Back To The Future?
The Labour Market in 2025

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Labour Markets in a European Perspective

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Motivation

- Can we approximate what the labour market will look like in 2025 through linear extrapolation of recent trends?
- Or is the traditional employment relationship based on standard labour contracts under threat from the “gig” economy and globalisation?
- Twin goals may be the same
  - Profit maximisation
  - Citizen‘s welfare
- But perhaps the rules of the game are being redrawn?

The Present

- Current Zeitgeist: uncertainty
- Unravelling of the post-War settlement?
- Shifts in the political tectonic plates:
  - The Financial Crisis – countries spent hundreds of billions of dollars to prop up the banking system
  - Rise of China (and India)
  - Immigration and culture
  - Trump questioning UN and ‘old’ order
  - Citizens questioning EU
  - Re-emergence of Russian power bloc
  - Potential for nuclear proliferation?
  - World characterised by growing inequality – *which we see in real time via smart phones and the web*

Why Does This Matter?

- Because the prosperity we have come to know in Europe is founded on relations dating back to the early post-War period
- For decades we have come to know real wage growth and reasonably low levels of unemployment
- People beginning to question what they know or thought they knew about world order and their place in it
- What – exactly – is going on?
- Can we extrapolate from current trends?

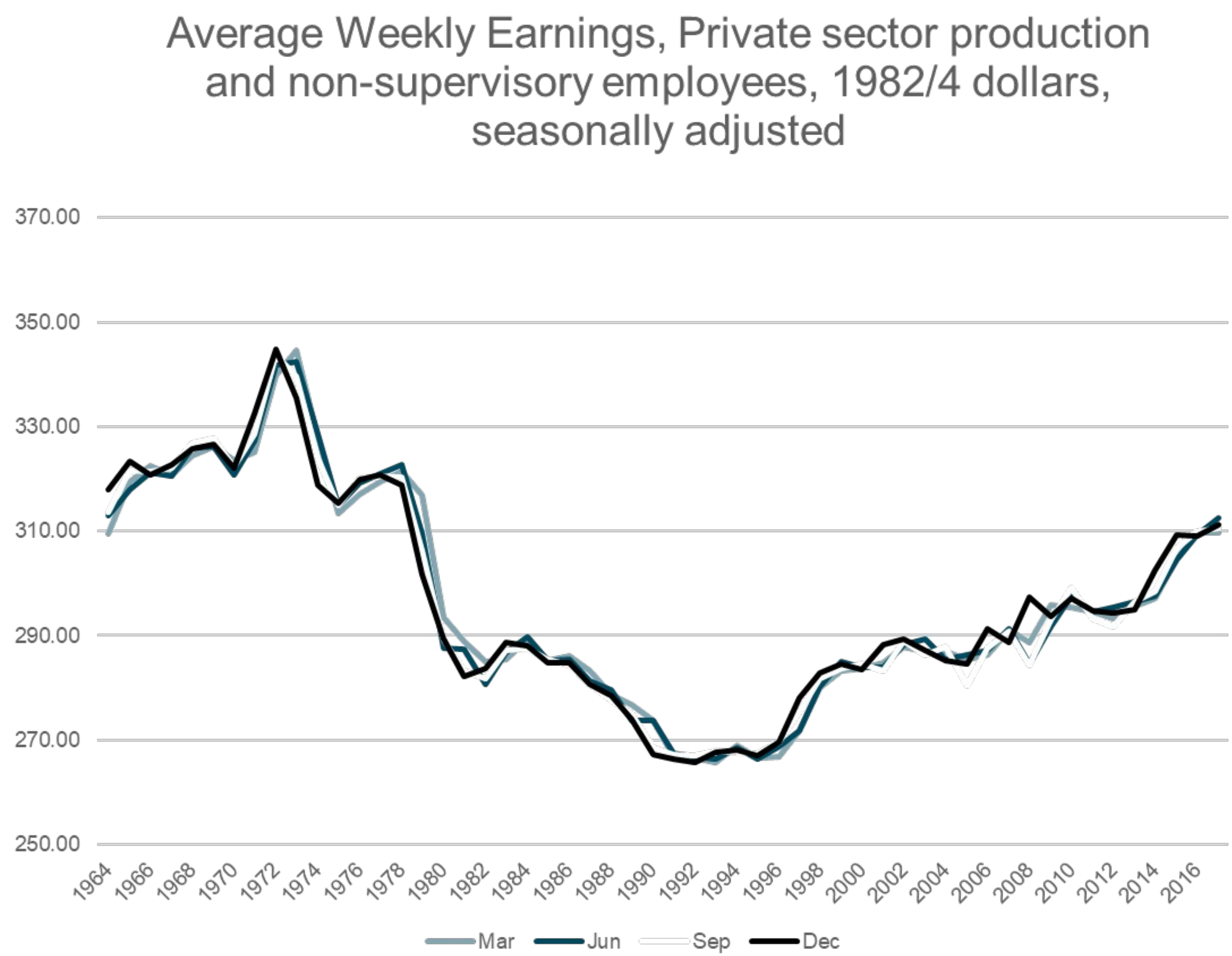
Wage Inequality

- A small % of the people own big % of the wealth. Should this worry us if we are paid our marginal product? Probably, yes.
- Most of recent growth in income inequality is due to growth in earnings' disparity (Picketty, Saez and Atkinson)
- Why is this happening?
  - Demise of unions? Yes, partly
  - Changes in the way the market prices particular skills
    - CEOs, superstars (scaling their productivity)
  - It's where you work not who you are (Barth et al. 2016)
    - Firms/workplaces growing away from each other in 'wage space'. Not clear why – not solely about dispersion in firm productivity; debate about worker/firm and worker/worker sorting which is unresolved

Wage Stagnation

- Unprecedented wage stagnation in the UK for over a decade now
- Started shortly before Great Recession
- Again, not well understood
- Not the only country:
    - USA for a very long time
    - Germany since the early 1990s

Real Earnings in the United States



Capital v Labour: Bargaining Power

- Poor return to workers via wages and “crisis” in pensions
  - Cessation/replacement of final salary schemes
- Employers present as fait accompli (unaffordable).
  - Brian Bell talks of British Airways as a pension fund with wings. But recent FT analysis questions this: one year of dividends to shareholders would cover the pension deficit/gap.
- More broadly what has been happening to labour’s share? Some say falling, others that it is relatively stable when one accounts for pension pay-outs.
- Rent-sharing is a thing of the past for typical worker.
  - Workers used to share in their company’s profits (Blanchflower, Oswald and Sanfey (1996)
  - This no longer appears to be the case(Bell and Van Reenen, 2016)
