

# Why has unemployment in the UK decreased and why has this not resulted in wage growth?



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## Introduction

In the 10 years following the 2008 financial crisis real wages have stagnated in the UK, even at a time when unemployment levels have reached their lowest point since 1975<sup>1</sup>. Unemployment rates are currently at 4%, with the ONS reporting 32.7 million people in work between November 2018 and January 2019.<sup>2</sup> Low unemployment rates should, in theory, cause wages to rise, as the tightening of the labour market should put upward pressure on wages. However the Institute for Fiscal Studies has reported that median annual wages have fallen by 3.2% from £24,088 in 2008 to £23,327 in 2017<sup>3</sup>. Wage growth rates are currently at their lowest point since the Napoleonic war, resulting in the economy being 14% smaller than it could have been if earnings had continued on their pre-2008 path<sup>4</sup>. In 2018 inflation was rising higher than wages, many members of society, particularly the JAM's (just about managing), struggled with the squeeze on household incomes. **(1 mark background)**

The UK economy is heavily reliant on consumer spending<sup>5</sup>, which is the main driver of economic growth in the UK, unlike Germany and Singapore's export-based economies. Low wage growth has therefore had an adverse effect on the UK's growth rates, as low wage growth and post-referendum rising inflation has reduced the purchasing power of consumers. The UK must therefore find a solution to the low wage growth issue. **(1 mark justification)**

## Aims of the project

I will first be exploring the Phillips curve that shows the relationship of low unemployment resulting in inflation, and how the changing nature of the labour market may be 'decoupling' this association. Also I aim to research the reasons why record rates of employment are occurring and why they are not resulting in an increase of real wages for workers. I will be researching the causes of low unemployment rates and wage stagnation, by looking at economists' views and statistics. I will be researching: the UK's flexible labour market, the increase in self-employment, the rise of the 'gig' economy and zero-hour contracts as reasons for low unemployment rates and weak productivity, the decline of unionization, immigration,

<sup>1</sup> <https://www.bbc.co.uk/news/business-45181079>

<sup>2</sup> <https://www.bbc.co.uk/news/business-47622415>

<sup>3</sup> <https://www.theguardian.com/business/2018/sep/12/uk-wages-have-not-yet-recovered-to-pre-crisis-levels-says-ifs>

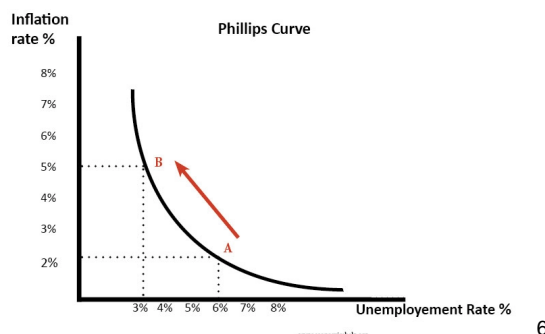
<sup>4</sup> <https://www.theguardian.com/commentisfree/2018/mar/15/uk-economy-growth-policy-brexit>

<sup>5</sup> <https://www.theguardian.com/commentisfree/2018/mar/15/uk-economy-growth-policy-brexit>

the emerging new class 'The Precariat' and the 'hourglass' economy as reasons for stagnant wage growth. Finally I will conclude why historically low rates of unemployment have not resulted in real wage growth. **(1 mark clear aims)**

## Section 1 – Philips Curve and Bank of England NAIRU

### Phillips Curve and the Bank of England NAIRU



The plotted graph displayed above shows an inverse and stable relationship between the two factors, inflation and unemployment.

The NAIRU is the non-accelerating inflation rate of unemployment, it is the specific level of unemployment that is evident in an economy that does not cause inflation to rise.<sup>7</sup> According to the Phillips curve inflation will accelerate when unemployment levels fall below the NAIRU.

**(1 mark applied economic theory in the context of the issue. Even though not strictly 'applied')**

### Analysis of the Philips curve and the NAIRU

Governments target the *critical* level, where inflation is stable. Central banks often make the decision to raise interest rates in order to stay above the *critical* level, this supports why the Bank of England made the decision to raise interest rates to 0.75% in August 2018 in a time when unemployment was at a record-low.

John Maynard Keynes stated that many workers were unable to find jobs even if they had the required skills, this was blamed on high wages caused by the power of trade unions bargaining for higher wages. Keynes believed that demand-side policies are needed in order to increase labour demand. He said that the lower the unemployment rate, the faster wages would rise.

