

# Follow the money

*Exploring the link between  
UK growth and workers'  
pay packets*

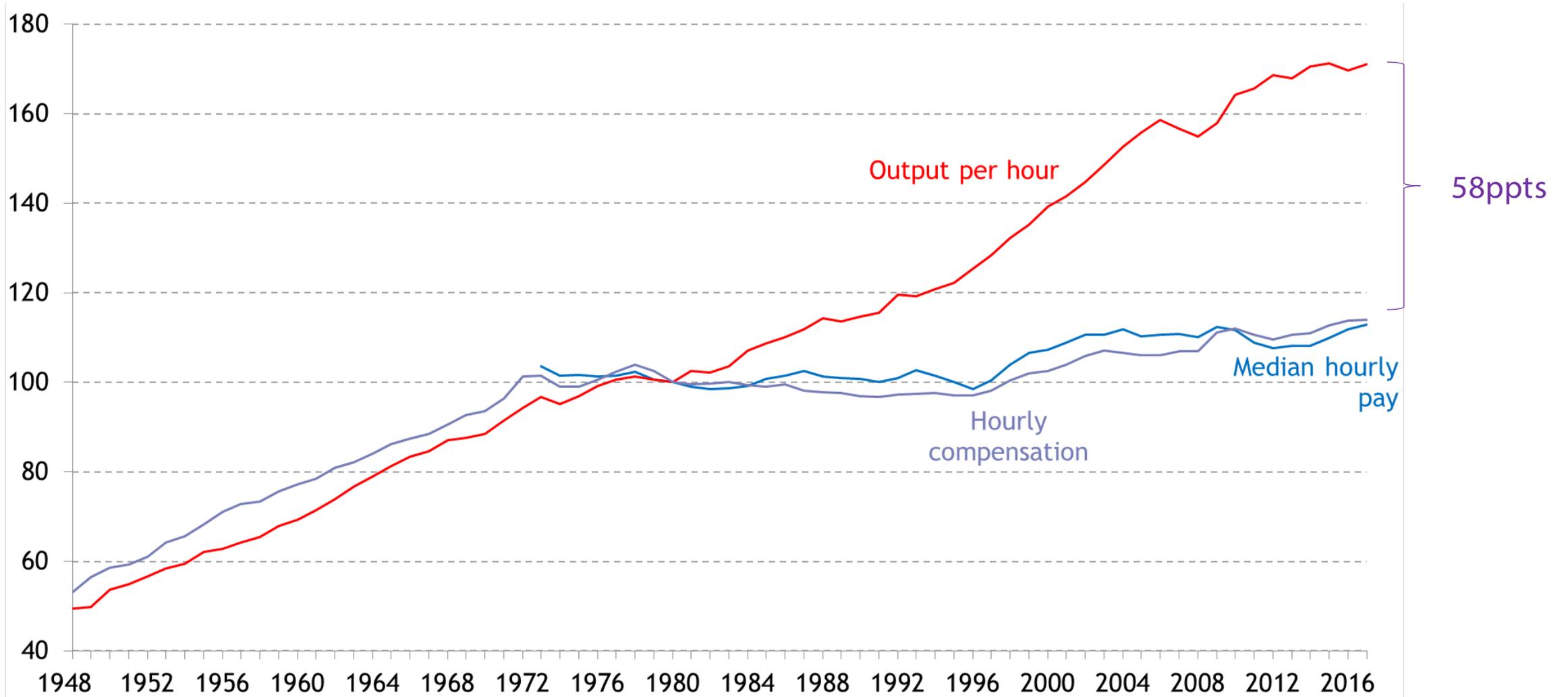
Matt Whittaker

Pro Bono Economics

# Question one: *does the UK experience match the famous US breakdown in the relationship between productivity and pay?*



Indices of real-terms hourly pay, compensation and productivity: 1980=100, US

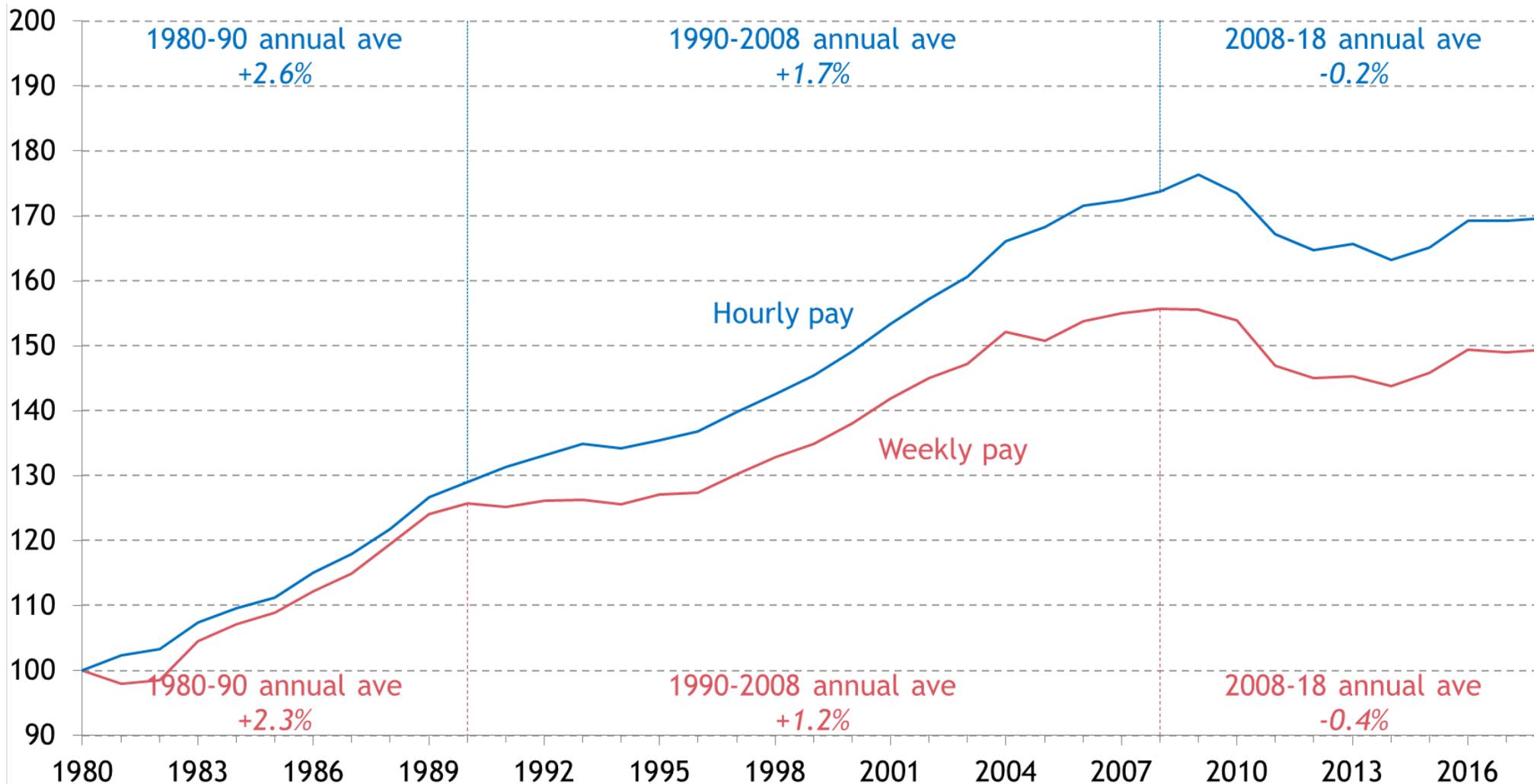


Notes: Wages from the CPS ORG are the hourly wages of a population subsample that includes all wage and salary workers with valid wage and hour data, whether paid weekly or by the hour. Respondents must be 16 and older and employed in the public or private sector. Net productivity of the total economy covers the growth of output of goods and services less depreciation per hour worked. Output is deflated using the GDP deflator, while pay is deflated using the CPU-U-RS deflator (covering the inflation experienced by urban consumers, measured as an average across US cities). Source: The Economic Policy Institute's

# Question two: does 'decoupling' explain the pay slowdown of the last 15 years?



Indices of real-terms median pay among employees: CPIH-adjusted, 1980 = 100, UK



Notes: CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS, Annual Survey of Hours and Earnings Survey, various; ONS, Consumer Prices Index including owner occupiers' housing costs (CPIH) historical series: 1988 to 2004, December 2018



