

# Panel Discussion

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Slide Presentation

## Panel discussion: reflections and issues

- Seemed fitting to use the *Mirrlees Review* to motivate the discussion, ask what are the key new insights and major challenges?
  - and introduce a few related new issues too!
- Several distinct themes, challenges and controversies have come up,
  - much of it driven by insights from new data but also a significant impact of new theory,
  - and feedback between data and theory - key role for data coherent structural models, e.g. those that recognise detail of incentives and dynamics of shocks and human capital choices.
- IFS about to launch a new related *Review on Inequality*!
  - assess the balance between tax/welfare policies and alternative policies - human capital, competition policy, min wage, trade, etc...

# Themes

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## 1. Dynamics

- Importance of persistence, role of insurance and age based taxes,
- Human capital investments and wage progression,
- What role for progressive consumption taxes – insurance, etc?

## 2. Families

- Role of family benefits, tax credits, etc.; Reinforcement/jointness,
- Taxing bad behaviour and key externalities.

## 3. Innovation and entrepreneurship

- Rents vs returns?
- Responsiveness to tax policy and role in top incomes.

## 4. What to do about low income families

- How far can/should redistribution go to compensate low wages?

## 5. How should we balance tax/welfare reform with other policies?

## Role of income dynamics and persistence shocks

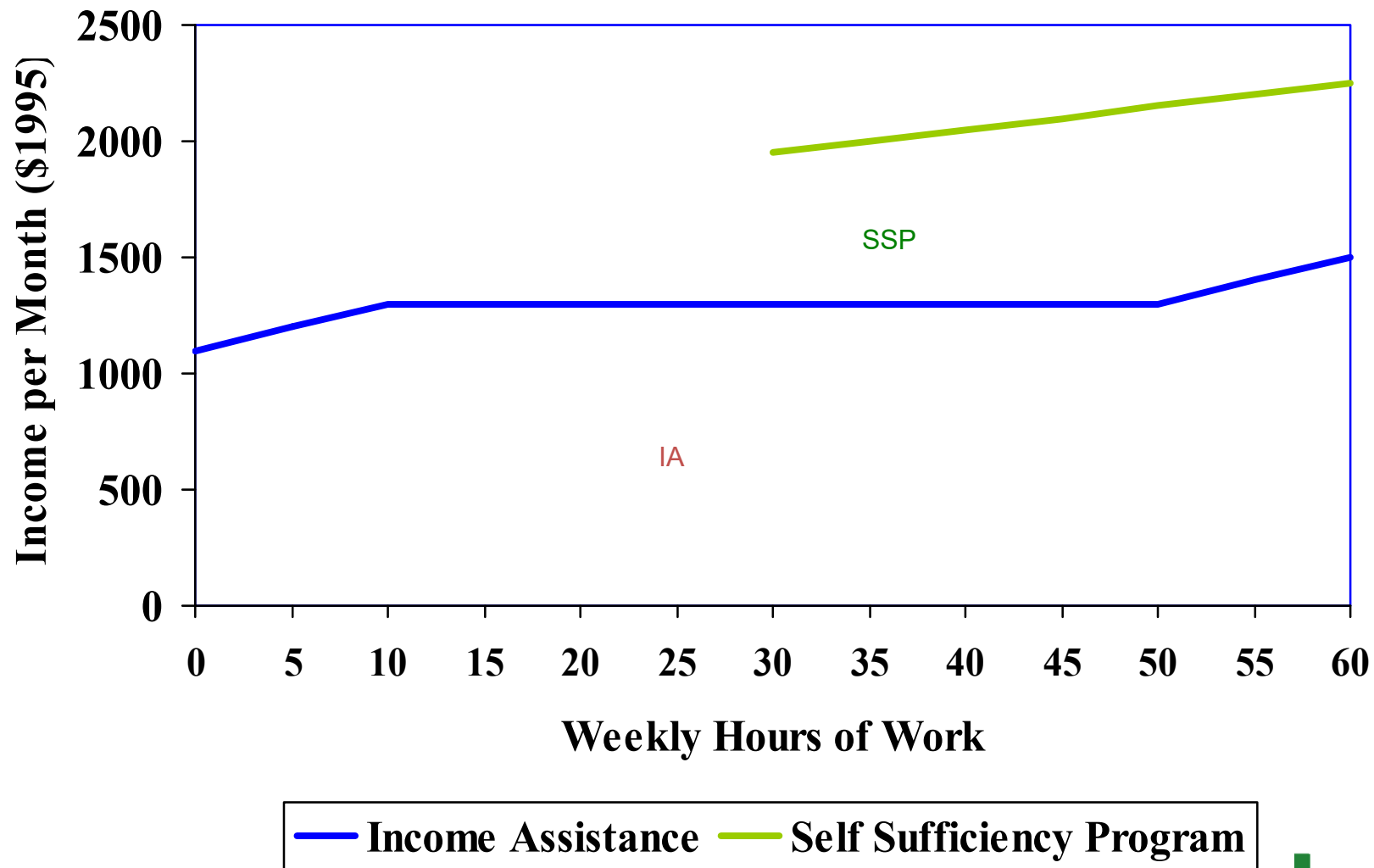
- Remarkable new evidence on persistent shocks to labour earnings
  - show importance differences across the life-cycle and business cycle, distinct nonlinearities
- Persistence varies according to position in the distribution, size of shocks and aggregate shocks (job ladder model?)
  - key implications for tax/insurance
- Need consumption and credit data to gauge degree of insurance
  - wonderful new work on Scandinavia – implications for UI
  - don't give up on new PSID data!
- Shocks to low wage works poorly insured.
- Implications for taxation of savings and wealth
  - optimal progressivity with age? Human capital too, return to this.
- Redistributive role for monetary policy? Co-movements with assets?
- Role for short-time programmes?

## Families: Elasticities, taxation of couples & role of tax credits

- Is there evidence of labour supply responses at ext and int margins?
  - I think so – but generally small with only larger wage and income elasticities for specific groups. Elasticities change with family composition (composition conditioned and age related tax rates?).
- Do we have any RCTs? – some brief results for a tax credit reform
  - Implications for supply responses *and* progression.
- Interactions between tax credits and other programs
  - Attenuates incentives and take-up for many low wage families.
- Reinforcing joint taxation for couples? Importance of assortative mating – empirically important
  - UK has negative at the bottom with children and independence at the top – optimal? Within family inequality and collective approach?
- What about cross elasticities? - leisure complements but switch to substitutes with young children through home production.

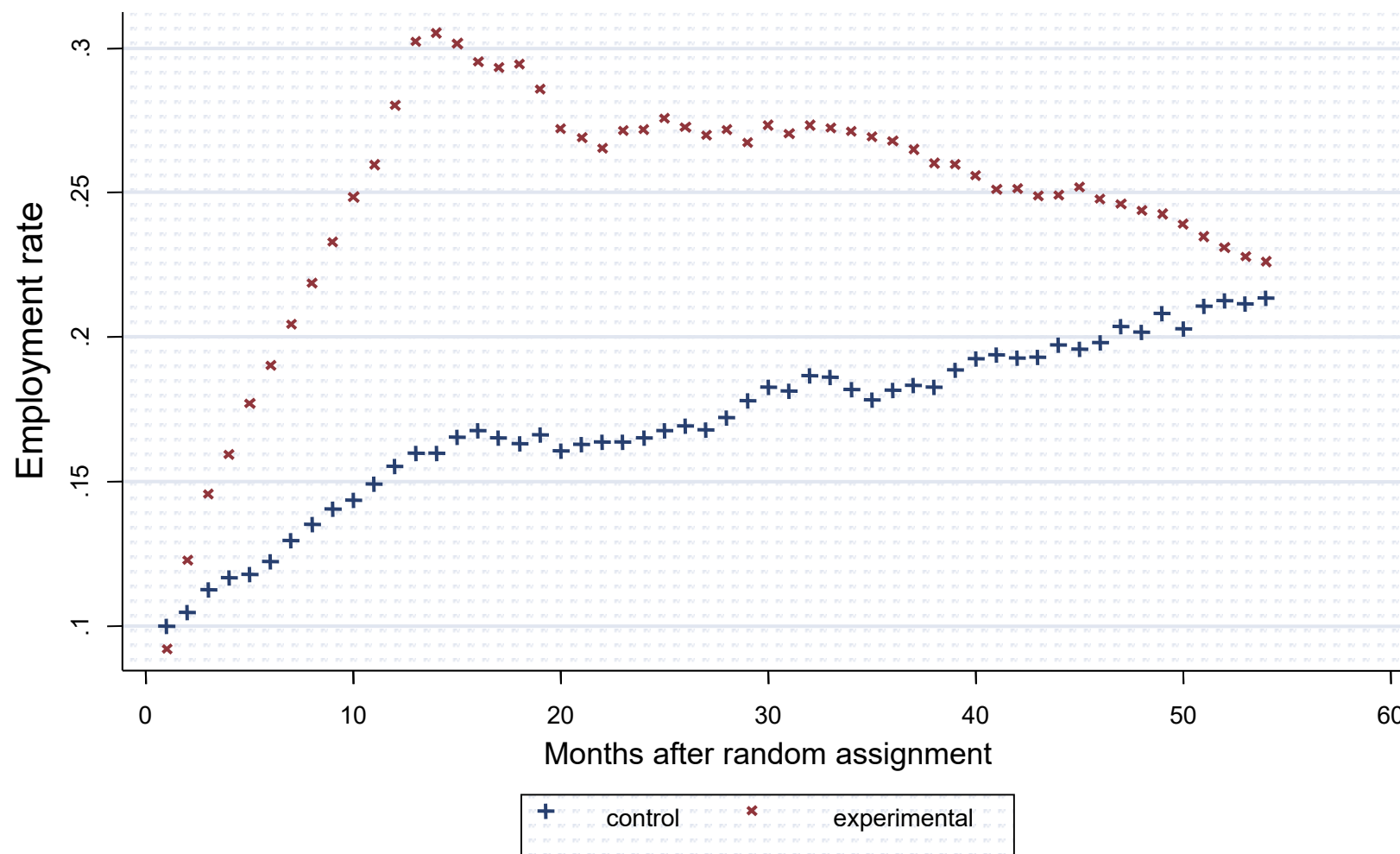
# Self Sufficiency Program (SSP): RCT Field Experiment

*Budget Constraint for a Single Parent on Minimum Wage*



Card and Robins (2006)

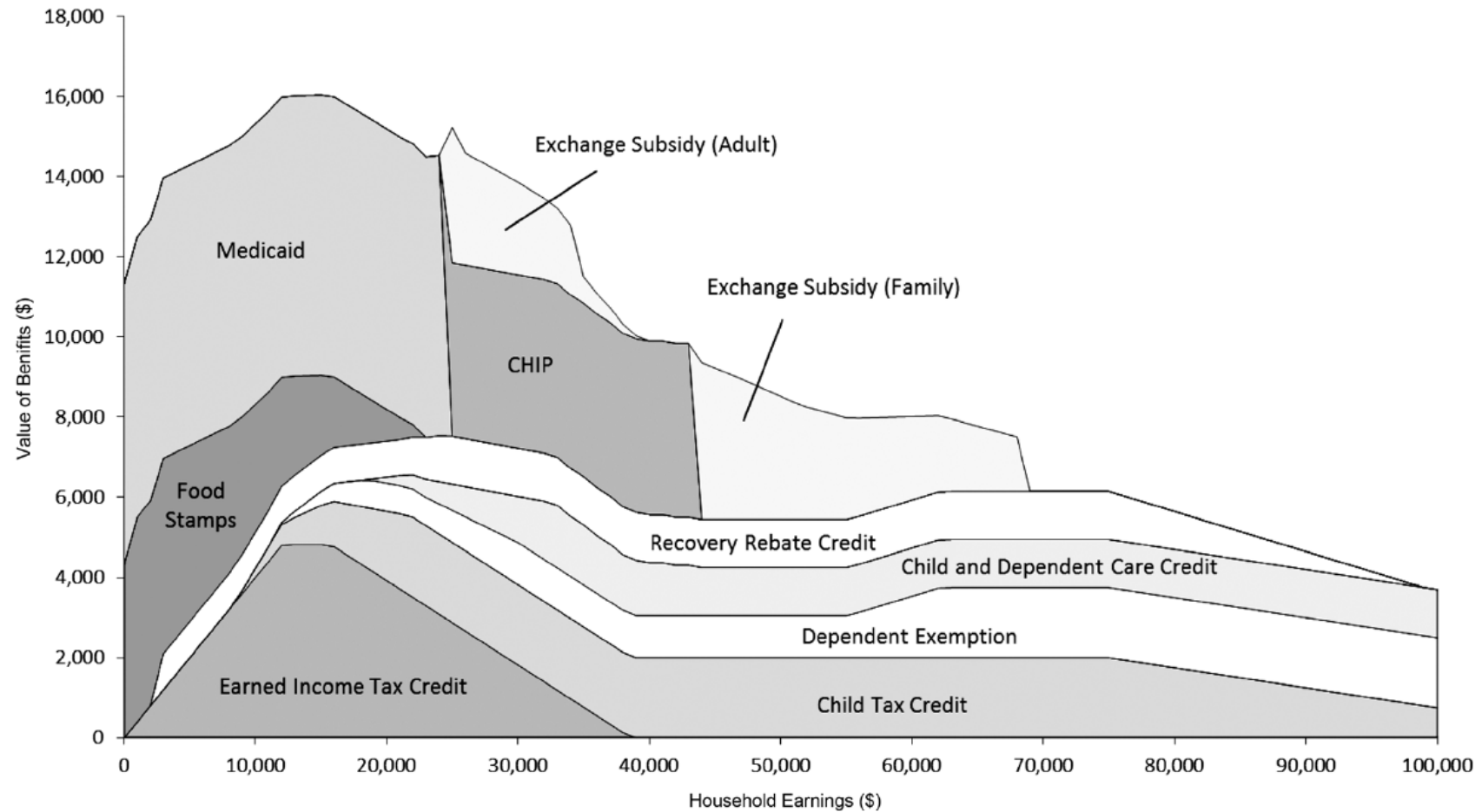
# SSP: Employment Rate by months after RA



Blundell and Moffitt (2010)

