

Still lots of labor market slack & hence no wage growth



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Peterson Institute Labor Market Slack Conference

## References

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David. G. Blanchflower and Adam Posen (2014), 'Labour market slack in the United States: making the dual mandate operational', Peterson Institute Working Paper, September 24<sup>th</sup>.

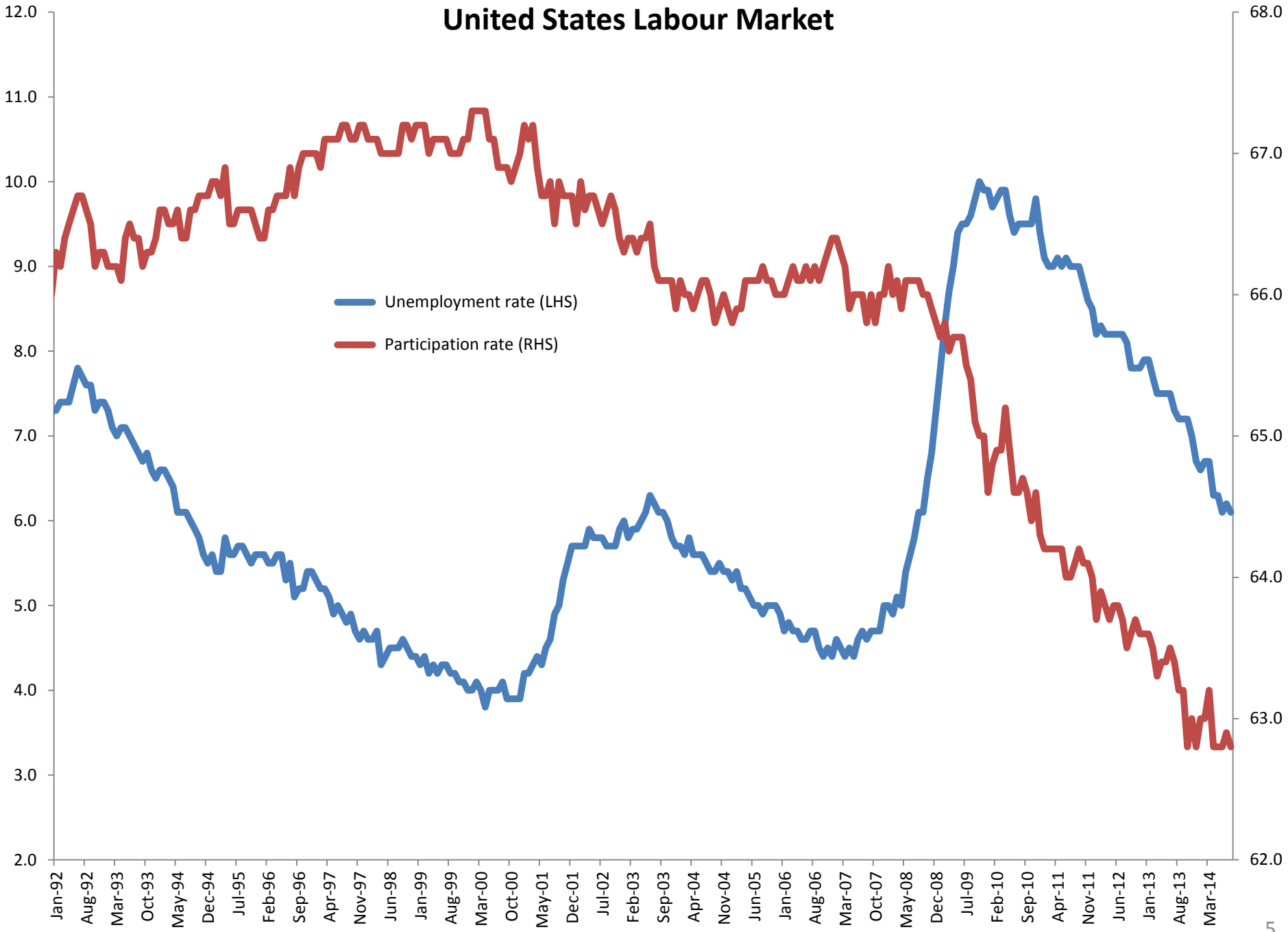
# Joblessness

- In work with Adam Posen we find using state level data that both the unemployment rate and the inactivity rate push down on wages.
- Long-term unemployment has no separate role in the US.
- In new work with Andy Levin he will report on we show that *underemployment* also pushes down on wages in the US.
- In work with David Bell for the UK we report that there is no role for long-term unemployment and there has been also a sharp rise in *underemployment at the going wage*.
- Bell and I argue that MPC forecasts of wage growth are overly optimistic and fundamentally flawed.

