Academics blame low wage growth on underemployment

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Employees looking for a hike in salary have lost their bargaining power because of a rise in underemployment, according to a new paper by University of Stirling economists.

Professor David Bell and Professor David Blanchflower, of the Stirling Management School, looked at the reasons wage growth has remained static despite the return of the unemployment rate to pre-recession levels.

In their paper, The Lack of Wage Growth and the Falling NAIRU, published by the *National Bureau of Economic Research* today, they attributed this to the rise in underemployment which rose in the Great Recession but has not returned to pre-recession levels.

Underemployment refers to people who are highly skilled but working in low-paying or low-skill jobs, and part-time workers who would prefer to be full time.

Professor of Economics David Bell said: "There remains a puzzle around the world over why wage growth is so benign given the unemployment rate has returned to pre-recession levels.

"It is our contention that a considerable part of the explanation is the rise in underemployment which rose in the Great Recession but has not returned to pre-recession levels even though the unemployment rate has.

"Involuntary part-time employment rose in every advanced country and remains elevated in many in 2018."

The academics looked at people in both full-time and part-time work who wanted to either decrease or increase their hours at the going wage rate.

"Prior to 2008, our underemployment rate was below the unemployment rate," the report states. "Over the period 2001-2017 we find little change in the number of hours of workers who want fewer hours, but a big rise in the numbers wanting more hours. Underemployment reduces wage pressure."

The report shows that following the Great Recession, the UK Phillips Curve – a concept in economics which says the lower the rate of unemployment, the faster wages will grow – has flattened.

They also found that the UK non-accelerating inflation rate of unemployment (NAIRU) - the specific unemployment rate at which the rate of inflation stabilises – has shifted down.

They conclude that despite the current low level of unemployment of 4.3 percent in the UK, this does not necessarily indicate that the country is close to full-employment.

Instead they argue there is a shortfall between the volume of work desired by workers and the actual volume of work available, and that the unemployment rate may have to go lower than 3 percent before there is an equivalent up-turn in wage growth.

"In the years 2000-2008 there was no relationship between high wage growth, which averaged 4 percent, and the relatively low unemployment rate," said Professor Bell. "Then the Great Recession came along, and everything shifted down with lower wage growth and higher unemployment.

"Once recovery happened there was a transition to a new flatter equilibrium with low unemployment of less than 5 percent and low wage growth of around 2 percent. This seems to undermine the justification for a short-term increase in interest rates."

More information: The Lack of Wage Growth and the Falling NAIRU. www.nber.org/papers/w24502

Provided by University of Stirling