially little different from the 1975 level, even after 8 years of economic recovery. One might be tempted to conclude on the basis of the aggregate employment rate that the labour market was little changed compared with the mid-1970's. However, disaggregating by gender reveals that the composition of those in work is very different from that of twenty-five years ago. The female employment rate has risen almost continuously over the period, by around 15 percentage points, whilst the male employment rate. Concentration on an aggregate

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<sup>1</sup> 16-64 in every country except Britain which is 16-64 for men and 16-59 for women. Students are excluded to remove any trends in tertiary education enrolment which could otherwise disguise the influences more directly related to labour market performance.

statistic does not reveal this important trend. Similar trends can be observed in the U.S., Spain and Germany.

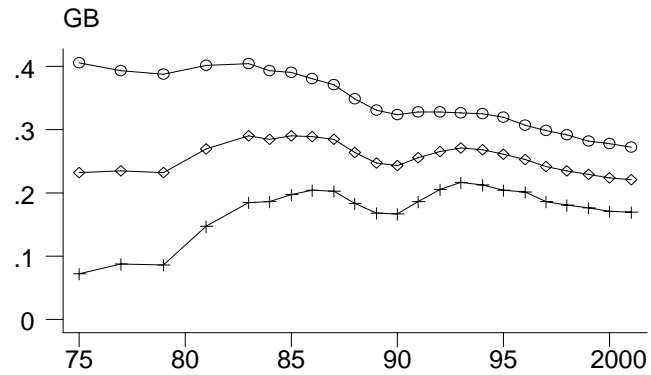
A similar pattern emerges in Figure 2, when the non-employment rate for Britain, (one minus the employment rate) is split into its constituent components of inactivity and unemployment. One might be tempted to conclude from inspection of the top panel of Figure 2, that nothing much had changed over the period. The non-employment rate has been relatively stable as have the unemployment and inactivity rates. However, it is only when the data are split by gender that it becomes apparent that there have been large scale changes in the composition of non-employment.

Male non-employment has doubled since the mid-70s, and the composition of non-employment has shifted radically toward inactivity. In 2000, around 2.3 million men of working age (excluding students) were classified as economically inactive. That is, neither employed nor looking for work. Twenty years previously, this number was only 400 thousand. There are now more than twice as many men of working age economically inactive than unemployed. In the 1970's, there were more men unemployed than inactive. For women, the non-employment rate has fallen almost continuously over the period driven mainly by a steady fall in the inactivity rate for women.

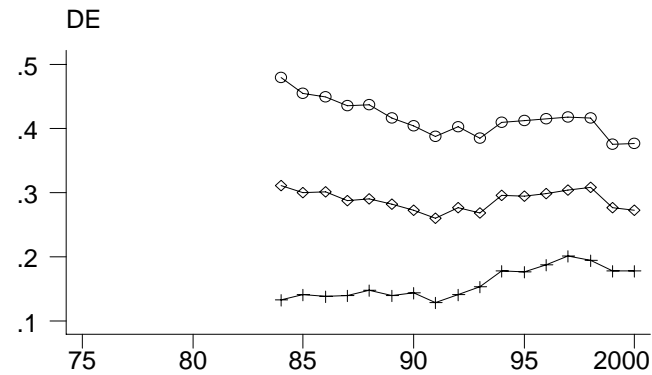
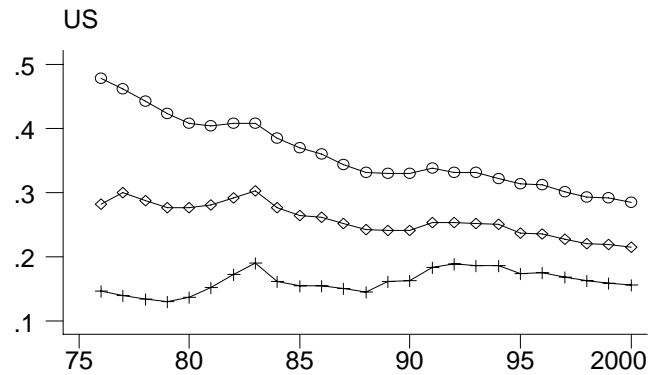
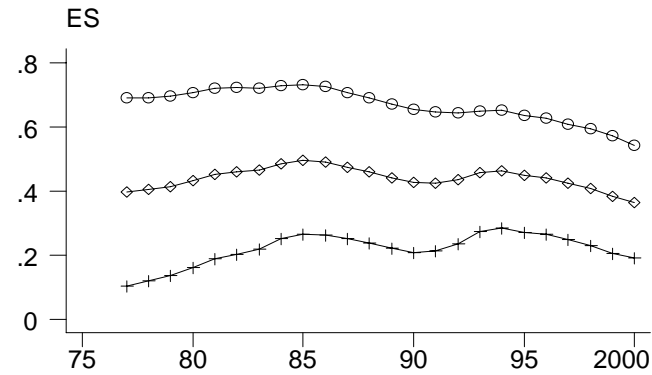
The three-way decomposition can be disaggregated further according to the extent of labour market attachment. Table 1 below illustrates ways in which the disaggregation can be expanded to arrive at alternative definitions of the jobless rate.

**Figure 1. Non-Employment Rates by Gender**

○ ——— individ. non-employment  
 ◇ ——— individ. non-employment  
 + ——— Male



+ ——— Male



year  
**Non-employment Rates by Gender**

**Figure 2. Non-Employment, Unemployment and Inactivity in Britain by Gender**





**Table 1. Alternative Jobless Measures, Great Britain (ex. full-time students)**

Year	ILO unemployed		Discouraged workers		All inactive who want jobs		Inactivity	
	Level	Jobless Rate	Level	Jobless Rate	Level	Jobless Rate	Level	Rate
	'000	%	'000	%	'000	%	'000	%
1993	2,750	10.5	140	11.0	1,650	16.8	6,150	19.0
2000	1,430	5.3	60	5.5	1,900	12.3	6,190	18.8
Men								
1993	1,870	12.5	80	13.0	540	16.1	1,920	11.3
2000	880	5.8	30	6.0	750	10.7	2,210	12.8
Women								
1993	870	7.8	60	8.3	1,100	17.7	4,230	27.5
2000	540	4.7	30	5.0	1150	14.7	3,980	25.5

Source: LFS, authors' calculations

Often these different measures are positively correlated, in that they all rise at the same time or all fall, to a greater or lesser extent at the same time. However, inspection of Figure 2 shows that there are lengthy periods when this is not true. Between 1993 and 1998 the inactivity rate for men rose when the unemployment rate was falling. So part of the fall in unemployment over this period, (around 25% according to (2)), can be attributed to a movement not into work, but out of the labour force. As such, knowledge of movements in participation and employment rates alongside the unemployment rate would seem to be fundamental to better labour market understanding. These problems are likely to be most prevalent around turning points in the economic cycle. Since the jobless stock are rather heterogeneous, as will be the options open to them, certain groups are more likely to benefit/suffer from any upturn/downturn and this will be reflected in differential movement in the various jobless measures.

### **Jobless Concentrations**

It is well known that the chances of being in work vary considerably across the population. Examination of aggregate labour market statistics will reveal nothing of any differentials in labour market prospects. Often there is a presumption that if the

aggregate numbers are improving, then so must be the prospects, to a greater or lesser extent, for all. As we show below, however, this is not always so.

Subject to sample size constraints imposed by the data, labour force statistics can always be disaggregated by the main correlates associated with the likelihood of being out of work. Figures 3 and 4 repeat the exercise for Britain disaggregating by gender, age and educational attainment. More detailed disaggregation reveals that joblessness, in Britain, is concentrated on older, less educated workers - who also form a majority of the stock of inactive. For women, the Figures demonstrate that most of the improved employment performance has come from women previously outside the labour force. Indeed for the 50-59 age group, 70% of the 5 percentage point rise in employment between 1993 and 2000 can be accounted for by a rise in labour force participation and only 30% by a fall in the unemployment rate. Again a simple focus on the unemployment rate alone would not reveal such dramatic developments elsewhere in the labour market.

Unemployment rates for men have worsened dramatically for men with no qualifications (though this group comprises a falling share of the workforce, down to around one tenth of the population of working age, compared with one quarter in 1977). If we group individuals by level of educational attainment so that the bottom 25% of the population appear in the same category in each year, (Figure 4 and Table 2), it is again apparent that for certain groups (men over 50 in the lowest 30% of educational attainment), inactivity rates and non-employment can rise when the group and national unemployment rates are falling.