## Lots of wage inflation coming (not)

- Dallas Federal Reserve Bank President Richard Fisher warned this week the US could be on the verge of a worrisome surge in wages if unemployment continues its downward trend.
- An unpublished paper prepared by his staff showed "declines in the unemployment rate below 6.1% exert significantly higher wage pressures than if the rate  $>6.1\%$ ,"
- The U.S. unemployment rate in August was 6.1%, exactly the point below which his staff's research showed wages could start to take off.
- "The number just happened to be 6.1% - it is what shook out of the data,"
- *As you might expect Adam and I disagree*

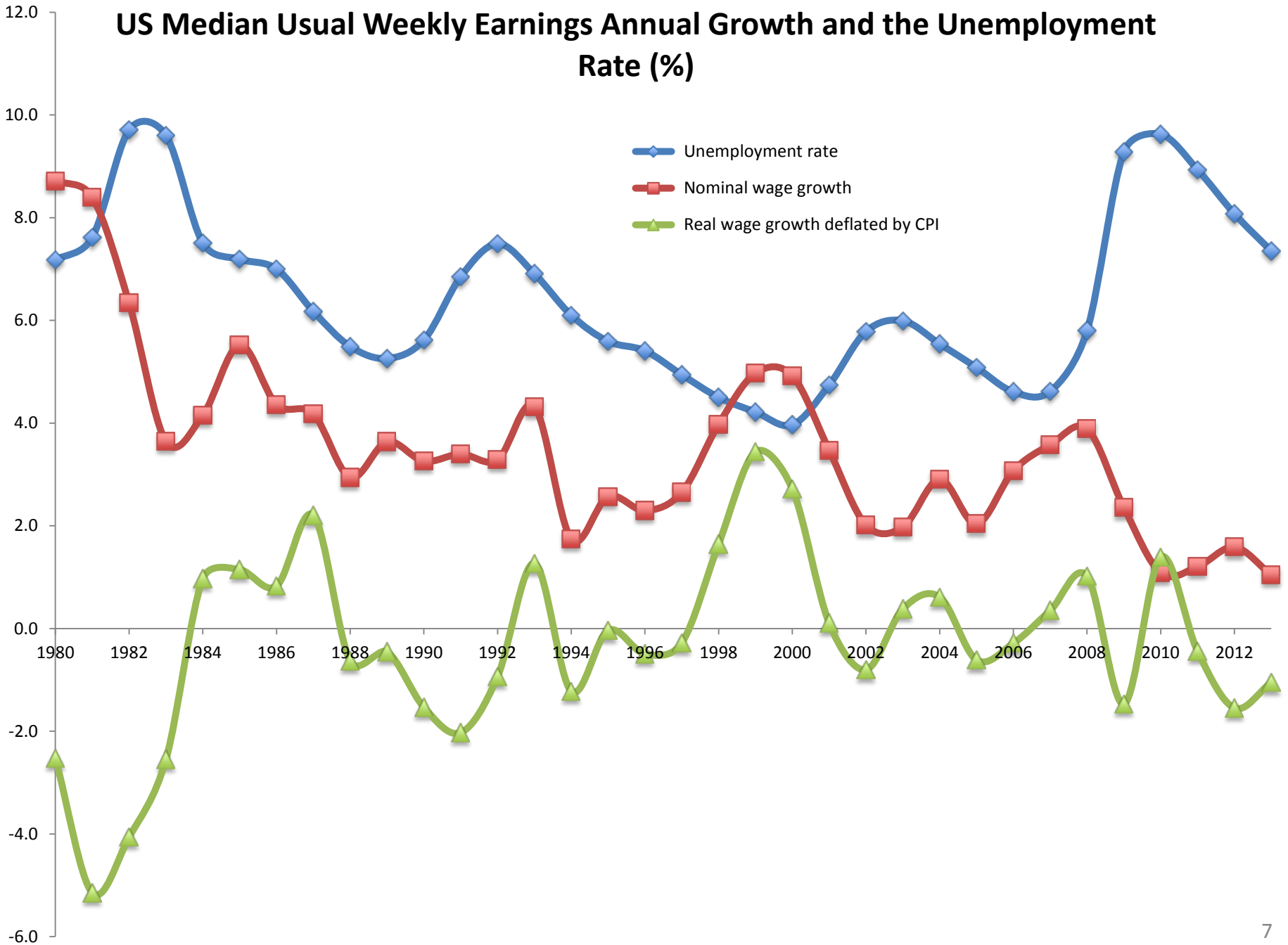