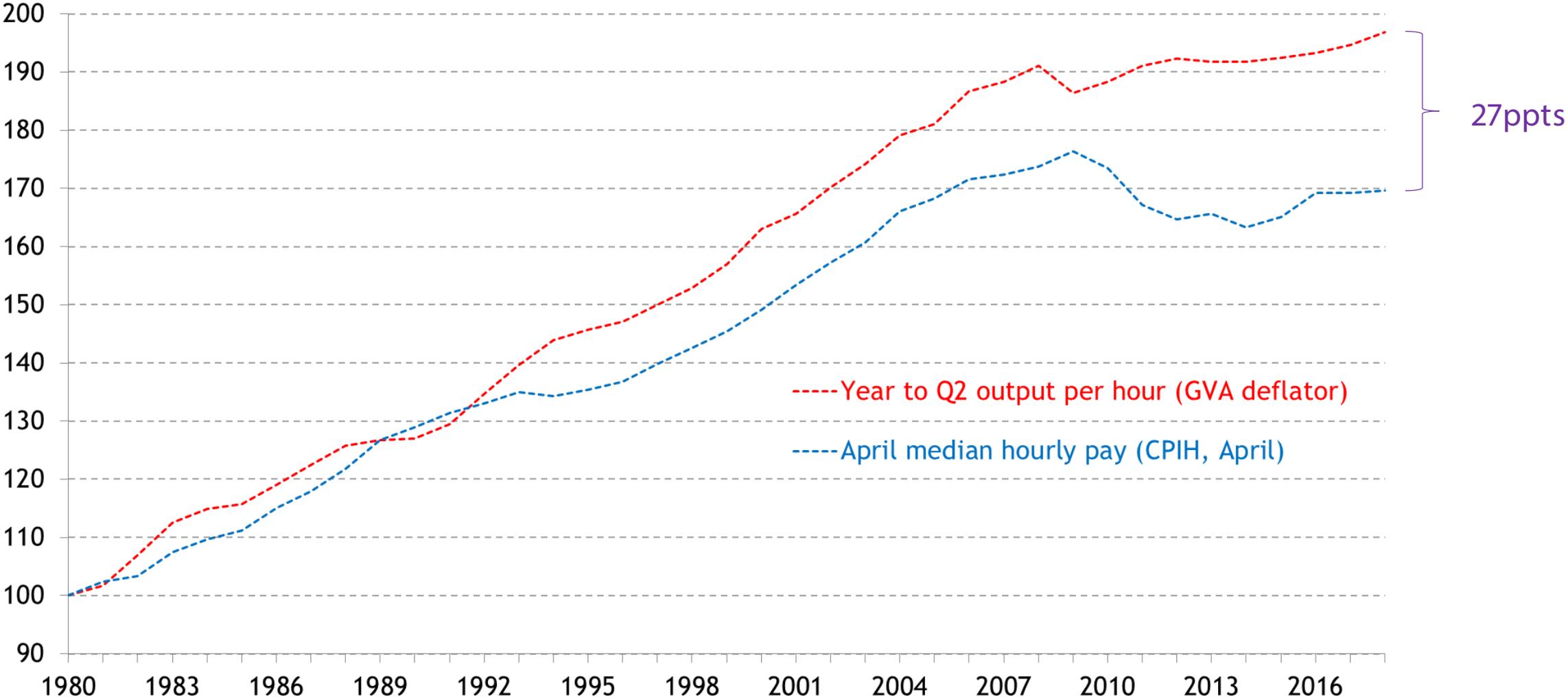
Relationship status: *it's complicated*

Decoupling in the UK context

# The UK *does* appear to have undergone decoupling – but of a smaller scale and with a later start point



Indices of real-terms productivity and pay, 1980=100: UK

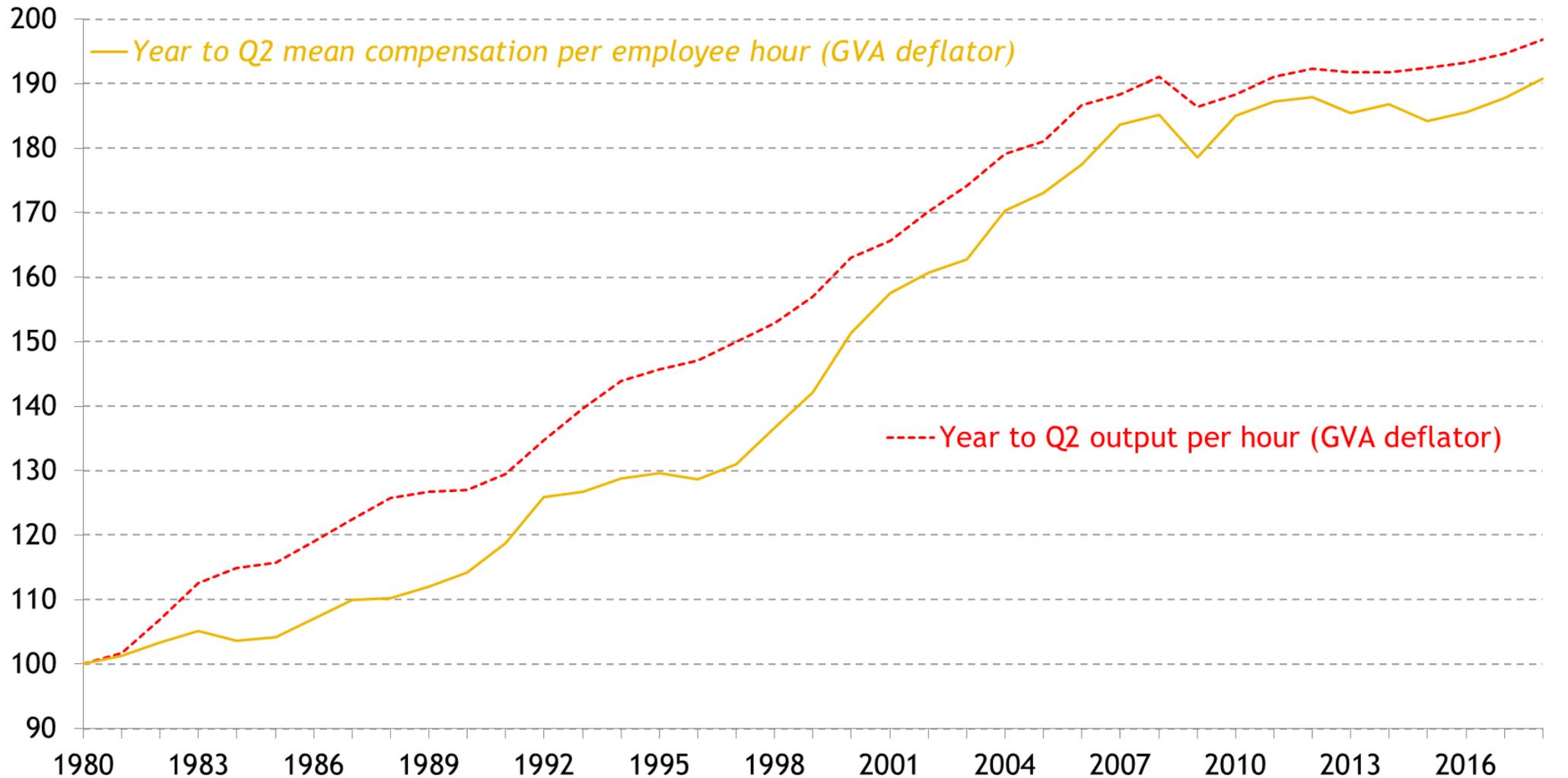


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

# But the truth is more complicated, with different factors at play at different times: *(i) labour share effect*



Indices of real-terms productivity and pay, 1980=100: UK

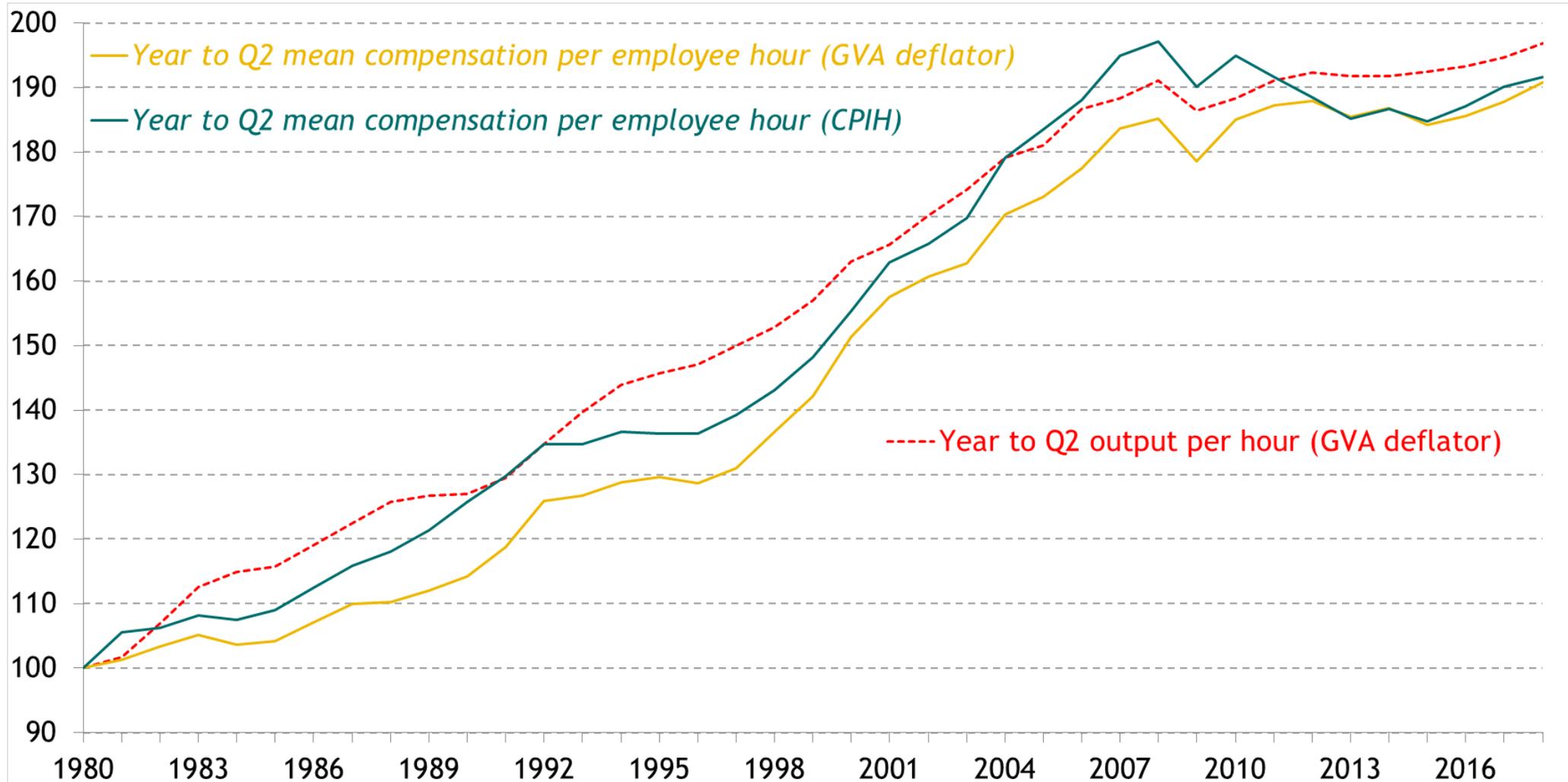


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

# But the truth is more complicated, with different factors at play at different times: *(ii) deflator effect*



Indices of real-terms productivity and pay, 1980=100: UK

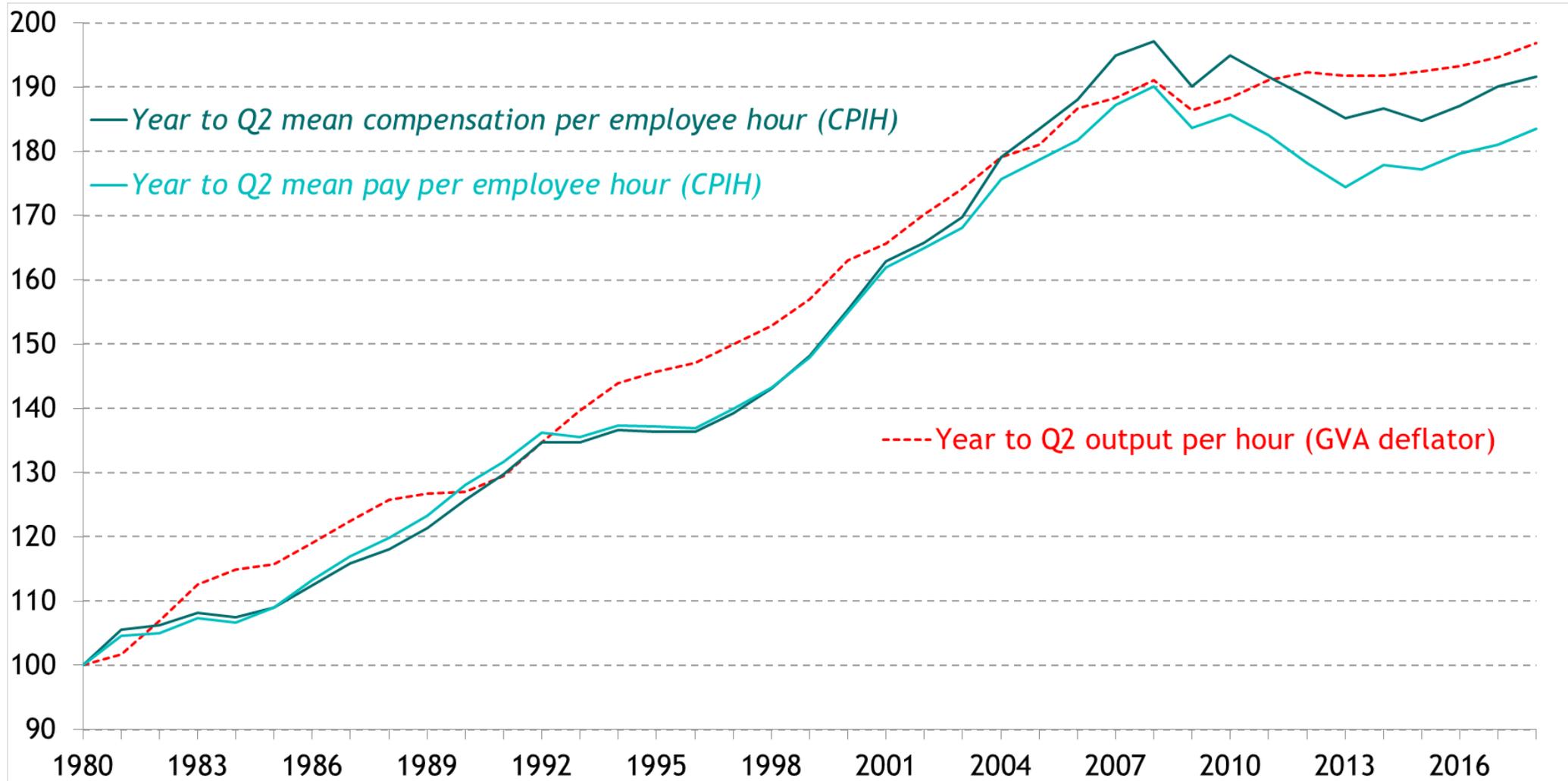


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

# But the truth is more complicated, with different factors at play at different times: *(iii) wage share effect*



Indices of real-terms productivity and pay, 1980=100: UK

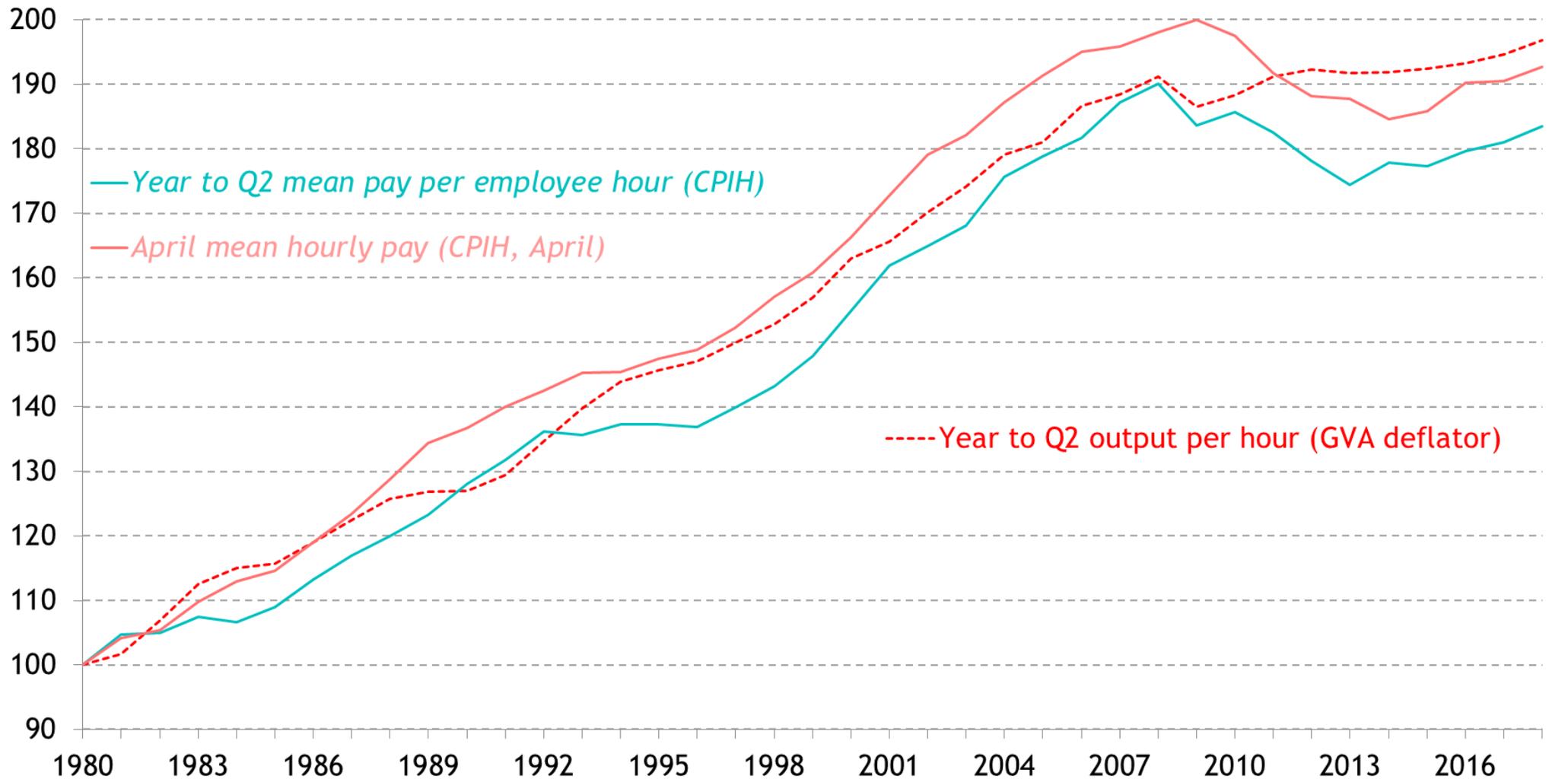


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

# But the truth is more complicated, with different factors at play at different times: *(iv) measurement effect*



Indices of real-terms productivity and pay, 1980=100: UK

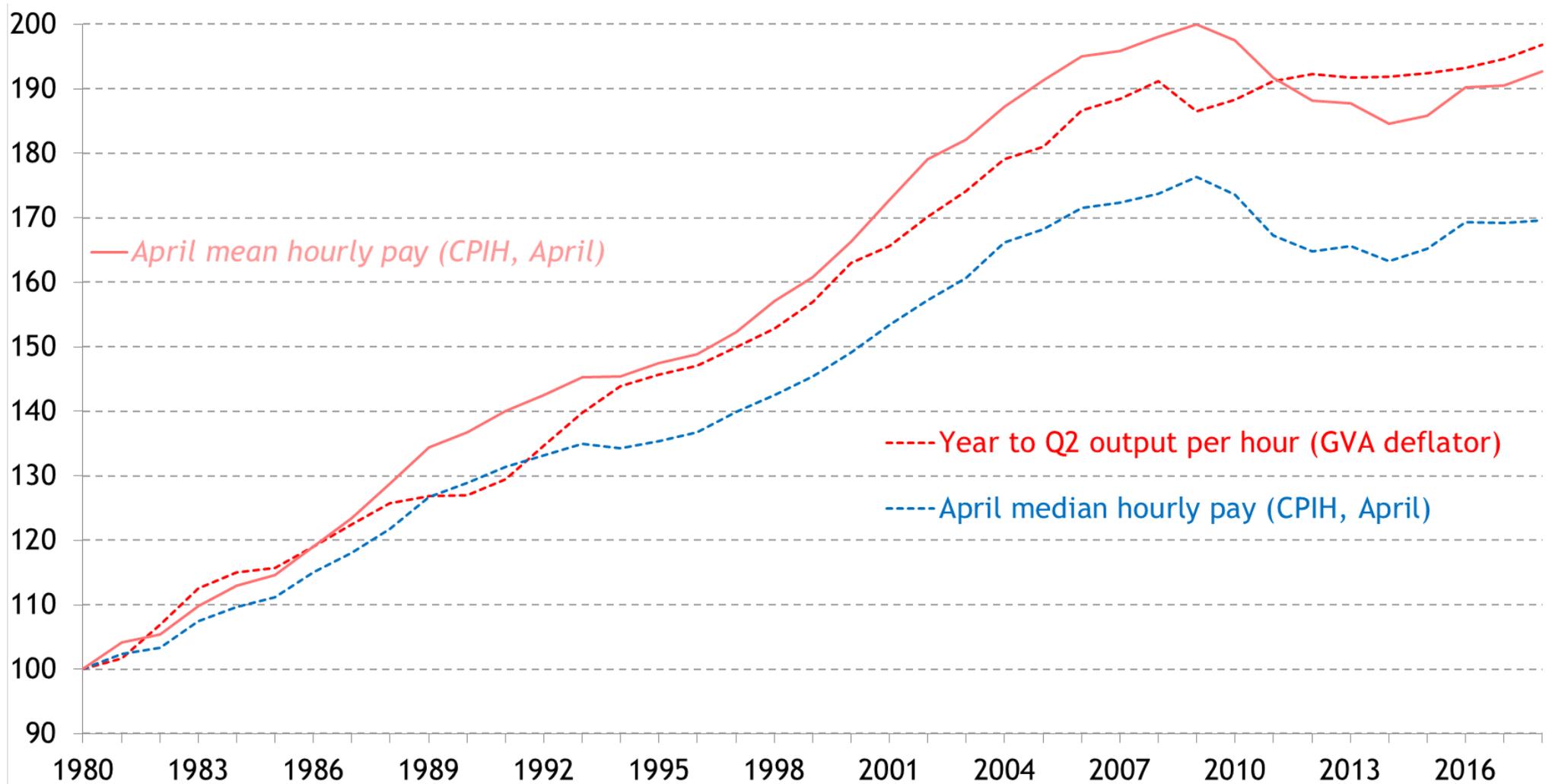


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

# But the truth is more complicated, with different factors at play at different times: *(v) distribution effect*



Indices of real-terms productivity and pay, 1980=100: UK

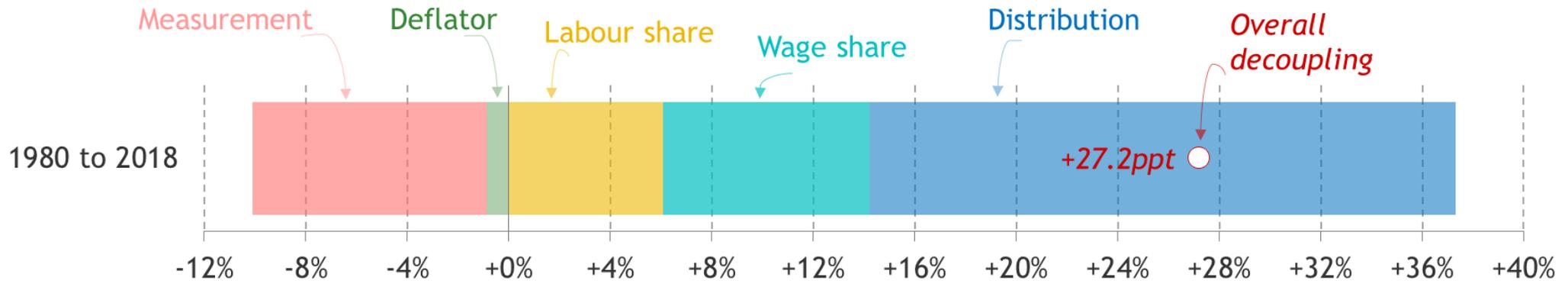


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

# Overall, the 27ppt 'wedge' the has opened up between productivity and growth has numerous causes...



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK

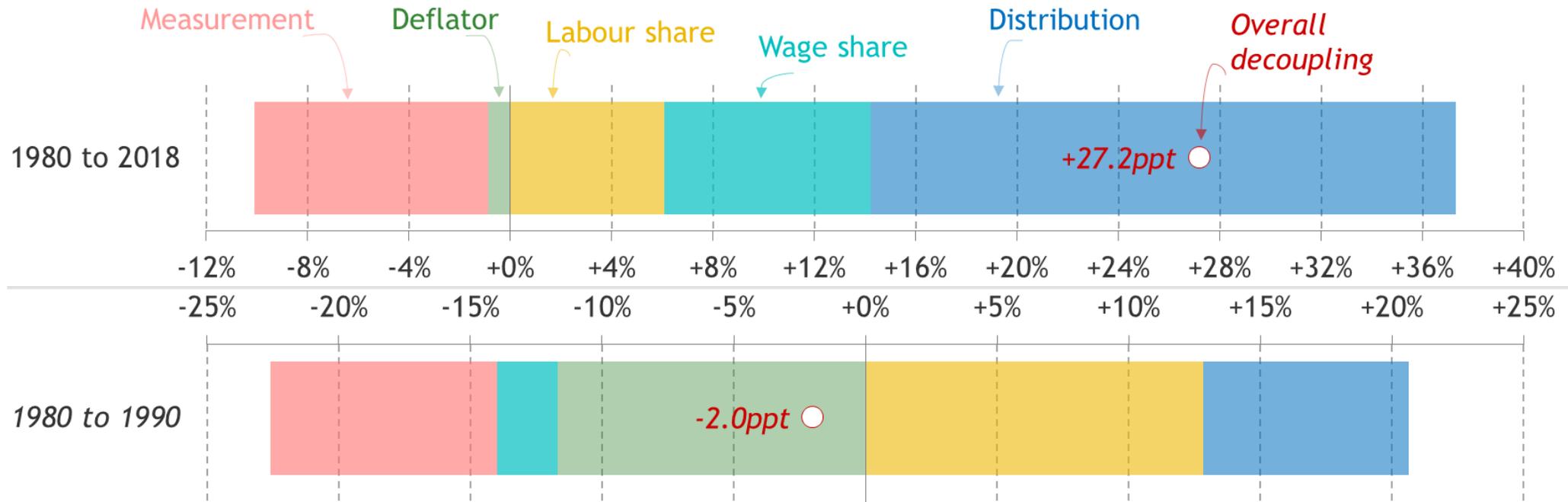


Notes: Bars show the contribution of different points of 'leakage' in the move from productivity to median pay to the overall gap that develops between the two over time. We reset the productivity and pay indices to 100 at the start of each sub-period. Therefore the individual sub-period 'wedges' don't sum to the total for the 1980-2018 period. Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