**Table 2. Non-Employment, Unemployment and Inactivity in Britain by Age, Gender and Qualification**

Year	ILO unemployed			Inactivity		Non-Employment	
	Total	Men 50-59	Men 50-59, low qualifications	Men 50-59	Men 50-59, low qualifications	Men 50-59	Men 50-59, low qualifications
1993	9.5	11.9	14.7	27.3	33.0	35.9	42.8

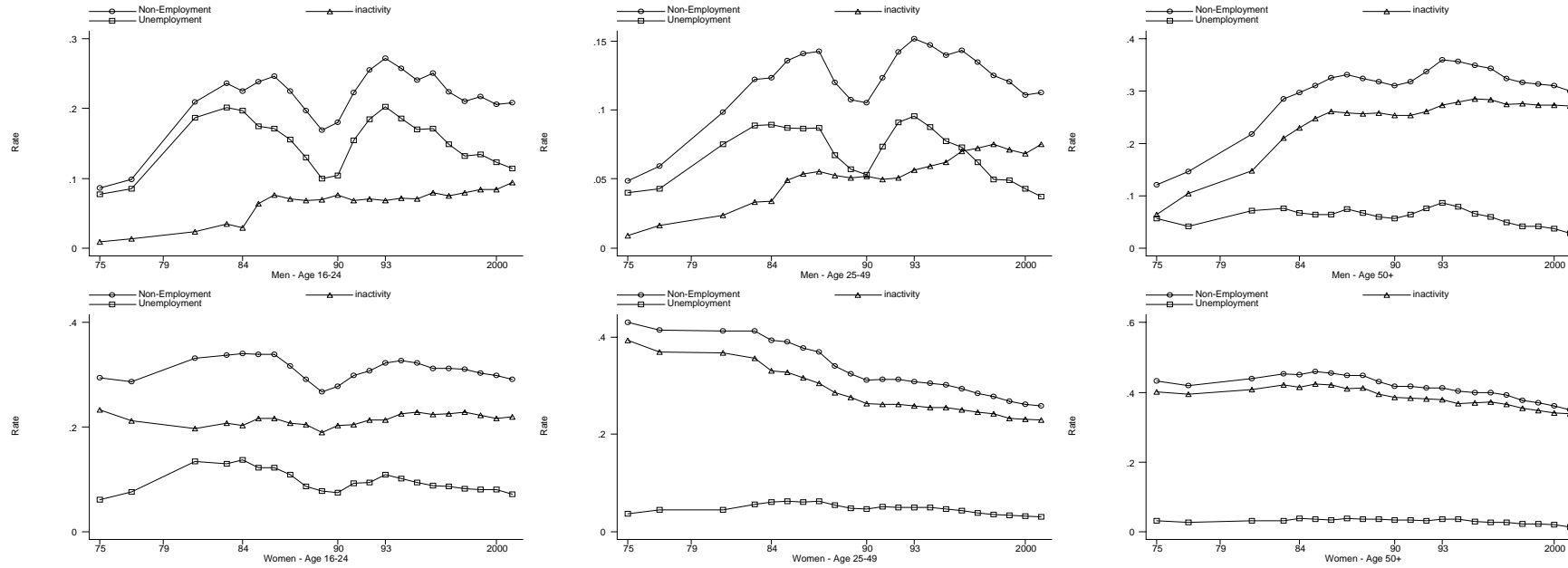
1994	8.8	10.9	14.4	27.9	33.8	35.7	43.3
1999	5.7	5.6	7.6	27.3	36.4	31.4	41.3
2000	5.2	5.2	6.9	27.3	36.9	31.1	40.3

Source: LFS author's calculations

Poor employment performance of less educated mainly a failure of inactivity rates to fall during recovery. Whether these trends are primarily supply or demand driven matters for policy recommendation. For men, the majority of inactivity is caused by sickness and disability, particularly among the prime age group. In this group, the majority of inactive women report themselves as looking after home and family. For older workers, sickness, disability and early retirement are very important for both men and women. This suggests that we should investigate further the role of sickness and disability.

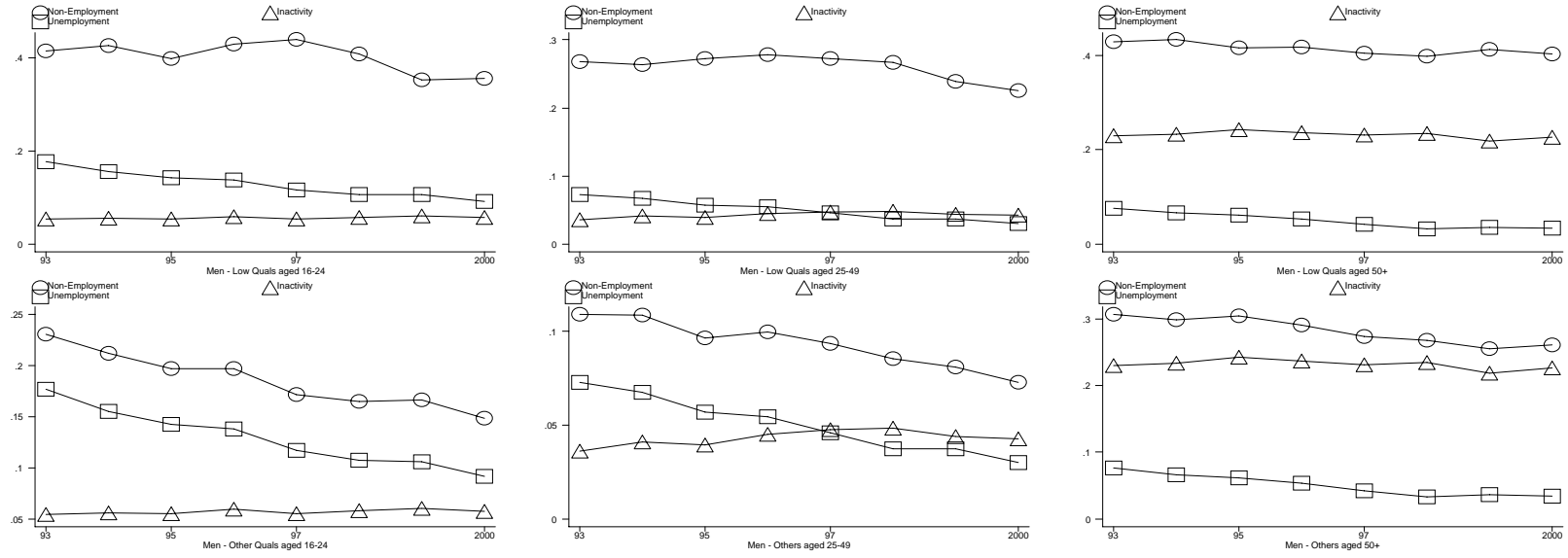
Table 3 suggests with or those without qualifications, aged 25-54, the proportion of the male population who are inactive because of sickness or disability increased from 3.1 percent in 1979 to 18. The number doubled since 1993, during a period when unemployment was falling and the overall economy was buoyant. Many more older graduates who are inactive say they are retired. This suggests that inactivity is not, primarily, a supply side problem. (supply would suggests richer individuals would retire early).

**Figure 3. Non-Employment, Unemployment and Inactivity in Britain by Age & Gender**



**Non-Employment, Unemployment & Inactivity by Age & Gender**

**Figure 4. Non-Employment, Unemployment and Inactivity in Britain by Age & Qualifications (Men)**



Non-Employment, Unemployment & Inactivity by Age & Quals. - Men

**Table 3. Male Sickness Inactivity Rates By Sex, Age And Level Of Qualification**

	1979	1985	1990	1993	1996	1998	2000
<b>Age 25-54</b>							
Degree	0.2	0.4	0.5	1.1	1.0	1.1	1.0
Higher	0.4	1.3	1.8	3.4	3.1	4.3	3.4
Intermediate							
Lower	0.8	1.1	1.6	2.7	4.9	5.2	5.2
None	3.1	4.9	6.9	8.7	14.8	18.0	17.2
<b>Age 55-64</b>							
Degree	1.8	3.3	3.8	8.5	6.1	6.7	4.8
Higher	4.5	10.6	12.5	16.5	13.5	19.3	15.0
Intermediate							
Lower	4.2	7.3	11.0	15.1	20.1	17.6	20.8
None	8.6	17.3	22.1	24.9	31.9	34.6	33.8

Source: LFS; author's calculations

### **Ethnic Minorities**

One of the other main correlates of differential labour market performance, in Britain, is ethnic origin. Again these statistics are easily gathered from survey data so that unemployment, employment and inactivity rates by (self-defined) ethnic origin could be a simple feature to monitor. One of the features of the current recovery in Britain is that unemployment rates for West Indian and Bangladeshi men have begun rising again, despite falling unemployment rates at national level, (Table 4 and Figure 5). Historically, employment and unemployment gaps between whites and those from ethnic minorities tend to narrow during economic recovery. The Table below indicates that this process has stalled somewhat at the end of the current recovery. Again focus on aggregate unemployment numbers disguises important labour market developments.