# United States Labour Market



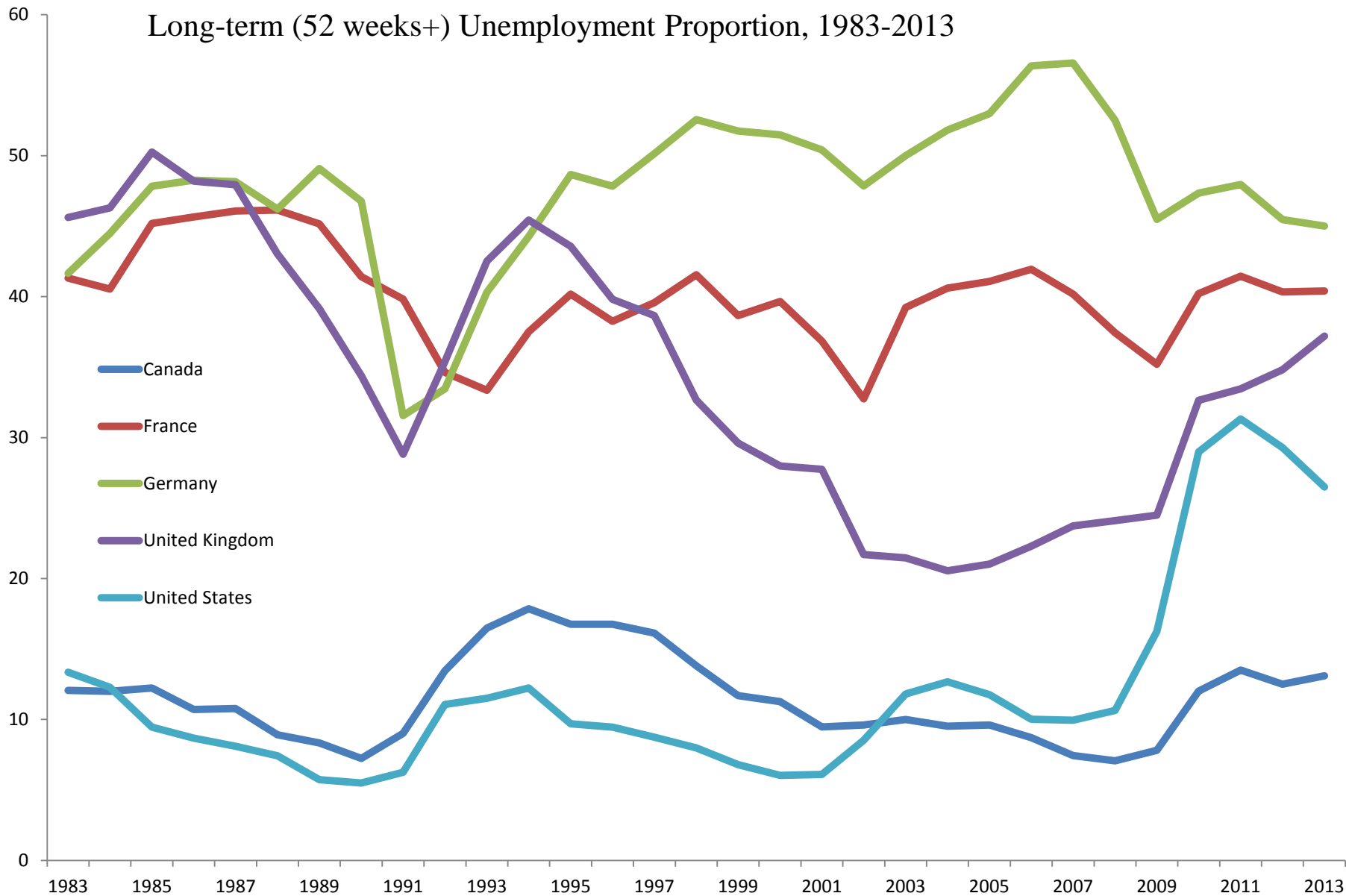
## US Inactivity (July)

Ages	16+	18-24	25-54	55+
1) Inactivity rate (%)				
2008	34	41	17	61
2014	37	45	19	60
Change	+3.2	+3.9	+2.3	-0.9
2) 2014-2008 ('000s)				
Inactives	+12,605	+2,006	+2,696	+8,030
Labor force	+1,554	-777	-3,895	+6,099
Population	+14,159	+1229	-1,199	+14,129

# US Median Usual Weekly Earnings Annual Growth and the Unemployment Rate (%)



Long-term (52 weeks+) Unemployment Proportion, 1983-2013





# Long-term unemployment (we've been there before!)

Blanchflower and Oswald (1990) showed, using micro-data for the UK, that long-term unemployment *did not* play any independent role in wage determination.