# Universally Available Tax and Transfer Benefits

## US Single Parent with Two Children

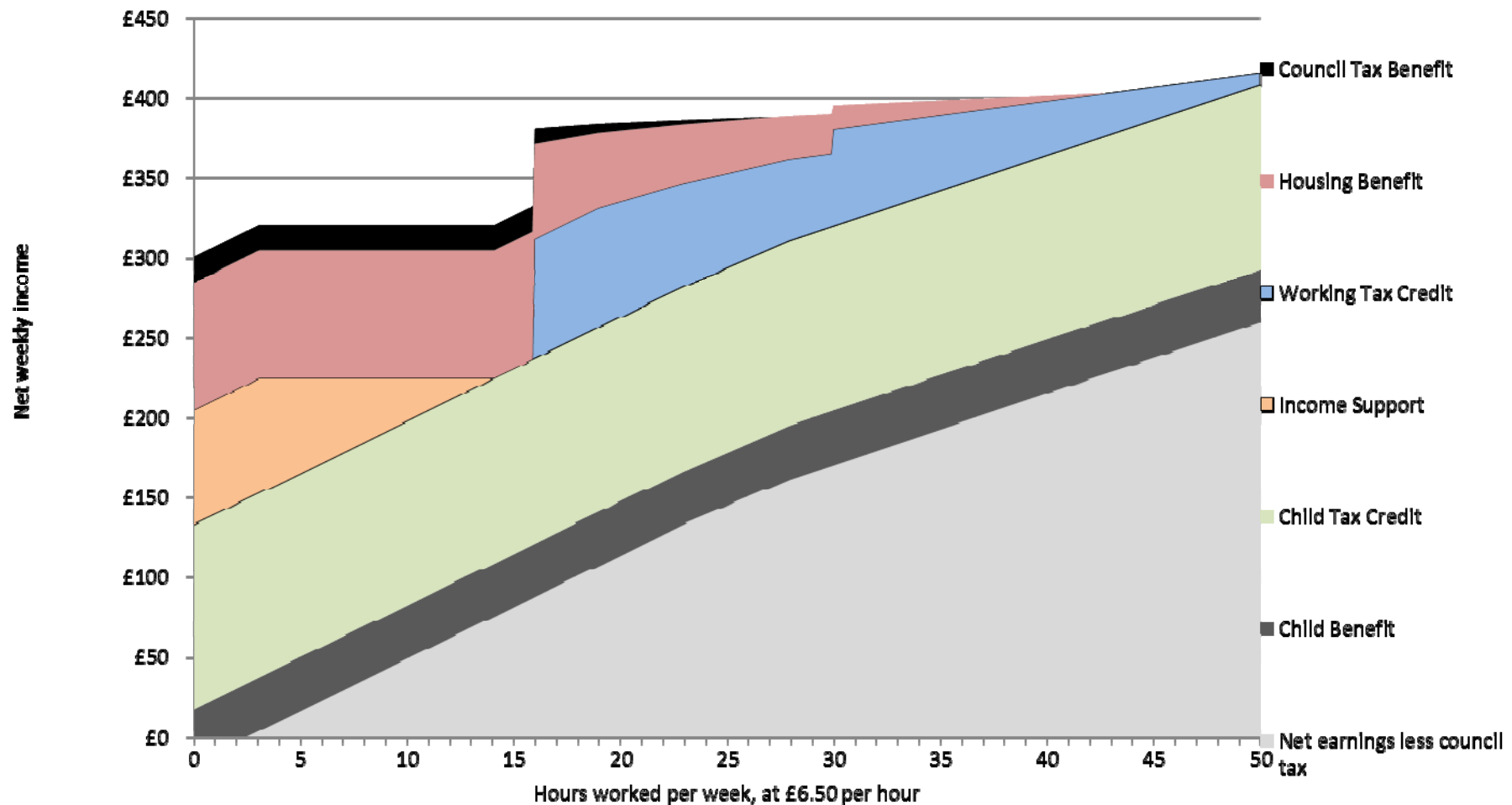


Source: Urban Institute (NTJ, Dec 2012).

Notes: Value of tax and value transfer benefits for a single parent with two children.



# Budget Constraint for Single Parent: UK



Notes: wage £6.50/hr, 2 children, no other income, £80/wk rent. Ignores council tax and rebates, 2011.

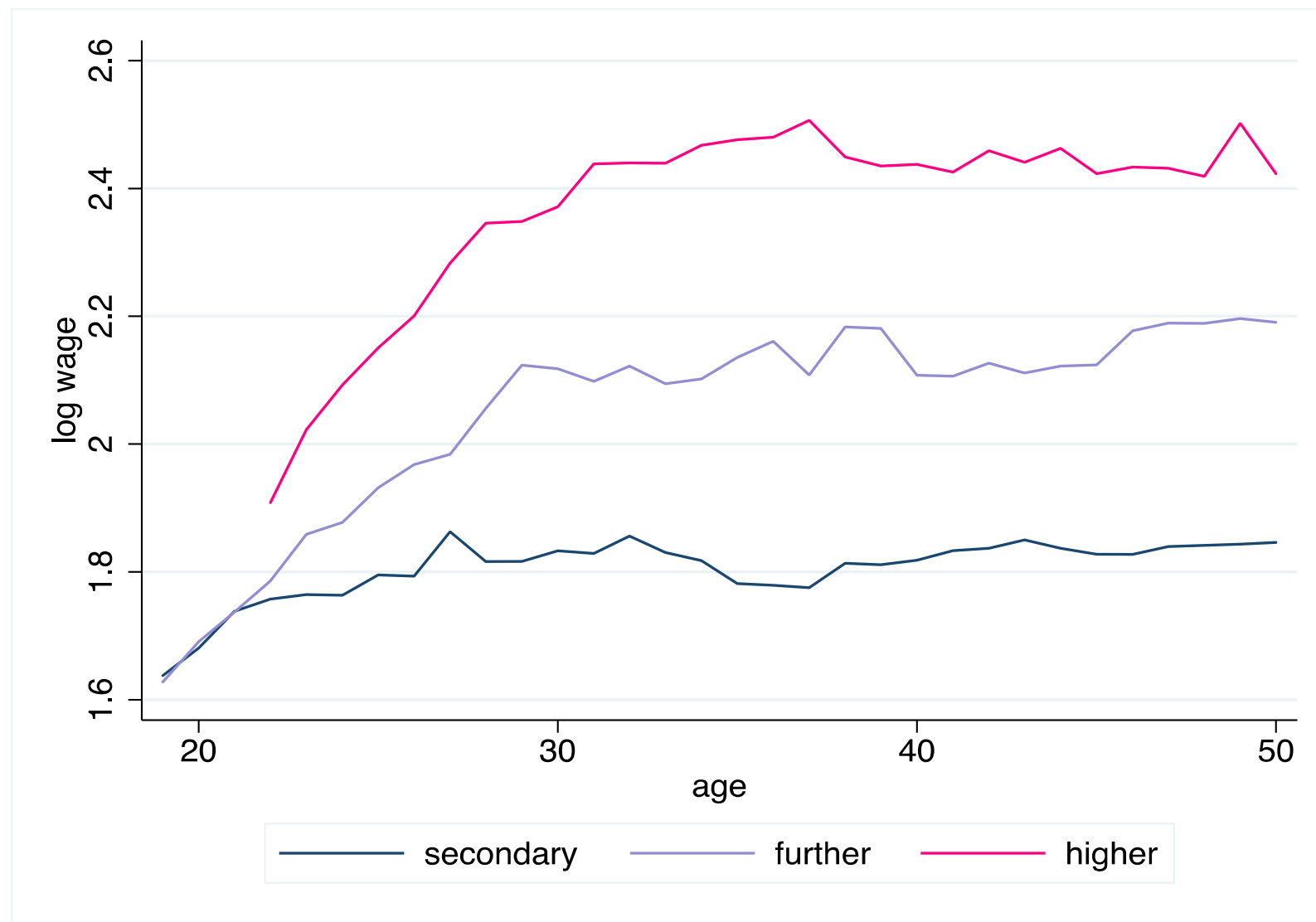
Source: Mirrlees Review

# Human capital

- Recent work on human capital investments during working life show strong *complementarity* with formal education and ability.
- Depressing, but robust, finding - low wage progression for the low skilled (and for part-time work) (hours condition in tax credit),
  - work is no longer enough to move out of poverty
- Tax credit policies (work conditioned policies, in general) have key different incentives
  - *learning by doing vs work experience* investments.
- Are taxes still less progressive at point they are most productive?
- Some low wage workers do achieve wage progression – most often in innovative/R&D firms.
  - Not just selection but about complementarity of some non-cog skills,
  - Role for policy in training and verifying non-cog abilities?

## Wage profiles by education and age – Women

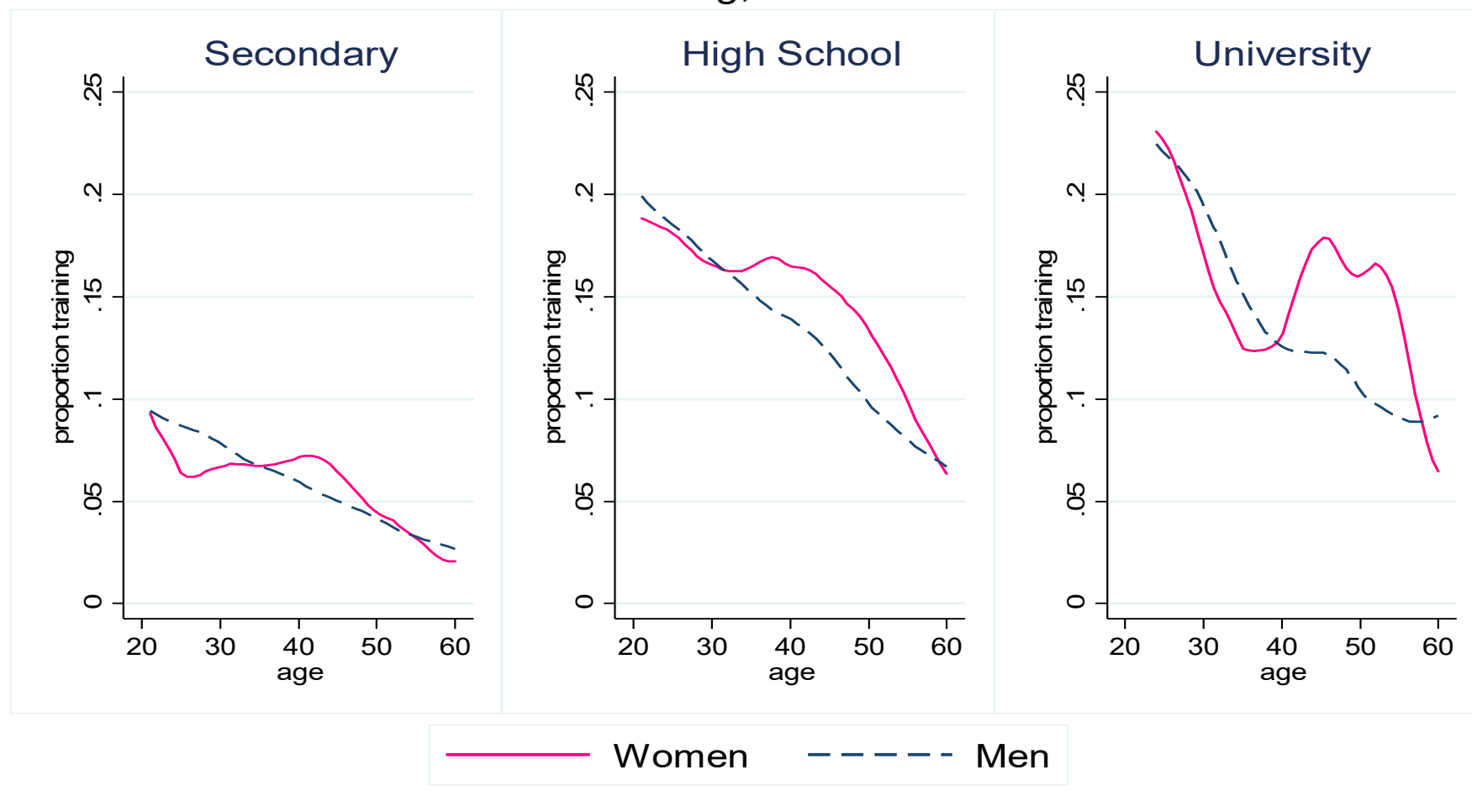
- returns to experience appear strongly *complementary* with education