**Table 4. Labour Market Performance of Ethnic Minority Men During Recovery**

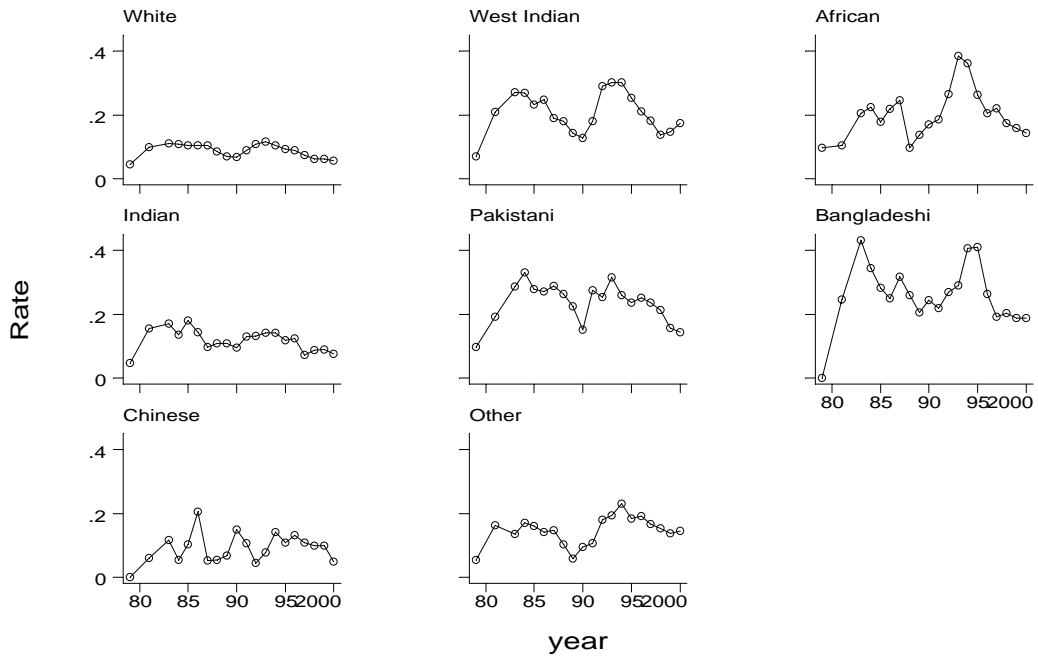
	Total	White	West Ind.	Black Africa	Indian	Pakistan	Banglad	Chines	Oth.
<b>Ump.</b>									
1993	11.2	10.6	26.5	35.9	14.1	29.4	31.3	8.6	18.7
1999	6.1	5.8	14.3	15.9	6.7	14.6	19.8	7.7	14.0
2000	5.5	5.0	14.4	15.9	7.2	14.3	19.9	8.4	12.6
2001	5.2	4.8	15.9	12.3	7.0	14.9	20.2	6.3	9.9
<b>Emp.</b>									

1993	77.9	78.6	60.9	52.0	75.4	58.2	52.3	75.9	67.1
1999	81.4	82.0	68.9	69.9	80.5	69.7	57.9	73.9	71.2
2000	81.8	82.4	71.0	69.7	80.8	69.0	62.6	75.6	71.3
2001	81.8	82.4	70.9	71.5	79.8	68.1	62.4	78.5	71.6

Source: LFS author's calculations.

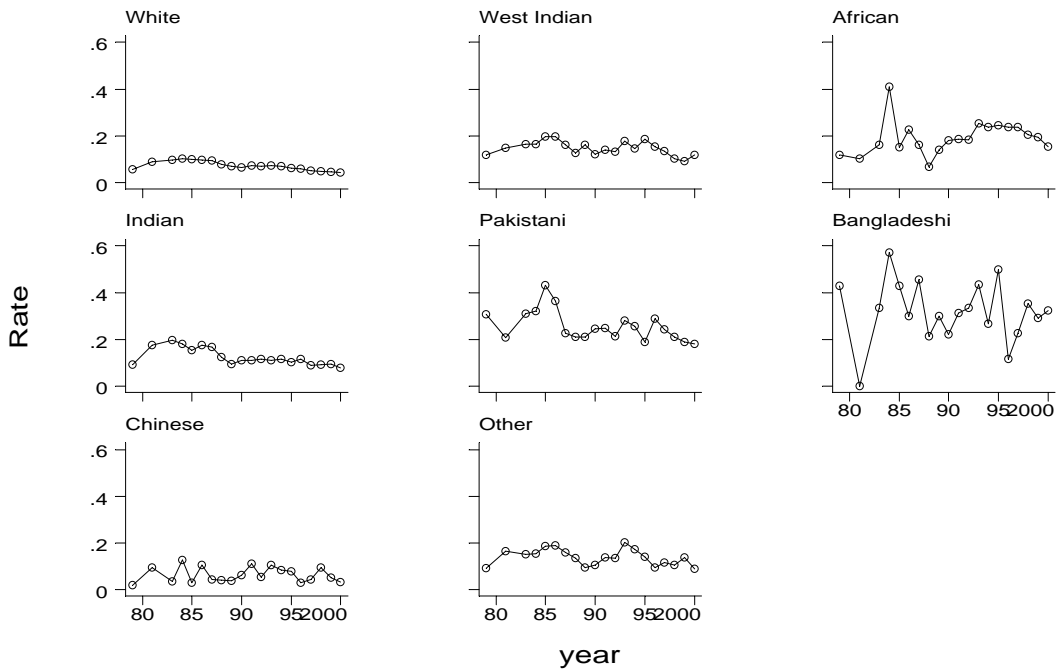
**Figure 5. Unemployment Rates by Ethnic Origin**

**a) Men**



**Unemployment rate by Ethnic Origin - men**

**b) Women**





## Regions

It is also widely recognised that Britain's regions have long been operating at different levels of labour market capacity, with the South of England, outside London, typically performing best and the old, industrial conurbations of Scotland and the north of England languishing behind. It is apparent from Table 5 that less skilled workers generally do better in tighter labour markets. Employment rates for all the sub-groups we identify are always higher in the tight labour markets of the south-east than in the depressed urban conurbations.

Glyn and Salverda (2000) have criticized the use of the ratio of unemployment rates across skill groups as a method of measuring the relative prospects facing different skill groups in different countries. They argue that the *difference* in unemployment rates between less-skilled and more-skilled workers better captures the relative probabilities of less-skilled workers being unemployed. Comparisons of absolute unemployment rates, however, may not capture the idea that at any given level of unemployment, any labour market improvement concentrated on a particular group should reduce the *relative* unemployment rate.

Table 5 suggests that both the absolute and relative employment gaps between the disadvantaged groups and other individuals is smaller in the tighter labour markets and also narrowed as the labour market in these areas tightened further after 1993. This is not the case in the low employment areas, where despite a recovery in which the average employment rate in these regions rise from 65 to 70%, both absolute and relative employment gaps between the less skilled and the rest are much higher, narrowed less over time and in some cases increased.

**Table 5. Area Economic Performance and Employment Rates of Disadvantaged Workers**

High employment areas			Low employment areas		
1993	2000	Change	1993	2000	Change

Area average	76.8	81.8	+4.0	65.2	70.1	+4.9
Low quals. – men	73.8	79.4	+5.6	52.7	55.1	+2.4
No quals. – men	71.4	72.5	+1.1	48.5	44.6	-3.9
Low quals. – women	59.2	63.5	+4.3	46.3	48.2	+1.9
No quals. – women	57.1	55.7	-1.4	47.3	40.4	-6.9
Lone Parents, Low quals.	28.1	37.0	+8.9	22.2	32.4	+10.2

High employment areas are South-East (not London) and East Anglia. Low employment areas are Tyne & Wear, South Yorkshire, Merseyside and Strathclyde. Low quals comprises those in bottom 30% of the qualification distribution in each year.

## Employment Types

There is also more than one way of achieving a given employment rate by differential patterns of job creation. In order to compare performance it is useful to know whether any aggregate change has been accompanied by changes in the shares of the different job types that comprise the stock of employment. Table 6 outlines the share of the employed in several quantifiable job types over the recovery periods in both Britain and the United States. In general, in neither country's recovery has relied heavily, by international standards, on increases in the shares of "flexible" forms of employment such as part-time work, temporary working, self-employment, or employment in small and medium enterprises.

**Table 6. Job Types in Britain and the U.S. During Recovery**

% of employed who are:	United States			Britain	
	1989	1992	2000	1993	2000
1. Non-union workers	83.6	84.2	86.5	68.7	72.9
2. Part-time	18.1	18.9	16.7	23.8	24.9
3. Part-time, involuntary	4.3	5.7	2.4	3.4	2.4
4. Part-time, voluntary	13.8	13.2	14.4	20.4	22.5
5. Temporary workers	1.1	1.3	2.6	5.8	6.1
6. Employment in SMEs	20.9	20.3	19.1	36.1	35.3
7. Self-employment	7.6	7.5	6.6	12.7	11.3

Notes:

1. US: Economic Policy Institute, <http://www.epinet.org/datazone/dznational.html>, updated using US BLS, "Union Members in 2000," January 18, 2001.

2., 3., and 4. US: US BLS, *Employment and Earnings*, January 1990, 1993, and 2000.

5. US: US BLS, <http://stats.bls.gov/webapps/legacy/cesbtbl1.htm>, series EEU80736301 over

series EEU00000001.

6. US: share of workers employed in firms with fewer than 20 employees; figure for 2000 refers to 1998; from: US Small Business Administration, "U.S. totals, 1988 - 1998," <http://www.sba.gov/advo/stats/data.html>, accessed May 3, 2001. UK: share of workers employed in firms with fewer than 25 employees.