We concluded that “*the British evidence does not support the view that long-term unemployment is an important element in the wage determination process*”

# Log Wage Equations USA, 1980-2013 (n=1734)

## Weekly

Log Wage <sub>t-1</sub>	.7417 (53.37)	.7157 (49.77)
Log Unemployment rate <sub>t</sub>	-.0473 (13.69)	-.0440 (12.72)
Log Inactivity rate <sub>t</sub>		-.1016 (6.17)
Wage-unempt elasticity	-.18	-.15

## Hourly

Log Wage <sub>t-1</sub>	.7883 (59.73)	.7661 (56.27)
Log Unemployment rate <sub>t</sub>	-.0327 (11.47)	-.0294 (10.23)
Log Inactivity rate <sub>t</sub>		-.0791 (5.79)
Wage-unempt elasticity	-.15	-.16

# Log Wage Equations USA, 1980-2012

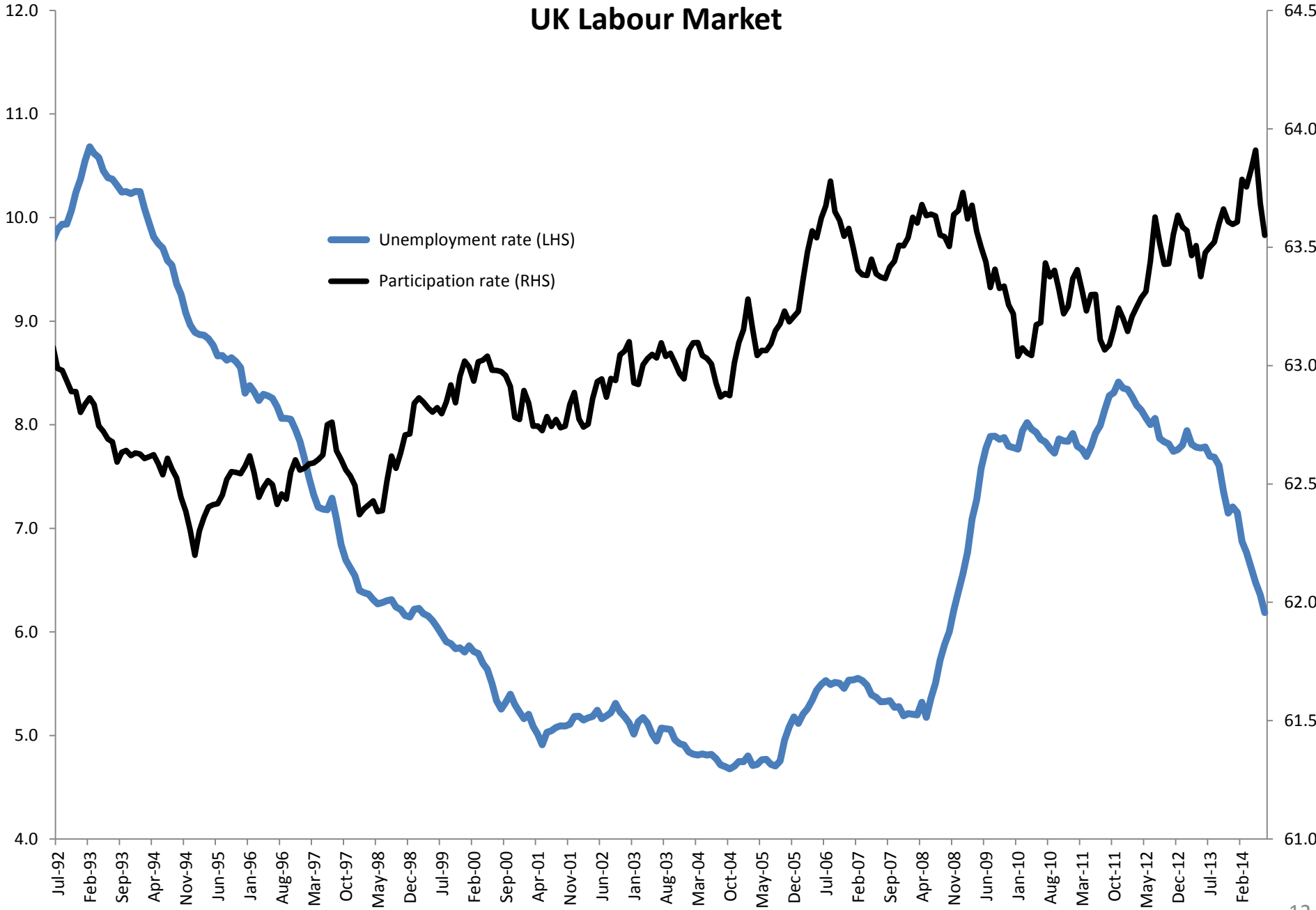
## Weekly

			<b>2000-2012</b>
Log Wage <sub>t-1</sub>	.6178 (29.39)	.6132 (28.99)	.4648 (13.93)
Log Unemployment rate <sub>t</sub>	-.0453 (8.10)	-.0416 (7.99)	-.0502 (6.40)
Log Inactivity rate <sub>t</sub>	-.1354 (5.92)	-.1313 (5.74)	-.1447 (4.15)
% Unemployed 52+ weeks		-.00035 (1.52)	-.0008 (2.79)
N	1173	1173	663