Paul Samuelson and Robert Solow explored Keynes theories in the US. They agreed that “wage rates tend to rise when the labour market is tight, and the tighter the faster”. The rate that unemployment could fall to was dependent on the level of inflation that could be sustained. However in the UK, the recent tight labour market did not result in wage growth for workers between 2016 and late 2018.

<sup>6</sup> <https://www.economicshelp.org/blog/1364/economics/phillips-curve-explained/>

<sup>7</sup> <https://www.investopedia.com/terms/n/non-accelerating-rate-unemployment.asp>

Edmund Phelps believed that there is 'one rate of unemployment - a natural rate - that would always prevail.' Milton Friedman argued that government policies were too focused on having low unemployment and this caused expectations of inflation to change. He also stated that 'There is always a temporary trade-off between inflation and unemployment, there is no permanent trade off'. In the long run, it is believed that unemployment will tend towards its natural rate. **(1 mark for applied economic theory in the context of the issue. Above two paragraphs both fairly interpretative, but combined worth the mark)**

If the Phillips curve relationship was accurate it would mean that the current low levels of unemployment seen in the UK would result in wage inflation. However, following the recession caused by the 2007-08 financial crisis, the NAIRU fell instead of the expected rise. The OECD reported in 2013 that if unemployment went below 6.9% in the UK there would be wage inflation. However, since this point unemployment has continued to go below this level and wage growth has stagnated.

### Section conclusion

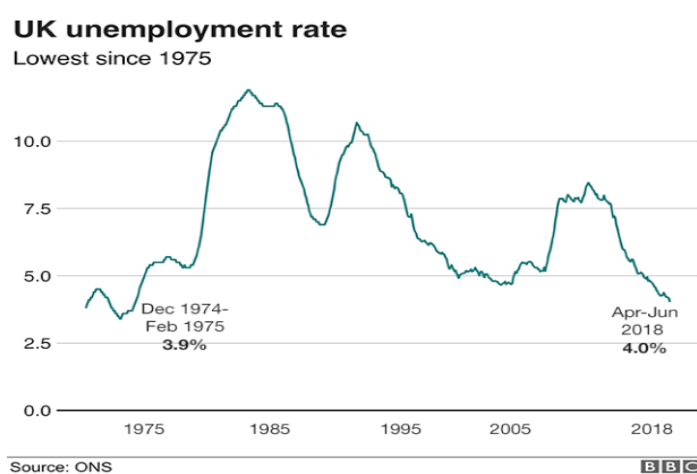
The Phillips curve shows an inverse relationship between inflation and unemployment, meaning that if unemployment was to fall then inflation would rise. Economists now believe that the Phillips curve only shows the relationship in the short-run, and that in the long-run unemployment will fall to a natural rate. Wage inflation has been sluggish in recent years even at a time when unemployment has fallen to a record low - this has opposed the relationship outlined by the Phillips curve as unemployment falling below the NAIRU did not result in inflation. This gives evidence of the 'decoupling' of the relationship between falling unemployment causing wage inflation, which may be due to the changing nature of the labour market. **(1 mark for relevant justified conclusion)**

## Section 2 – Reasons for low unemployment in the UK

### Data on low unemployment rates

Unemployment reached 1.34 million, a decrease of 35,000 between November 2018 and January 2019. Unemployment in the UK reached a 44 year record low after falling to 4% in August 2018, down from 4.3% the previous year (August 2017) and fell below 4% in January 2019.<sup>8</sup> It has been reported by the CBI, that simultaneously the size of the workforce in the UK is shrinking and the number of jobs in the labour market is rising, resulting in a tightening labour market in the UK.

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This graph displays the UK's unemployment rates from the 1970s to 2018. It shows that unemployment has not been lower than the current level since 1974-75. **(1 mark for interpreting relevant supporting graph)** Unemployment rates often fluctuate in line with the business cycle, which shows the long-term growth trends of the economy. The main reasons why unemployment has fallen are; the UK's flexible labour market, increase in self-employment, creation of zero-hour contracts, and the rise of the 'gig' economy.

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<https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/mgsx/lms>

<sup>9</sup> <https://www.bbc.co.uk/news/business-45181079>

## The UK's flexible labour market

A flexible labour market is one that has little regulation, allowing firms to easily hire or fire workers as well as setting workers' wages and working hours. It has been reported by the CBI that 97% of firms that UK's flexible labour market is important to their competitiveness<sup>10</sup>.