  - for most workers there appears to be no effect of firm performance on the workers’ subsequent wages. Consistent with firms holding onto the surplus they generate and/or prioritising shareholders.

Nature of the Firm

- Theory:
  - Larger firms are more productive: that's why they are larger
  - Large firms have larger share of a given market or markets
  - Wage setting powers
  - For good or for 'not so good'
    - Walmart
    - Pattern bargaining can drive up all firms' wages
    - Workers can share in those rents

- The modern firm is the listed company with institutional shareholders.
  - Emergence of the conglomerate in the late 19th/early 20th Century. GEC

- Large firms make up only a small % of all firms but account for high % of all workers

- With debate about the growth of the 'gig' economy and the self-employment opportunities offered by new technologies and firms one might think such firms were becoming less important.

- Not so. They have grown in size. Many now global. Become entities with long supply chains reaching across the world capable of extracting value at every point in the production process.

Owners of Capital and the Markets

- ***Are we seeing a crisis in finance capitalism akin to that predicted by Marxian thinkers?***
- The 2008 Crash was very instructive. Traits:
- Global transmission mechanisms meant the shock was felt instantaneously across the world. Few countries were unaffected
- Its origins in financial products wrapping up and selling on bad mortgage debt provide insight into the nature of profitable activity that many knew nothing about
- The reliance of the system on banks, some of whom relied heavily on these products, points to important weaknesses in the financial infrastructure on which modern firms (and the rest of us) rely
- Only a small subset of the problems have been addressed subsequently, eg. in relation to bank liquidity
- Some of the behaviour was criminal but the banks were deemed too big to fail
- (I think) there is no good reason to suspect that this can't happen again. Will it happen again? Perhaps. Will the system be better prepared for the aftermath? Not sure. Will it be able to afford to bail out the banks and other financial institutions again? Not sure.

Trade and China

- China as existential threat to the West?

- No but it will become the dominant force in the world economy in the next period – possibly not long after 2025.
  - Already talk of the 'China shock'

- Why does this matter? Because China is State Capitalism with a strong dose of State Communism
  - The growth of the listed corporate sector is amazing.
  - We showed its corporate listed sector looks pretty much like the listed sector looked in the US 20-30 years ago. Eg. CEO compensation elasticity with respect to firm performance (Bryson et al., 2015)

- Global imbalances in trade matter more broadly.
  - Why? Because countries must service their trade-related debts. Much of the US's debt is owned by China and the US can afford to pay those debts currently when interest rates are low and the US economy continues to grow. But what happens when that changes?

- And what about the smaller countries, some of whom are locked into trans-national monetary arrangements which don't suit them ideally, eg. Greece.