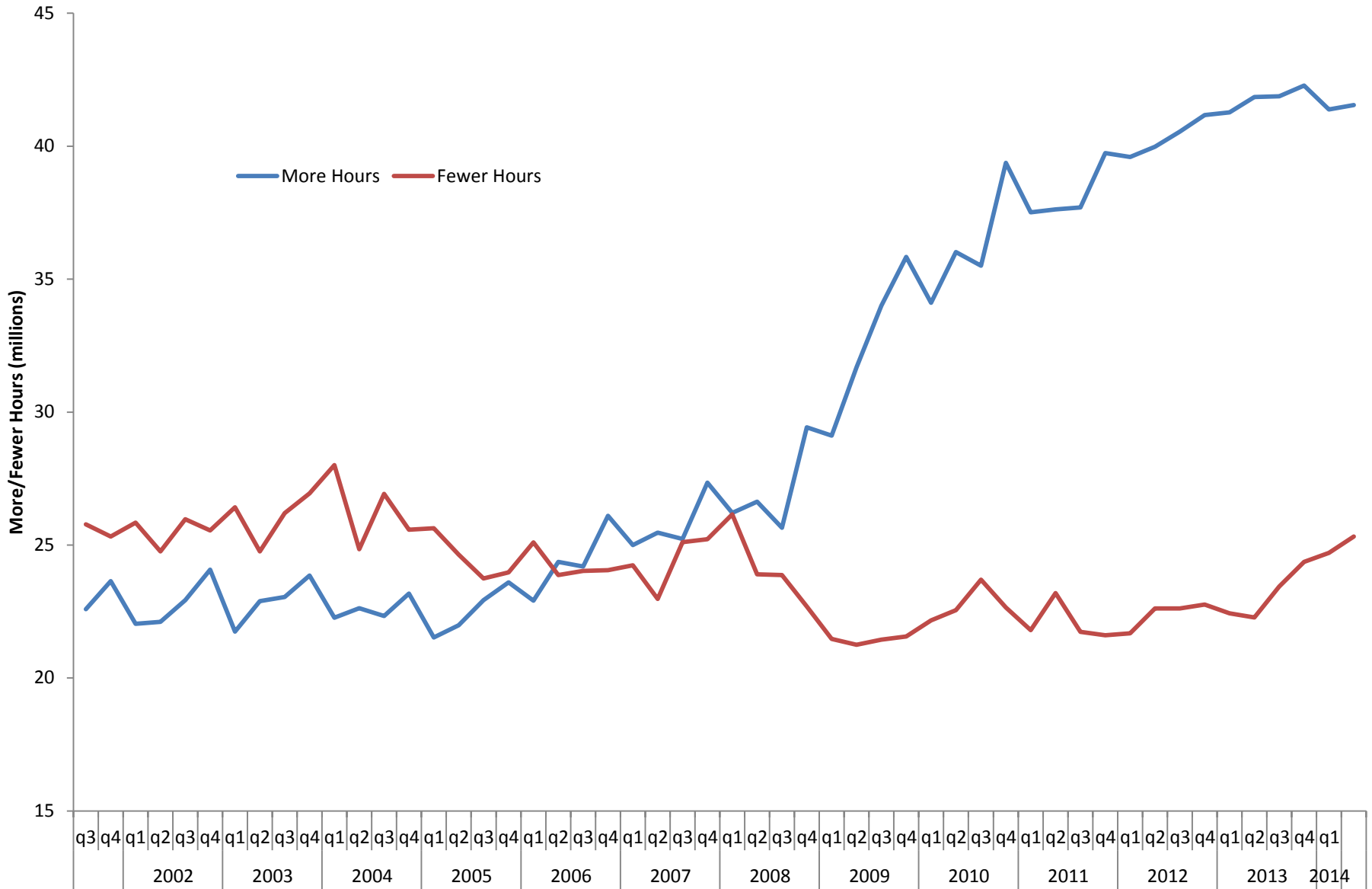
## Hourly

Log Wage <sub>t-1</sub>	.6344 (30.43)	.6304 (30.13)	.4644 (13.77)
Log Unemployment rate <sub>t</sub>	-.0262 (5.60)	-.0236 (5.43)	-.0331 (5.03)
Log Inactivity rate <sub>t</sub>	-.1075 (5.63)	-.1039 (5.4)	-.1391 (4.73)
% Unemployed 52+ weeks		-.0004 (1.98)	-.00067 (2.65)
N	1173	1173	663