# 'Classic decoupling' in the 1980s: falling labour share and rising wage inequality (cancelled out by deflator & measurement effects)



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK

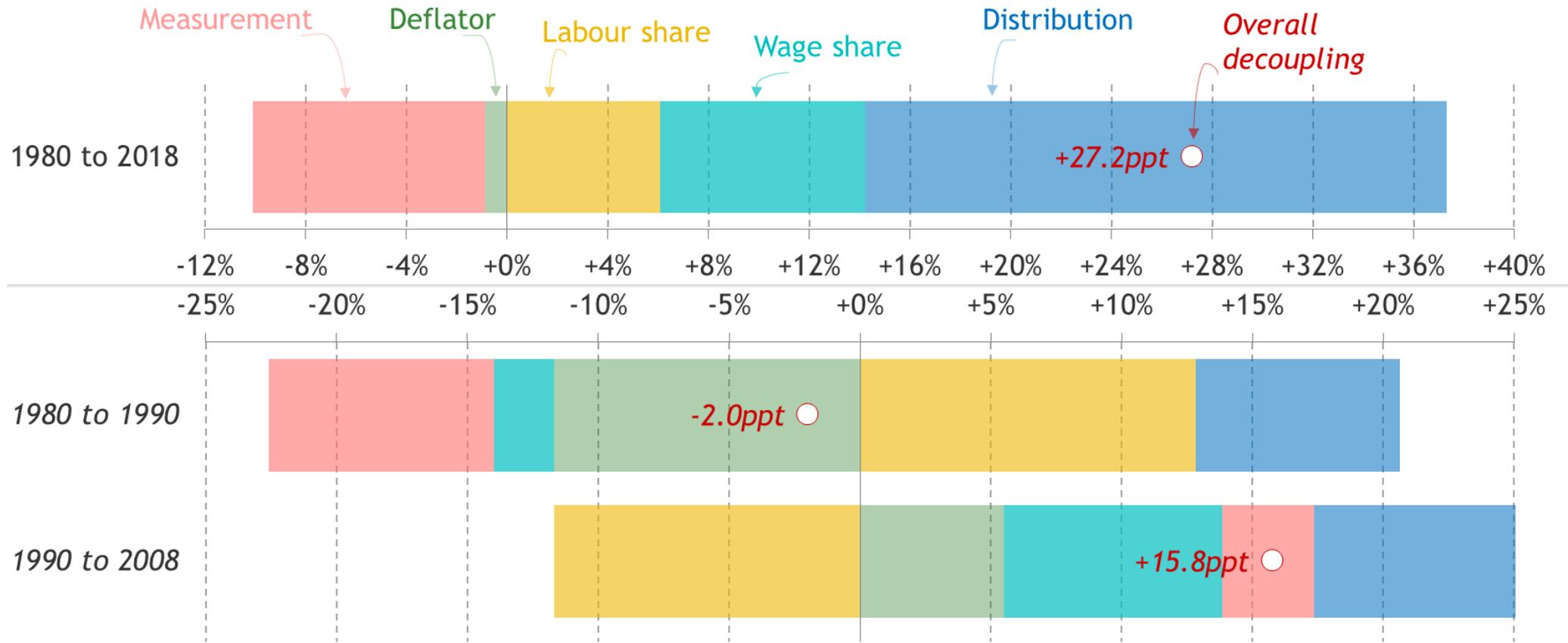


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# 'Falling wage share' in the 1990s/2000s: labour share *rose*, but everything else contributed to decoupling



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK

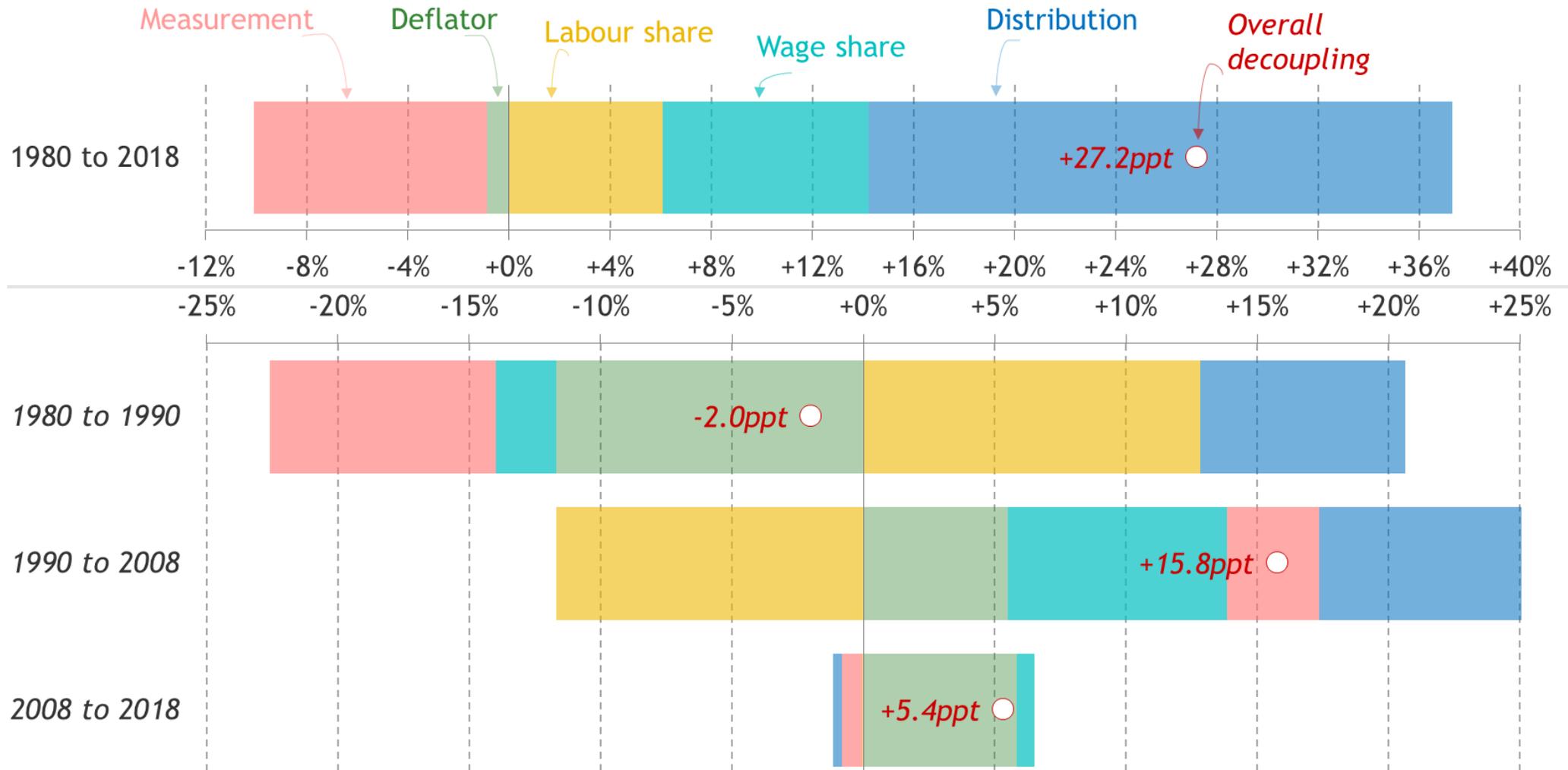


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# 'Deflator effect' post-crisis: terms of trade deterioration has been the only factor at play since 2008



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK



Notes: Bars show the contribution of different points of 'leakage' in the move from productivity to median pay to the overall gap that develops between the two over time. We reset the productivity and pay indices to 100 at the start of each sub-period. Therefore the individual sub-period 'wedges' don't sum to the total for the 1980-2018 period. Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

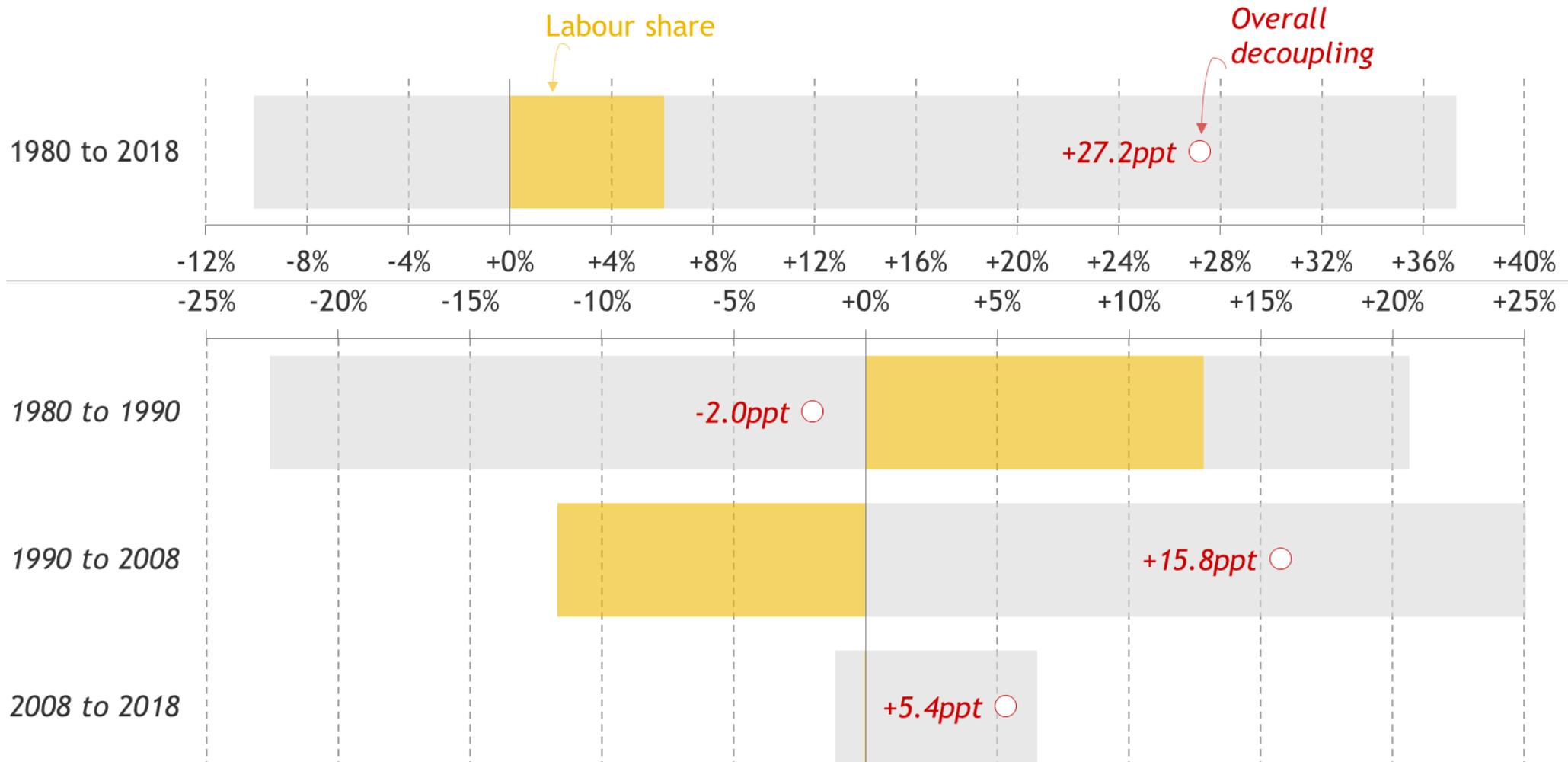
# Working together

The fall and rise of the UK's  
labour share of income

# Overall, the labour share has contributed to UK decoupling – but not since the 1980s



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK

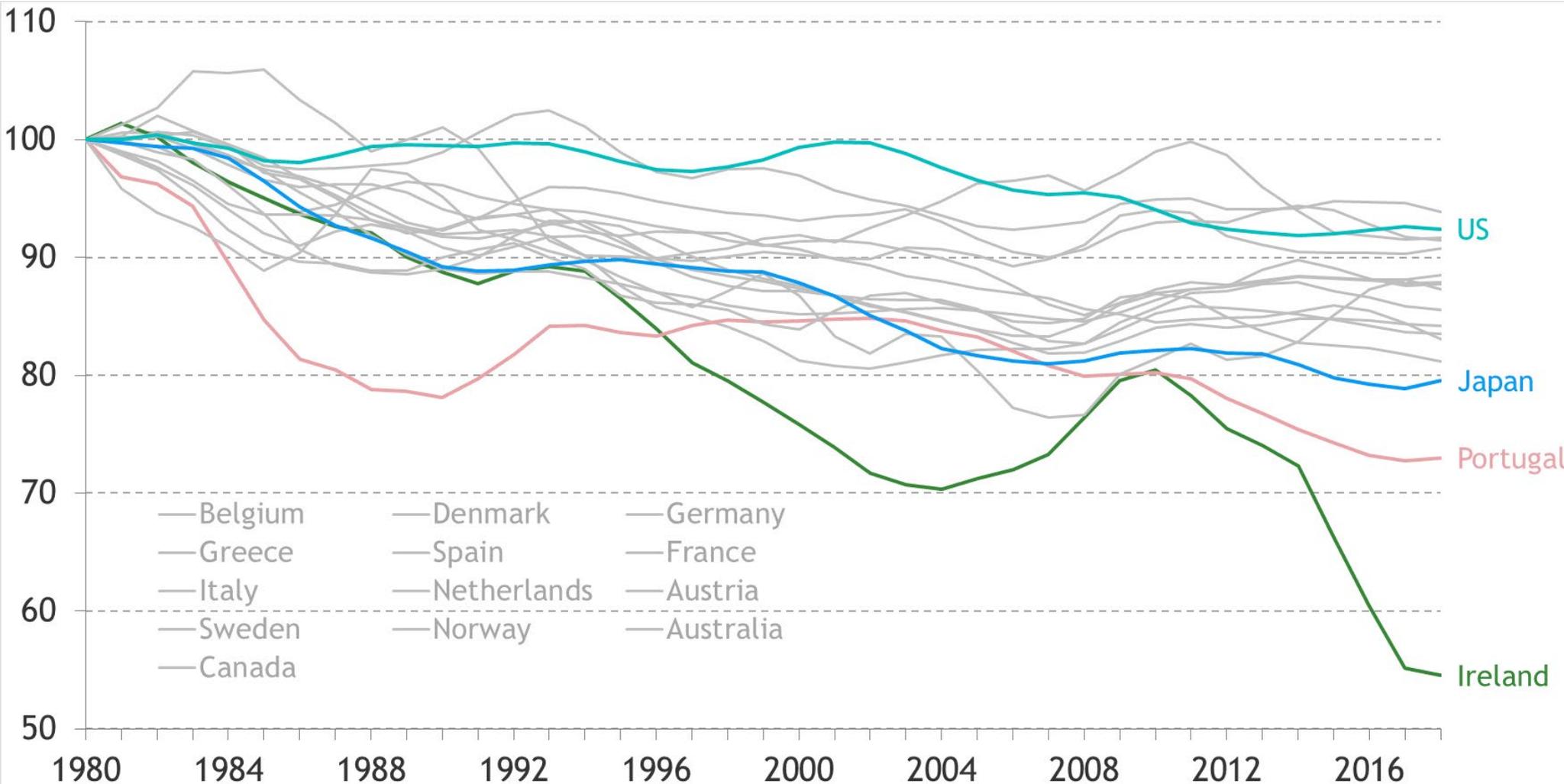


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# The share of income flowing to workers has been trending down across advanced economies, fuelling the decoupling story



Indices of labour share of income in selected advanced economies, 1980=100 (three-year averages)