7. US: Self-employment in nonagricultural industries as share of total paid employment, US BLS, <http://stats.bls.gov/>, series LFU11104080000 and LFU11104010000.

Source: Schmitt and Wadsworth (2002).

## **Duration**

A given level of unemployment can be associated with differential duration structure and this could have differential consequences for economic performance. Most countries now report statistics – based on ILO-consistent survey data – on the share of long-term unemployed workers. Around one quarter of the ILO unemployed in Britain are currently long-term unemployed, down from a peak of 50% in the mid eighties. The share of long-term unemployment in Britain tends to lag movements in the aggregate unemployment count by around one year. At the beginning of a recession, new inflows, the short-term unemployed dominate the stock. At the onset of recovery, the long-term unemployed are the last to leave the unemployment count and so the share stays higher. The long-term unemployed share has fallen in Britain over the last ten years or so, but in order to obtain a more complete understanding of duration structures it would be useful to have similar information for the employed and inactive. The table therefore also documents the shares of job tenure above and below certain thresholds, along with a duration threshold for the inactive by way of example of what could easily be done. Again, as with the aggregate unemployment count it is important to realise that there can be substantial variation around these average duration statistics. Inspecting the one year job share statistics one might be tempted to conclude that nothing had changed much between 1990 and 2000. However, Table 8 shows that aggregate stability disguises a fall in job tenure amongst men and a rise in job tenure among women, primarily among those with children.

**Table 7. Unemployment and Employment Durations in Britain**

YEAR	Unemployed	% unemployed >=6 months	% unemployed >=12 months	% Job Tenure < 1 year	% Job Tenure >=10 years	% Inactive for > 3 years
1985	11.3	66.8	49.9	17.8	42.6	50.9 (65.5)
1990	6.8	48.8	33.1	20.2	41.2	60.5 (63.1)
1995	8.8	61.1	43.8	17.6	37.5	56.9 (60.6)
2000	5.6	41.7	27.0	19.8	38.1	60.5 (59.4)

All 16 and over Source: LFS Historical Supplement (ONS). Gregg and Wadsworth (2002)

**Table 8. Distribution of Job Tenure, 1990-2000**

	Median	< 1 year	> 5 years	>10 years
Total				
1990	4, 8	20.3	46.4	30.2
2000	4, 6	19.8	47.7	29.7
Men				
1990	6,7	16.9	53.4	37.3
2000	5,4	18.4	51.2	34.3
Women – no dependent children				
1990	4,4	20.6	34.8	27.9
2000	4,8	18.7	38.0	29.5
Women – children				
1990	2,6	29.9	28.0	12.2
2000	3,6	24.5	38.3	18.4

Note. Median tenure in years and months. Source: LFS. Gregg and Wadsworth (2002b).

### Households

On first inspection, the state of the labour market in a country like Britain looks healthy. Britain now has an ILO unemployment rate around 5 per cent, (the lowest for twenty five years), and an employment rate close to that observed at previous cyclical peaks, which is, currently, also one of the highest in the industrial world. However, this good news is not matched by other measures of social distress based on household level data. Poverty and inequality amongst the working age population are inordinately high, especially among families with children. In addition, there is

evidence, (Gregg and Wadsworth 1999), that joblessness is now increasingly concentrated on certain groups and in certain areas.

In a series of articles, Gregg and Wadsworth (1996, 1998, 2001, 2002) have shown that over the past twenty years, the pattern of employment in certain OECD countries has become increasingly unevenly distributed across households. The share of households where everyone is in paid work has grown at the same time as a rise the share of households where no adult works, so employment is increasingly concentrated into work-rich households. This, despite aggregate employment rates, as shown above, that have changed little over the past twenty years, allowing for cyclical variation.

The scale of this change, in some countries, has been so large that analysis of labour market performance using individual level data can reach radically different conclusions to that provided by a household based analysis, using the same source of information. The current workless household rate in Britain and Spain, for example, is now double that of the late seventies when the aggregate non-employment rate was at the same level. Despite near record high employment rates, nearly 1 in 5 children in Britain are growing up in a household where no one works.

Households lacking wage income will be more dependent on welfare payments than households containing a mixture of those in and out of work and more at risk of experiencing poverty. This in turn has profound implications for the scale of government welfare finance for a given level of joblessness. It is also easy to think of unemployment models where the amount of wage pressure could vary with the distribution of work across households in a different way to the usual hypothesised effect of the aggregate jobless rate. In sum, labour markets now can be very different from those of twenty-five years ago, but examination of individual-based jobless data

will not always reveal this. Figure 5 and Table 9 below indicate the divergence in signals that emanate from individual and household based aggregations of non-employment.

Whilst the aggregate, individual based, non-employment rate in Britain moves over the cycle but remains broadly untrended, the share of households where no adult works triples over the same period. During the mid-eighties and early nineties the individual-based non-employment rate falls back, but the household non-employment rate continues to rise. A similar pattern can be seen for Spain, where the workless household rate doubles between 1977 and 1998 but the non-employment rate is essentially unchanged. In the US, the workless household rate is the same as in the late seventies, but the individual-based non-employment rate has fallen by some six percentage points over the same period. Only in Germany do the two non-employment rates appear to move together over time. The workless household rate in Germany begins rising in the early nineties since when the labour market has stagnated. It is our contention that labour markets are very different from those of twenty years ago, but that inspection and use of the individual based jobless rate would not always reveal this. Again, as with the aggregate unemployment count it is important to realise that there can be substantial variation around these average household statistics and disaggregation by (household) characteristics would be a sensible strategy to pursue<sup>2</sup>.

**Table 9a. Workless Households Rates in Britain, Spain, the US, Germany**

	G.B.	US	Sp.	De.
1977	8.3	11.6	7.1	
	(0.1)	(0.2)	(0.1)	

<sup>2</sup> For more details on decomposing and reconciling the household jobless measure with the individual based count, see Gregg and Wadsworth (2001, 2002).

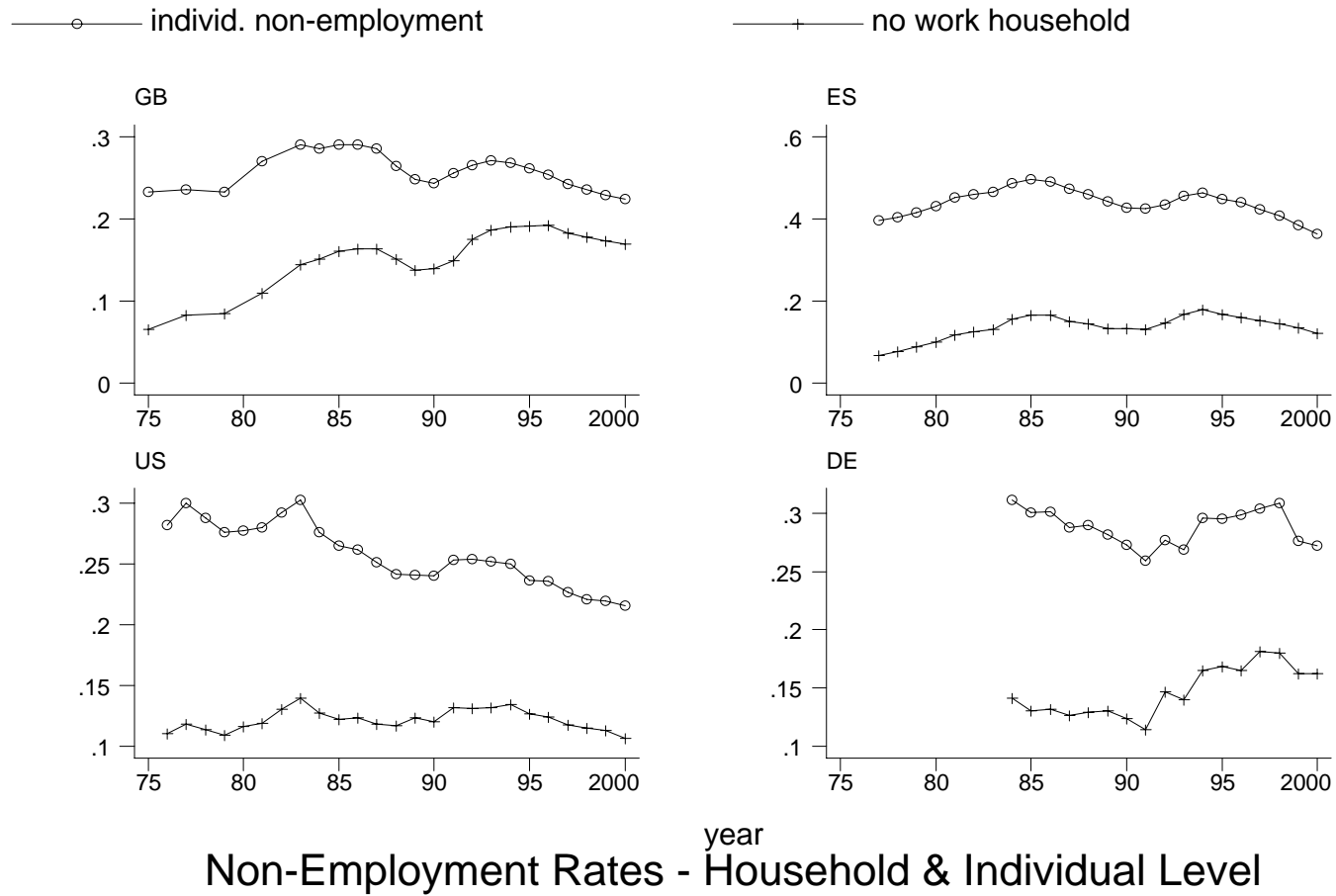
1984	15.1 (0.2)	11.6 (0.2)	14.6 (0.2)	14.5 (0.4)
1990	14.1 (0.2)	12.0 (0.2)	13.0 (0.2)	12.6 (0.5)
1996	19.2 (0.2)	12.4 (0.2)	16.0 (0.2)	16.5 (0.5)
2000	16.9 (0.2)	10.7 (0.2)	12.6 (0.2)	16.3 (0.4)