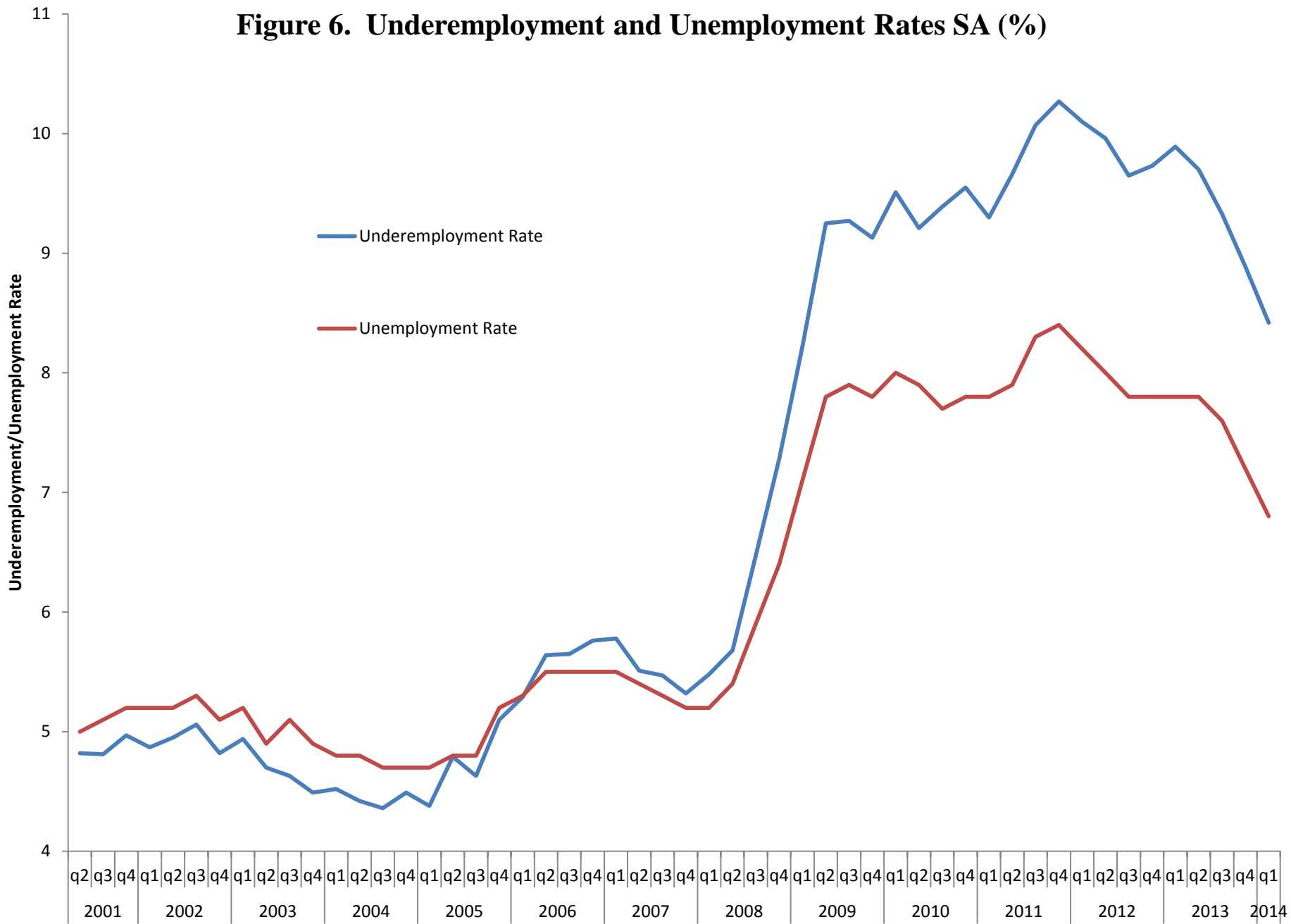
# UK Labour Market



# UK Bell/Blanchflower Number of Desired