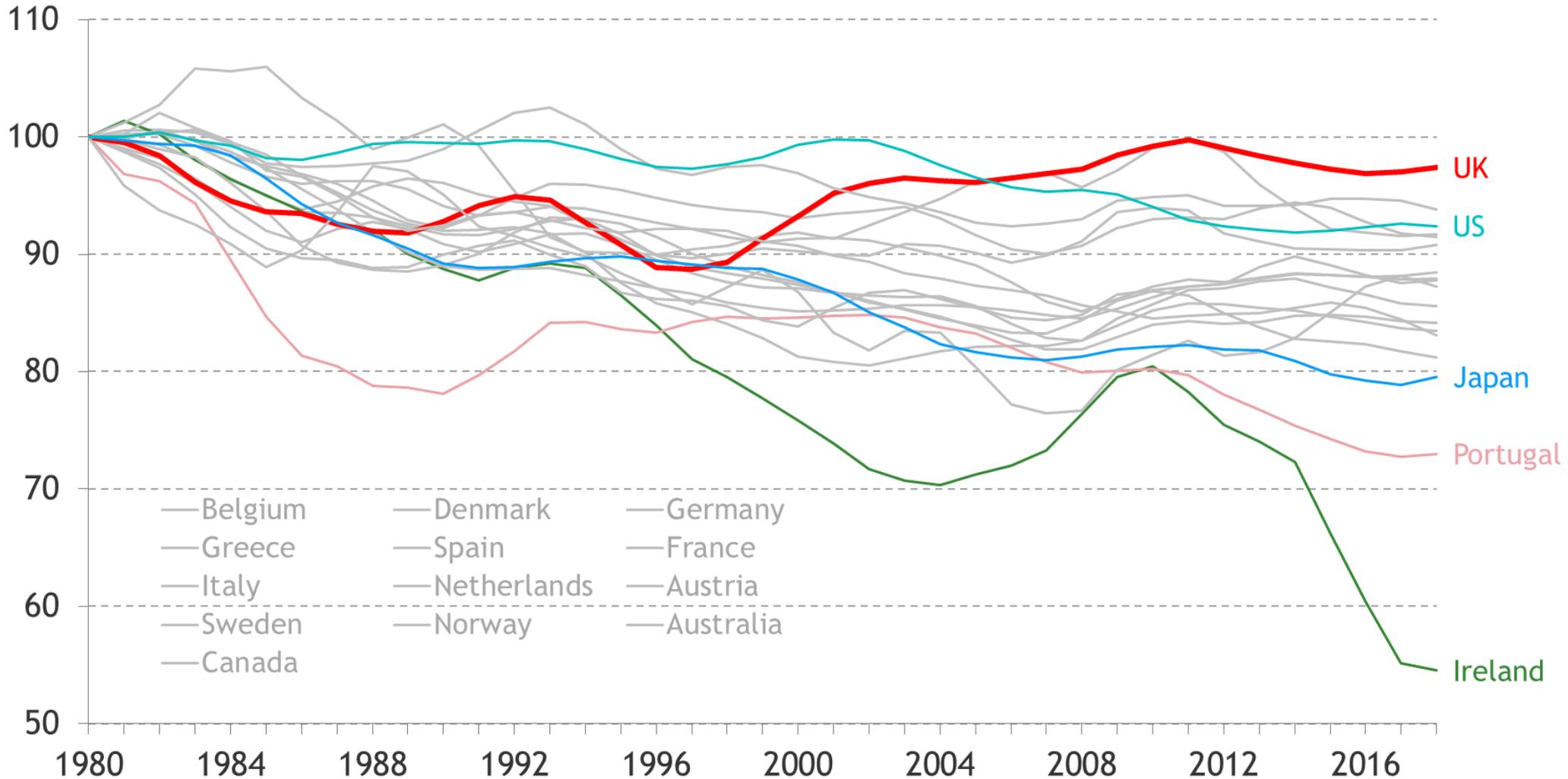


Notes: The labour share is depicted here by 'real unit labour cost', which equates to employee compensation per employee divided by GDP per worker (i.e. including the self-employed). That's equivalent to the "adjusted for s/e numbers" measure. For each country, the chart shows the evolution of the labour share relative to its 1980s level – the lines say nothing about differences in labour share levels across countries. Source: RF analysis of European Commission AMECO dataset

# But the UK experience looks somewhat different, necessitating further exploration



Indices of labour share of income in selected advanced economies, 1980=100 (three-year averages)

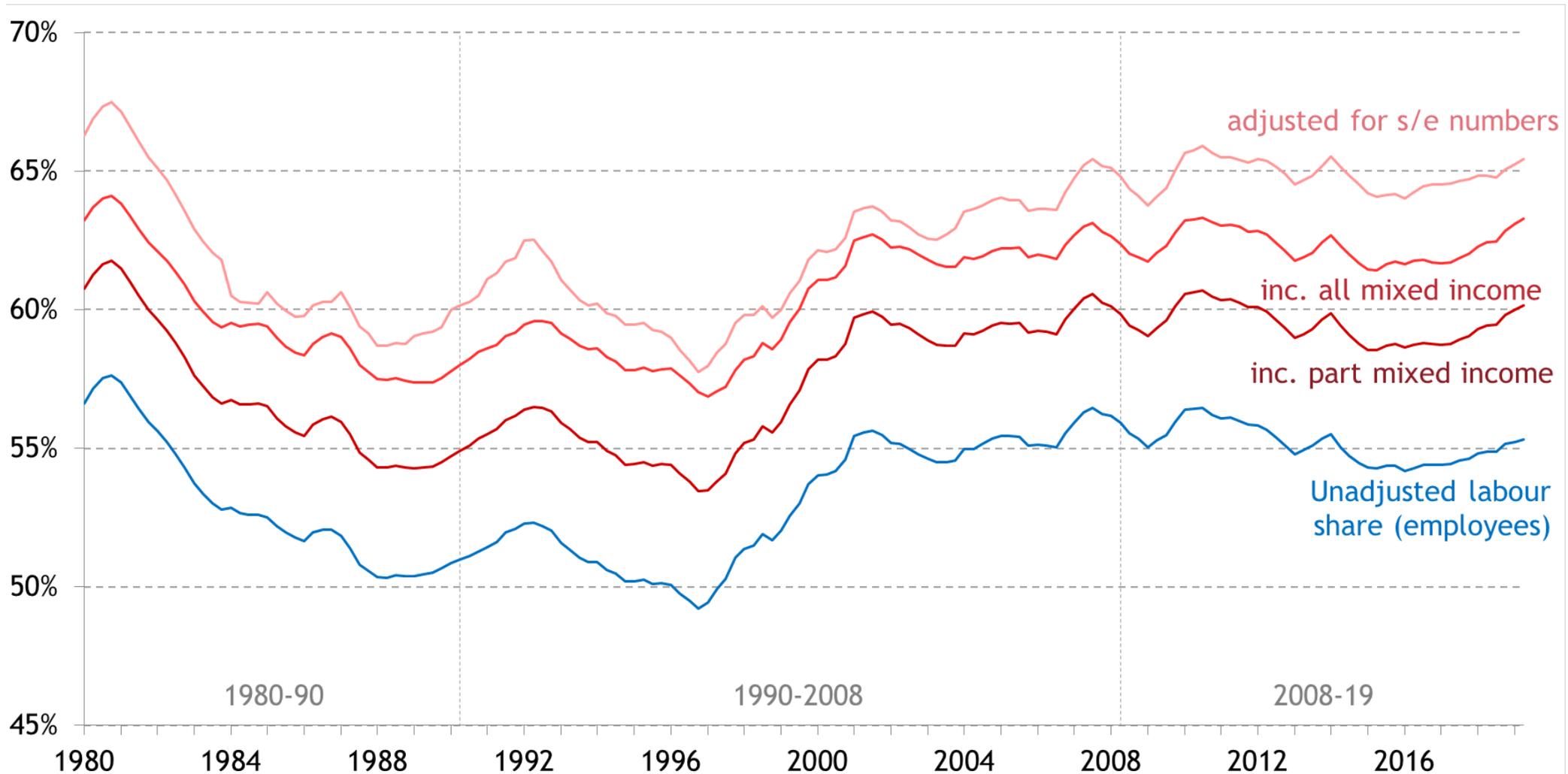


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# It doesn't appear to be driven by measurement (though the self-employed do complicate things)



Labour share of GVA: UK

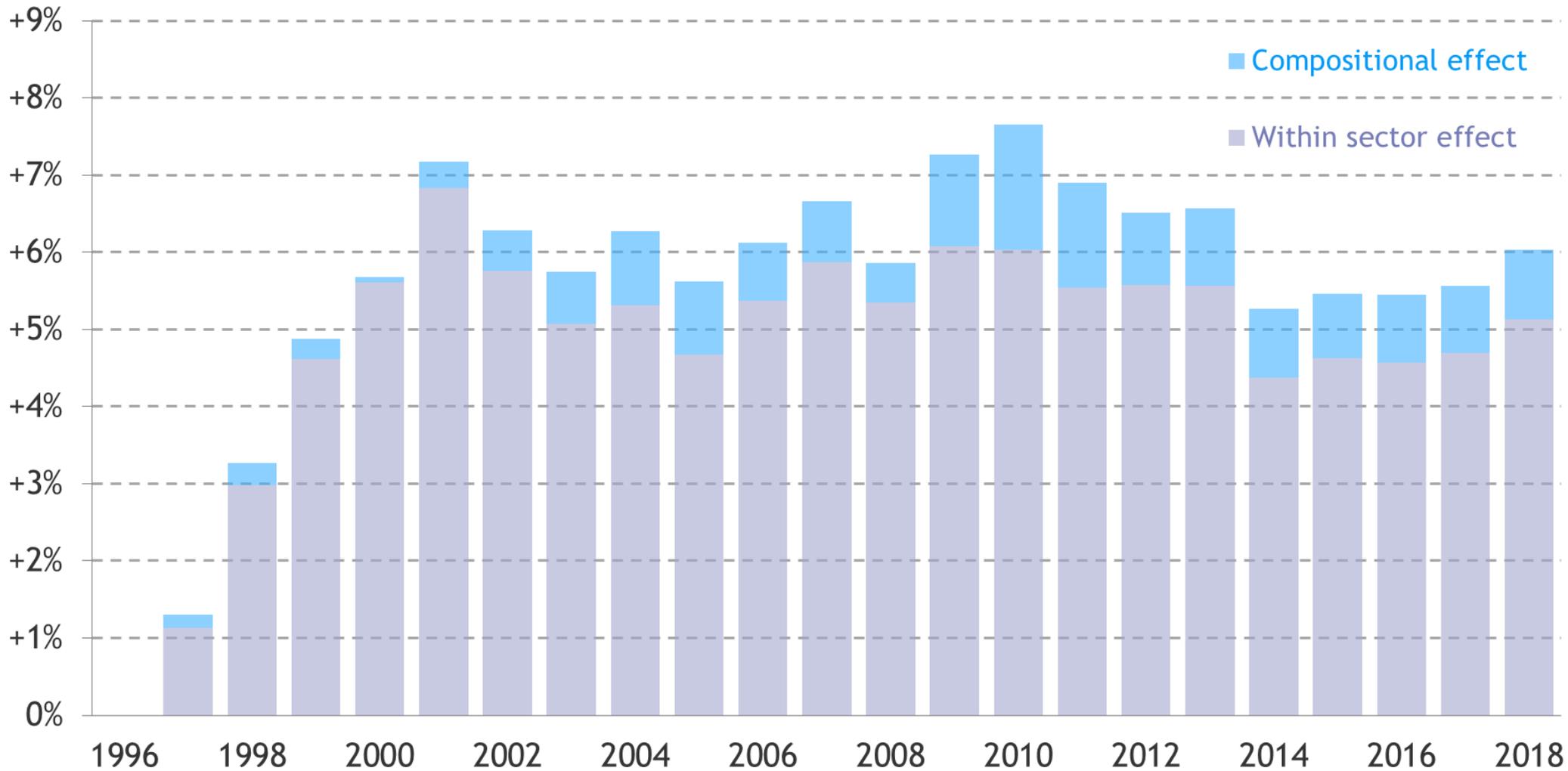


Notes: "Unadjusted labour share (employees)" is calculated by dividing total employee compensation by GVA at basic prices. The "adjusted for s/e numbers" measure applies the ratio of the self-employed to all in employment. The "inc. all mixed income" measure takes no account of the number of people in self-employment but instead assumes that all income categorised as 'mixed' in the National Accounts is equivalent to self-employed earnings. The "inc. part mixed income" measure applies a ratio to the mixed income total to estimate how much of it might be considered equivalent to 'labour' income rather than 'capital'.

# And nor is it driven by any change in our industrial mix, meaning economy-wide explanations (e.g. min wage) must be at play



Contribution to percentage point change in unadjusted labour share relative to 1996 baseline: UK



Notes: Results generated using a standard shift-share analysis that uses GVA weights and employee compensation figures split by: agriculture, forestry & fishing; industry excluding manufacturing; manufacturing; construction; distribution, trade, repairs, transportation, restaurants & hotels; information & communication; financial & insurance services; real estate activities; professional & scientific activities and admin & support services; public administration, education & health; and other service activities Source: RF analysis of OECD data



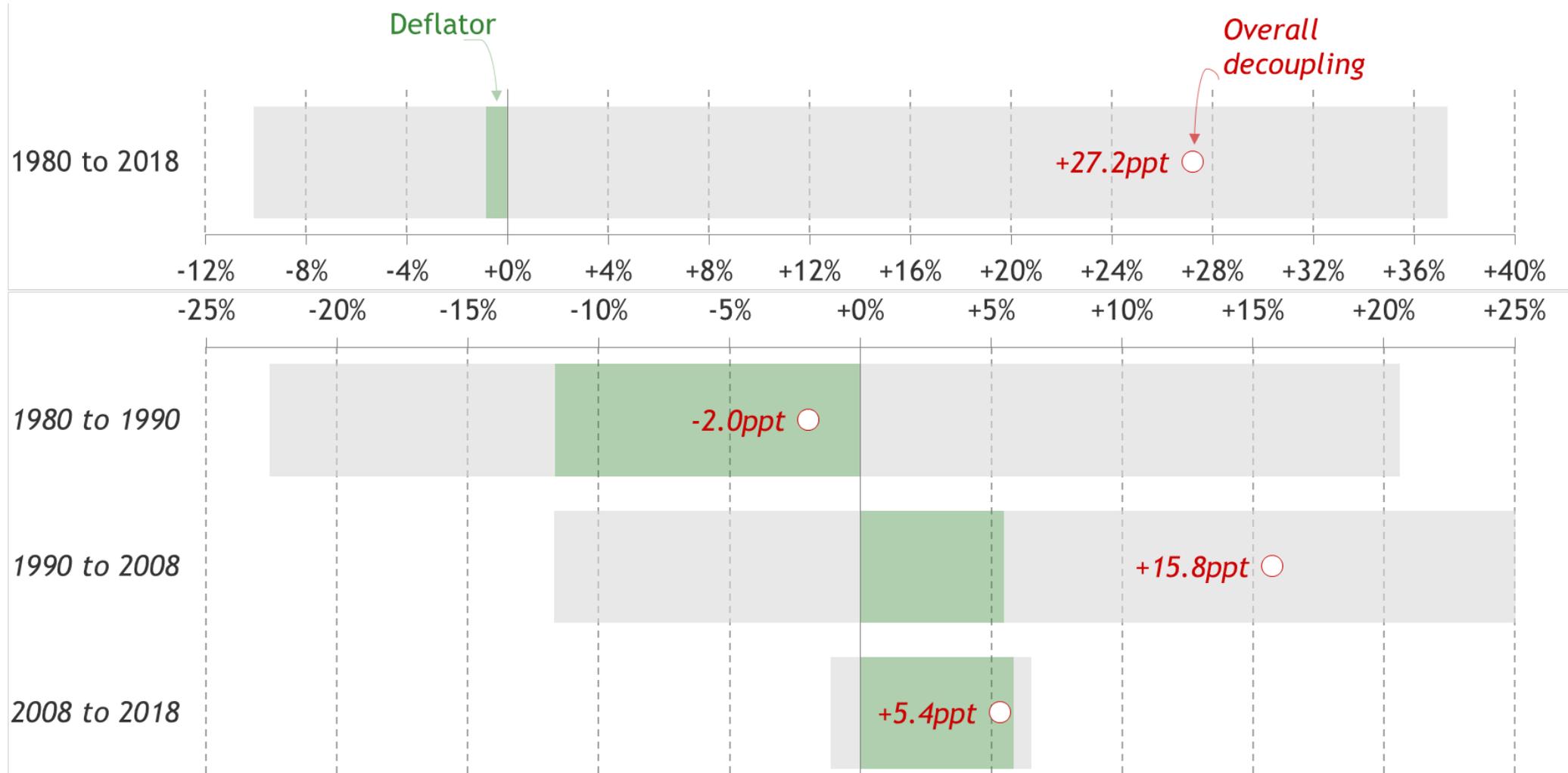
# From tailwind to headwind

## The deflator divergence

# The deflator effect has pulled in different directions over time in the UK, with little overall impact on longer-term decoupling



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK

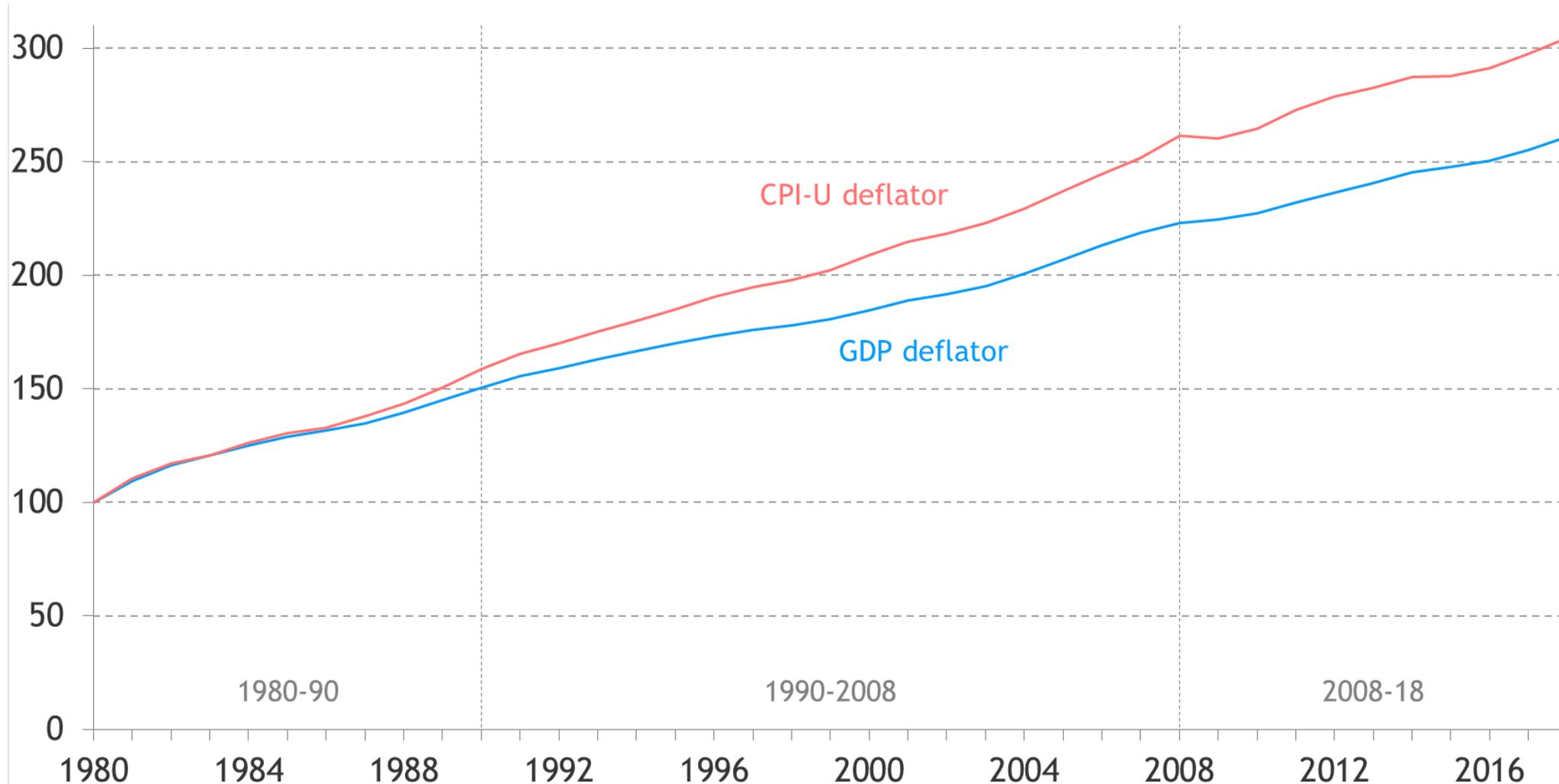


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# US decoupling owes something to the terms of trade drag associated with consumer inflation outstripping producer inflation