Compared to other European countries, such as France, the UK's labour market is much more flexible. France has currently high levels of unemployment, 9.3% in August 2018. Many economists believe this is due to its restrictive labour market and intricate labour 'code' which makes hiring and firing workers difficult.

The UK's flexible labour market means that firms are willing to take the risk of employing higher numbers of workers, as it is easy to hire them in times of need and let them go in tougher times. This has increased the number of people in work, putting downward pressure on unemployment rates. **(1 mark for analytical or evaluative comment that is based on the research)**

## Self-employment

The UK has seen an upward trend in the number of self-employment workers, in recent years. The ONS reported that the number of self-employed workers rose from 3.3 million people (12.0% of the labour force) in 2001 to 4.8 million (15.1% of the labour force) in 2017.<sup>11</sup>

<sup>10</sup> <http://www.cbi.org.uk/news/protecting-the-uk-s-flexible-labour-market/>

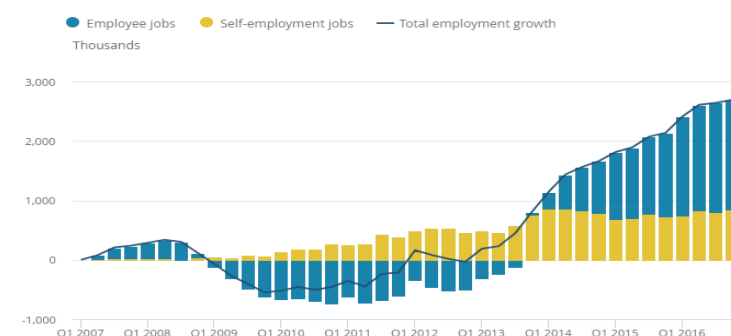
<sup>11</sup>

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07>



**Figure 1: The cumulative change in employee and self-employed jobs**

Quarter 1 (Jan to Mar) 2007 to Quarter 4 (Oct to Dec) 2016, UK



Source: Office for National Statistics

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Figure 1, is taken from the ONS's report on self-employment. This graph shows the cumulative change in employee and self-employed jobs. We can see that after a period of negative figures of total employment growth, representing job losses, total employment growth has increased steadily after Q4 of 2012. Throughout the negative total employment growth, the growth in the number of self-employed jobs rose throughout. The graph shows that there was a high of 842,000 self-employed jobs in Q4 of 2016. **(1 mark for interpreting relevant supporting graph)**

The greatest number of self-employed workers are aged between 45-54 years old.<sup>13</sup> However there has also been a 74% increase to 181,000 in 2018 of self-employed workers aged 16-24, this rise may be due to increased education and knowledge on becoming a self-employed worker.

The Chartered Institute of Personnel and Development released a report, in February 2018, saying, on average self-employed workers earn 40% less than the typical employee<sup>14</sup>, with the most popular professions including retail workers, hairdressers and cleaners<sup>15</sup>. Regulation changes in recent years favouring small to medium sized businesses, has encouraged entrepreneurs to set up their own businesses. Improvements in technology and the increase of online networks has allowed easier access to the market and provided more opportunities, making it easier for self-employed workers to enter labour markets. **(1 mark for analytical or evaluative comment that is based on the research)**

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07>

<sup>13</sup> <https://www.bbc.co.uk/news/business-44887623>

<sup>14</sup> <https://www.cipd.co.uk/news-views/news-articles/uk-self-employment-rise>

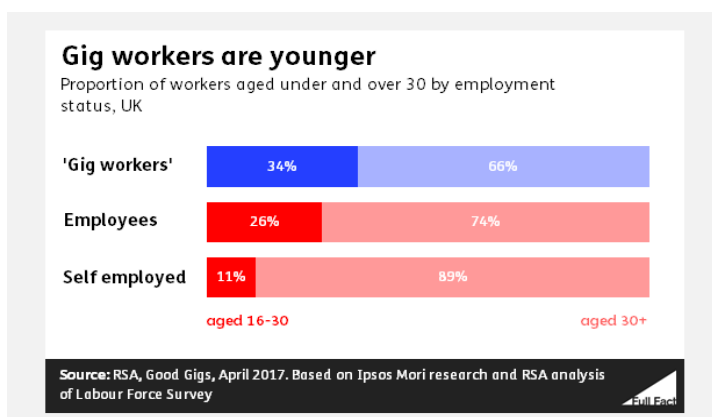
<sup>15</sup> <https://www.bbc.co.uk/news/business-44887623>

## The rise of the 'gig' economy

The 'gig' economy is defined as a labour market characterised by the prevalence of short-term contracts or freelance work, as opposed to permanent jobs.