Hours



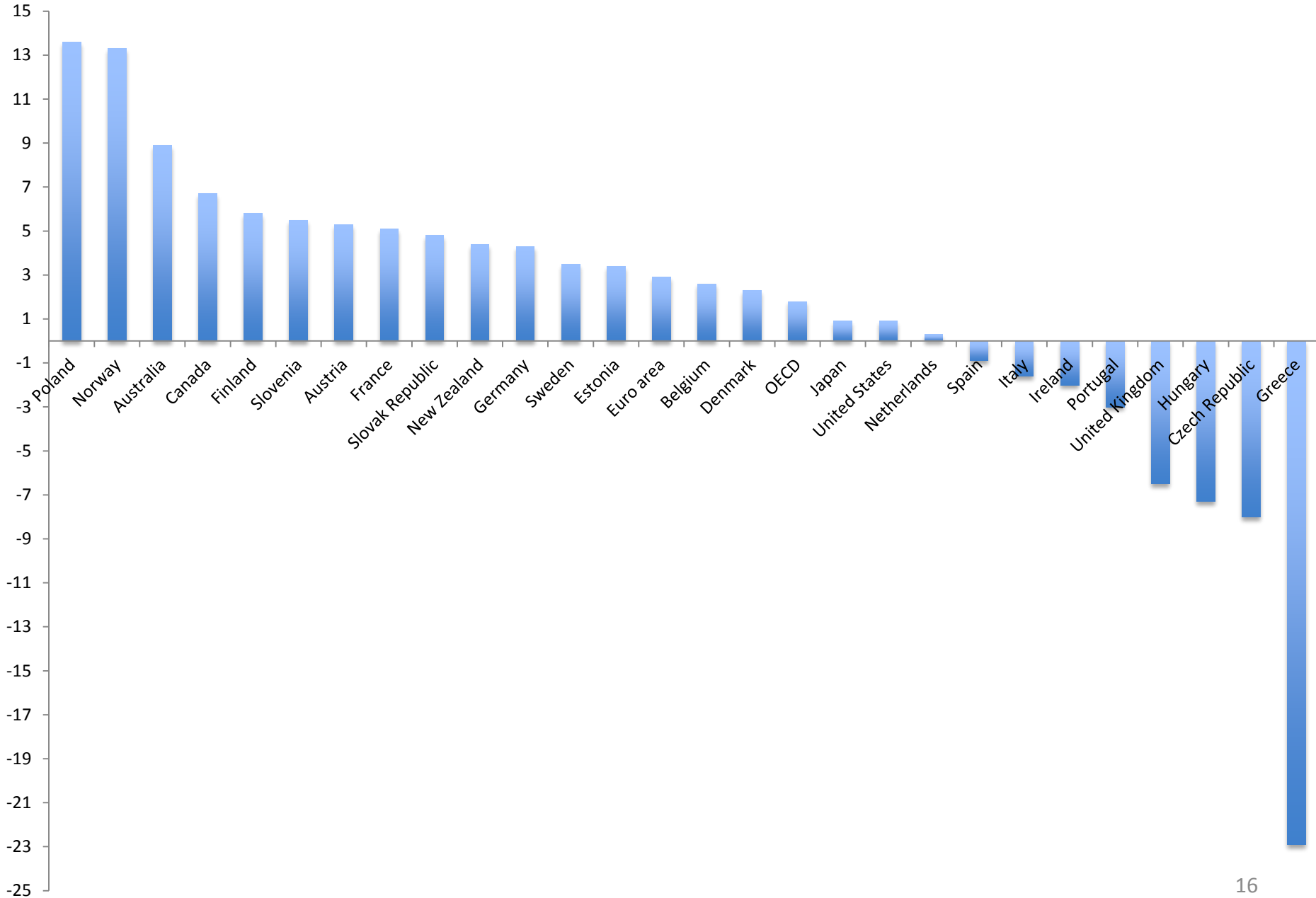
**Figure 6. Underemployment and Unemployment Rates SA (%)**