Deflator indices, 1980=100: US

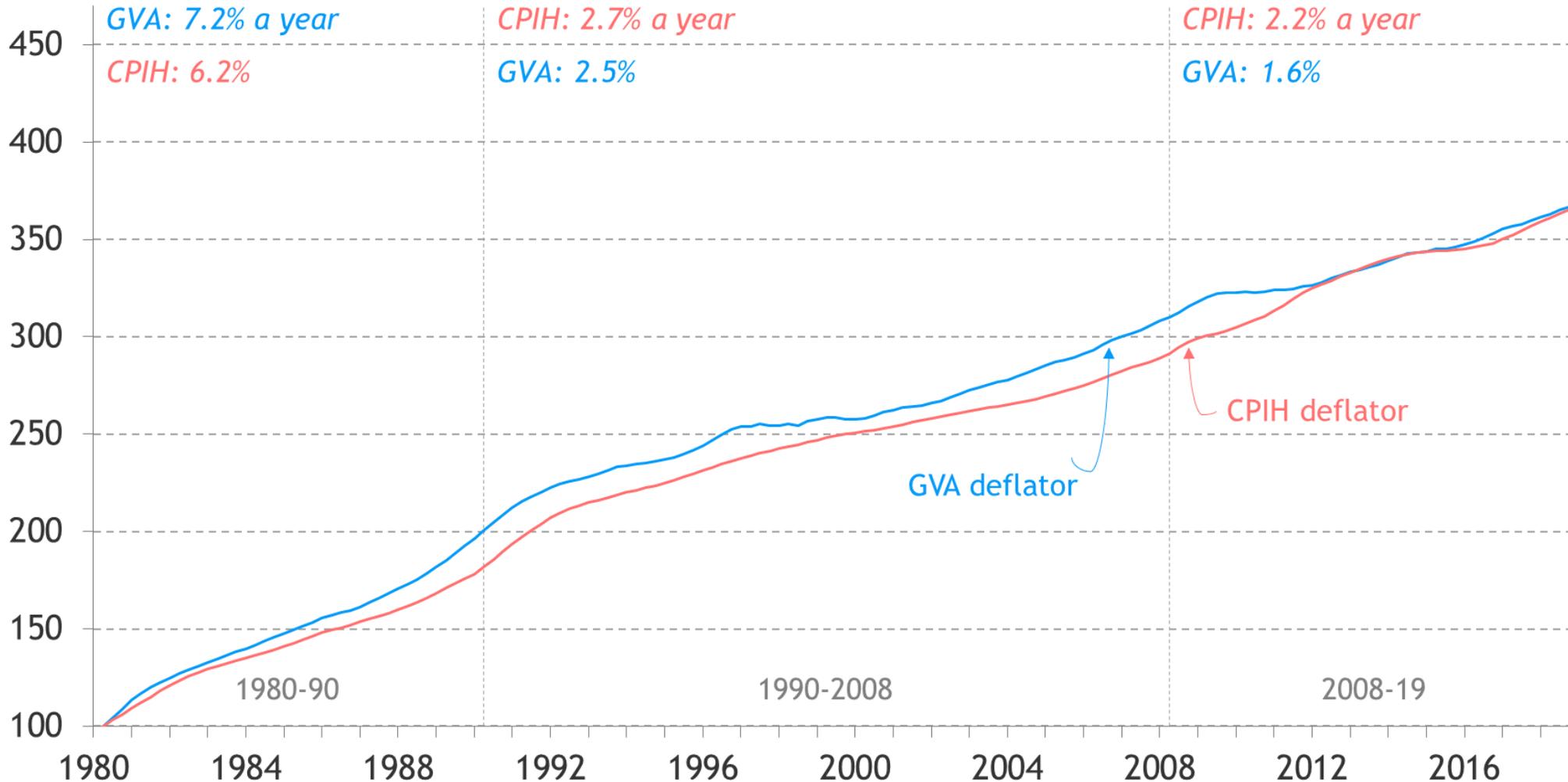


Notes: CPI-U is the deflator experienced by urban consumers, measured as an average across US cities. Source: OECD stat and Bureau of Economic Analysis, NIPA Table 1.1.9

# The UK picture is again more nuanced, with little role over the longer term but an important one in certain phases



Deflator indices, year to Q2 1980=100: UK (four-quarter averages)

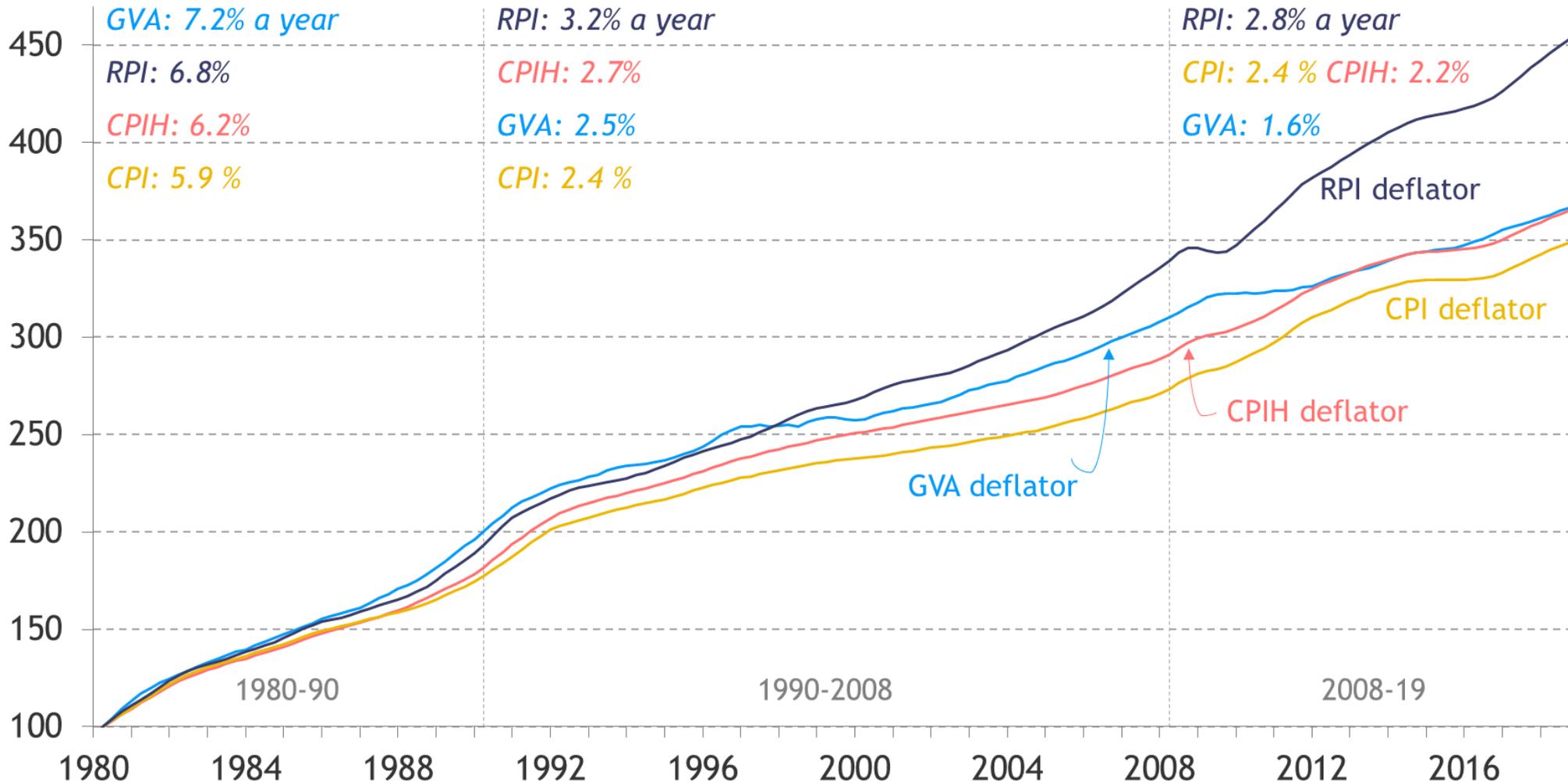


Notes: CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: ONS, Consumer Prices Index including owner occupiers' housing costs (CPIH) historical series: 1988 to 2004, December 2018; ONS, National Accounts

# And the nature of the deflator effect is sensitive to our choice of consumer inflation measure



Deflator indices, year to Q2 1980=100: UK (four-quarter averages)

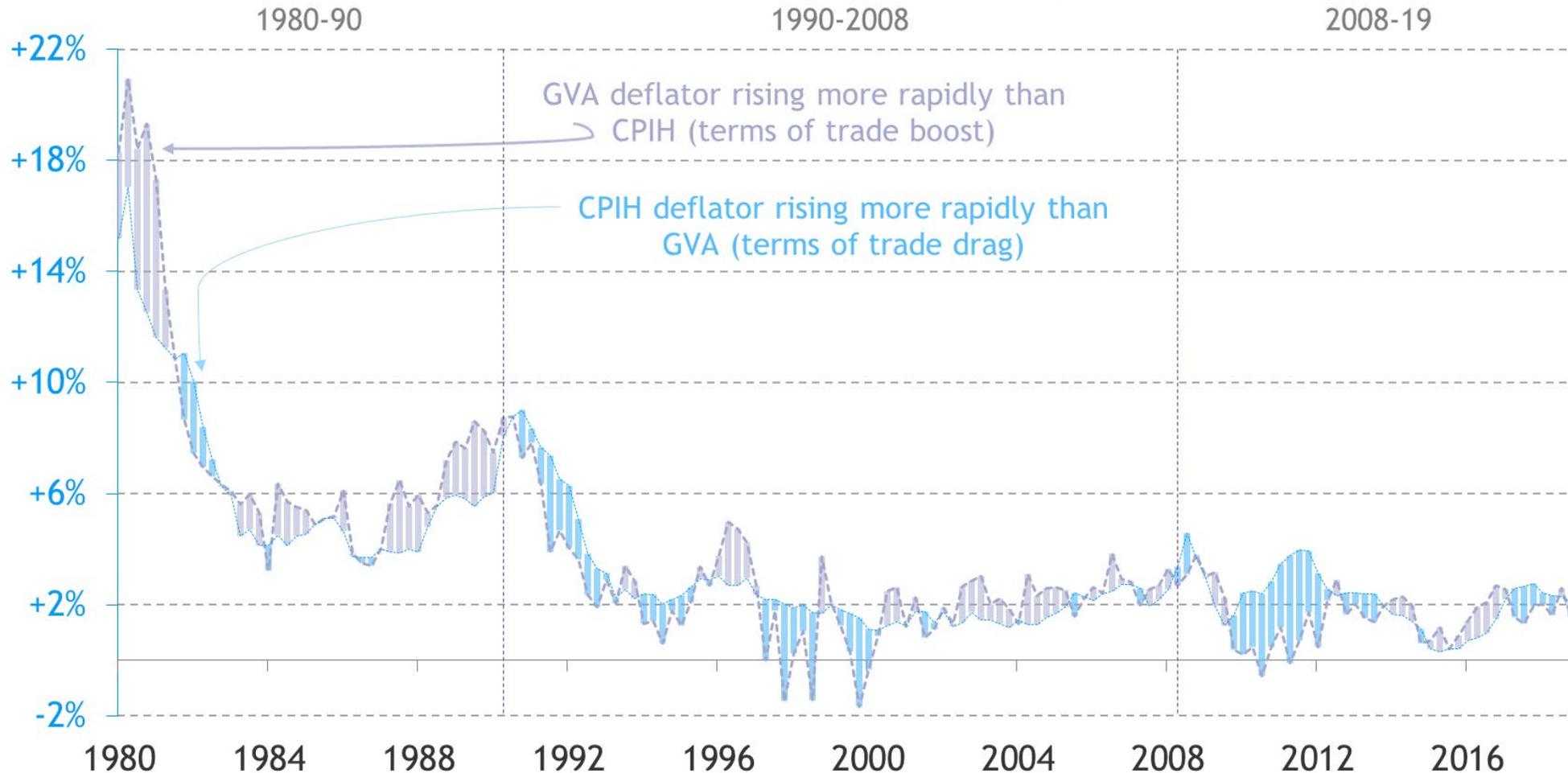


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# Importantly, much of what is going on is a product of exchange rate effects rather than structural factors