Social media and new technology has allowed the 'gig' economy to succeed by promoting these jobs. It was estimated, in August 2018, that 1.1 million workers in the UK were employed in the 'gig' economy.<sup>16</sup>

The Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) constructed a report in April 2017, where they reported that workers in the 'gig' economy are likely to be younger. 34% of workers were aged between 16 and 30, compared with a value of 26% for employees and 11% for other forms of self-employment<sup>17</sup>. This is shown in the following graph below.



## Zero-hour contracts

Zero-hour contracts are contracts that employers can use to hire staff, which guarantee no particular hours of work.<sup>18</sup> Often zero-hour contracts are found in the retail and hospitality industries, in firms such as Cineworld, and Weatherspoon's. Many people believe that firms use zero-hour contracts in order to undercut workers' pay and to avoid having to make pension contributions. Workers on zero-hour contracts have a median hourly wage, before tax, of £7.70 compared to £11.80 for other workers.<sup>19</sup> The number of people on zero-hour contracts in 2018 was 780,000 (2.4% of the working population).<sup>20</sup> On average workers on a zero-hour contract

<sup>16</sup> <https://www.forbes.com/sites/adigaskell/2018/08/01/the-demographics-of-the-gig-economy/#4c055afd69fb>

<sup>17</sup> [researchbriefings.files.parliament.uk/documents/LLN-2017.../LLN-2017-0086.pdf](https://researchbriefings.files.parliament.uk/documents/LLN-2017.../LLN-2017-0086.pdf)

<sup>18</sup> <https://www.bbc.co.uk/news/business-23573442>

<sup>19</sup> <https://www.bbc.co.uk/news/business-47193809>

<sup>20</sup> <https://www.statista.com/statistics/414896/employees-with-zero-hours-contracts-number/>

worked 25.2 hours a week. In a survey conducted by the ONS in 2018, 25.3% of people on these contracts wanted to work more hours in their current job, in comparison to 7.3% of people in other employment wanting more hours.<sup>21</sup>

Zero-hour contracts have had a huge impact on the employment rate in the UK. They can be beneficial for those who are looking for flexible jobs. Workers on these contracts have the freedom to look for other work, and have free time allowing them to improve and learn new skills.

### Section conclusion

Unemployment rates in the UK have been falling for many years and reached 3.9%, in February 2019. The flexibility of the labour market allows firms to hire workers more readily.

In 2017 there were 4.8 million self-employed workers, which is a key factor in unemployment rates falling to record-low levels in the UK. It has introduced more workers into the market that would not previously have entered, for example women with young families as they can work around family schedules.

The 1.1 million workers in the 'gig' economy and the 780,000 workers employed on zero-hour contracts, has led to the number of people in the UK in work to rise dramatically. The rise of the 'gig' economy combined with the increase in 'zero-hour' contracts has allowed more people to get jobs.

This report argues that the main reason for unemployment rates falling is due to the UK's flexible labour market. It has encouraged more firms to take on workers when the demand for workers increases. It has been a key factor in the rise of the 'gig' economy and zero-hour contracts, as little regulation allows these types of jobs to occur. The importance of the UK's flexible labour market is backed up by the substantial difference in unemployment rates between the UK and other developed economies. For example the US has a highly flexible labour market and similarly low unemployment rates currently of 3.8%<sup>22</sup>, whereas France has a highly regulated labour market with high unemployment rates of 9.3% currently.

**(1 mark for relevant justified conclusion)**

21

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/contractsthatdonotguaranteeaminimumnumberofhours/april2018>

<sup>22</sup> <https://tradingeconomics.com/united-states/unemployment-rate>

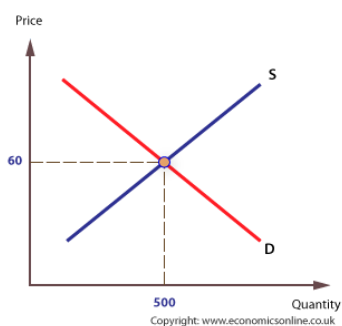
## Section 3 – Causes of stagnant wage growth in the UK

### Data on wage growth

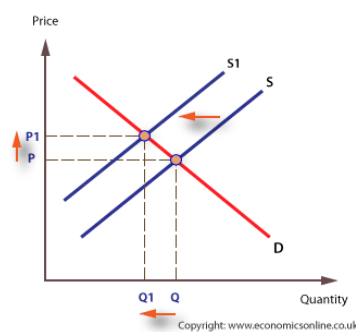
The UK economy has been successful in creating jobs and getting those who are willing and able to work into jobs, however it has struggled to increase the wages of workers.