Source: Blundell, Dias, Meghir and Shaw (2016), Notes: UK BHPS

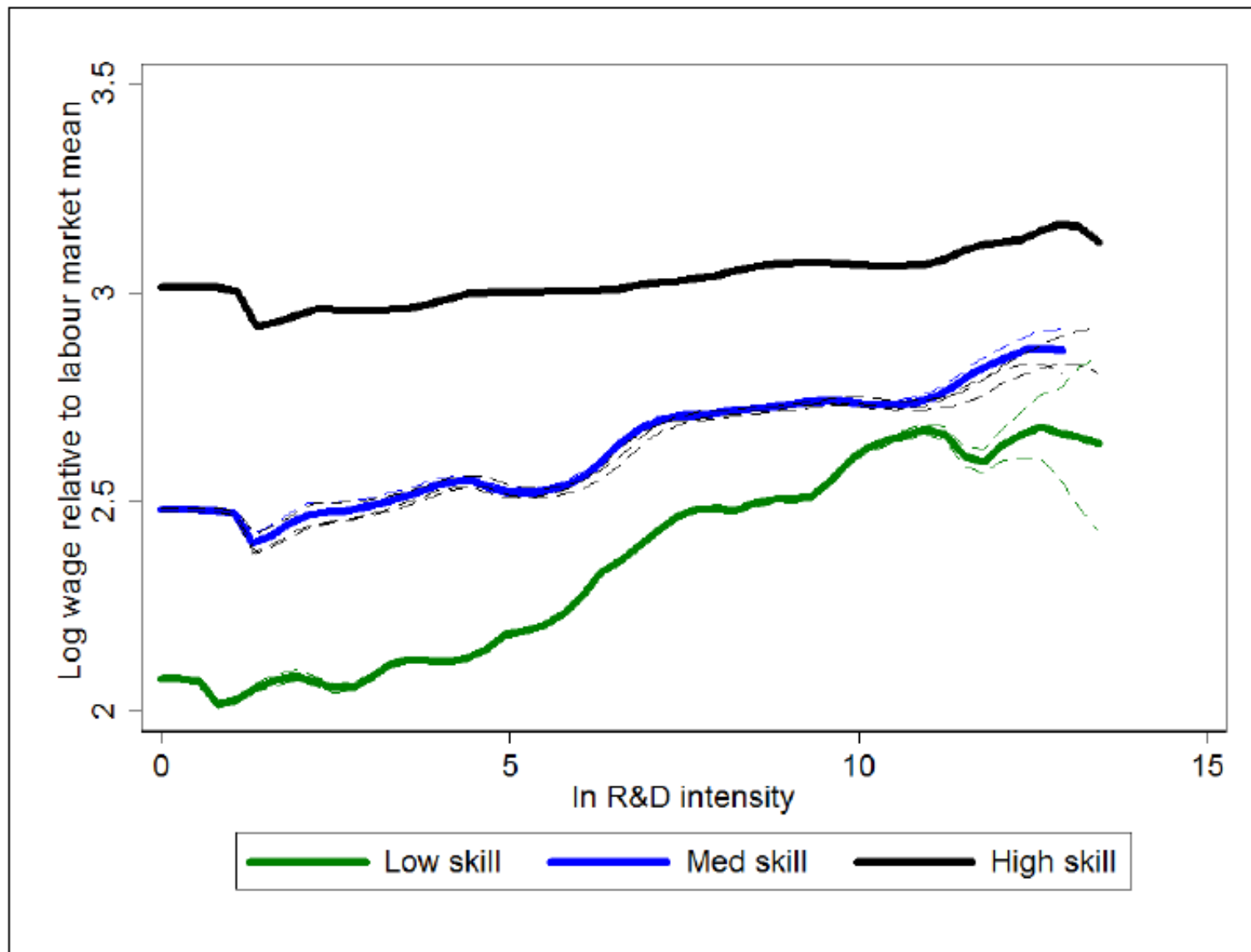
## Training is also strongly complementary with education

### Prevalence of training over past year All training, 50+ hours



Source: Blundell, Dias, Goll and Meghir (2018), Notes: UK BHPS

## Good firms and bad firms: log hourly wage by skill group

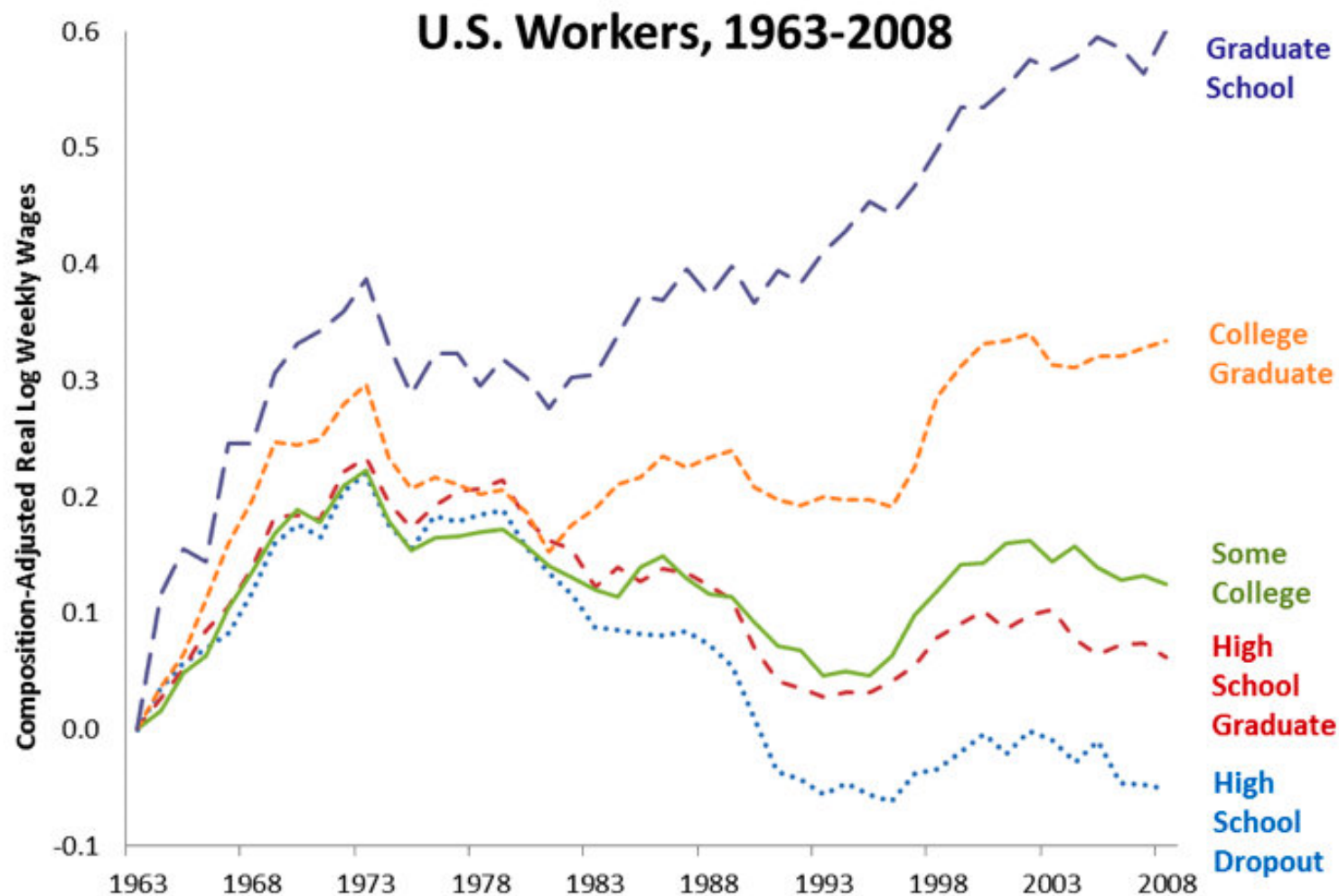


Source: Aghion, Bergeaud, Blundell and Griffith (2018)

# Innovation, entrepreneurship and business income

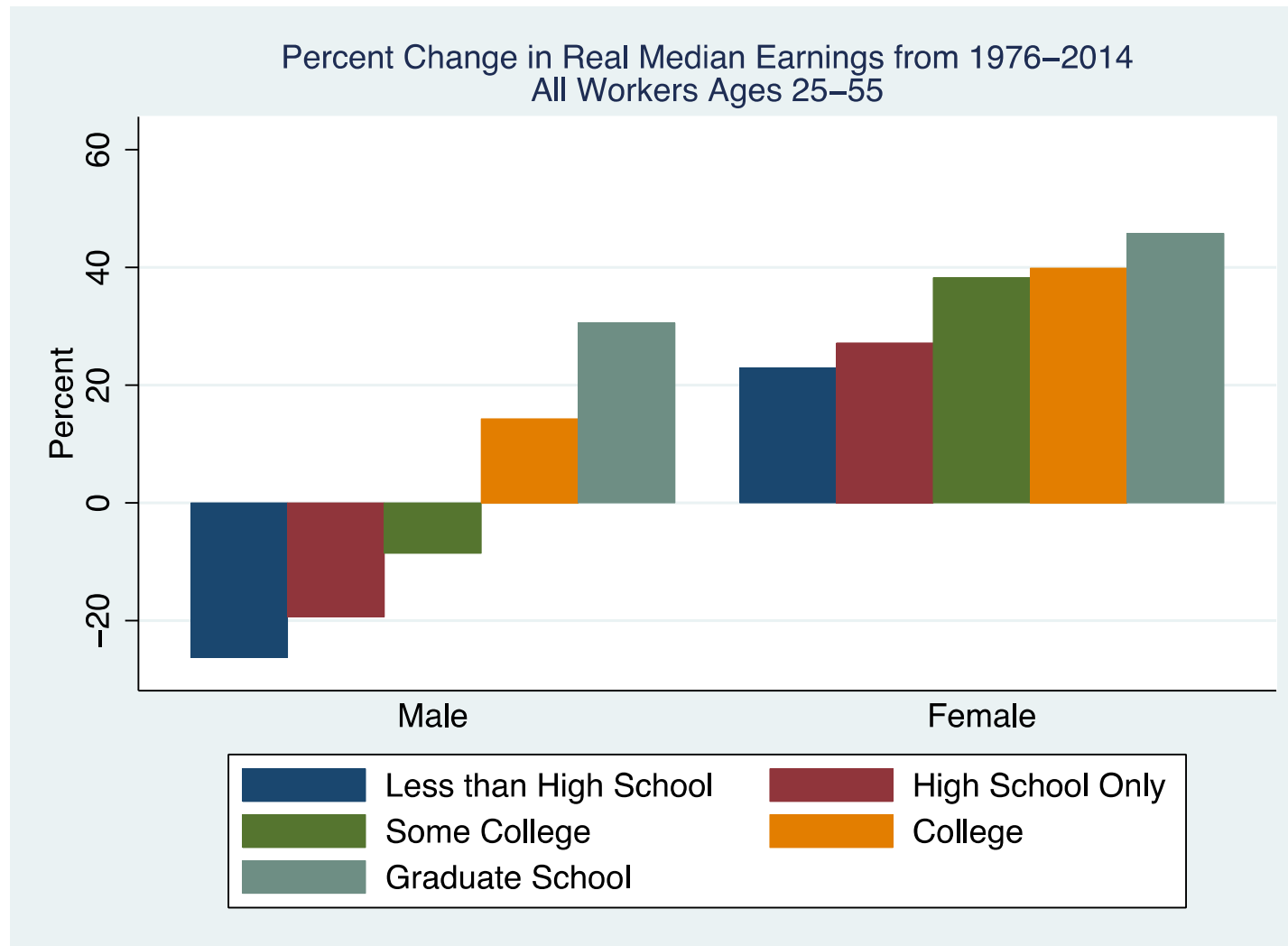
- Key new insights on the role of business income in top incomes
  - Key for taxing to incomes
  - Switching organisational form
  - Could still be protecting rents – role for competition policy?
- Innovation, level and quality, are sensitive to taxes
  - Key to understanding how we should think of taxing top incomes – how much innovation returns in top incomes?
  - Attenuating impact of agglomeration – role for agglomeration policies to complement tax policy?
- Should we incorporate 'loss' insurance (and subsidy for inputs) in the taxation of entrepreneurs?
  - key asymmetric information/lemons problems
  - relate/update to some of the Mirrlees Review recommendations.

.... Its depressing at the bottom of the wage distribution



Source: Males workers . Acemoglu and Autor (2011), Notes: Composition adjusted, CPS.

## Percent Change in Median Real Earnings for Men and Women from 1979-2014, for US by Education

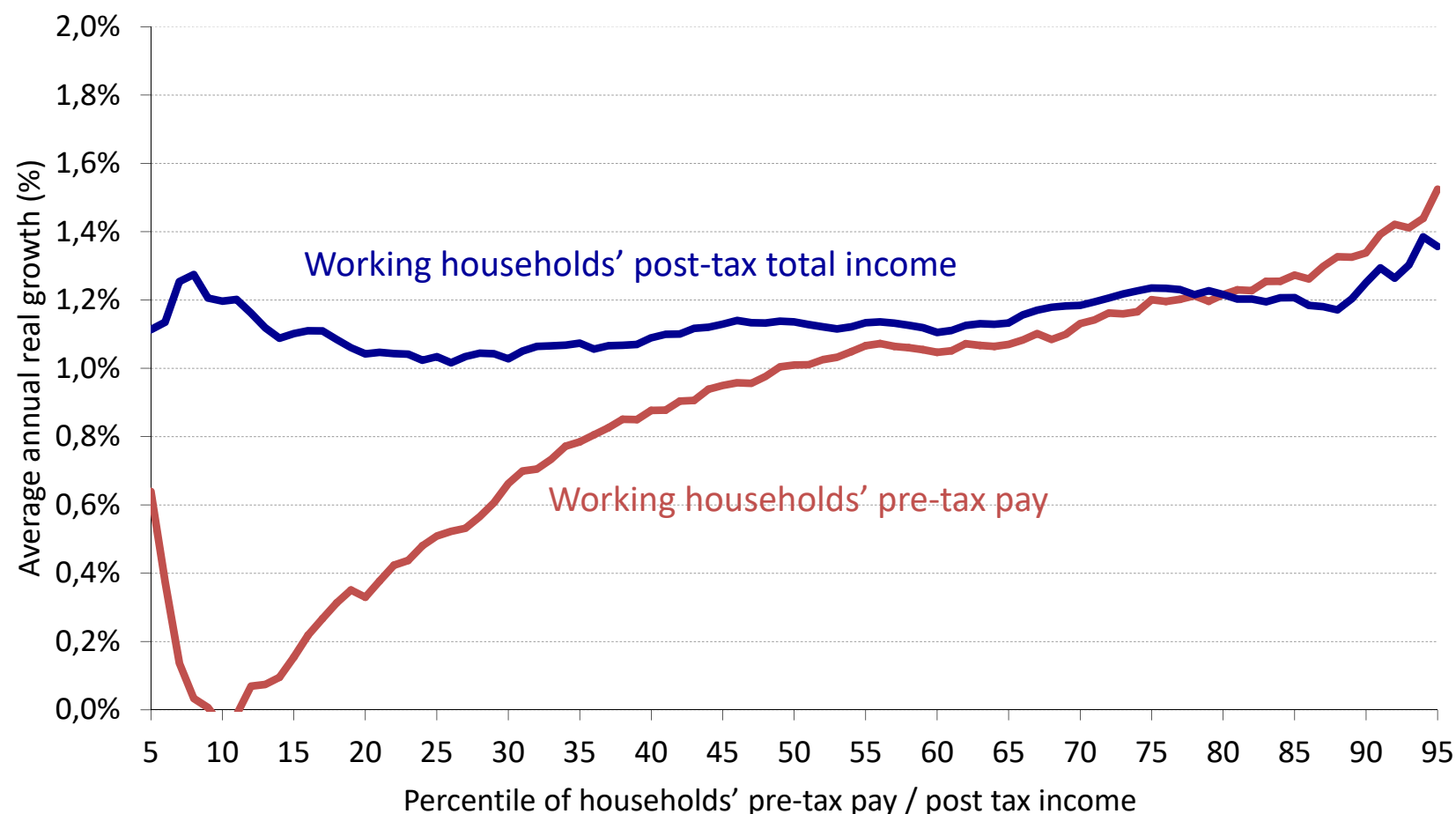


Source: Blundell, Joyce, Norris-Keiller and Ziliak (2018)



There has been a key role for benefits and tax-credits:

*Household income growth for working households 1994/5 to 2015/6*



Notes: Includes self employment income and self employed households. Family Resources Survey. All income measures are equivalised.  
Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

## How far can/should redistribution go to compensate low wages?

- A depressing finding - little wage progression for low educated
  - employment is not enough for long run self-sufficiency. Moreover, female employment has not overcome family earnings inequality.
- Earned income tax credits may encourage employment of low wage workers, off-setting means-testing at the extensive margin
  - but are not enough to generate wage progression. Also potential incidence and equilibrium effects?
- Role for minimum wage?
  - Not well-targeted for low family earnings, *complement* to tax credits?
- Non-poaching agreements are extensive in the low-wage US.
  - Policy toward anti-competitive practises to complement welfare policy?
- What skills among low educated are valued by good firms?
  - Skills that complement innovation? Reliability and other non-cognitive abilities.