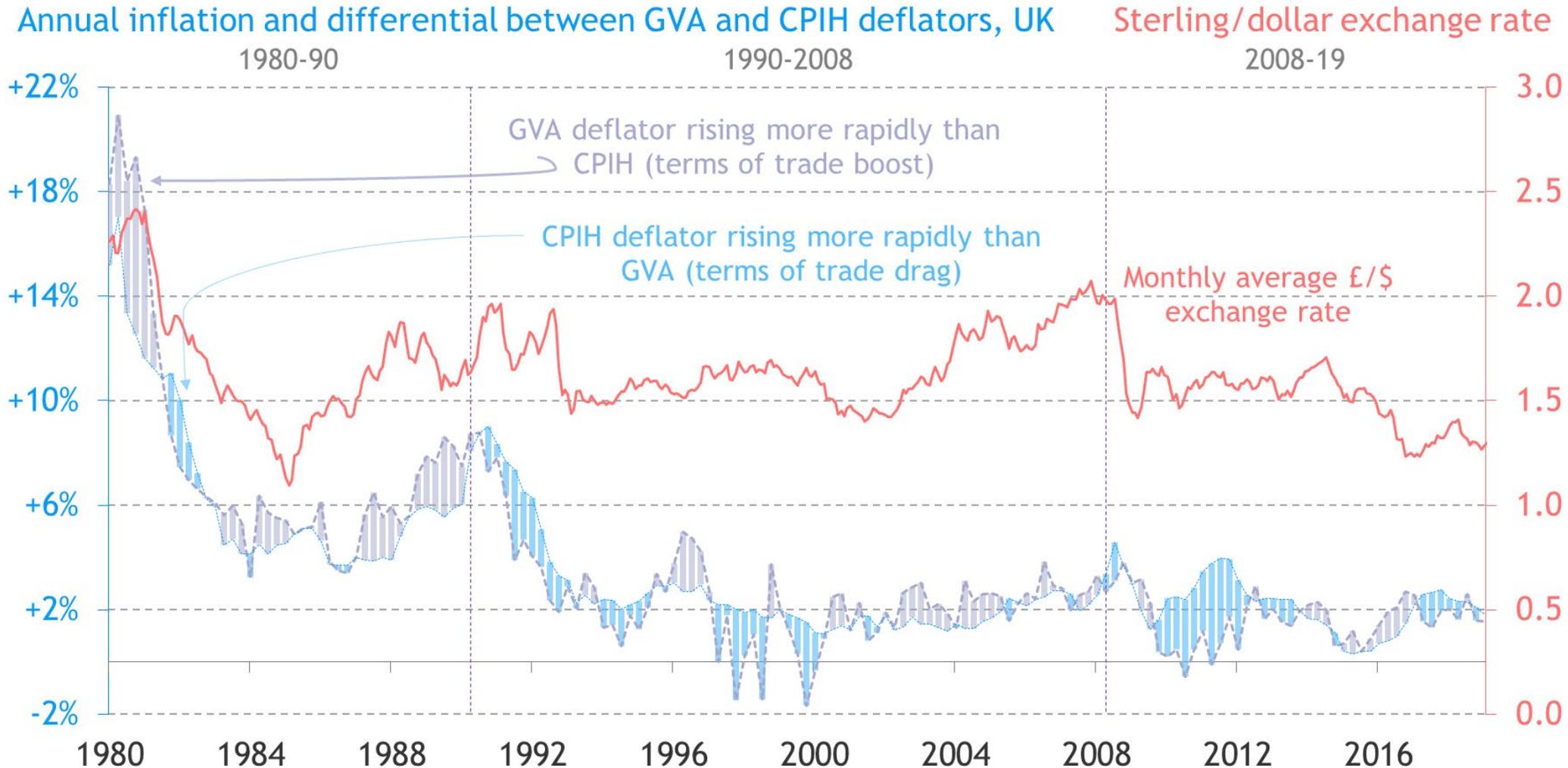


Annual inflation and differential between GVA and CPIH deflators, UK



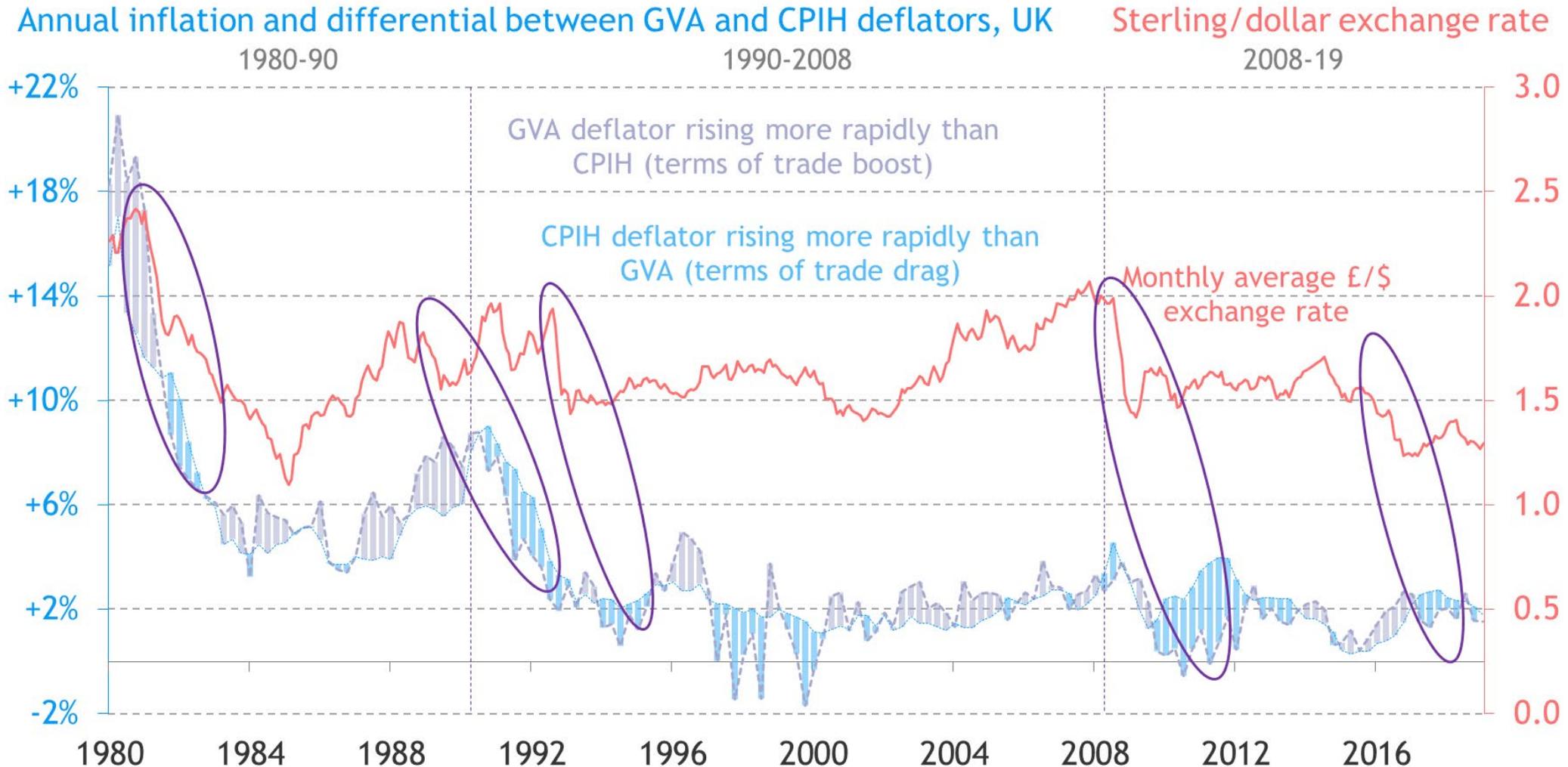
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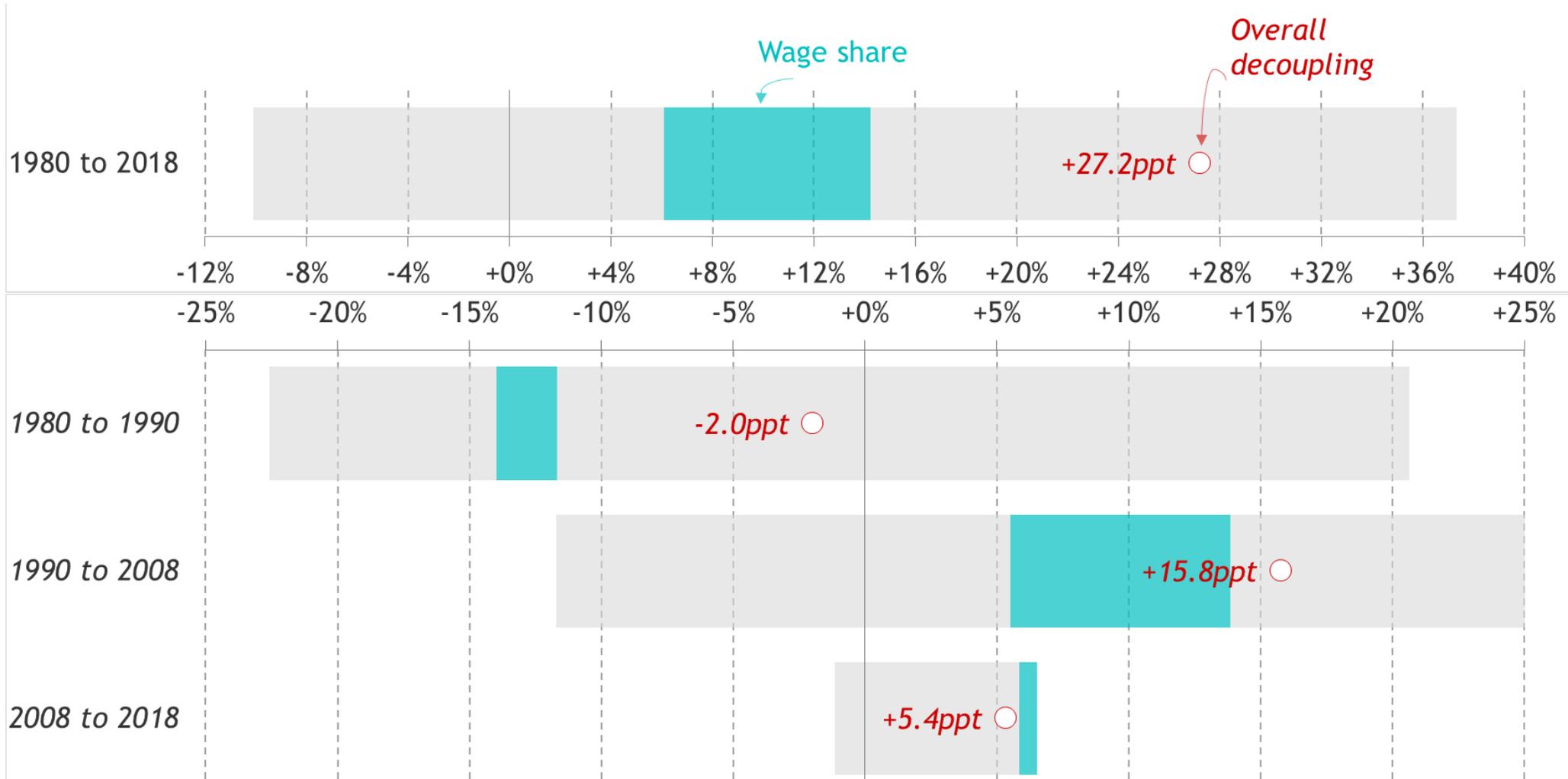
# The pay deficit

The growth of non-wage compensation

# The wage share effect has played a bigger role than the labour share in UK decoupling, driven by pre-crisis developments



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK

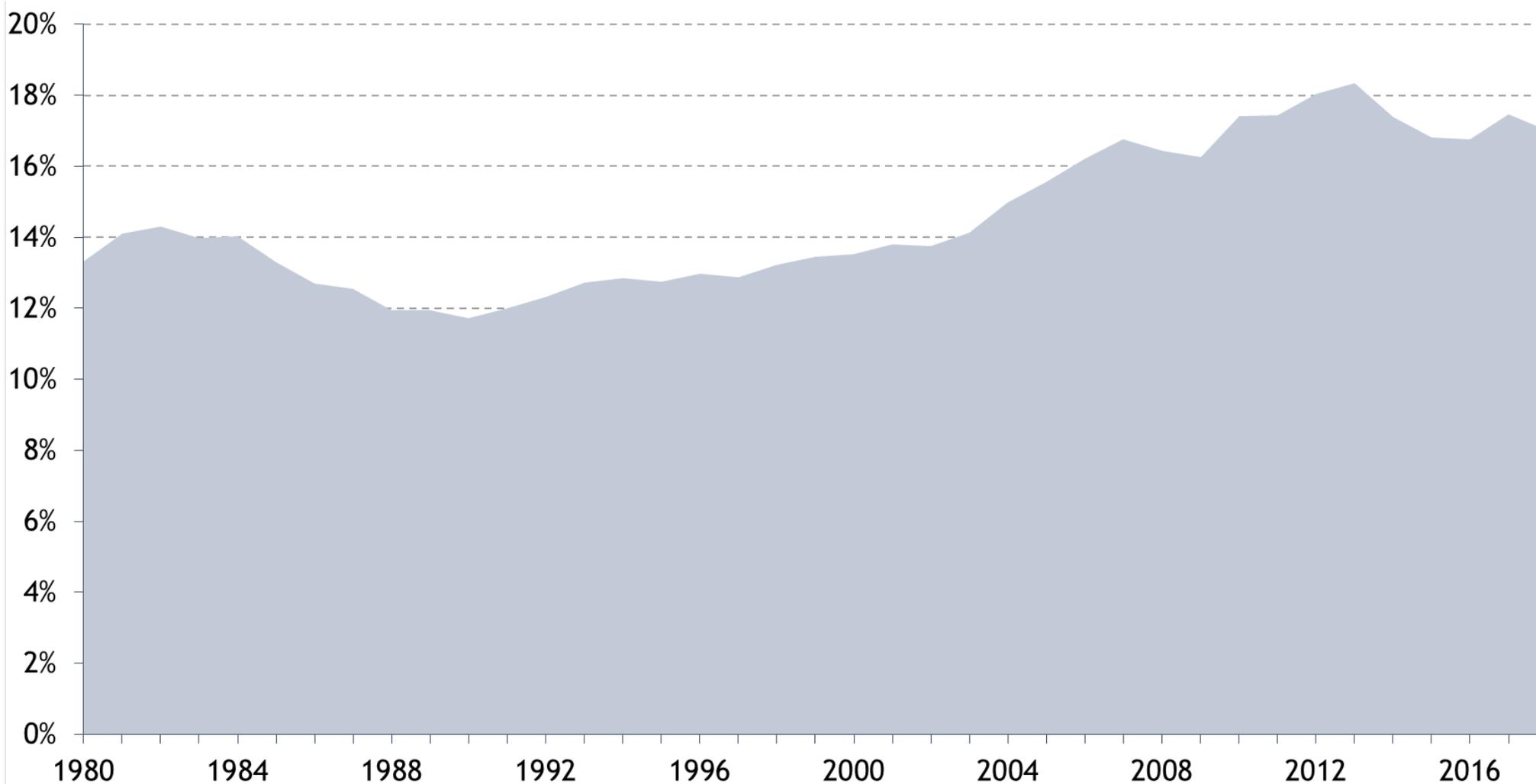


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# Non-wage compensation has grown in importance from 1990 onwards, again marking the UK out as somewhat unusual



Employer social contributions as a share of total employee compensation: UK

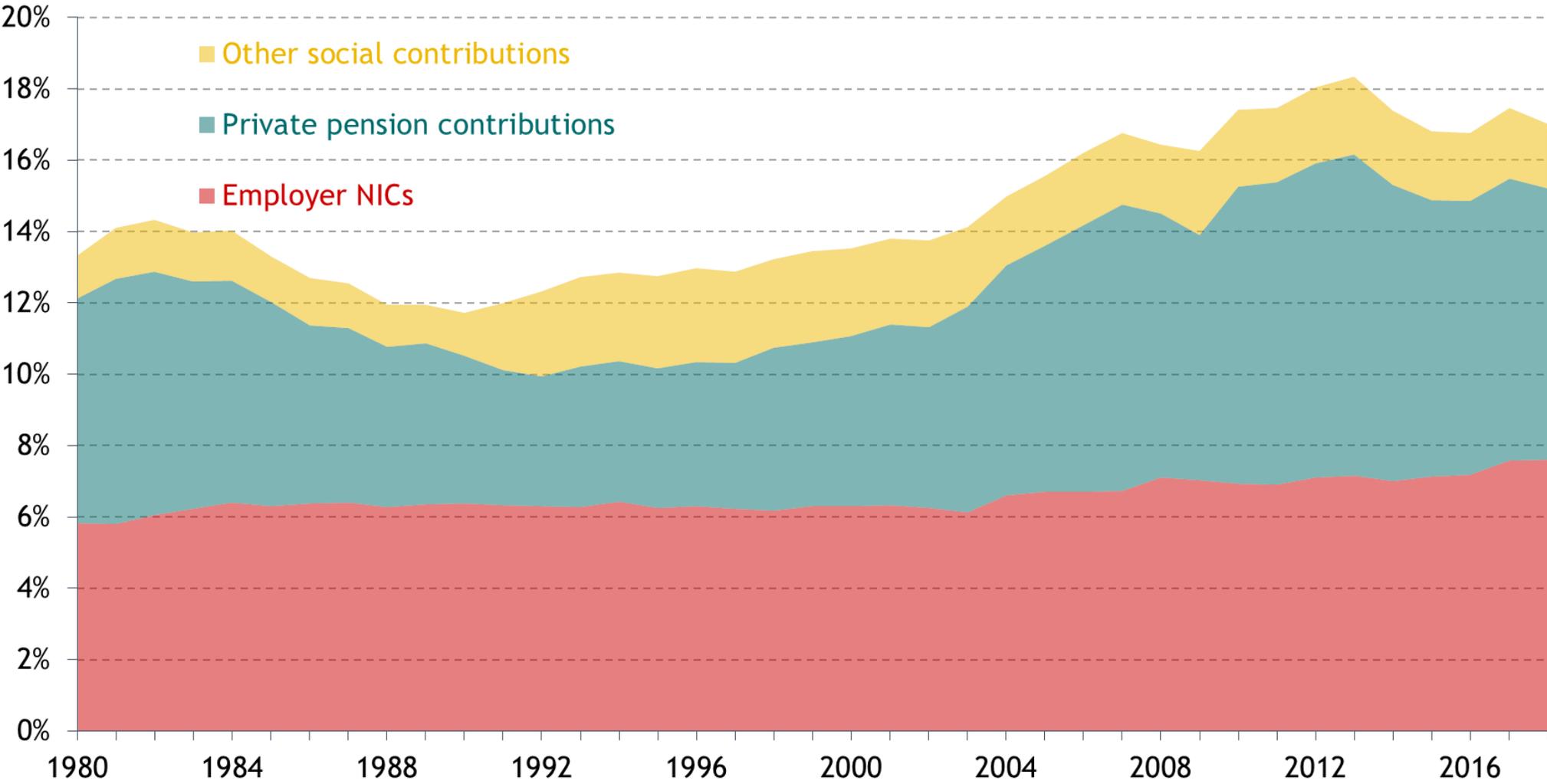


Source: RF analysis of ONS, National Accounts

# Rising employer pension contributions have been the biggest factor, with a particular surge around the millennium



Employer social contributions as a share of total employee compensation: UK

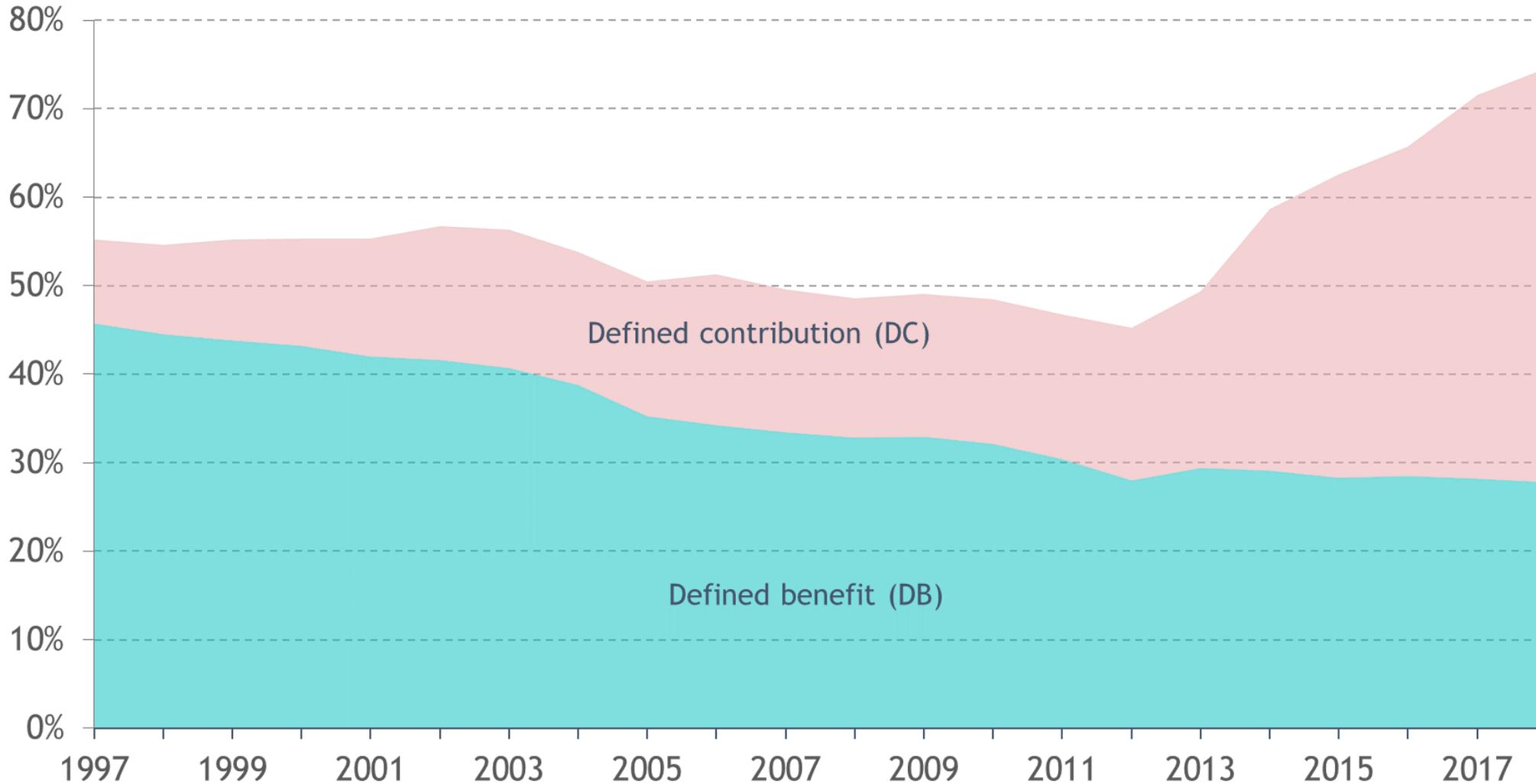


Source: RF analysis of ONS, National Accounts

# Which is surprising, given this was a period in which overall occupational pension coverage *fell* (especially DB)



Proportion of employees with active workplace pensions with their current employer: UK