Wage growth was reported, by the Independent, at 3.4% in the three months to November 2018,<sup>23</sup> which is their highest in a decade. However real wages are currently lower than they were a decade ago before the financial crisis.

The low levels of unemployment should in theory result in higher real wages for workers due to the laws of supply and demand.



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Due to the tight labour market, and the record number of people in the UK in work, the supply of labour has reduced. This results in the shift of the supply curve to the left (Figure 2). This shift results in a higher equilibrium price point ( $P-P1$ ). In the case of the labour market, this should mean increased wages. Firms must increase the wages they pay workers in order to incentivise them, as they have to attract workers and prevent them from choosing a job from a competitor. **(this would have been awarded a mark for theory, but two theory marks have already been awarded)**

If in theory this is the case, then why has the UK not seen an increase in wage growth? There are some factors as to why; productivity, the decline of unionisation, immigration, the emergence of a new class, 'The Precariat' and the 'hourglass economy'.

<sup>23</sup> <https://www.independent.co.uk/news/business/news/wage-growth-uk-weekly-earnings-income-pay-packet-november-jobs-ons-a8739996.html>

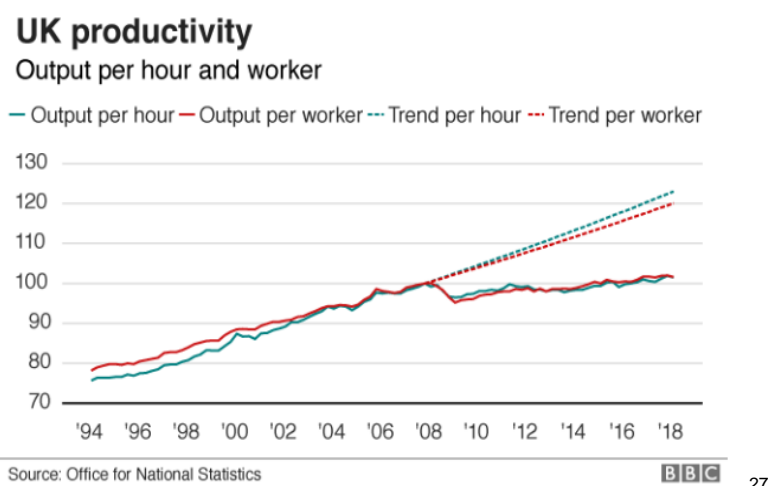
<sup>24</sup> [http://www.economicsonline.co.uk/Competitive\\_markets/Market\\_equilibrium.html](http://www.economicsonline.co.uk/Competitive_markets/Market_equilibrium.html)

<sup>25</sup> [http://www.economicsonline.co.uk/Competitive\\_markets/Market\\_equilibrium.html](http://www.economicsonline.co.uk/Competitive_markets/Market_equilibrium.html)

## Productivity

Labour productivity is an important factor when calculating the productive potential of an economy. Productivity can be measured by output per worker, or by output per worker per hour, and is used to show the efficiency of a workforce. Paul Krugman once said “Productivity isn’t everything, but in the long run it is almost everything.”

The UK has a similar productivity rate to the likes of Germany in terms of output *per worker*, however when we compare the countries using output *per worker per hour*, the UK’s figure is substantially lower. In 2017 it was reported that the UK was 27% less productive than Germany.<sup>26</sup> This reveals that UK workers need more hours to produce the same output as their counterparts on the continent.



An index number is a figure in economic data compared with a base value. The graph has the index, Quarter 4 2007 = 100. The graph above is taken from the BBC, it is seasonally adjusted and shows productivity values from Q1 1994 to Q3 2018, it shows the trajectory that was expected - that productivity would continue to rise. Productivity was on an upward trend, however after a fall in rates after the recession, rates plateaued and have only risen by a small increment since. **(this would have been awarded 1 mark for interpreting relevant supporting graph, but two marks for this have already been awarded)**

<sup>26</sup> <https://www.independent.co.uk/news/business/news/uk-workers-less-productive-germany-business-france-american-sir-charlie-mayfield-john-lewis-be-the-a7834921.html>

<sup>27</sup> <https://www.bbc.co.uk/news/business-44735417>

In May 2018, it was reported by the ONS that there had been a 0.5% drop in productivity (GDP per hour worked), meaning that productivity was only 1.5% higher than 10 years ago<sup>28</sup>. There are many reasons for the UK's measly productivity rates.