**Table 9b. Non-Employment Rates in Britain, Spain, the US, Germany and Australia**

	GB	US	Sp.	De.
1977	24.0	27.9	39.6	
1984	29.1	24.9	47.2	31.4
1990	23.2	24.0	42.7	27.5
1996	26.2	23.6	44.1	29.8
2000	23.0	21.6	36.3	27.3

Source: Gregg and Wadsworth (2002). Standard errors in brackets.

**Figure 5. Individual & Household Non-Employment Rates in Britain, Spain, the U.S. and Germany**



Source: Gregg and Wadsworth (2002)



## Wages

Labour market performance does not just concern employment opportunity, the quality of jobs also matters. It may be possible to achieve a given level of employment with differing wage outcomes or wage distributions. Britain has experienced an unprecedented rise in income and wage inequality over the past twenty years. This followed a period in the 1970s when wage dispersion declined. Wage inequality rose through the 1990s but the scale of the increase was much less than in the 1980s. The marked deterioration of the low paid (bottom decile) relative to the median in Britain is in contrast to that observed in most other industrialised countries, with the exception of the United States. Most countries statistical/labour offices report average (mean) earnings routinely. Very few give details on other quantiles of the wage distribution. Yet this seems to be necessary in order to achieve a more complete understanding of labour market performance. Table 10 illustrates one way in which this could be done using readily available survey data.

**Table 10. Distribution of Real Hourly Pay, Great Britain**

	Bottom 10% £	Median £	Top 10% £	90/10 ratio	90/50 ratio	50/10 ratio
All						
1994	3.50	6.70	14.60	4.2	2.2	1.9
2000	3.80	7.20	15.60	4.1	2.2	1.9
Men						
1994	3.90	7.90	16.40	4.2	2.1	2.0
2000	4.20	8.30	17.90	4.2	2.2	1.9
Women						
1994	3.30	5.80	12.20	3.7	2.1	1.7
2000	3.60	6.20	13.30	3.7	2.1	1.7

Source: LFS, authors' calculations (pooled 4 quarter averages). Numbers converted to January 2001 prices.

### Low Wage Persistence

The sharp increase in the cross sectional dispersion of earnings clearly has serious welfare implications. However, the degree to which increases in cross-sectional dispersion translate into increases in lifetime earnings dispersion will depend on the persistence of individual earnings. Dickens (1999) presents information on the extent of earnings mobility in Britain. He shows that there is considerable immobility within the earnings distribution from one year to the next. For example, over 48% of males in the bottom decile of the hourly earnings distribution in 1993 are still there in 1994. Many of these low paid workers drop out of employment so that only 20% actually

move up the pay distribution. Most of those that do progress tend not to move very far, with two thirds of these moving into the next decile and virtually nobody moving beyond the median. Mobility is somewhat greater when earnings are observed over a longer time period. For example, only 22% of males in the bottom decile in 1989 are still there in 1994. However, again many have dropped out of employment so that only 30% have actually moved into a higher decile over this five year period with very little long range movement.

**Table 11. One year Transition rates Within Hourly Pay Distribution by Decile**

Pay distribution	1977/78		1988/89	
	Same decile	Moved 1 decile		
Bottom decile	40.1	11.4	41.7	12.9
2 <sup>nd</sup> decile	28.6	25.7	36.0	26.7
9 <sup>th</sup> decile	44.7	24.1	52.5	22.3
10 <sup>th</sup> decile	61.1	9.5	66.3	9.1

Source: Dickens (1999).

In the light of increasing cross sectional inequality the important question is not so much about the level of mobility but the extent to which there have been any changes in mobility. Dickens (1999) presents evidence that short run mobility has fallen since the late 1970s. Computing a mobility index based on changes in the individuals ranking within the earnings distribution from year to year he shows that this index has fallen by some 41% for both males and females between 1980 and 1994. This is rather disconcerting because it suggests that lifetime earnings dispersion has increased by more than that observed in cross section data on earnings.

### **The Low Pay - No Pay Cycle**

In addition to persistence in low pay it is also evident that the low paid are much more likely to leave employment than those higher up the pay distribution. Stewart (1999) shows that employees paid below £3.50 an hour (in April 1997 prices) were three times more likely to be out of work one year later than those paid above £3.50 an hour. In addition, some 33% of those employees who were out of work a year ago are paid below, £3.50 an hour, compared with just 8% of those who were in work the year before. So the low paid are more likely to exit work and new entrants are likely to enter into low paying jobs.

Furthermore, there is evidence of persistence in low pay across different employment spells, that leads to a cycle of low pay-no pay for certain individuals. Looking at re-entrants to work who were out of work a year ago Stewart (1999) reports that some 42% of those who were in low paid work two years ago will enter low pay again compared to 14% of those high paid two years ago. Some workers, therefore, face a cycle of movement in and out of low paying jobs and non-employment.

**Table 12. Low-Pay/No-Pay Cycle**

	Low Pay Threshold		
	£3.50/hour	£4.00	£4.50
% Low Paid	10.9		25.7
Prob not working at time t given			
Low paid at t-1	0.14	0.12	0.11
Higher paid at t-1	0.05	0.05	0.04
Prob. Of being low paid at t given not working at t-1 and in work at t-2			
Low paid t-2	0.42	0.61	0.68
High paid t-2	0.14	0.22	0.32

Source: Stewart 1999.

### **Entry Wages**

Many studies assume that wages taken by the non-employed correspond to average wages. This is far from true. Survey data can be used to indicate the likely wage on offer to job seekers and its relative size. Employers may feel able to reduce wage offers if workers are prepared to take vacancies at lower wages with the prospect of tax cuts and benefit top-ups to supplement their pay. Alternatively, the new National Minimum Wage (NMW) and the tightening labour market may force employers to raise wage offers to attract recruits. It is therefore interesting to look at wages in jobs open to potential entrants relative to average wages.

Since 1996 entry wages of adults have risen in real terms and relative to the wages of other workers. For adult men have grown rapidly from £4-90 an hour to £5-

60 an hour. This is an average of 3.6% per cent above inflation each year and faster than average wage growth so that the typical entry wage for adult men has risen from 60% to 66% of the average wage. The typical entry job has risen in the overall wage distribution such that now 20% of all jobs pay less than the typical entry job.

**Table 13. Median Real Wages men aged 22-65 and women aged 22-59**

Hourly (£ an hour)						Weekly (£ a week)					
Men	All jobs		Entry jobs		Non-entry jobs		All jobs		Entry jobs		Non-entry jobs
1996	8.20		4.90		8.40		347		187		356
2000	8.60		5.60		8.70		365		223		369

Hourly (£ an hour)						Weekly (£ a week)					
Women	All jobs		Entry jobs		Non-entry jobs		All jobs		Entry jobs		Non-entry jobs
1996		6.00		4.20		6.10		193		73	190
2000		6.50		5.00		6.60		212		97	211

Source: Gregg and Pasanen (2001). LFS . Wages measured in 2000 prices.

In 1996, hourly wages for men returning to employment after a period out of work typically paid just 60% of the average male wage. Half of these entry jobs were amongst the worst paid sixth of all jobs. For women entry jobs paid around 70% of the typical wage. This came at the end of a long period of relative decline in the wages paid in entry jobs, but since 1997 there has been a significant recovery in entry wages. Wages for adults taking entry jobs have typically risen 6% faster than those for jobs in general.

## Conclusion

Equity and efficiency of labour market performance need not be incompatible. Since there may be more than one way of achieving outcomes, like the unemployment rate, then economies can be judged by whether they provide good prospects for all. What is clear is that focussing attention only on aggregate measures of performance will not reveal differentials in labour market opportunities across groups and so a more

disaggregated approach to the production of labour market statistics is needed. This is a simple task. Most countries undertake regular household based surveys that conform to ILO/OECD guidelines that can be used to calculate these numbers. As shown above, once a more disaggregated approach is done it is apparent that there can be substantial dispersion around the traditional measures of labour market performance. Moreover a general improvement in labour market prospects is not always shared by all sectors of the population. At certain times the unemployment rate for a group can be rising, or static when the aggregate rate is falling. The unemployment rate can also fall not because employment is rising, but because individuals are leaving the labour force.