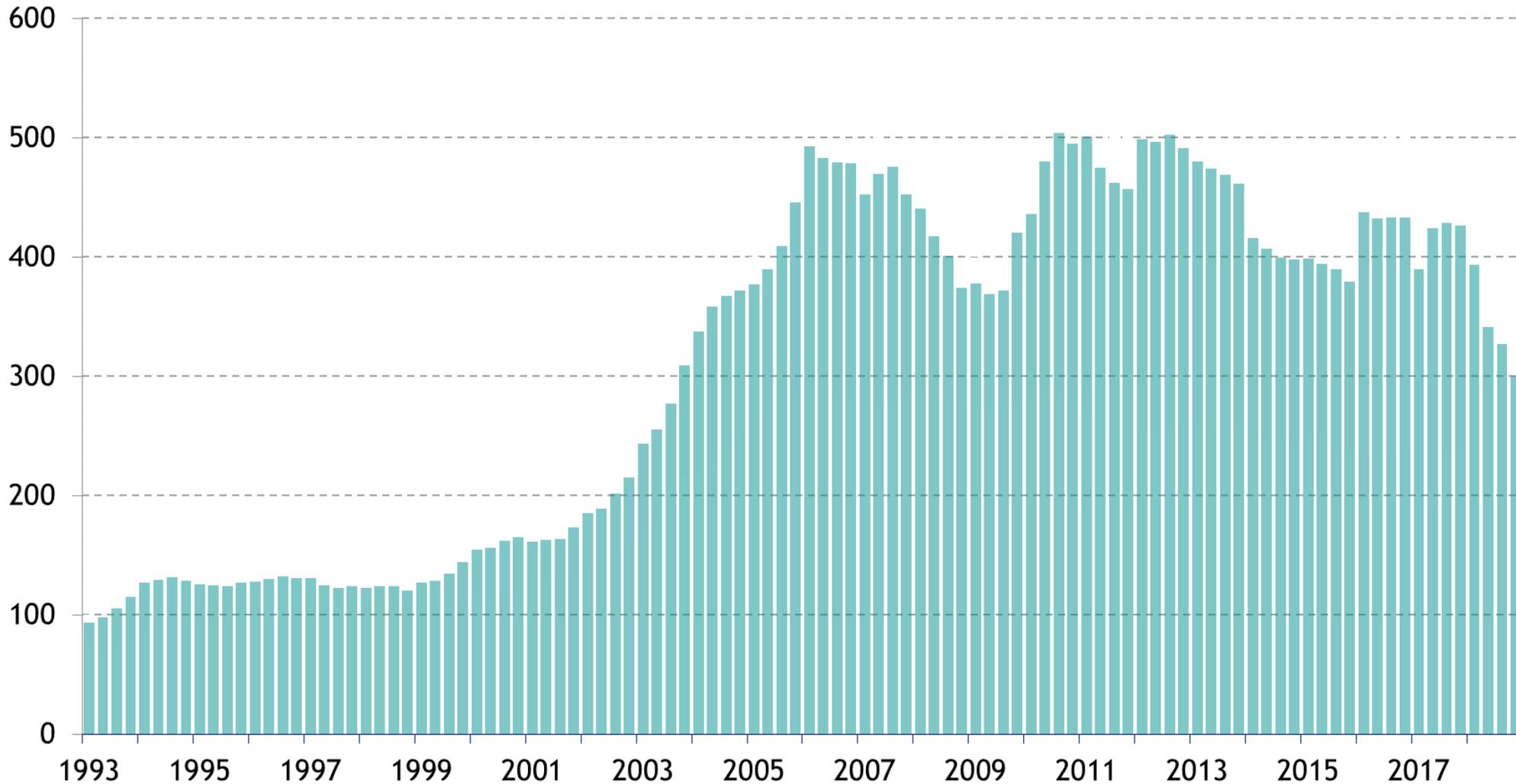


Notes: The 'defined contribution (DC)' category covers both 'occupational defined contribution' and 'group personal and group stakeholder' schemes. The 'occupational defined contribution' category includes employees who have pensions with the National Employer Savings Trust (NEST). The Annual Survey of Hours and Earnings (ASHE) collects information on only the current employer's pension scheme. Employees may hold preserved rights in former employers' pension schemes or be in receipt of a pension from a former employer. Data relates to April each year. Source: ONS, Employee workplace pensions in the UK:

# Yet the millennial surge relates directly to a big increase in DB scheme contributions



Index of real-terms employer pension contributions, Q1 1993=100: UK (four-quarter totals)

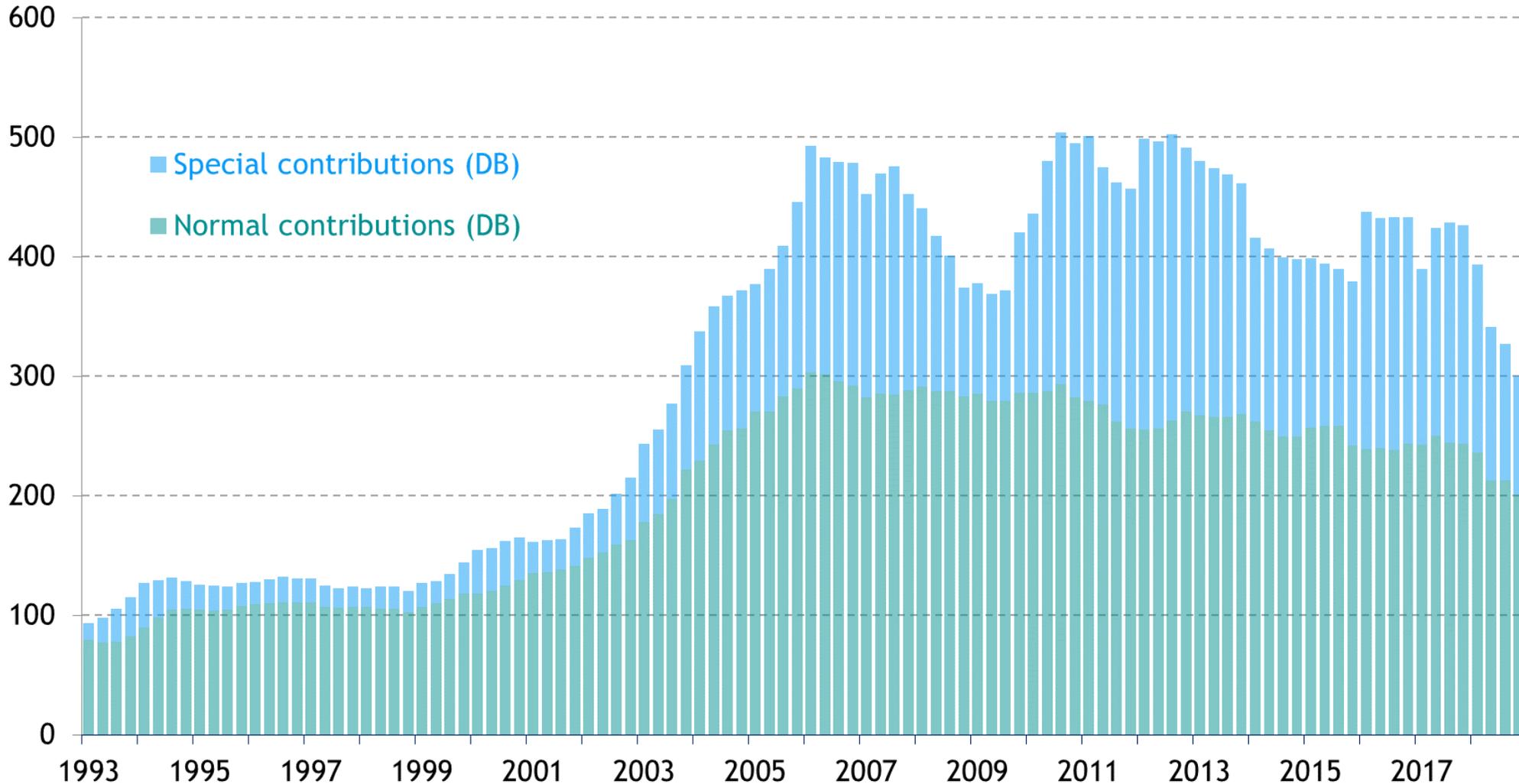


Source: RF analysis of ONS, Investment by insurance companies, pension funds and trusts: October to December 2018, March 2019

# Reflecting funding difficulties that required many schemes to plug historical deficits and others to up contributions to avoid deficit



Index of real-terms employer pension contributions, Q1 1993=100: UK (four-quarter totals)

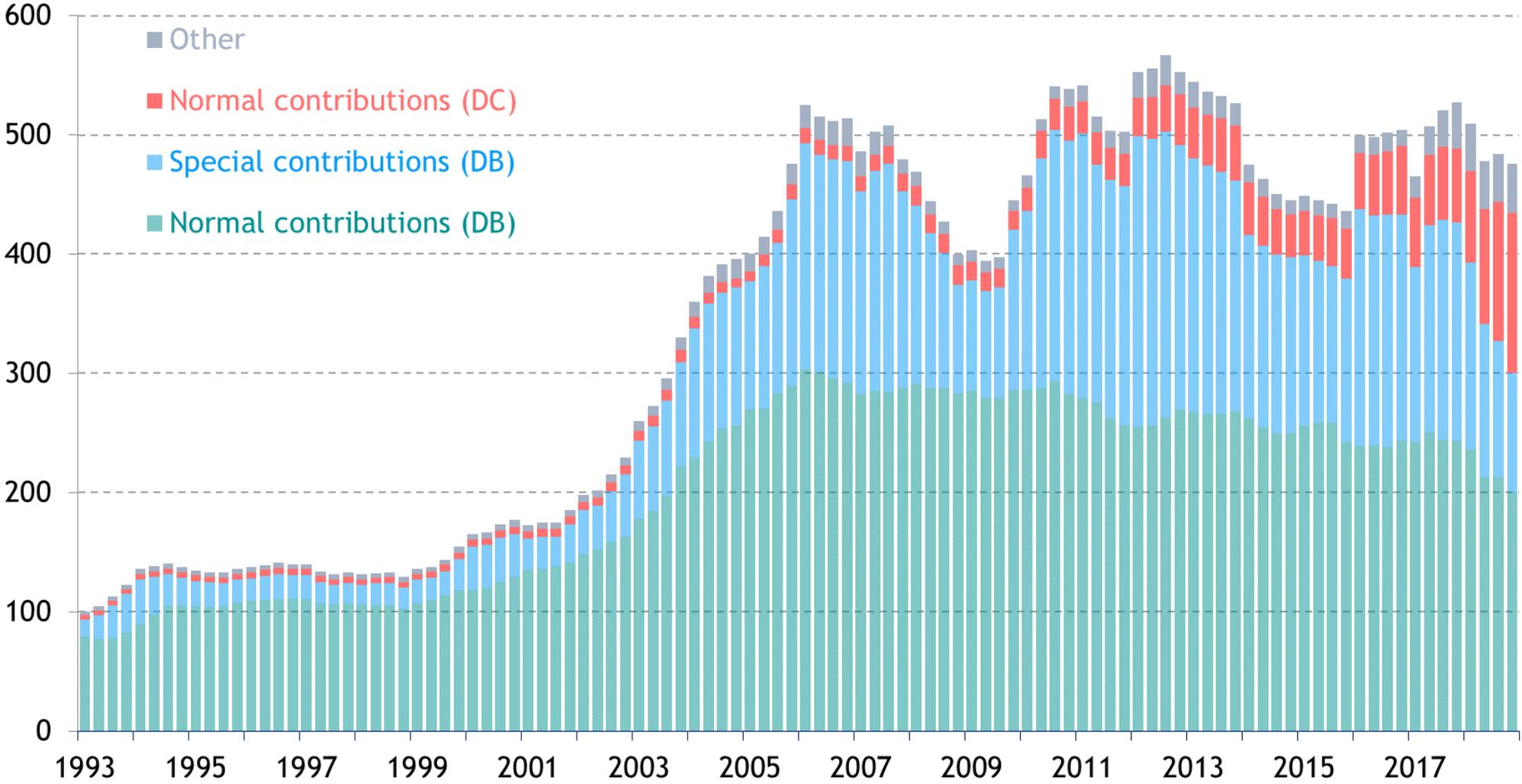


Source: RF analysis of ONS, Investment by insurance companies, pension funds and trusts: October to December 2018, March 2019

# Those contributions mainly benefit older/retired workers, but more recent increases are associated with auto-enrolment



Index of real-terms employer pension contributions, Q1 1993=100: UK (four-quarter totals)

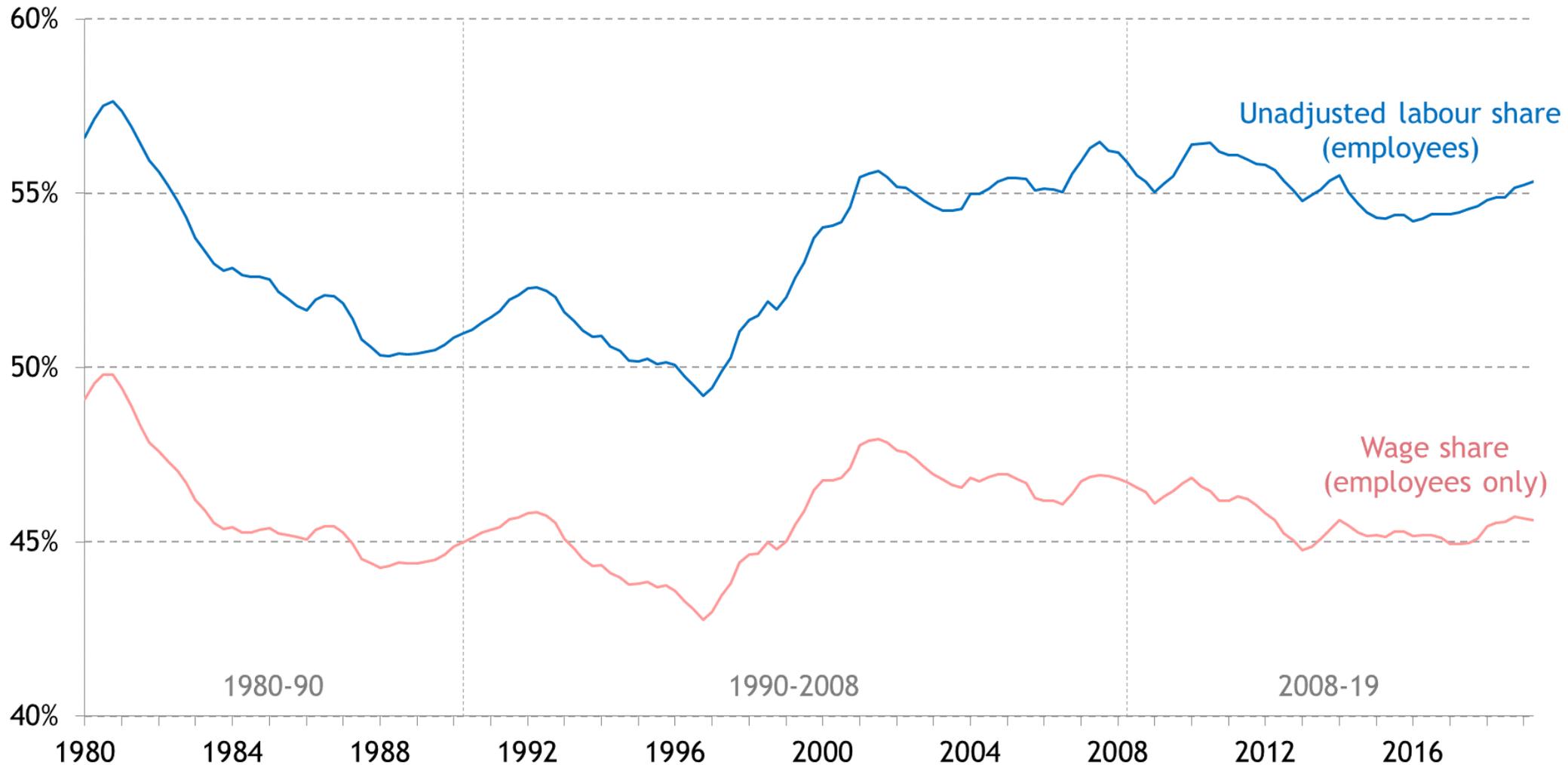


Source: RF analysis of ONS, Investment by insurance companies, pension funds and trusts: October to December 2018, March 2019