One reason is low interest rates set by the Bank of England. Interest rates are currently at 0.75%, low rates allow 'zombie firms' to survive for longer periods than they should normally. The Bank of England have admitted that productivity may have been 1-3% higher than currently if they had raised interest rates to their pre-crisis level as zombie firms who survive only due to low interest rates drag down productivity. <sup>29</sup> **(1 mark for analytical or evaluative comment that is based on the research)**

Business investment is important in offering new technology for workers to use, which can make them more productive. If firms become more productive, their profits will increase due to higher output. If this happens firms may reward their workers through higher wages. Low productivity in the UK may therefore be partly to blame for sluggish wage growth in the UK.

The Brexit vote and negotiations have increased uncertainty surrounding the UK economy. Business investment fell by 0.7% over the three months to July 2018 to £47.5bn<sup>30</sup>. Theresa May said Brexit had caused a 'cloud of uncertainty' over the UK economy. Many firms have halted plans to make investments in the UK as they don't know what deal will be struck between the UK and EU. The UK may no longer be a gateway into the EU market which has resulted in firms moving their production or headquarters elsewhere, for example Honda and Dyson. **(lacking in critical analysis to be awarded 1 mark for analytical or evaluative comment that is based on the research)**

Spending by businesses has only increased by 5% since the pre-crisis peak. <sup>31</sup> After the recession hit the UK, few workers were made redundant. This hit productivity as there was high levels of people in employment but demand for goods and services fell as disposable incomes fell and uncertainty grew, this is known as labour hoarding.

<sup>28</sup> <https://www.thetimes.co.uk/article/david-smith-long-hours-are-part-of-the-productivity-problem-s9kp2vrlj>

<sup>29</sup> <https://www.theguardian.com/business/2017/jun/21/productivity-crisis-uk-real-wage-growth>

<sup>30</sup> <https://www.theguardian.com/business/2018/sep/28/weak-investment-for-entire-year-as-uk-firms-show-pre-brexit-jitters>

<sup>31</sup> <https://www.ft.com/content/b6513260-b5b2-11e7-a398-73d59db9e399>

David Smith, in an article published on 24 March 2019, argued that weak pay growth may be due to the 'greying of the labour market'<sup>32</sup>. In the past 10 years 77% of the increase in employment has been among workers aged 50 and over. People are now working at an older age due to the rising of the state pension age. Women have seen an increase from 60 to 65 years, have been encouraged to stay in work, with 60% of the increase in the 50-64 category being women. The IMF report entitled '*The Impact of Workforce aging on European productivity*' reported that 'workforce aging is likely to be a significant drag on productivity growth,' and that a 1% increase in the 55-64 category resulting in a 0.8% fall in productivity growth. Although a highly contentious argument, an aging population *may* depress productivity rates which in turn will dampen wage growth. **(1 mark for analytical or evaluative comment that is based on the research)**

The government can encourage firms to increase their business investment in the UK, by giving tax breaks such as cutting Corporation Tax. Philip Hammond has said he aims to cut corporation tax rates to 17% by 2020<sup>33</sup>, to try and increase investment by businesses after the UK's exit from the EU.

### Decline of unionisation

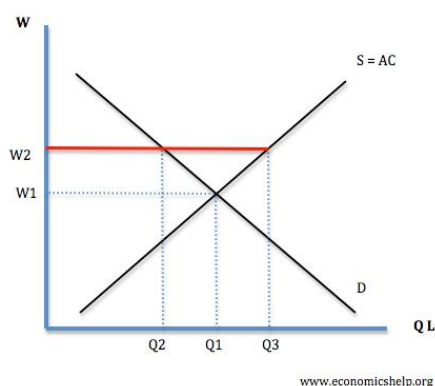
Trade unions are groups of employees who join together to maintain and improve their conditions of employment.<sup>34</sup> When trade unions were at their strongest, in the 1960s, the share of GDP received by workers was much higher. However trade unions have been declining, they faced the largest membership drop ever, falling to 6.2 million after a drop of 275,000 people in 2017.<sup>35</sup> The fall has been blamed on the rise of the gig-economy, and cuts to the public sector. The decline of unionisation is negative for wage growth. It makes it more difficult to bargain for higher wages, and therefore workers struggle to increase their pay. The UK's flexible labour market also means that workers fear being fired, and so may be afraid to ask for a pay rise. **(1 mark for analytical or evaluative comment that is based on the research)**