All this suggests that disaggregation of existing labour market statistics needs to be accompanied by use of a broader set of indicators, of which this article has highlighted just a few, in order to achieve a better understanding of labour market developments and issues.

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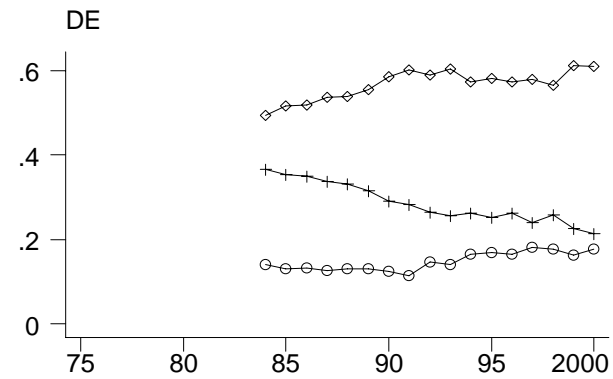
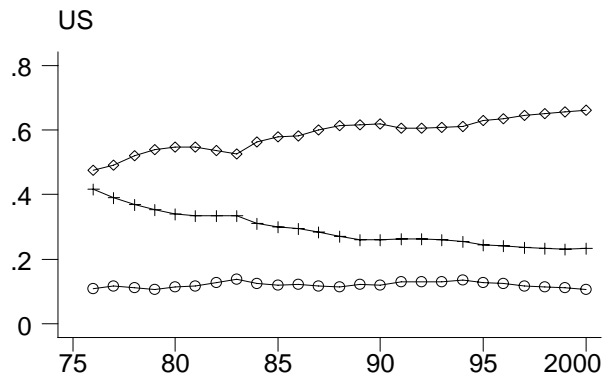
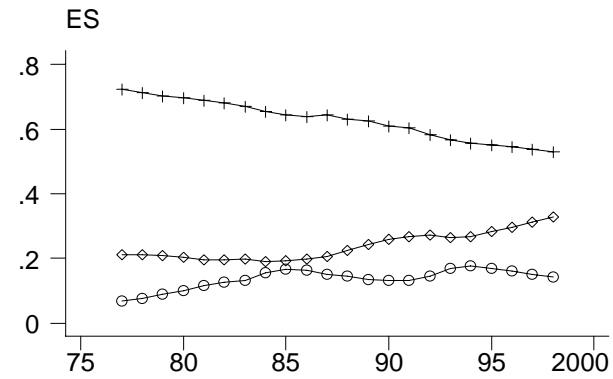
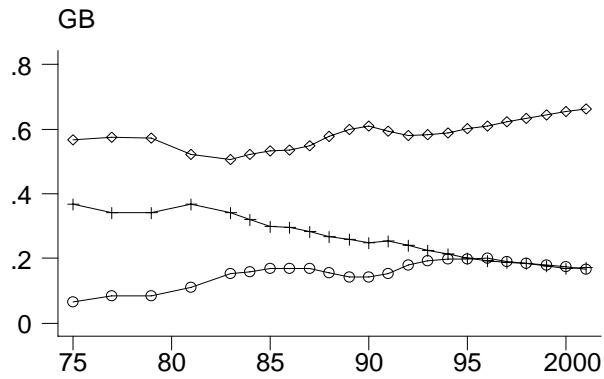
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**Figure. Distribution of Work Across Households in Britain, Germany, the United States and Spain**

—○— no work household  
 —◇— all work household

—+— mix work household

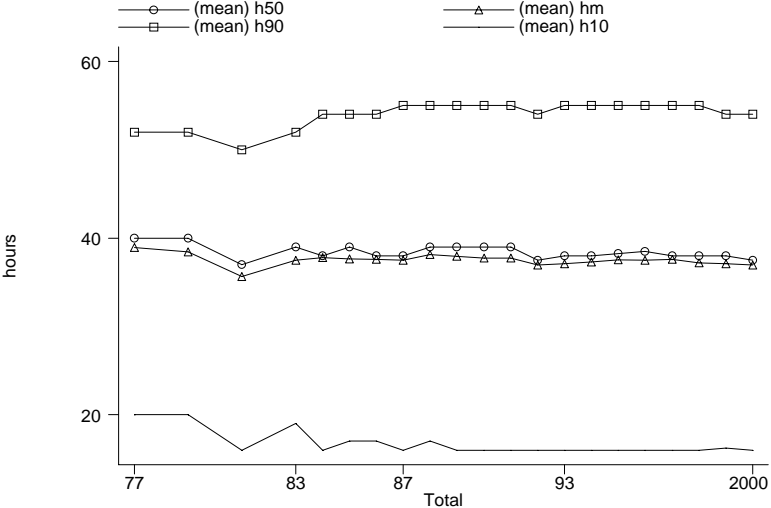


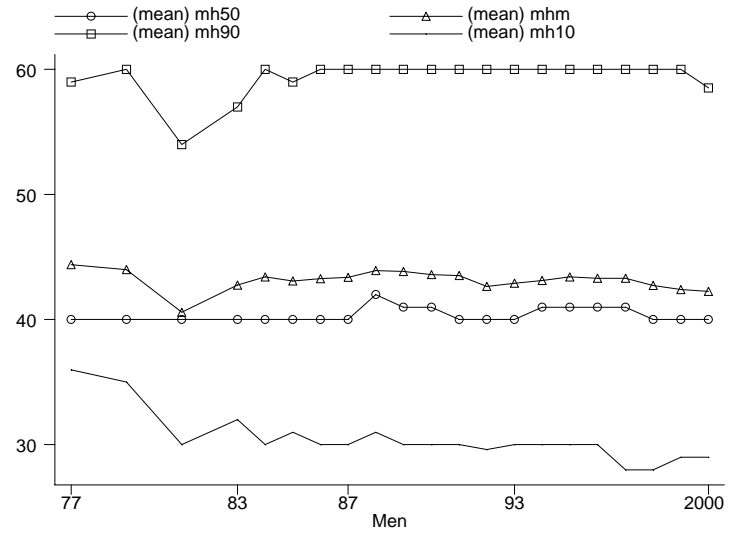
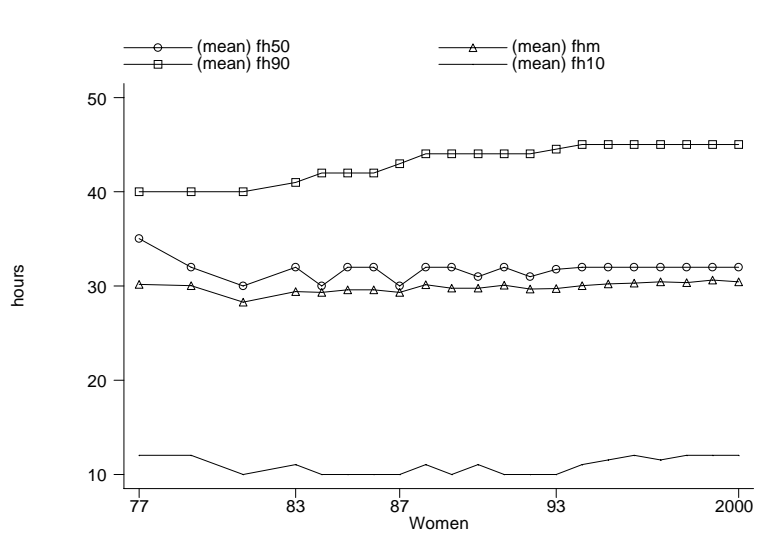
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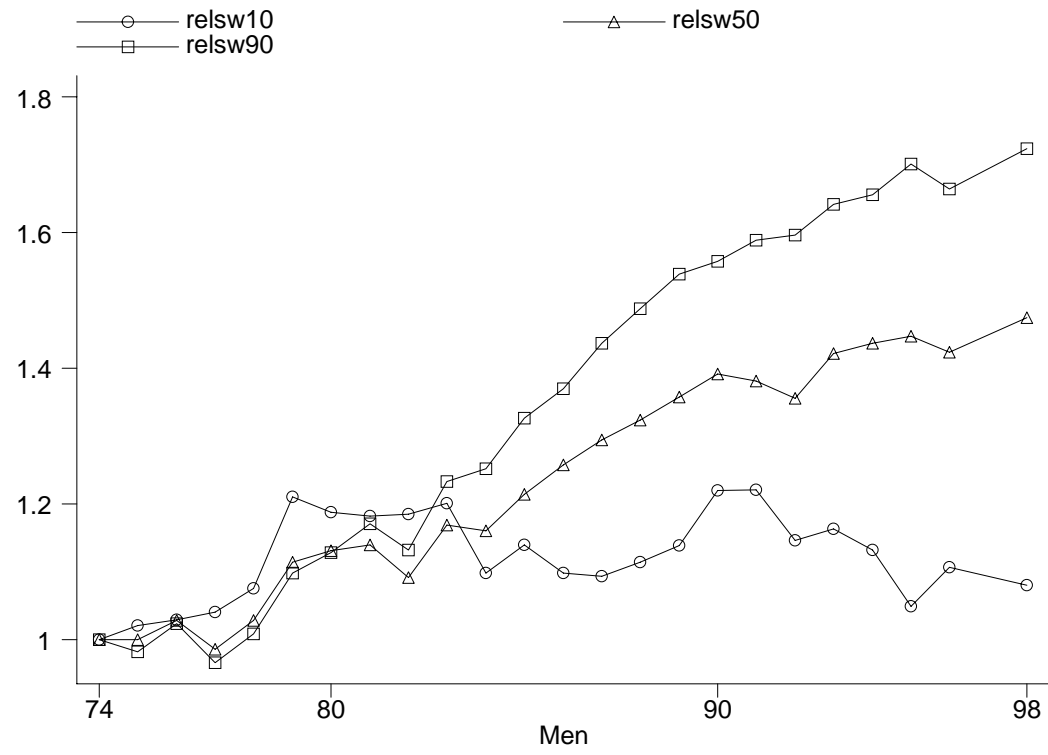