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- Taxing bad behaviour and key externalities.

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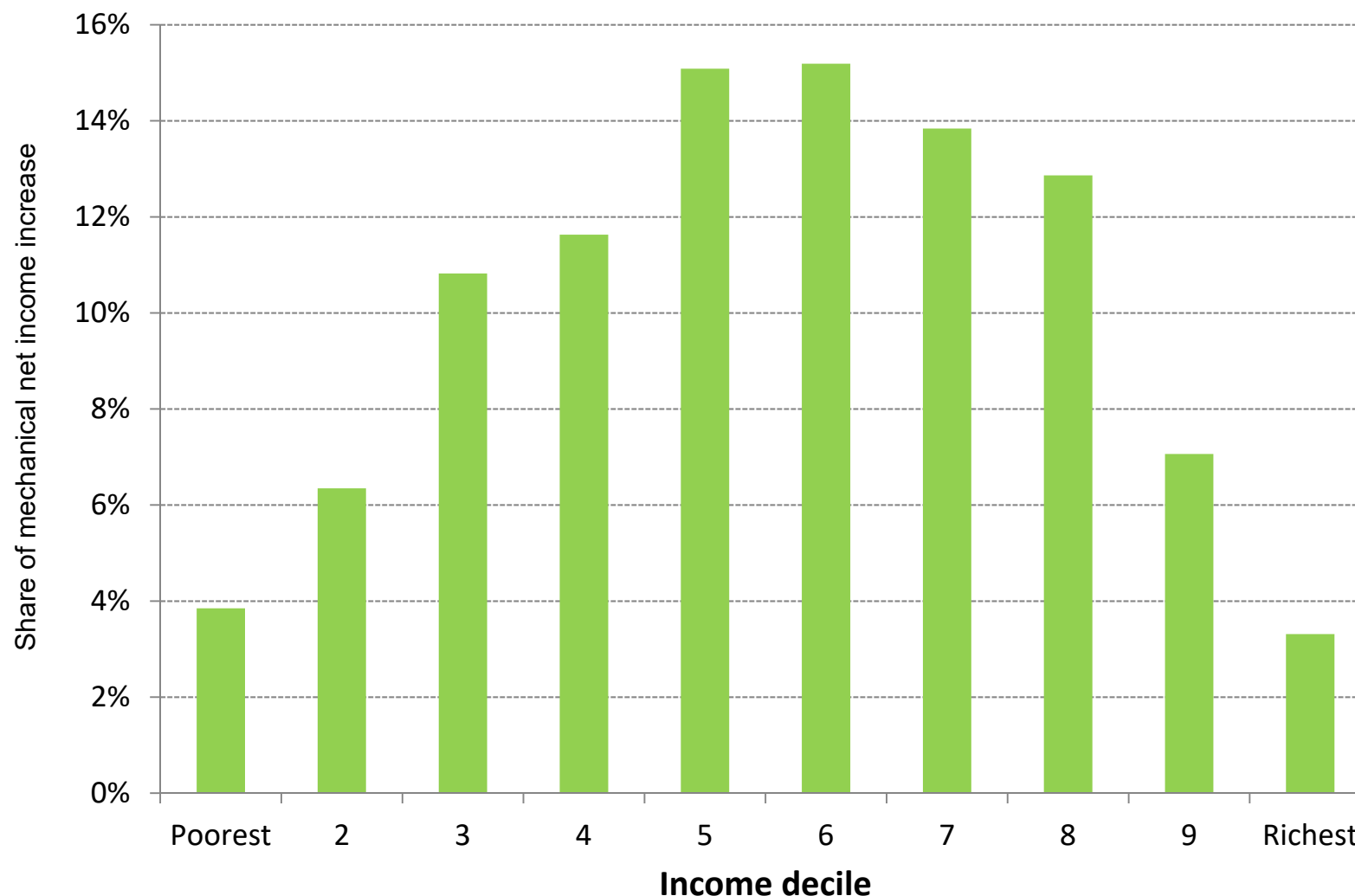
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## Rises in minimum wage between now and 2020: share of uplift to net household income going to each decile



Notes: Income is measured as total net equivalised household income (bhc). Calculations use the IFS tax and benefit model, TAXBEN, run on the 2015–16 Family Resources Survey and the 2015–16 LFS.

Source: Cribb, Joyce and Norris Keiller (2017)

# Inequality and Low Wages: What can be Done?

In sum:

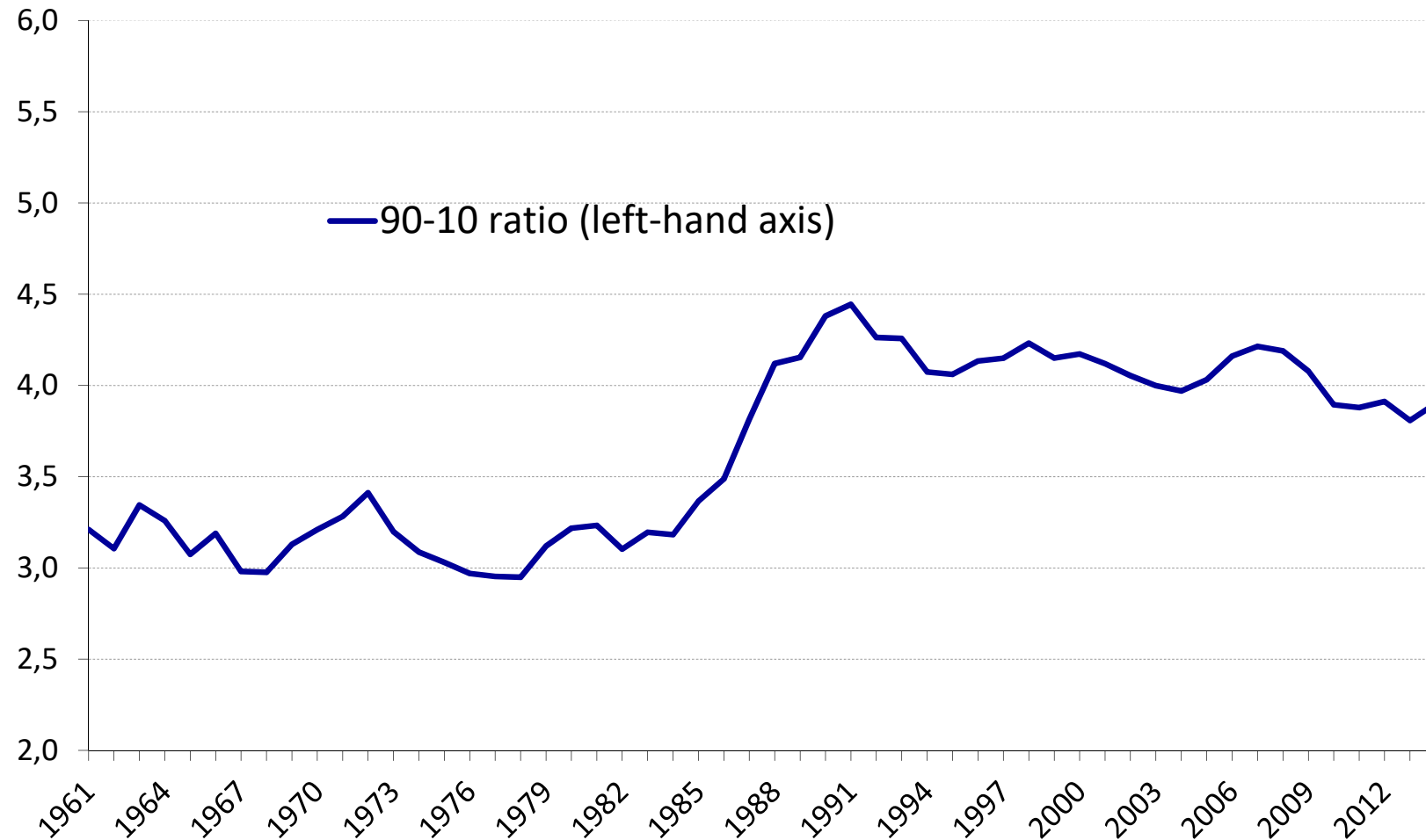
- General lack of wage growth, underpinned by lack of productivity growth, is a major underlying problem
  - Over a number of years trends in household earnings have been even weaker at bottom end, work is no longer enough to escape poverty
  - Changes in hours of work key to this – need to understand them better
- We have spent lots on cash transfers, and are now aggressively raising minimum wages, to prop up the bottom end – but both can only go so far
  - Must also focus on underlying drivers of low pay
  - Low wages are often about a lack of progression
- Policy design should factor this in
  - What effects will conditionality for in-work claimants in UC have?
  - What are the attributes of workers in low skilled occupations, and what type of training is it, that ‘good’ firms value?

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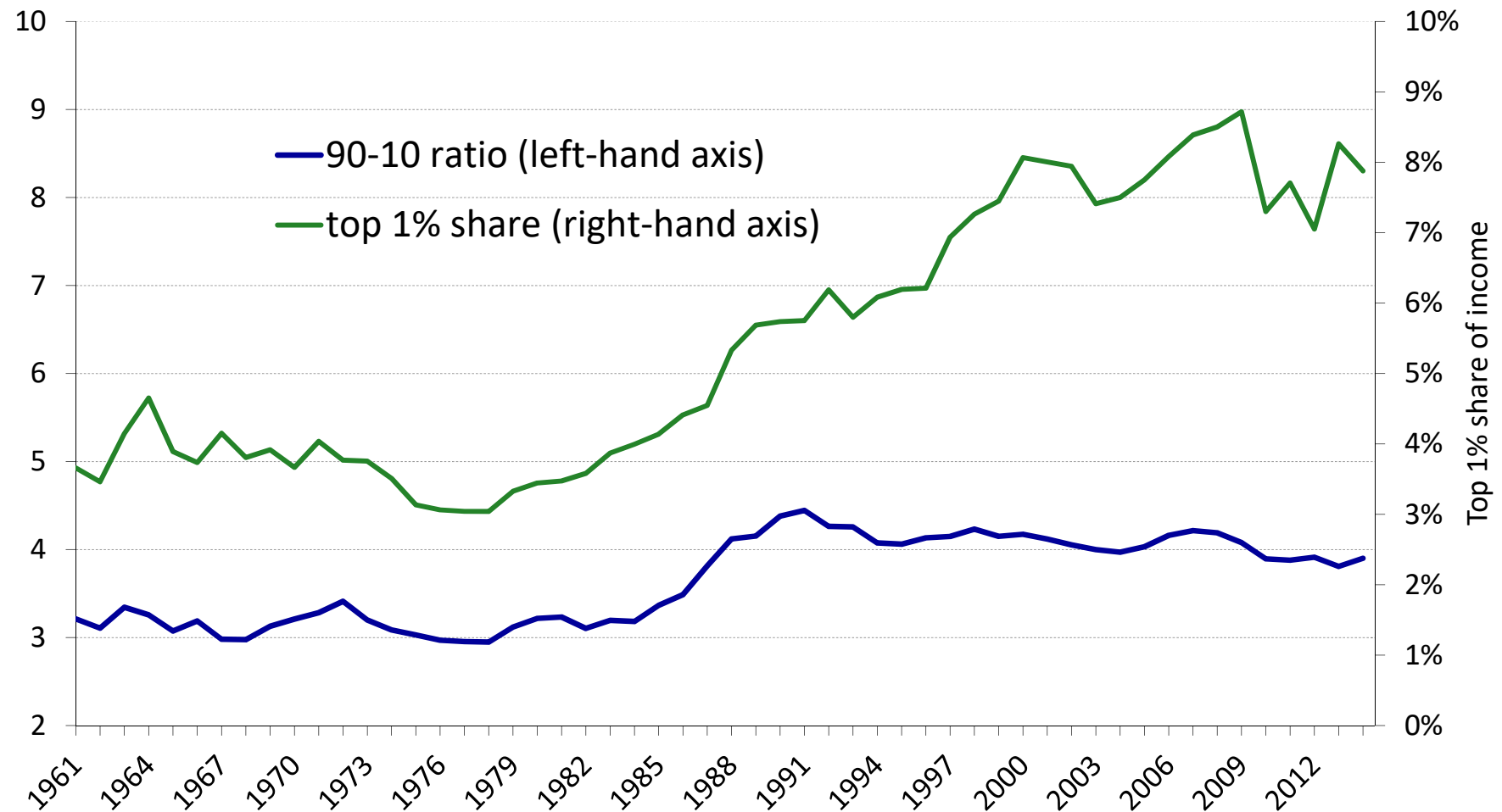
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## Trends in the 90:10 ratio for family income in UK



Source: Blundell, Joyce, Norris-Keiller and Ziliak (2018)