# MPC's flawed labour market adjustments

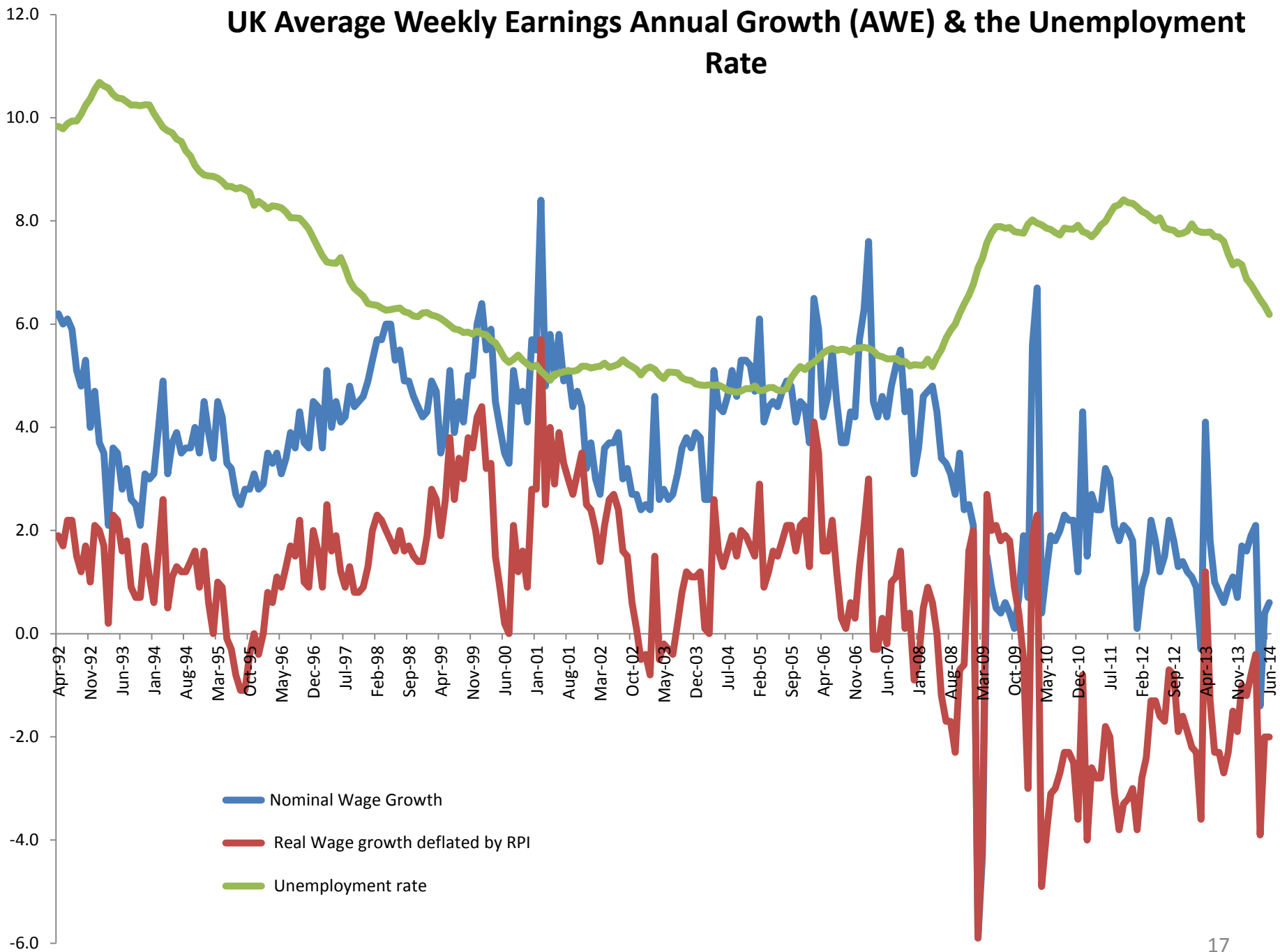
- MPC has decided to reduce the unemployment rate because it argues that the long-term unemployed don't push down on pay despite the fact that it has no empirical evidence to support such a contention
- MPC accepts that the Bell/Blanchflower underemployment rate represents additional slack but, by hand has arbitrarily decided to reduce its level by half.
- Since 2013 MPC has been forecasting rising real wage growth but has been surprised on the downside as real wage growth continues to fall – currently at 1.8% pa
- See Bell & Blanchflower (2014) for a critique

# Real Hourly Earnings Growth, 2008-2013





# UK Average Weekly Earnings Annual Growth (AWE) & the Unemployment Rate



# Conclusion

- We find absolutely no evidence that wage growth is about to take off either in the US or the UK
- There is no separate effect for LT unemployment
- In the US both the inactivity rate and the underemployment rate are pushing down on wage growth
- The unemployment rate does not appear to be a sufficient summary statistic for the amount of slack in the US or UK labor market

# End



# Thank you