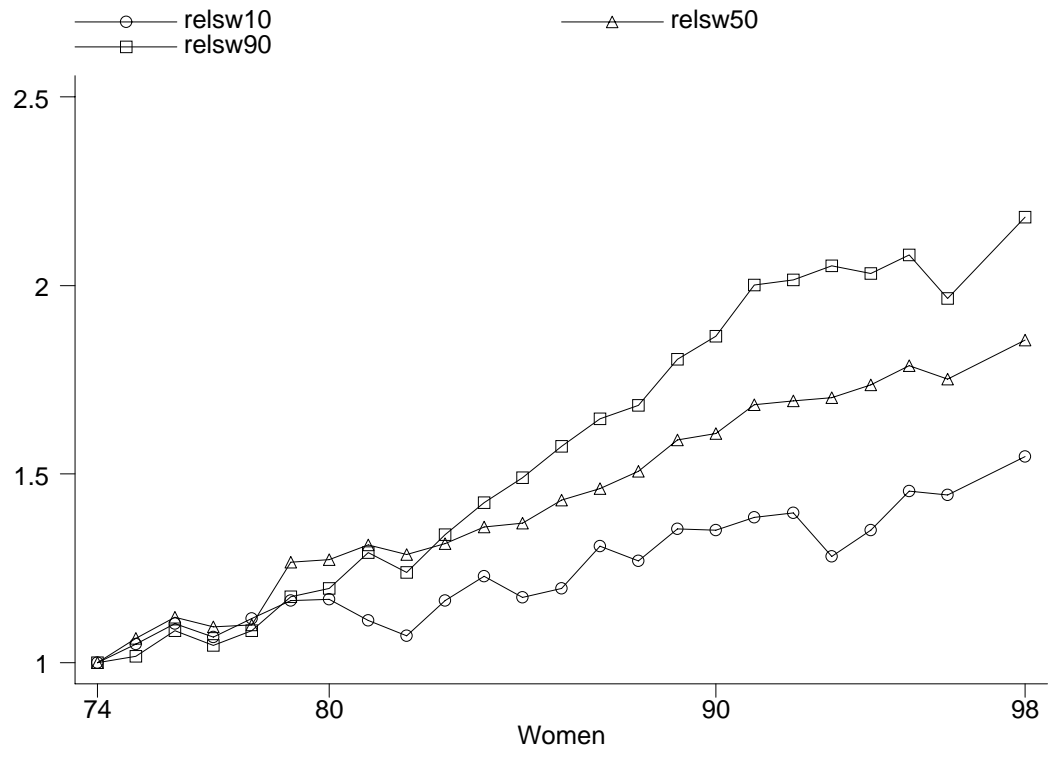
**Figure. Distribution of Hours Worked by Gender**





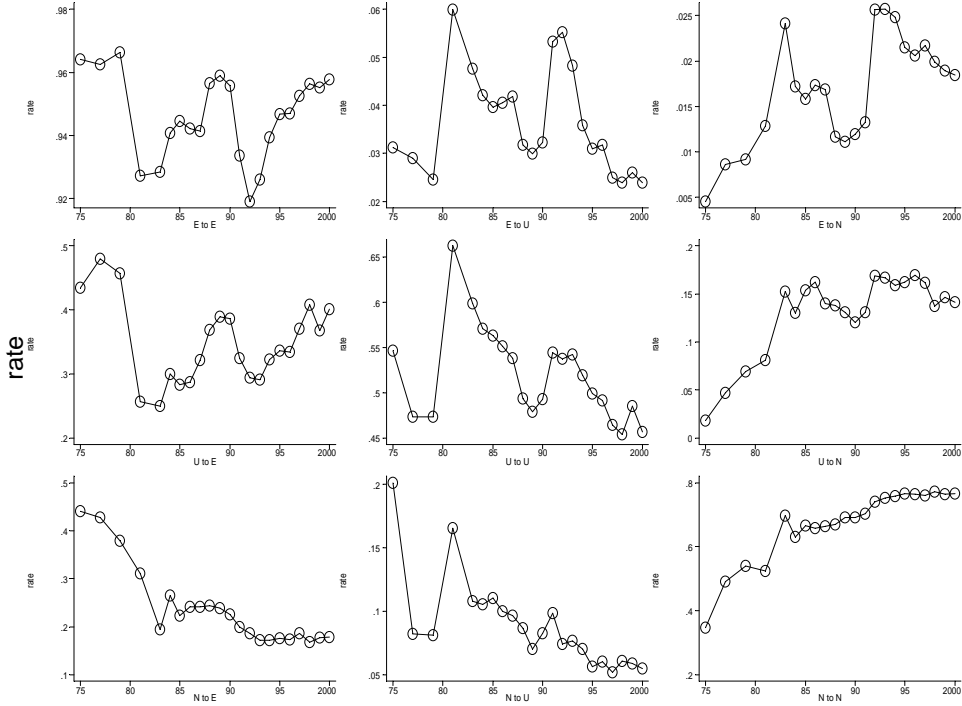


**Wage Inequality by Gender**

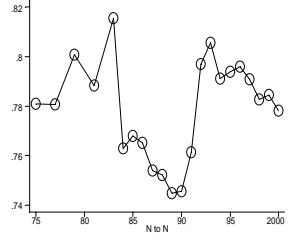
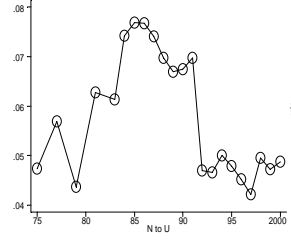
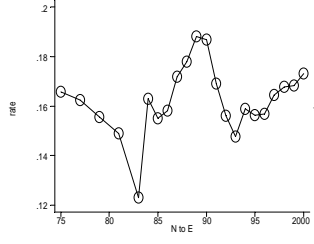
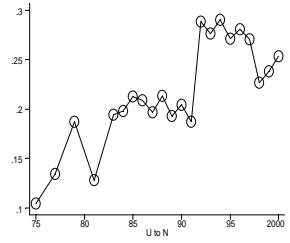
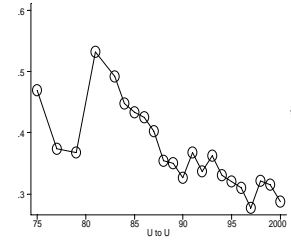
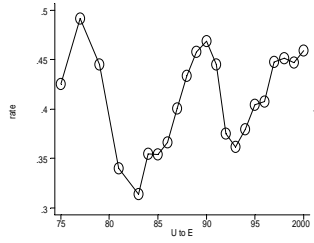
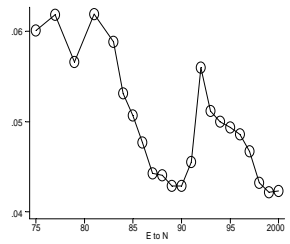
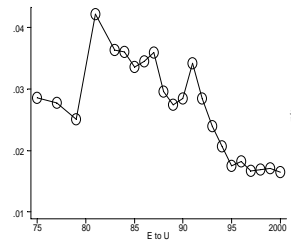
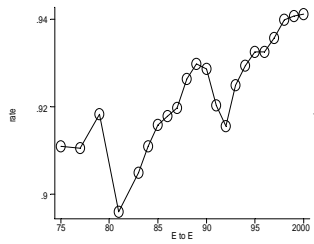