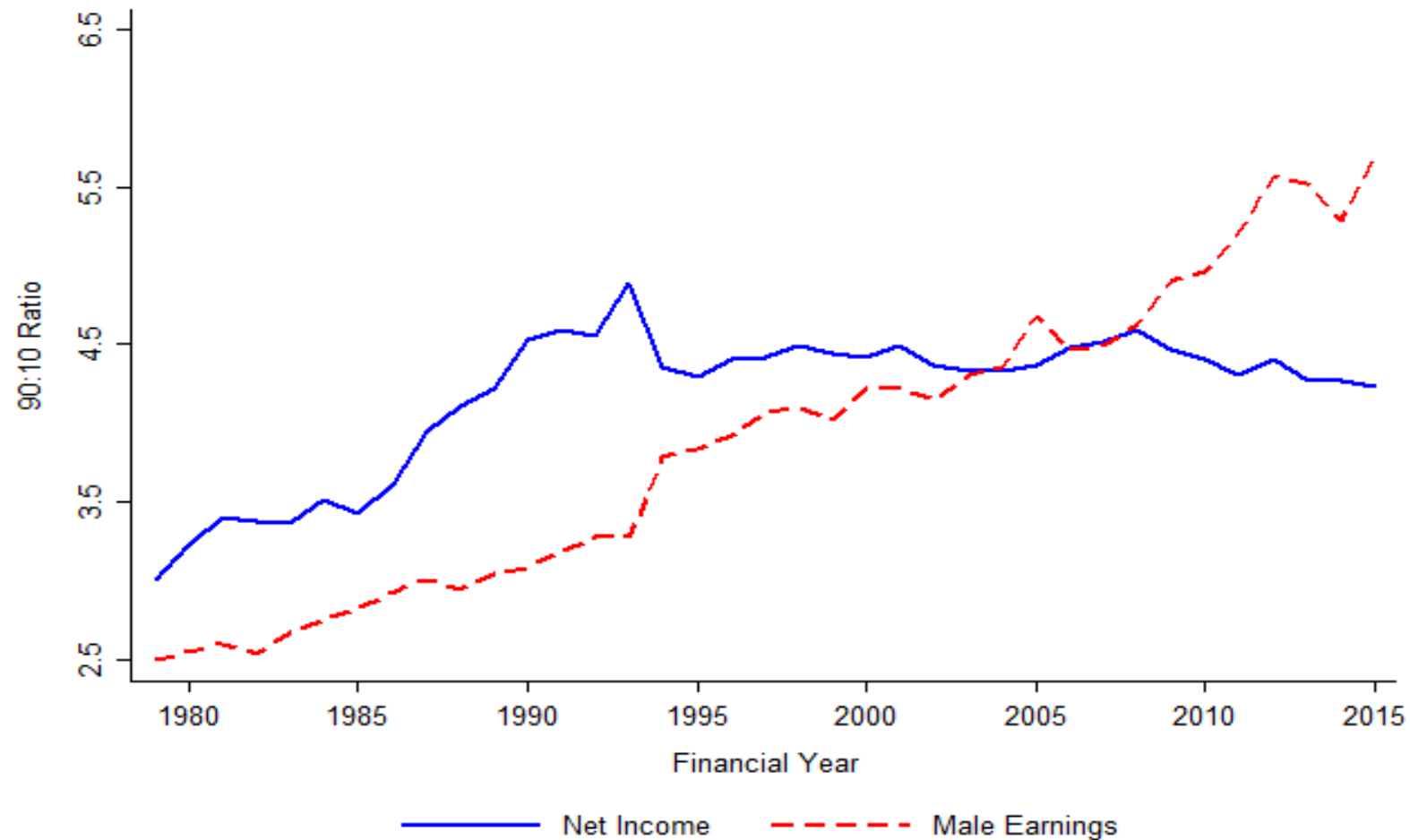
## Trends in the 90:10 ratio for family income in UK and the top 1% share



Source: Blundell, Joyce, Norris-Keiller and Ziliak (2018)



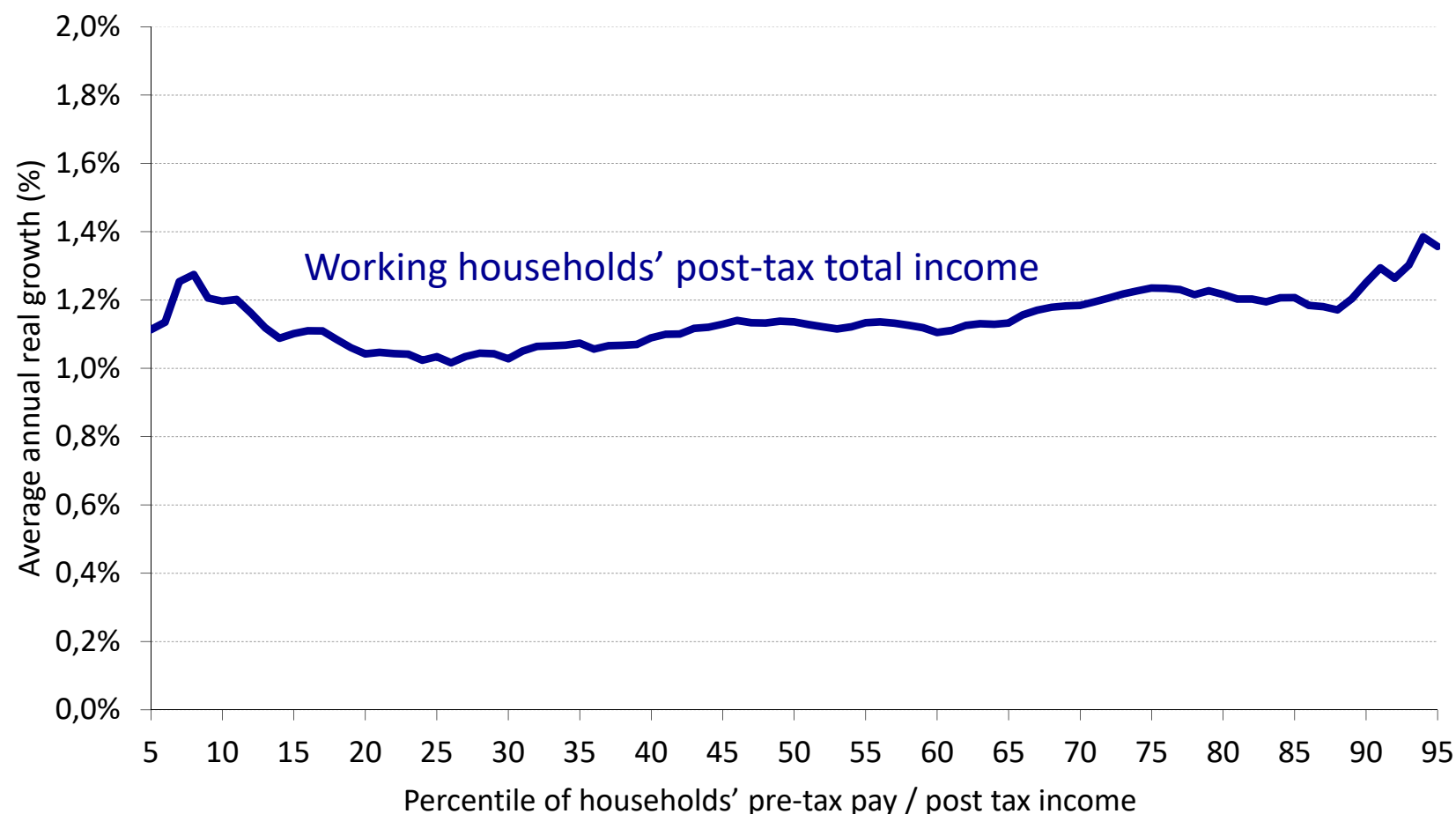
## Trends in the 90:10 ratio for income and for male earnings



Notes: Includes self employment income and self employed households. Family Resources Survey. All income measures are equivalised.  
Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

There has been a key role for benefits and tax-credits:

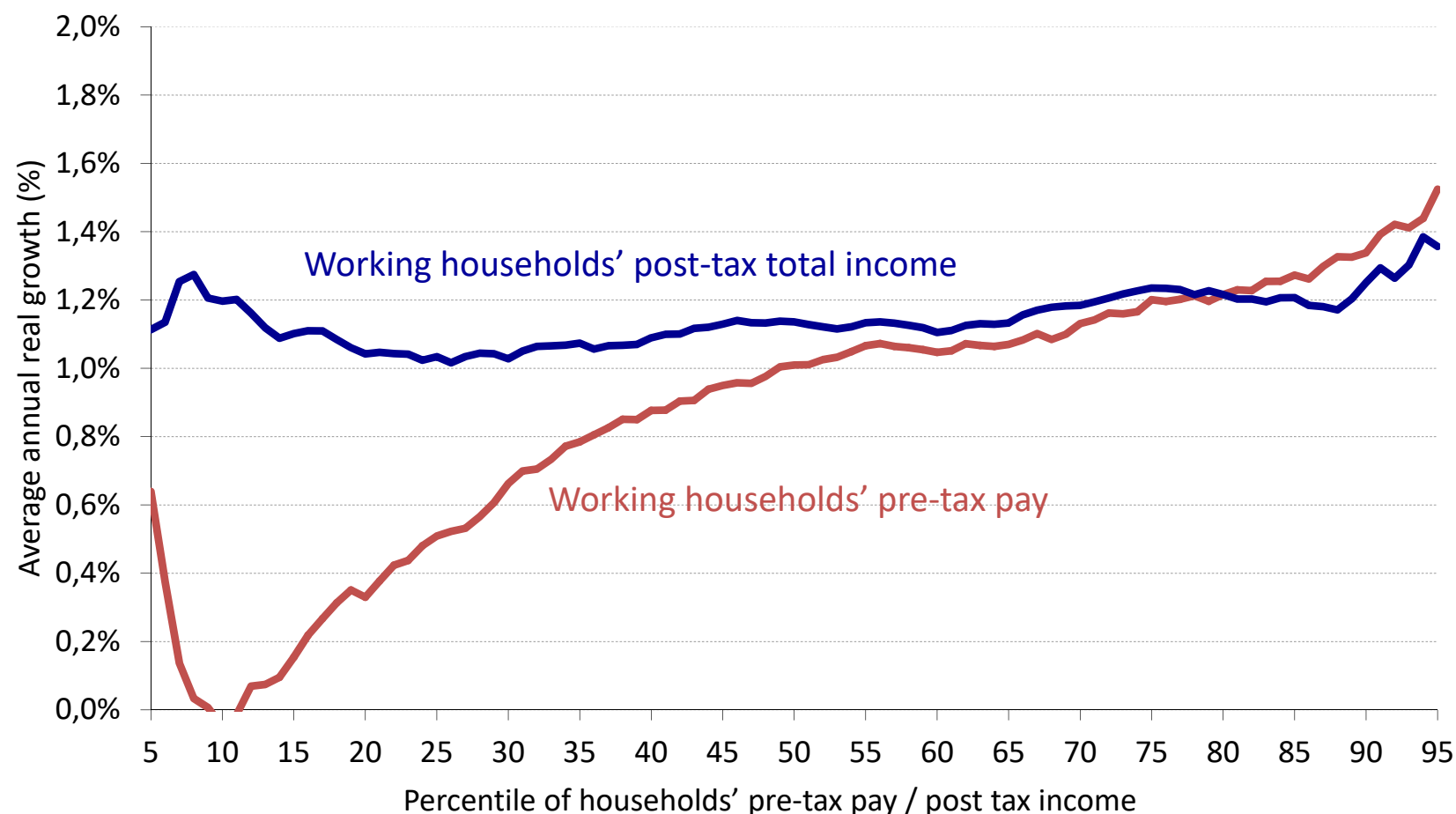
*Household income growth for working households 1994/5 to 2015/6*



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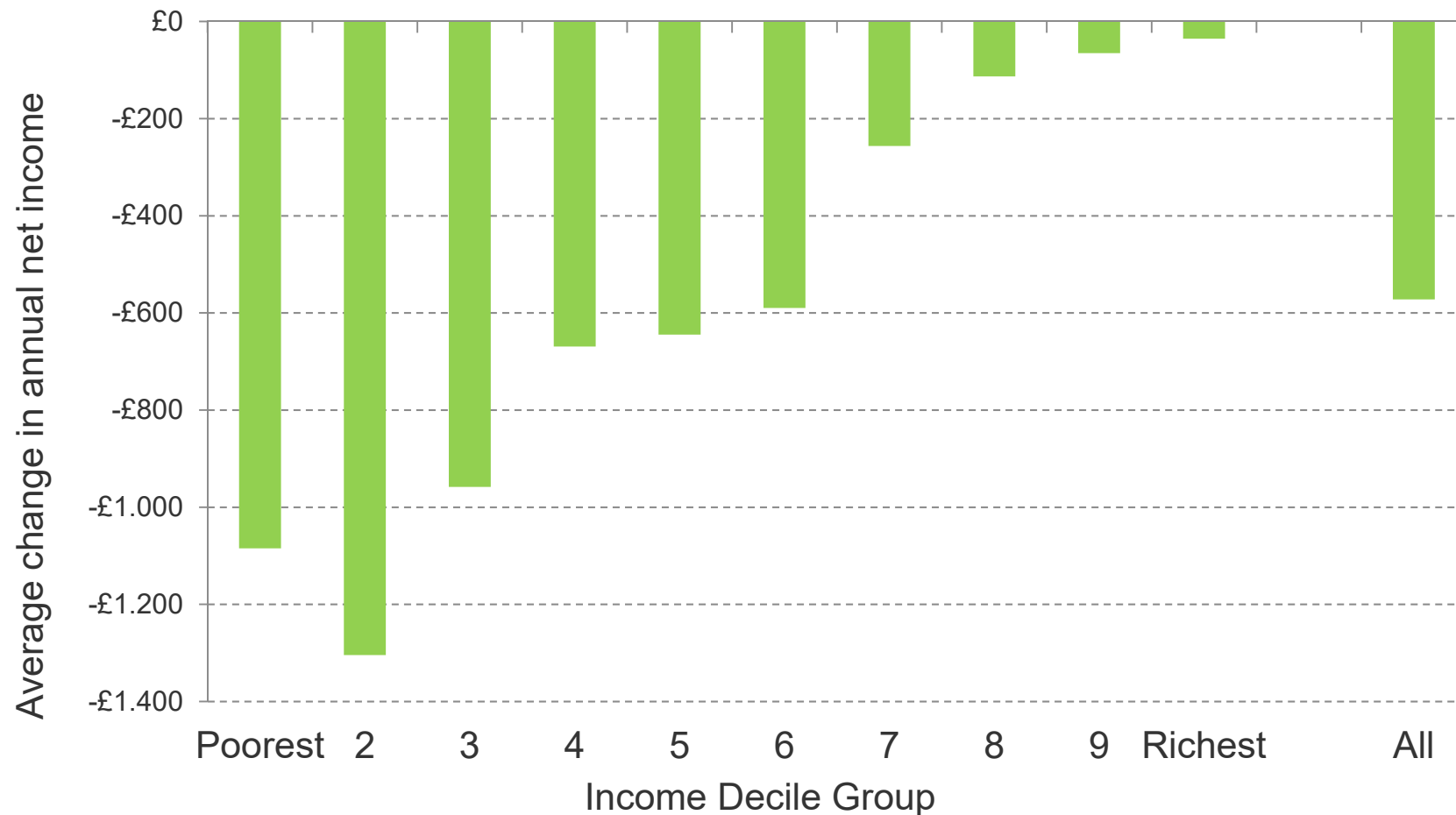
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## Long run distributional impact of planned personal tax and benefit measures in the UK (come back to this)