<sup>32</sup> <https://www.thetimes.co.uk/edition/business/david-smith-why-britain-shouldnt-be-too-glad-to-be-grey-95twxhplq>

<sup>33</sup> <https://www.independent.co.uk/news/business/news/theresa-may-corporation-tax-cut-hard-brexit-silver-bullet-jp-morgan-bank-uk-government-a7601261.html>

<sup>34</sup> <https://www.unison.org.uk/about/what-we-do/about-trade-unions/>

<sup>35</sup> <https://www.theguardian.com/politics/2017/jun/01/union-membership-has-plunged-to-an-all-time-low-says-ons>



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Trade unions bargain for higher wages for workers. In the graph above this is shown as an increase from  $W_1$  to  $W_2$ , however this results in a fall in employment to  $Q_2$ , resulting in real wage unemployment.

Many economists believe that trade unions are inefficient and lead to higher levels of unemployment. This is why the government have attempted to reduce the power of trade unions. However the trade-off is that the decline of unionisation has reduced wage growth.

## Immigration

After 2004 immigration dramatically increased, this was due to a strong economy encouraging students and workers from other countries as well as the UK's membership of the EU allowing the free movement of people from poorer European countries. In the year to June 2018 net migration was 273,000<sup>37</sup>.

Increased migration may have resulted in the downward movement of wages for those in the poorest paid jobs, as some migrants are willing to work for lower wages and in some cases wages below the national living wage. EU migration since 2004 has decreased the wages of the poorest 10% of people by 3%, and risen the wages of the richest 10% by 3% according to The Economist.<sup>38</sup> **(1 mark for analytical or evaluative comment that is based on the research)** Furthermore research has also shown that an inflow of immigrants the size of 1% of the UK-born population leads to a 0.6% decline in the wages of the 5% lowest paid workers and to an increase in the wages of higher paid workers.<sup>39</sup> Migrant workers increase the supply

<sup>36</sup> <https://www.economicshelp.org/labour-markets/trades-unions/>

<sup>37</sup>

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/november2018>

<sup>38</sup> <https://www.economist.com/britain/2018/09/20/what-immigration-system-should-britain-adopt-after-brexit>

<sup>39</sup> <https://fullfact.org/immigration/immigration-wages/>



of labour reducing the tightness of the labour market which may prevent higher wage growth. However migrants increase aggregate demand, which may increase the demand for labour. This means overall the effect of immigration on wage growth is minimal. **(1 mark for analytical or evaluative comment that is based on the research)**

### The 'Precariat'

During the 1990s, markets become more liberalized and trade unions and associations fighting for workers' rights began to decline, resulting in less bargaining power for workers. Furthermore many emerging economies, such as China, began to provide around 2 billion workers to the global market, encouraging firms to move production away from the UK, where labour costs were cheaper. Many workers in emerging economies earn around one fifth of the amount people in OECD countries earn.<sup>40</sup> This has put pressure on wages in OECD countries to fall.



Guy Standing, a professional research associate at the University of London, has written about the new emerging class 'The precariat'. It is characterized by its income being below that of the proletariat and by unstable jobs, for example jobs in the 'gig' economy, zero-hour contracts and self-employment. Standing once described the workers in this class as being treated as a 'commodity to be purchased on an open market', meaning workers are often exploited and producers are choosing whether to use or not use them depending on demand.

The precariat has been described as having 'no occupational identity or narrative to give to their lives'.<sup>41</sup> This not only creates job insecurity for workers, but many workers have jobs that are below their ability and level of education and have poor upward mobility. Often these workers are exploited, this may be in the form of being paid below the national minimum wage, being forced to work unusual hours or having no entitlement to sick and holiday pay. This has

<sup>40</sup> <https://www.weforum.org/agenda/2016/11/precariat-global-class-rise-of-populism/>

<sup>41</sup> <https://www.weforum.org/agenda/2016/11/precariat-global-class-rise-of-populism/>

suppressed wages in the UK as many people are not on regular salaries and there are large fluctuations in the pay they receive. **(1 mark for analytical or evaluative comment that is based on the research)**

### 'Hourglass' economy

Many economists believe that the UK labour market is being 'hollowed out', creating an 'hourglass economy' in which the demand for medium skilled workers is falling. New technological advances are creating artificial intelligence that is able to take over many jobs, and complete tasks more efficiently. These new industries may provide some high-skilled work in the design and innovation processes, but the jobs created will not suit the needs of medium-skilled workers whose jobs have been taken, due to labour immobility.