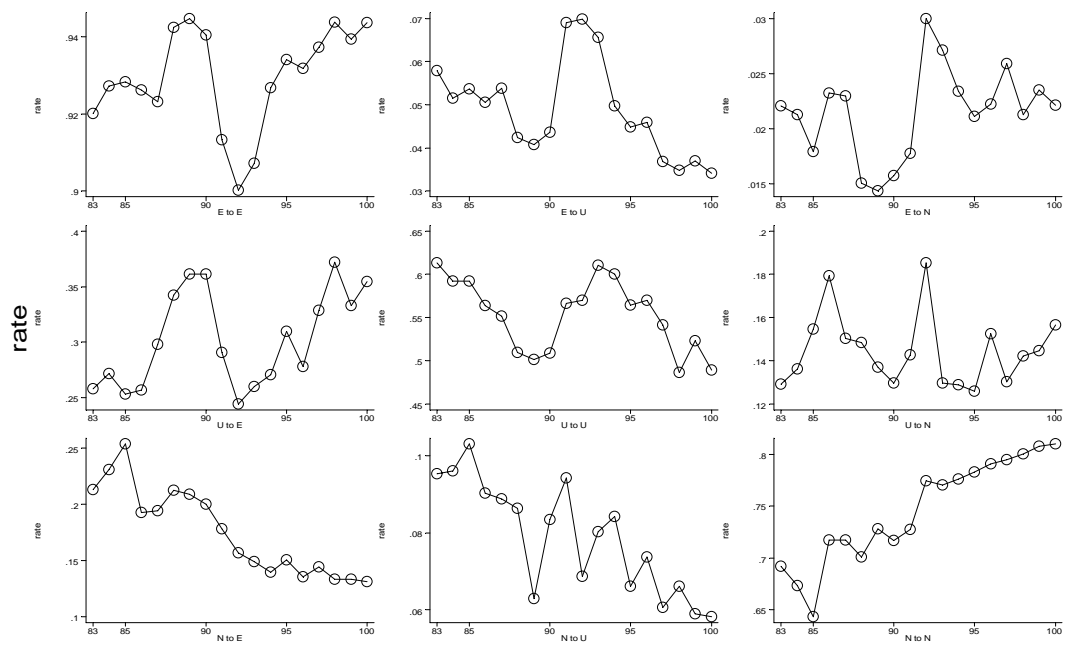
# Labour Market Flows by Gender 1975-2000

## a) Men



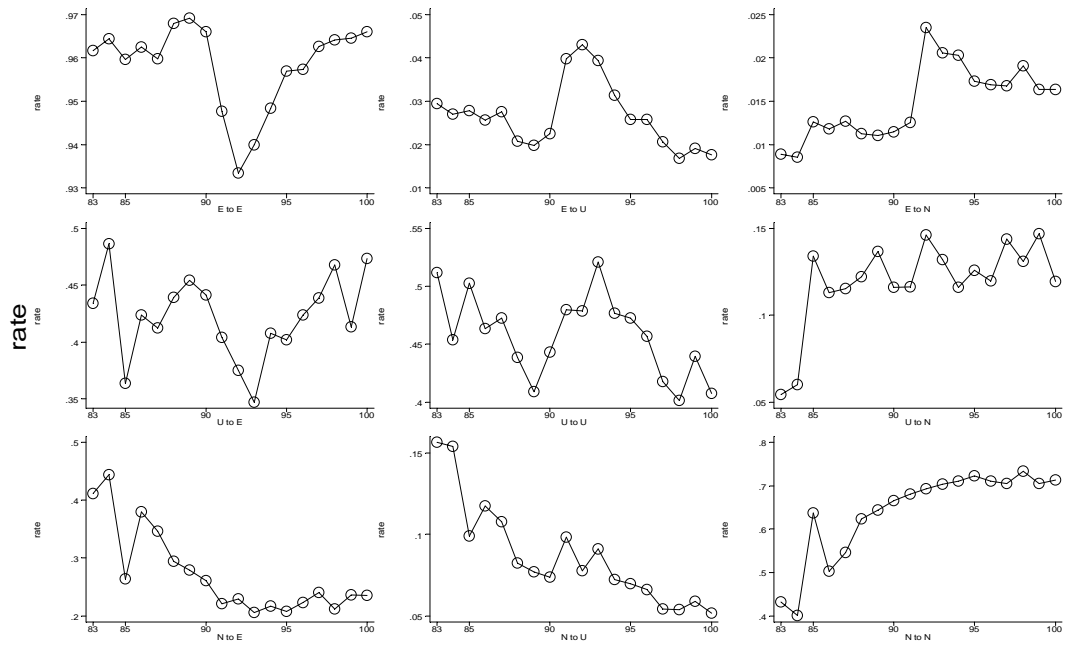
## a) Women



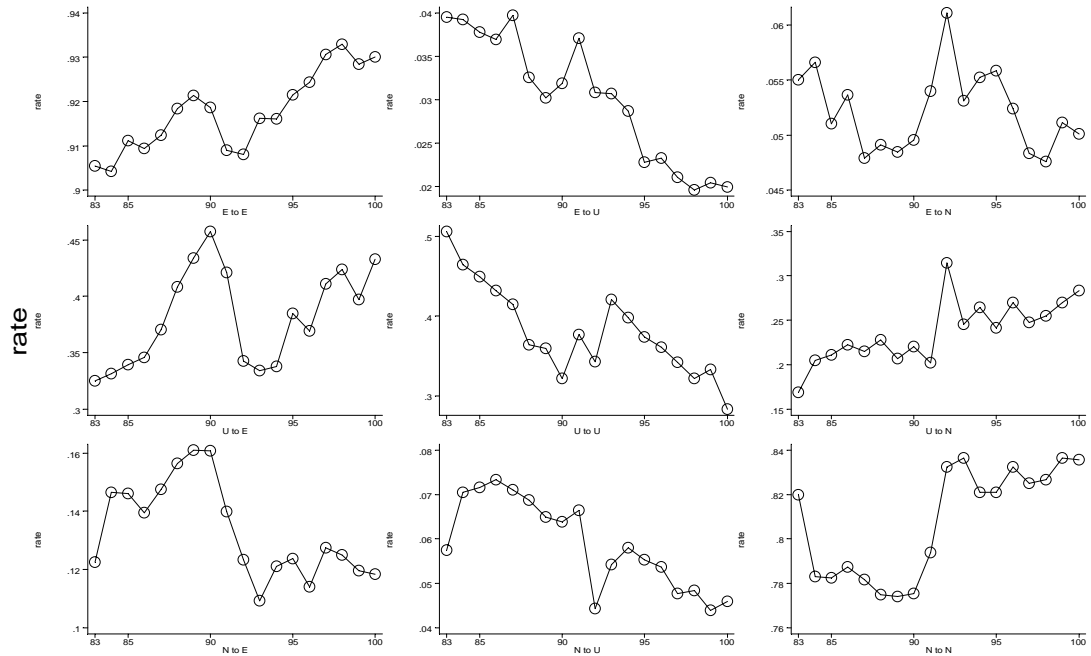


Labour Market Flows - Men, Low Quals.

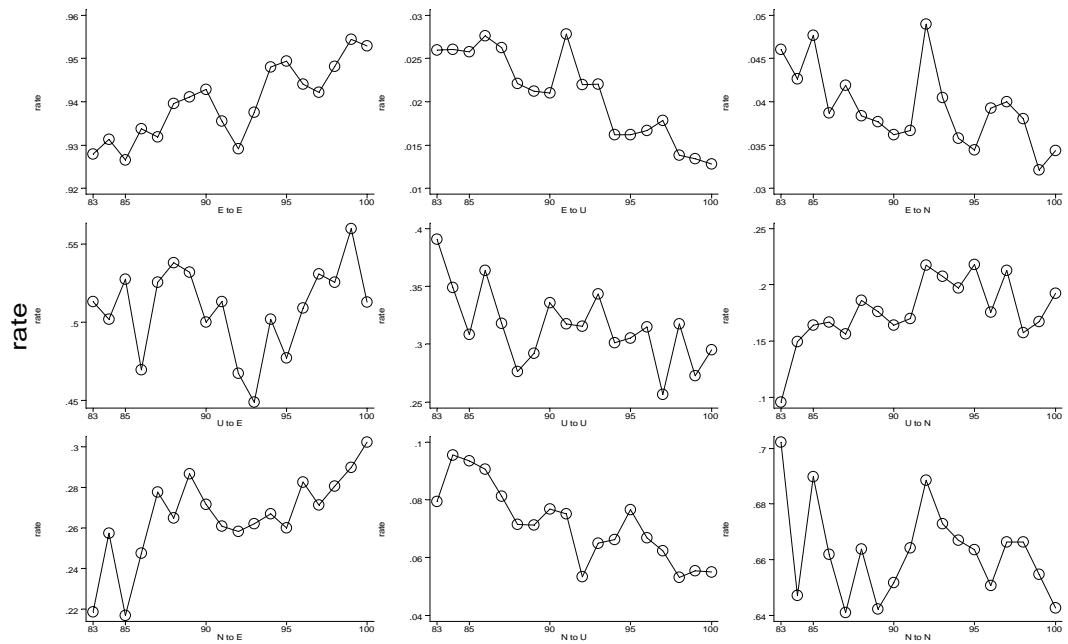




Labour Market Flows - Men, Other Quals.



Labour Market Flows - Women, Low Quals.



Labour Market Flows - Women, Other Quals.