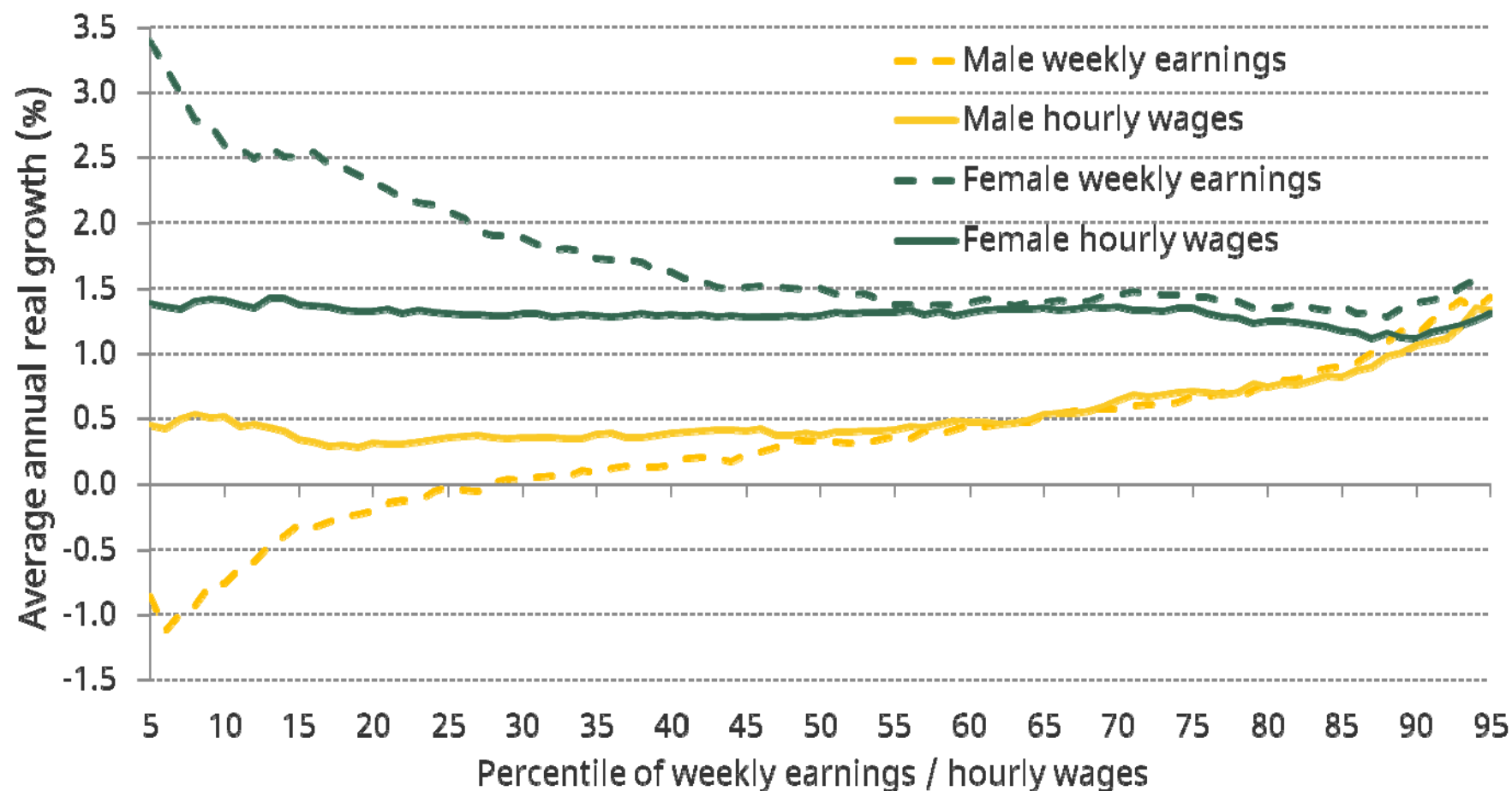


Notes: Income is measured as total net equivalised household income. Calculations use the IFS tax and benefit model.

Source: Tax and Benefit Policies, IFS (2017)

# Individual earnings and the role of hours of work

Weekly earnings and hourly wage growth, men and women, 1994–95 to 2015–16

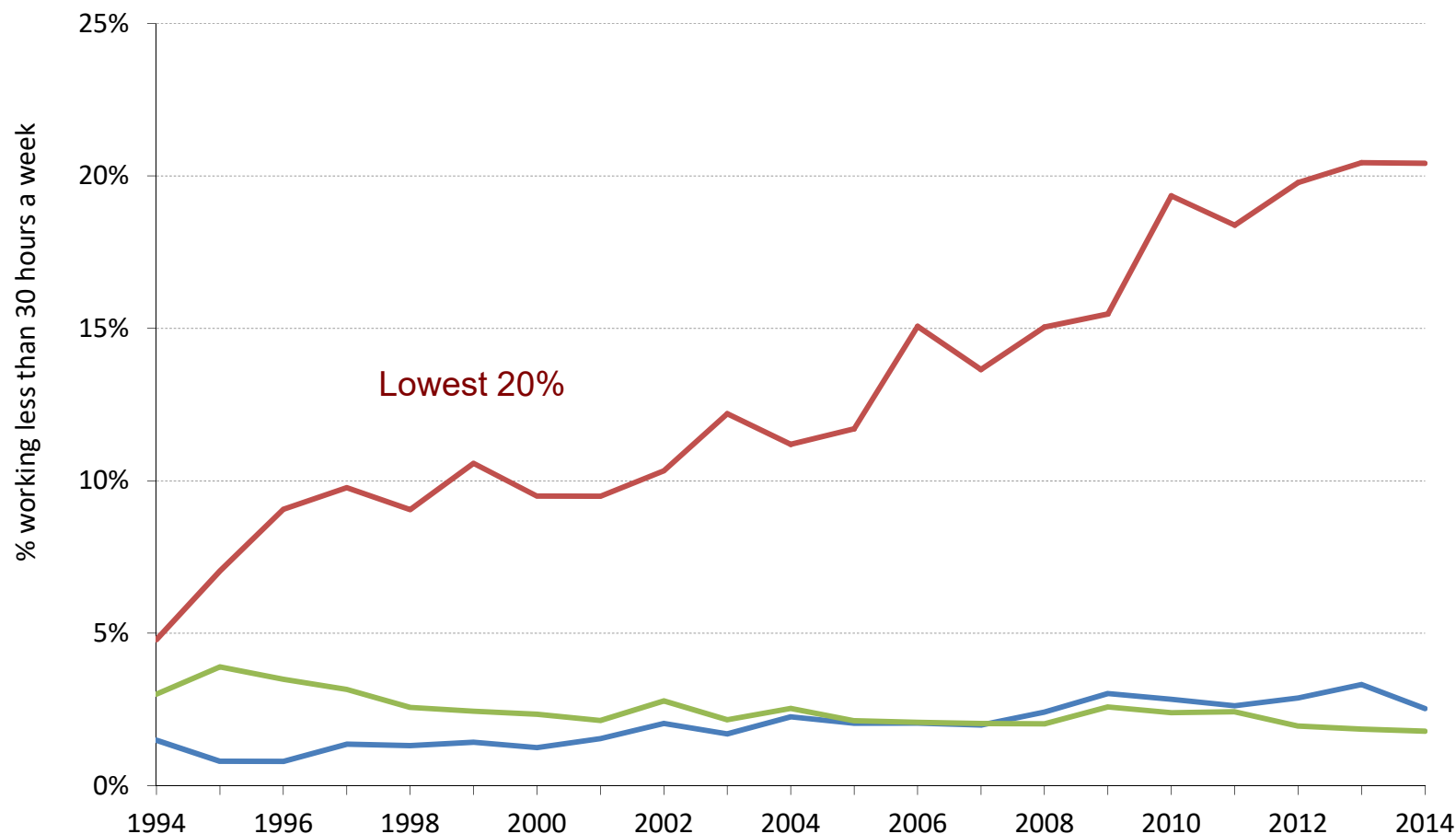


Note: assortative partnering implies this has not improved between family inequality

Source: Blundell, Joyce, Norris Keiller and Ziliak (2018)

# Low hours for low skilled men:

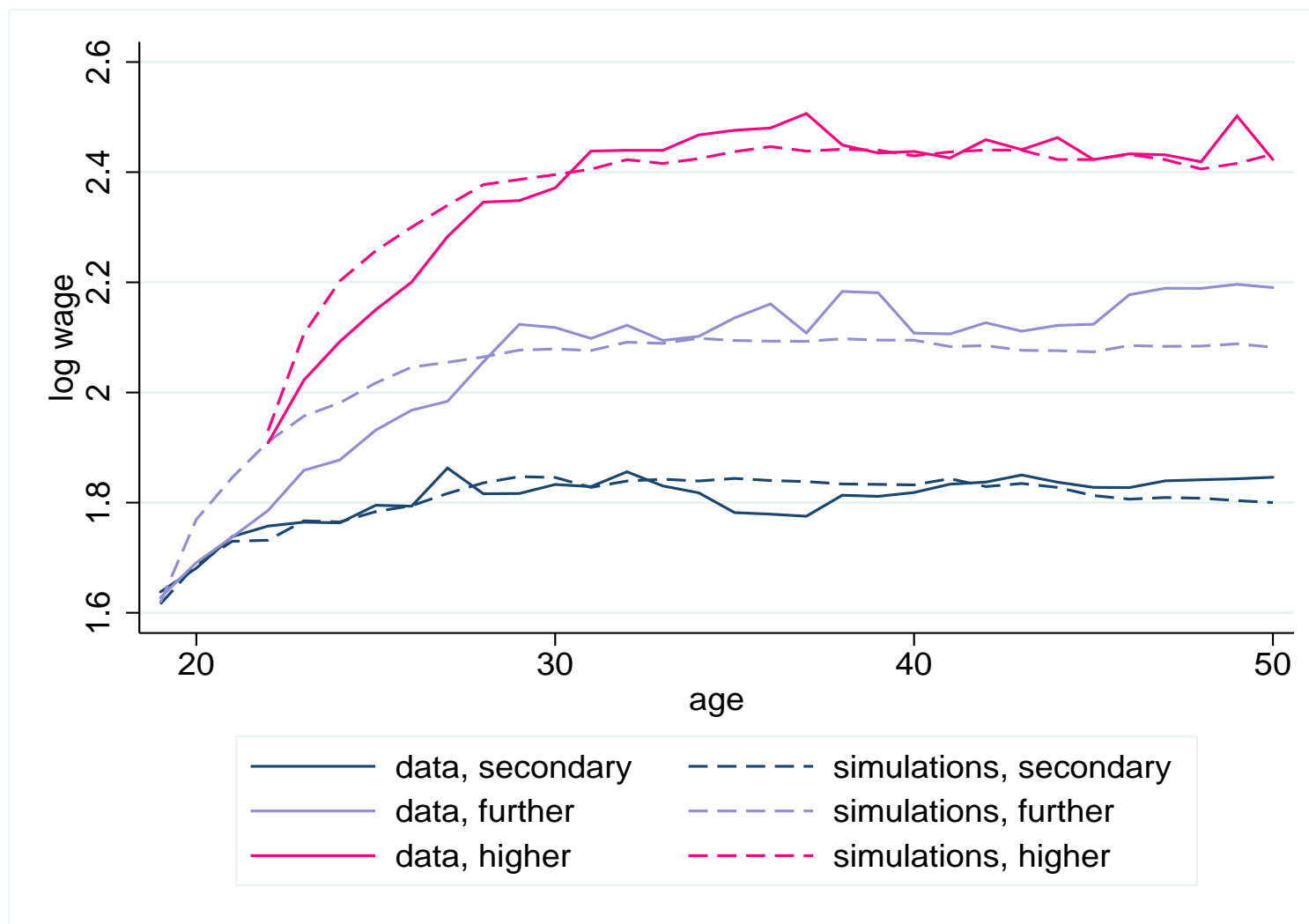
Proportion of men working less than 30 hours in the UK by hourly wage quintile – aged 25-55



Notes: LFS: Men aged 25-55.