The transition into new industries and technologies may benefit workers at the top and the bottom skills distribution but not those in the middle. Those at the top can work in the design process, and those at the bottom can work in manufacturing and distribution. The London Assembly Economic committee released a report giving evidence to the 'hollowing out' theory saying that there has been a 13% reduction in the number of mid-skilled jobs available.

Artificial intelligence may propel medium-skilled workers into high-skilled jobs, however it is more likely that these people will fall into lower skilled jobs. Moving into lower-skilled jobs, will reduce their income. **(1 mark for analytical or evaluative comment that is based on the research. Present alternative theories and / or viewpoints)**

### Section conclusion

Low productivity has depressed wage growth, as output is reduced. Productivity has further fallen due to low business investment caused by economic uncertainty following the Brexit vote.

Trade unions previously helped workers bargain for higher wages and so their decline has negatively impacted wage growth. The rise of self-employment and zero-hour contracts also makes it more difficult to negotiate higher wages.

Immigration has increased since the UK joined the EU. Migrant workers may be depressing wages as they are occasionally exploited and paid wages below the National living wage.

The precariat is a new emerging class, which has come about due to the formation of the 'gig' economy and zero-hour contracts which provide unstable and fluctuating wages. Members of this class are often underemployed and therefore receive lower wages.

The UK is beginning to see a hollowing out of the labour market, mainly due to artificial intelligence. This has created more high-skilled and low-skilled jobs. However many workers employed in middle-skilled jobs are falling into low-skilled jobs as they lack necessary skills to get high-skilled jobs, which results in them receiving lower wages.

**(Mainly repetition. Candidate does not pull together information from analysis points. No mark awarded for conclusions)**

## Conclusion

The UK is experiencing one of its lowest unemployment rates ever, at 3.9%. However for a long time this fall in unemployment has not resulted in wage growth for workers. This evidence goes against the theory of the Phillips curve. The UK's NAIRU is continuing to fall lower than was previously thought, meaning wage inflation is not rising quickly.

The UK's flexible labour market is the main reason for unemployment rates falling so low. It allows firms to hire workers more easily, and so the number of people in work has increased. The labour markets little regulation has allowed the 'gig' economy and the number of zero-hour contracts to rise, which has created more jobs and boosted the number of people in work.

Wage growth in 2018 was sluggish due to UK's poor productivity performance meaning that the UK is not reaching its production potential. The decline of unionization has resulted in workers have less bargaining power when asking for pay rises. Immigration has pushed wages down as many migrants are willing to work for much lower wages. The emergence of the new class 'the precariat' is made up of workers that are often underemployed or in unstable work and so receive lower wages that they have the potential to earn. Finally the 'hollowing out' of the UK labour market has caused many workers to fall down to lower-paid jobs or into unemployment. All these factors have put downward pressure on wages in the UK.

For the past decade wage growth has been sluggish, however in the second half of 2018 wage growth reached its highest point in 10 years. Pay rose by 3.1% in the three months to August, compared with a year ago, while inflation for the same period was 2.5%.<sup>42</sup> This increase in wage growth shows that the UK's tight labour market is now starting to filter through into the economy, and is increasing wage growth. This is beneficial to workers who now have a greater disposable income to spend. This may increase aggregate demand and therefore consumer spending will rise. Real wage growth is instrumental in reducing inequality and improving standards of living.

**(1 mark for relevant justified conclusion)**

However, the economist Linda Yueh has shown that slow wage growth in the developed world is being determined by a range of complex factors, and the forces of globalisation and the sheer abundance of low wage workers in China and the developing world could mean that

<sup>42</sup> <https://www.bbc.co.uk/news/business-45875599>

economies such as Britain may struggle to deliver the historical rate of increase in real wages in the 21<sup>st</sup> century.<sup>43</sup>

**(1 mark for relevant justified conclusion not awarded. A specific quote from the book with supporting judgement would have gained a mark for conclusions)**

**Word Count - 4397**

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#### Aims of the Project

### Section 1 - Phillips curve and Bank of England NAIRU

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Introduction -	3
Analysis -	9 analysis 0 in-depth analysis 2 economic theory
Conclusions -	3
Research -	4
Structure -	1 line of argument 1 logical structure 1 accurate terminology 1 accurate terminology throughout 2 data interpretation
Presentation -	1 contents page, page numbers, headings etc 1 full referencing 1 bibliography
	30 Total