The demand for and supply of skills

- The standard way that labour economists look at the operation of the labour market.
- Some maintain that most of the shifts in earnings can be accounted for by supply and demand. eg. Larry Katz and Claudia Goldin.
- There does appear to have been skills-biased technological change. Premia to be earned from high-end skills, while mid-level jobs have been disappearing due in part to ease of automation. There appears to be some growth in demand for low level hard to automate jobs.
- This hollowing out is apparent in many countries including the US and the UK. Governments and individuals have responded by investing in higher-level human capital.
  - Witness growth in higher education in UK.
- Despite this the wage premia attached to higher education degrees persist, in most cases, often interpreted as an indication that demand for such skills continues to outstrip supply.

The demand for and supply of skills (cont)

- Will these trends continue?
- Hard to say but until recently this narrative largely excluded a substantial role for trade. That is no longer the case.
- Chief reason: there has been a fundamental shift in the ability of firms to compete and provide goods and services globally. Good example: Theo Nichols, white goods from China.
- Primary implications:
    - further impetus for ‘developed’ economies to shed jobs where equally skilled cheaper labour from the developing world is taking market share.
    - The big question becomes: can this continue up the value chain and how do local markets (labour, goods and services) respond?
    - This appears to be the frontier right now: taken for granted the advantages of global competition driving up productivity and thus living standards, but rewards are increasingly unequally distributed and the negative impacts of adjustment are unevenly felt across social class lines.

Gender and Discrimination

- General pattern emerging, true for women and for immigrants, namely better educated than men/natives. However, this human capital advantage has yet to be fully realised in the labour market. Gap is closing but at a relatively slow rate.

- Will we reach a tipping point whereby advances in education made by women/migrants squeeze out wage disparities?

- I think so. Old example: racial integration in professional sports in the United States by 1980s

- But when? And should policy play a greater role?
  - Quotas? Boardroom etc..

Labour and the Social Contract

- At the core of the labour contract is a transaction involving provision of labour for income. Such transactions used to occur in a spot market where instantaneous transactions were made. Examples: daily paid labourers in mines, docks, quarries.
- Advantageous to capital if casual labour is readily available/replaceable.
- Organised labour challenged such arrangements, seeking more stable and dependable contracts for earners. Requirement: ability to threaten firms with labour withdrawal, operating as a cartel, via strikes.
- Labour's case facilitated by political actions. In UK, LRC 1906, early Liberal Party action to introduce state-based insurance against unemployment, ill-health and ageing via retirement. Another big push post-war with the advent of free health care and comprehensive education. Progressive taxation systems. The state's social contract. Onus no longer solely on the employer/employee transaction as the basis for citizens' welfare.
- This contract remains largely in-tact. Perhaps social contract is more embedded than ever. Growth of employment rights (juridification). International recognition of workers' rights and the right to organise.
- And yet….is there some fraying at the edges?

Labour and the Social Contract (cont.)

- Are we seeing gradual dissolution of traditional open-ended contract underpinned by occupational pensions?
- Early analysts pointed to reduction in average job tenure, with shorter-duration jobs increasingly common, often on temporary or fixed term basis.
- Today they point to the emergence of a ‘gig’ economy which blurs the line between employment and self-employment in such a way as to challenge employee rights, creating conditions under which the worker is much more ‘flexible’ in the provision of time/effort, and in return faces a contract for services which is stripped of many of the benefits that workers had hitherto taken for granted.
- At the same time there is concern that governments are altering the basis for the social contract: there may be a fundamental change in the relationship between the state and citizens, notably with respect to the end of social insurance and the rise of contingent benefits. Could this be the marketization of everything?

Labour and the Social Contract (cont.)

- Certainly some technological advances provide opportunities for such developments. Witness automation effects on deskilling of previously highly skilled occupations, something that is likely to continue; cheap monitoring of worker effort; capabilities to introduce and maintain complex working patterns.
- But technological determinism has never been particularly persuasive since the employment relationship is essentially about the social relations of production.
- Richard Freeman perhaps rightly points out that who owns the robots rule the world, but precisely how they deploy them and under what conditions will be negotiated, one way or another, with labour.
- What form will that labour organisation take in future?
  - In 2010 we were pretty pessimistic: the Facebook society seemed to be militating against organising labour. But by 2017 we can see signs that workers are utilising new opportunities to organise/service in a fundamentally different way, often in the absence of traditional unions.

4^{th} Industrial Revolution: AI and Robots

- An opportunity…..
  – cut the quantity of labour
  – Cut the price of labour (Braverman and deskilling)
  – Enrich job tasks?
- Technology changed things in the past
  – Hours reductions
  – Real wage growth
- Solow’s paradox
  – Everywhere but in the productivity stats
  – But likely to come (lags, complementarities)
- Who knows what will happen
  – But Freeman is right: who owns the robots will have a big say