Source: IFS calculations using Labour Force Survey

## Returns to experience are strongly *complementary* with education



Source: Blundell, Dias, Meghir and Shaw (2016), Notes: UK Women BHPS

## Progression also key to understanding wage differences between men and women...



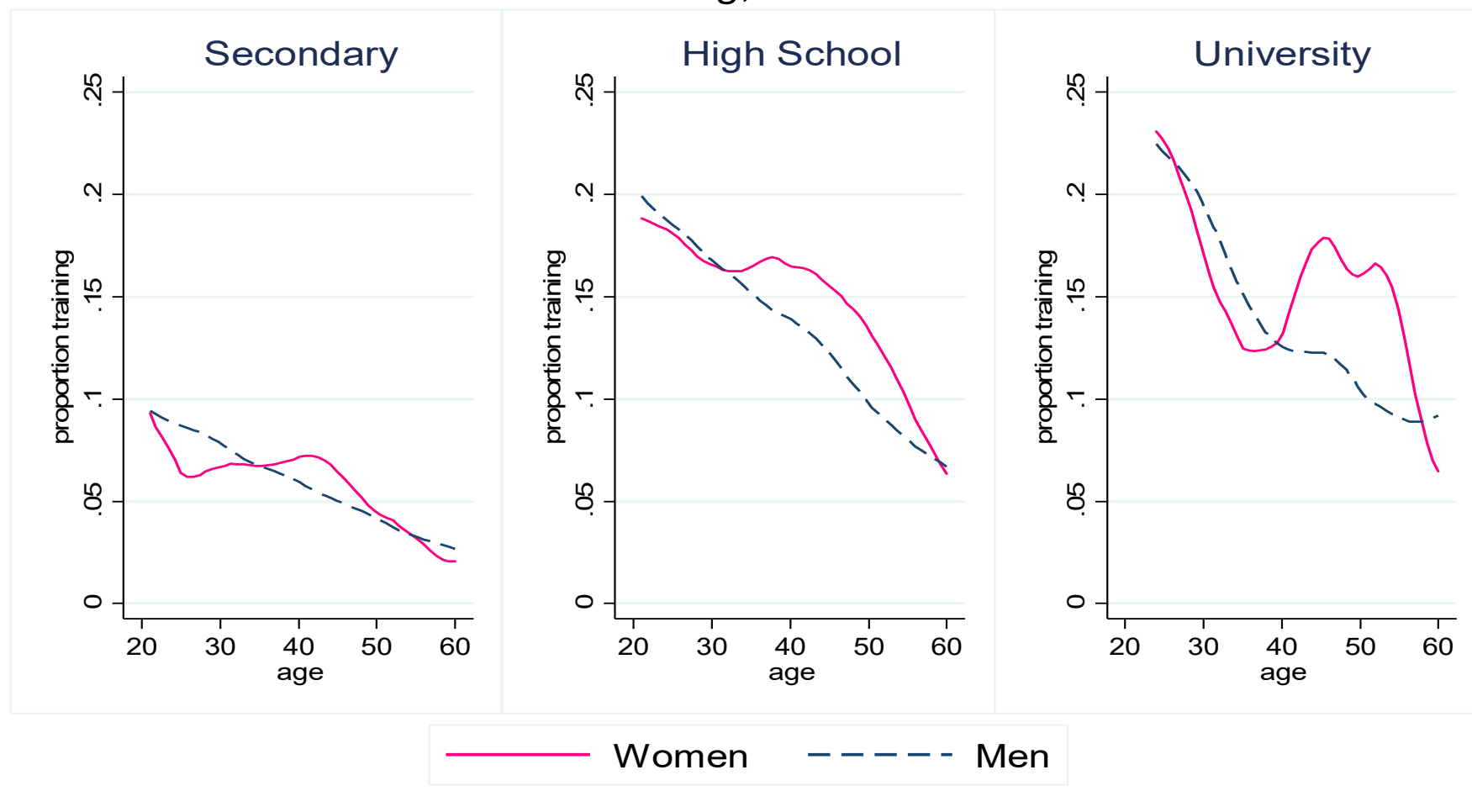
Notes: Wages are shown in 2016 constant-wage terms (population-wide wage growth over time is effectively stripped out). People in the bottom two and top one percentiles of the gender- and year- specific hourly wage distributions are excluded.

Source: Figure 4 of Costa Dias, Joyce and Parodi (2018): [www.ifs.org.uk/publications/10358](http://www.ifs.org.uk/publications/10358). Data used is IFS 1993Q1-2017Q2.



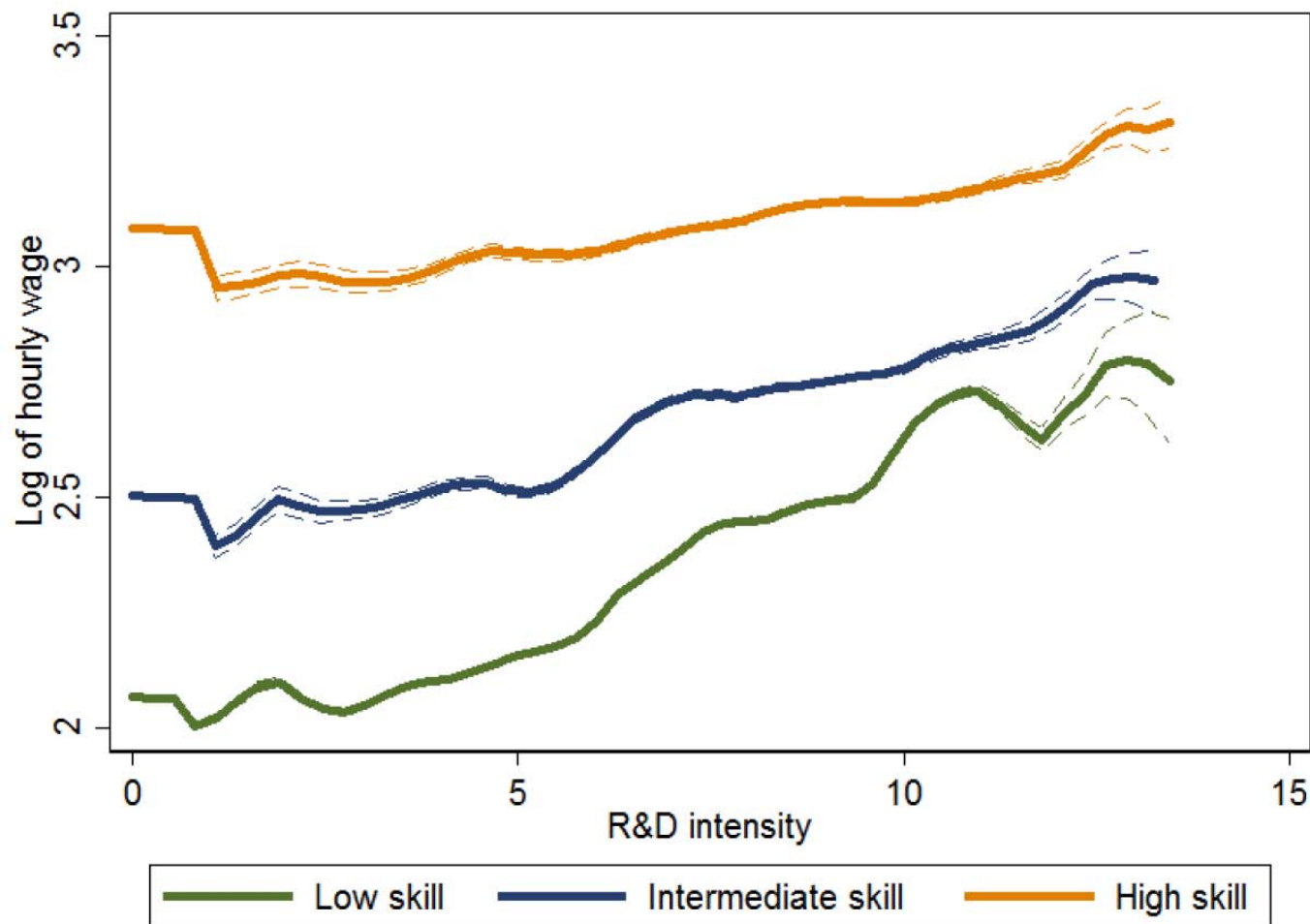
## Training is also strongly complementary with education

### Prevalence of training over past year All training, 50+ hours



Source: Blundell, Dias, Meghir and Webb (2018), Notes: UK BHPS

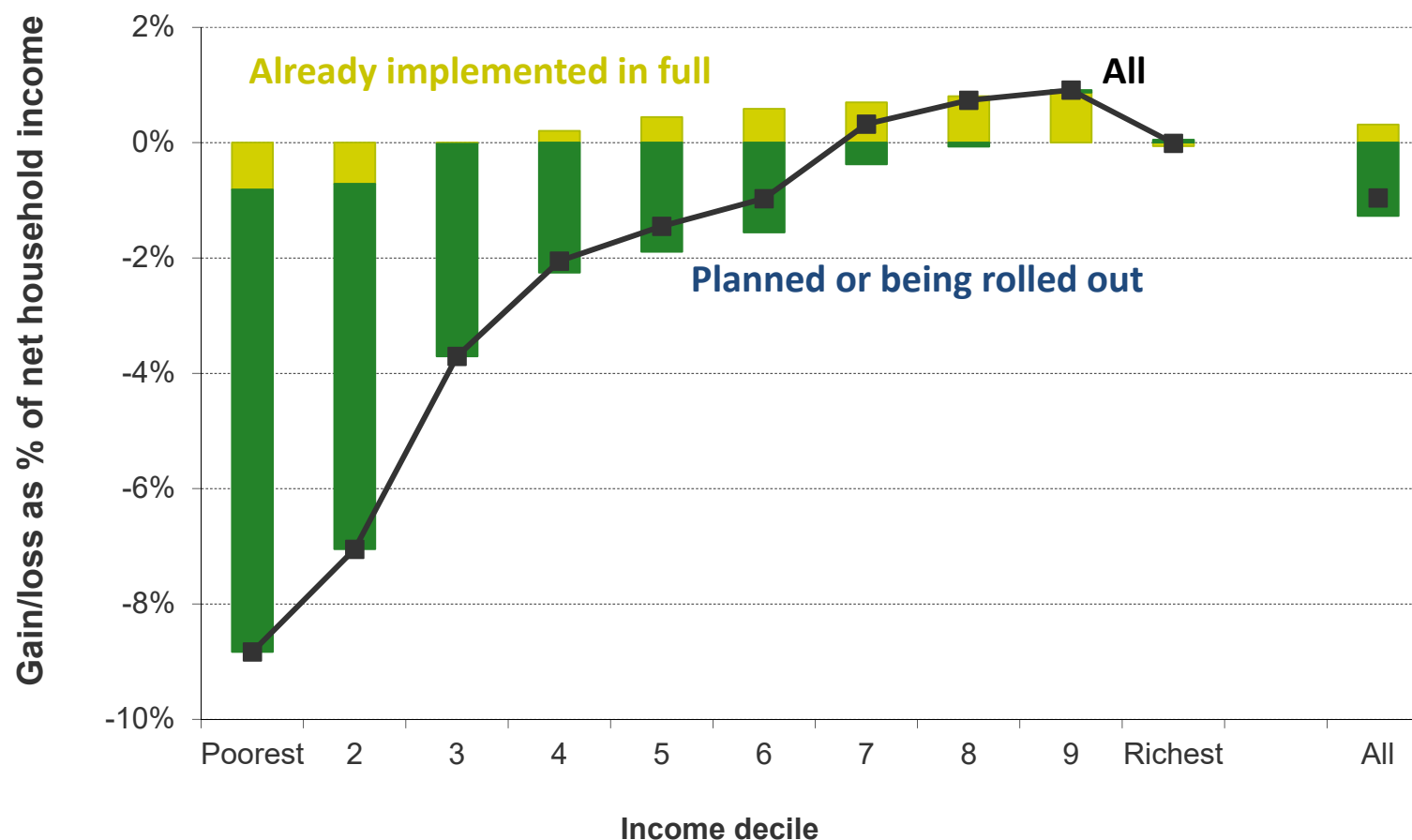
## 'Good' firms and R&D intensity: log hourly wage by skill group



Not all selection, some abilities of low educated are complementary with technology, they get training and the jobs are not outsourced....

Source: Aghion, Bergeaud, Blundell and Griffith (2018)

# Long run distributional impact of personal tax/benefit reforms since 2015

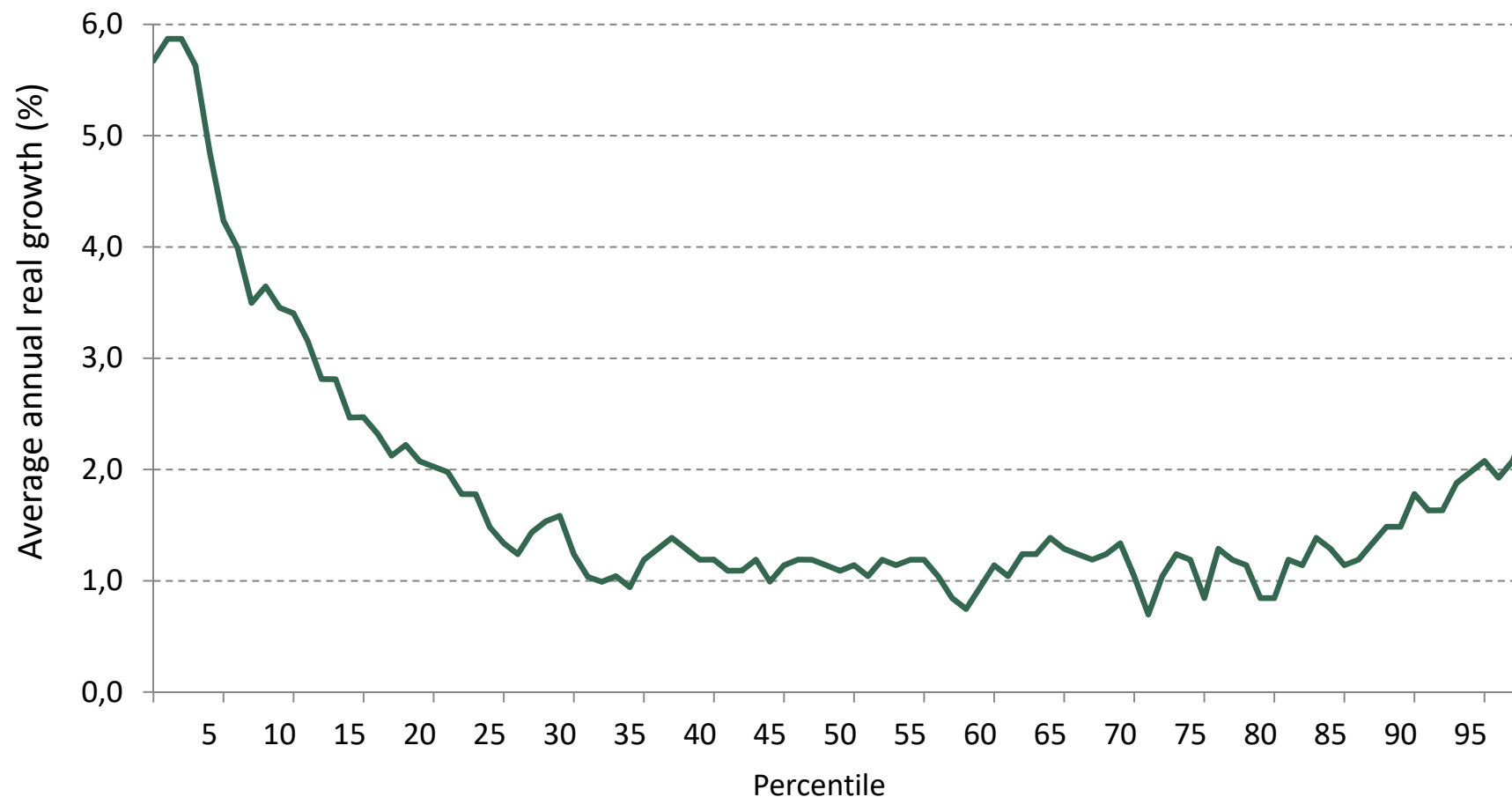


Note: Assumes full take-up of means-tested benefits and tax-credits. Policies partially rolled are Universal Credit, the 2-child limits, the replacement of DLA with PIP and the abolition of the WRAG premium in ESA.

Source: Authors' calculations using the IFS micro-simulation model run on uprated data from the 2015–16 FRS and 2014 LCFS.

## Min wage is having clear effects on hourly wages at bottom end

Real growth in hourly wages by percentile, April 2015-April 2017

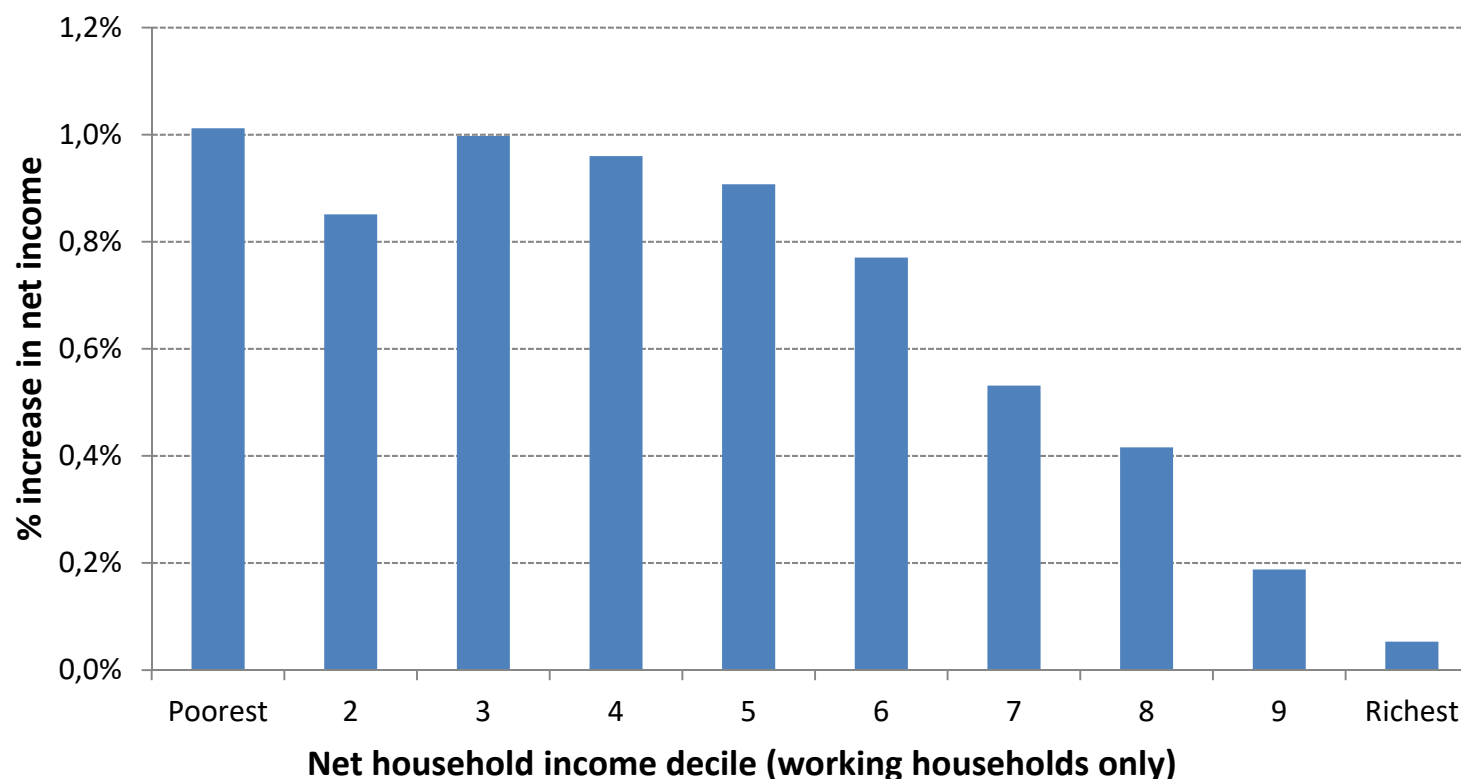


Source: Calculations using Figure 2.11 of Low Pay Commission 2017 Report

(<https://www.gov.uk/government/publications/national-minimum-wage-low-pay-commission-report-2017>), deflating figures using CPI. Underlying data used is ASHE.

# Higher minimum wage targets the lowest-wage people, not the lowest-earning households

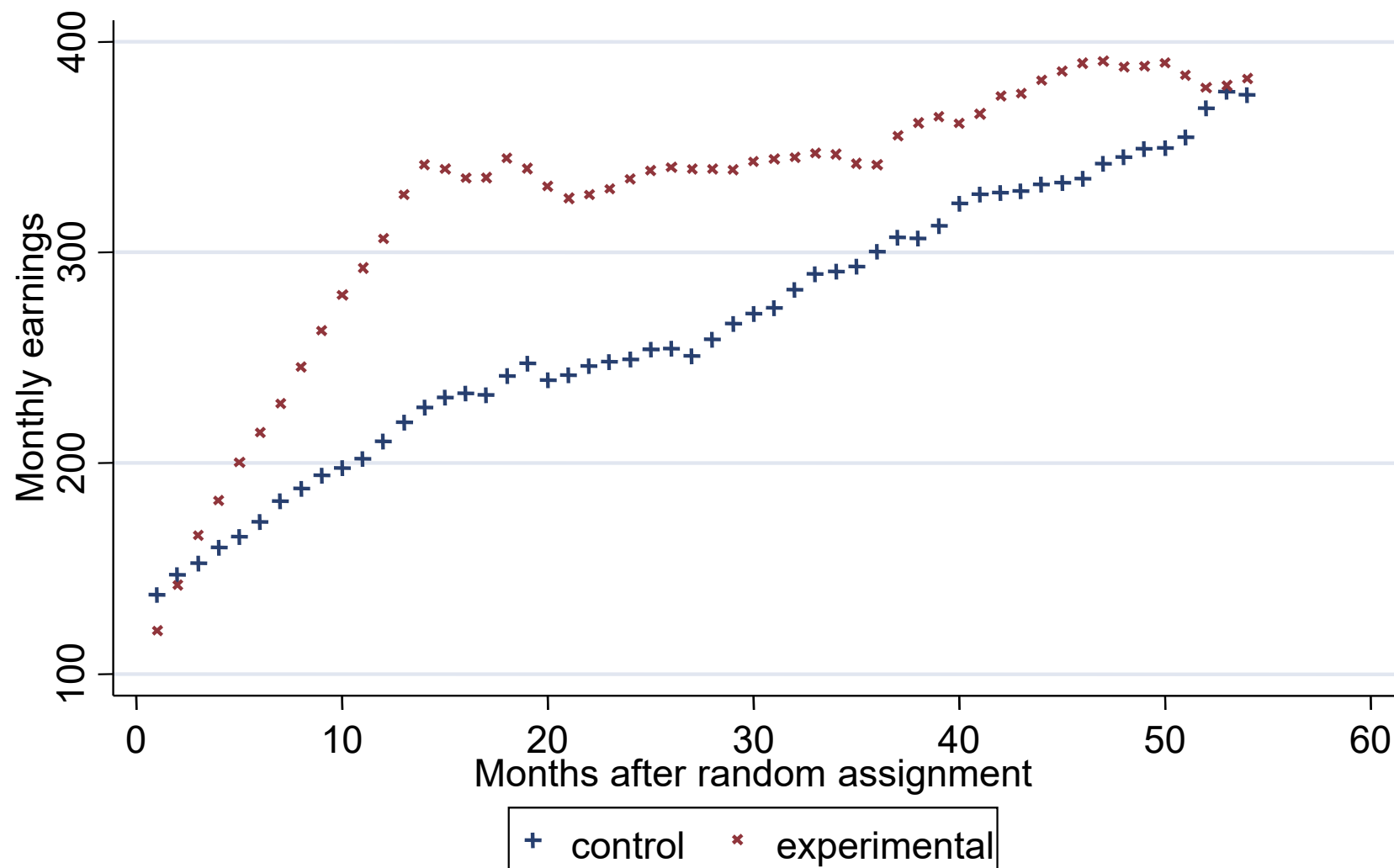
**The increase in the NLW between now and 2020: which *working households* get the extra money?**



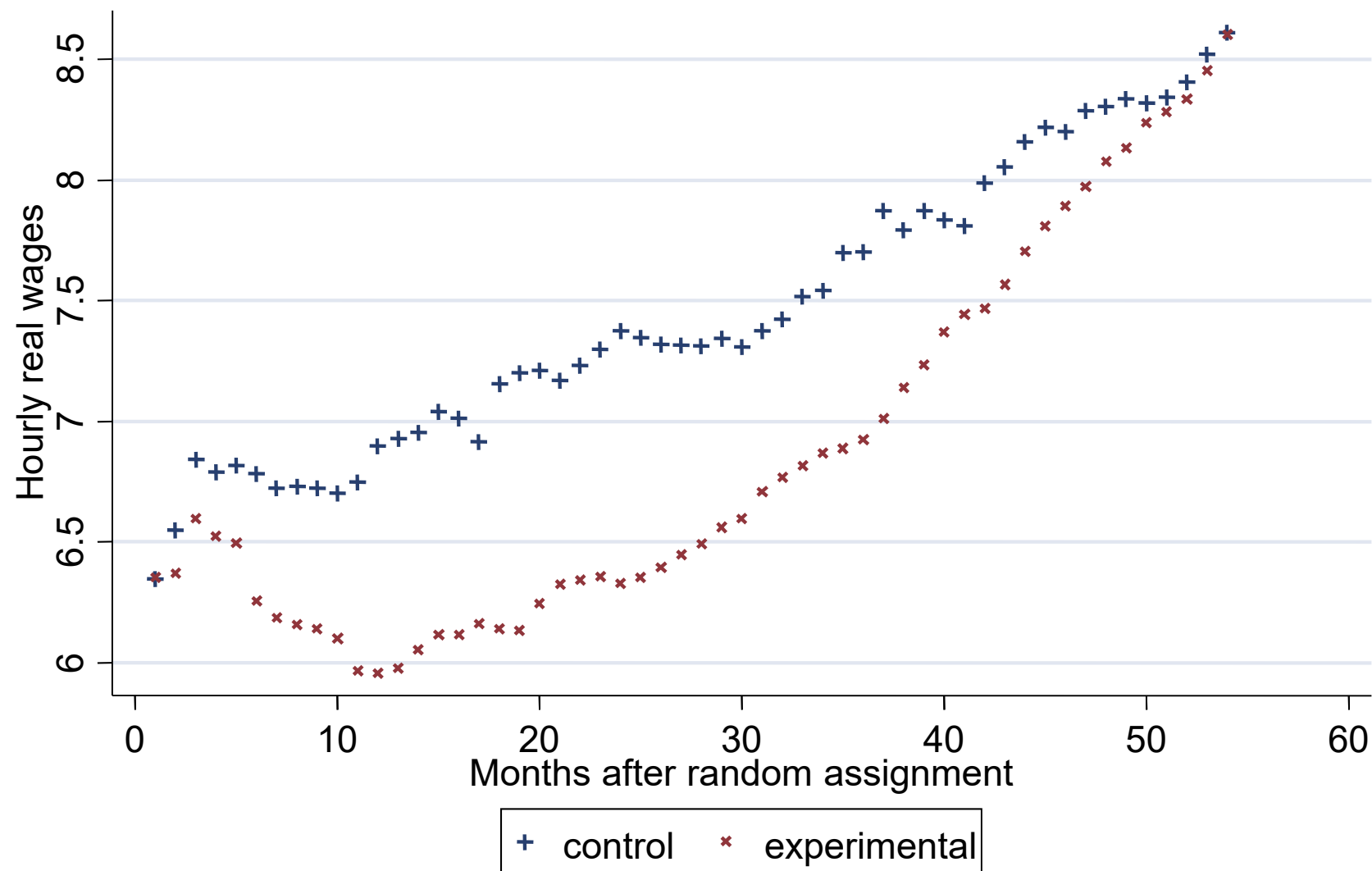
Note: Shows mechanical increase in net income arising from minimum wage rises planned between now and 2020. Ignores all knock-on effects of higher minimum wages, such as impacts on company profits, the wages of other workers, employment and hours worked. Does account for interaction with tax payments and benefit entitlements.

Source: Calculations using data underlying Figure 9 of Cribb, Joyce and Norris Keiller (2017): [www.ifs.org.uk/publications/9205](http://www.ifs.org.uk/publications/9205)

# SSP: Monthly earnings by months after RA



# SSP: Hourly wages by months after RA



# Are these hours rules salient?

## Single Women (aged 18-45): Bunching at Tax Kinks