# The upshot is that the UK's wage share of income has trended down since the early-2000s in a way the labour share hasn't



Labour share and wage share of GVA: UK



Notes: "Unadjusted labour share (employees)" is calculated by dividing total employee compensation (wages plus employer social contributions like pension contributions and employer NICs payments) by GVA at basic prices. The "wage share (employees only)" measure is calculated by dividing total wages and salaries captured in the National Accounts by GVA at basic prices. Nominal figures are used meaning, unlike the analysis above, no deflator adjustment is made. Source: RF analysis of ONS. National Accounts



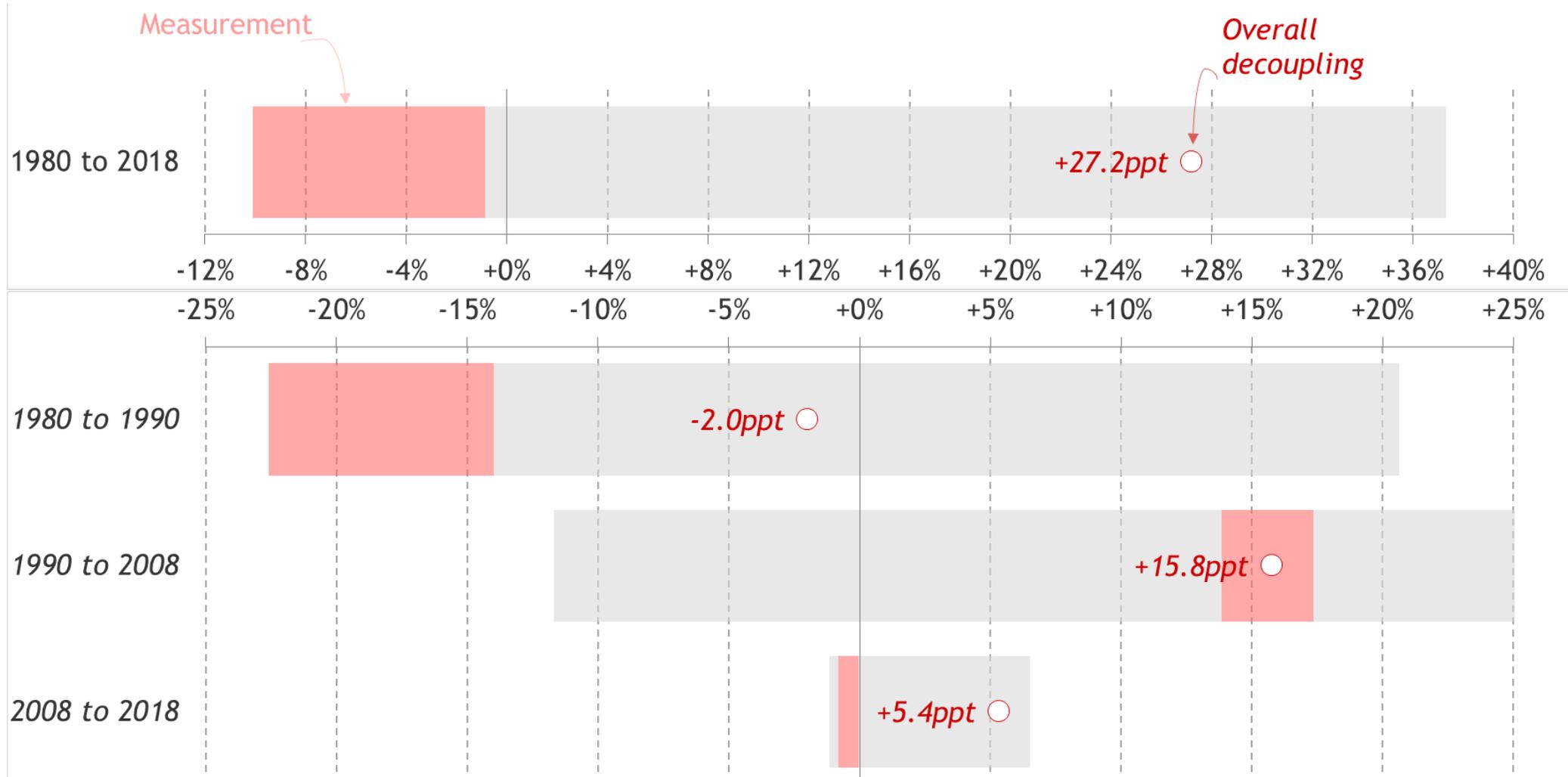
# Measurement matters

Moving from macro to micro data sources

# Switching from National Accounts to survey-based pay measures pushed against decoupling in the 1980s, but has done little since



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK



Notes: Bars show the contribution of different points of 'leakage' in the move from productivity to median pay to the overall gap that develops between the two over time. We reset the productivity and pay indices to 100 at the start of each sub-period. Therefore the individual sub-period 'wedges' don't sum to the total for the 1980-2018 period. Source: RF analysis of ONS, National Accounts; ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

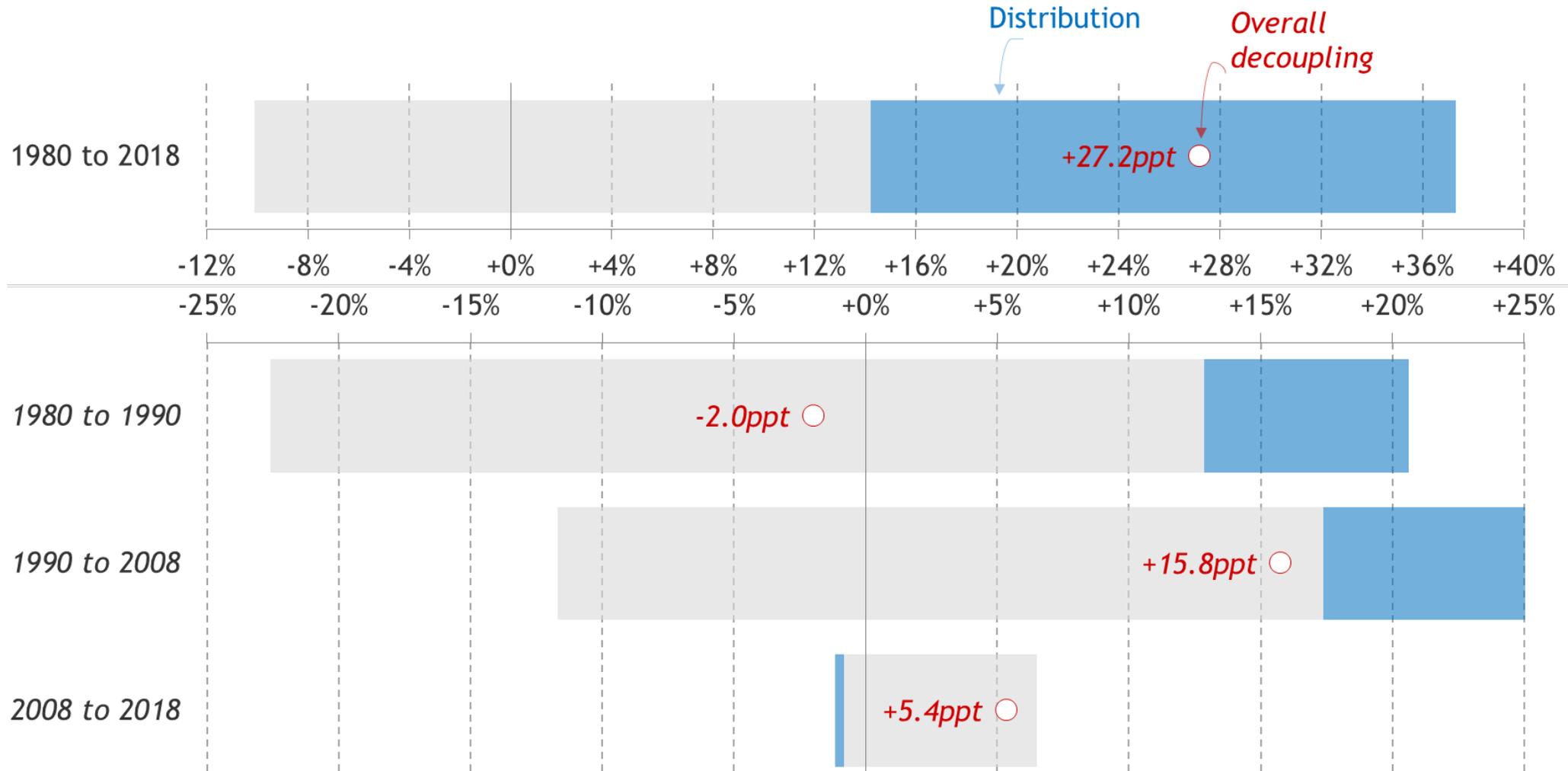
# Growing apart or squeezed together?

## UK wage inequality and the story of decoupling

# Wage inequality is *the* biggest driver of UK decoupling, but it does not explain the post-crisis slowdown in median pay growth



Cumulative contributions to percentage point 'wedge' between output per hour and median pay: UK

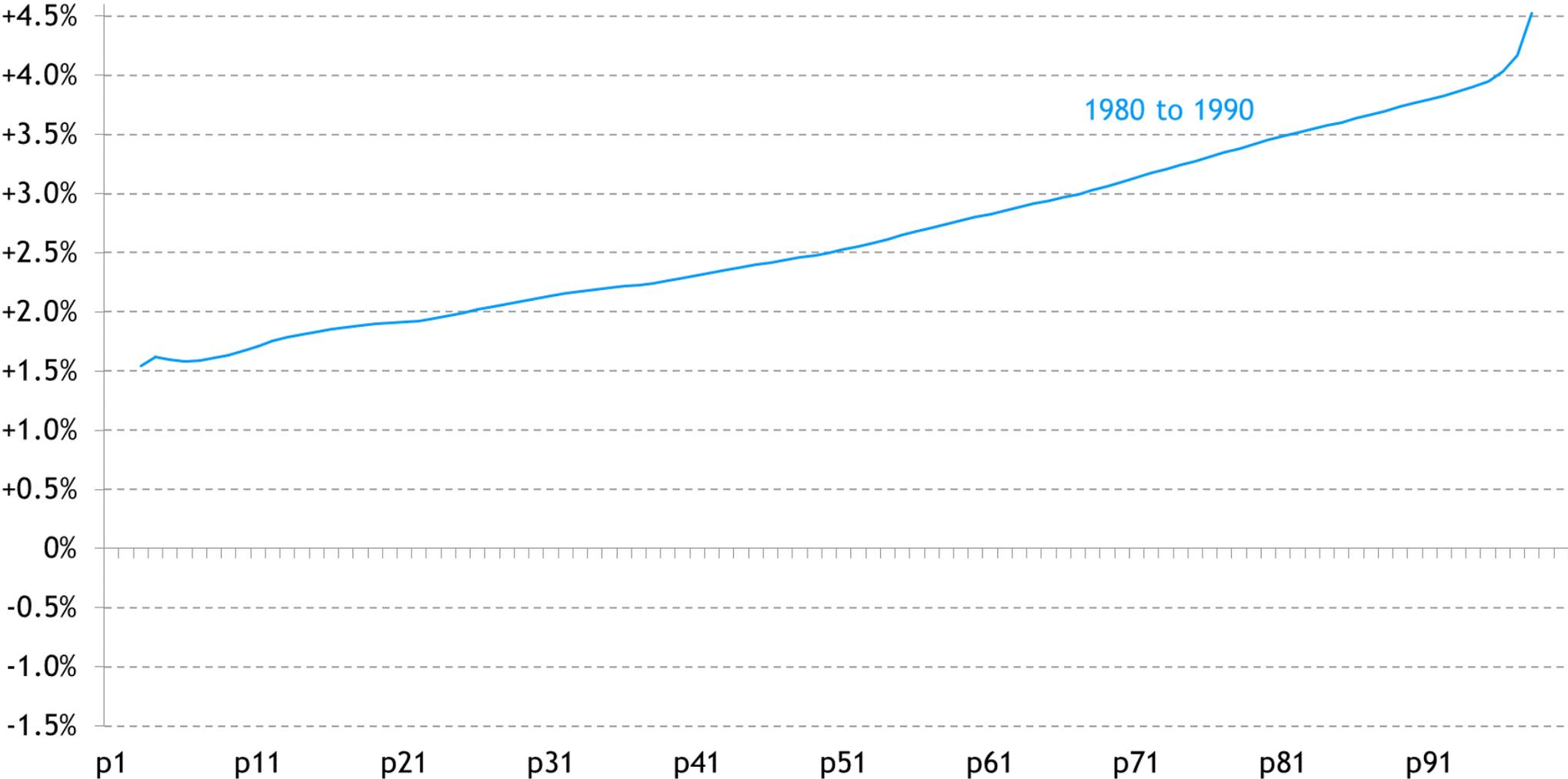


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# The UK decoupling story more closely matches the US one in relation to pay distribution – but once again there are differences



Average annual growth in hourly employee pay by earnings percentile, CPIH-adjusted: UK

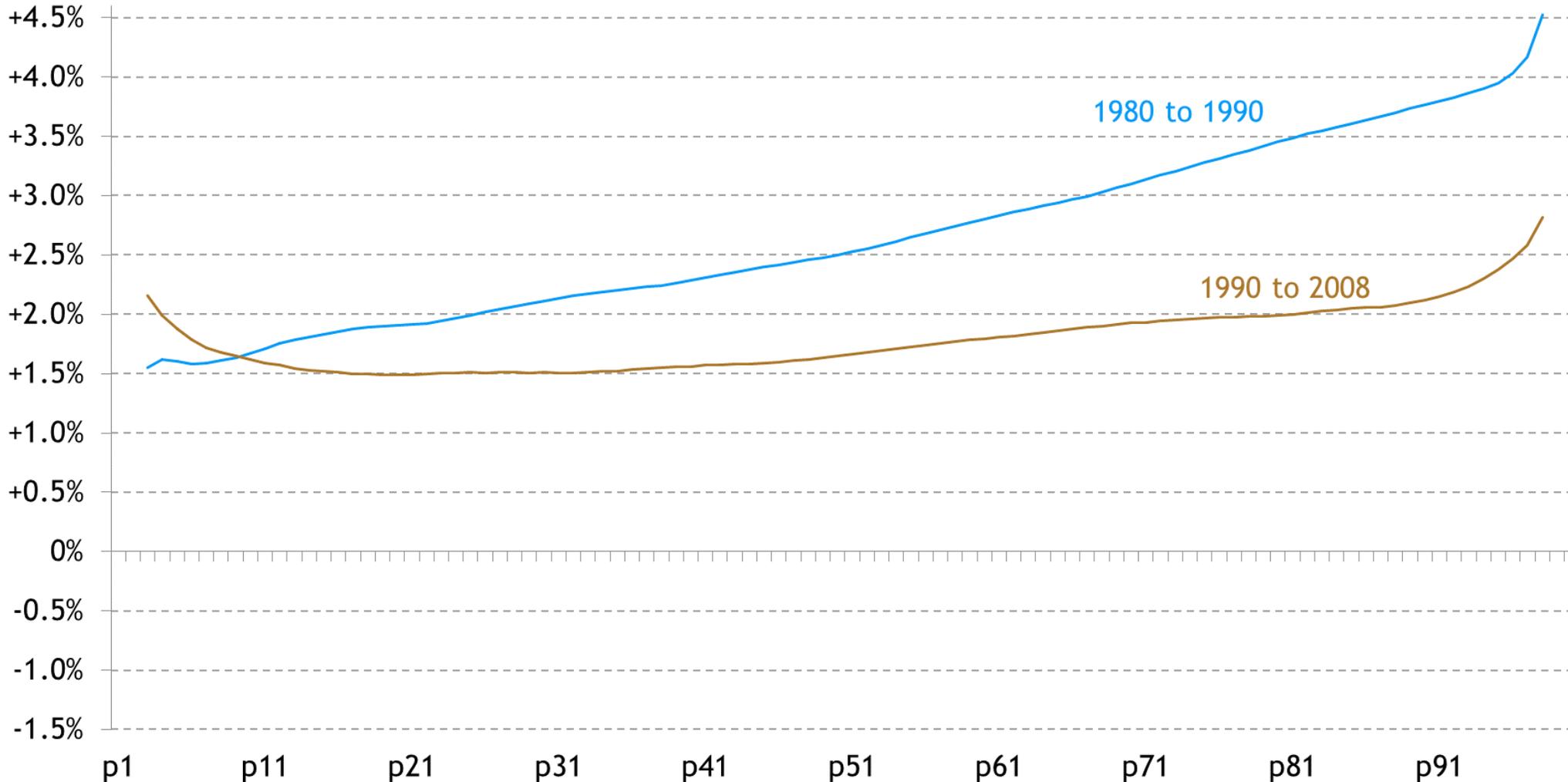


Notes: CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey, various; ONS, Consumer Prices Index including owner occupiers' housing costs (CPIH) historical series: 1988 to 2004, December 2018

# The introduction of the National Minimum Wage supported pay growth at the bottom in the pre-crisis years



Average annual growth in hourly employee pay by earnings percentile, CPIH-adjusted: UK

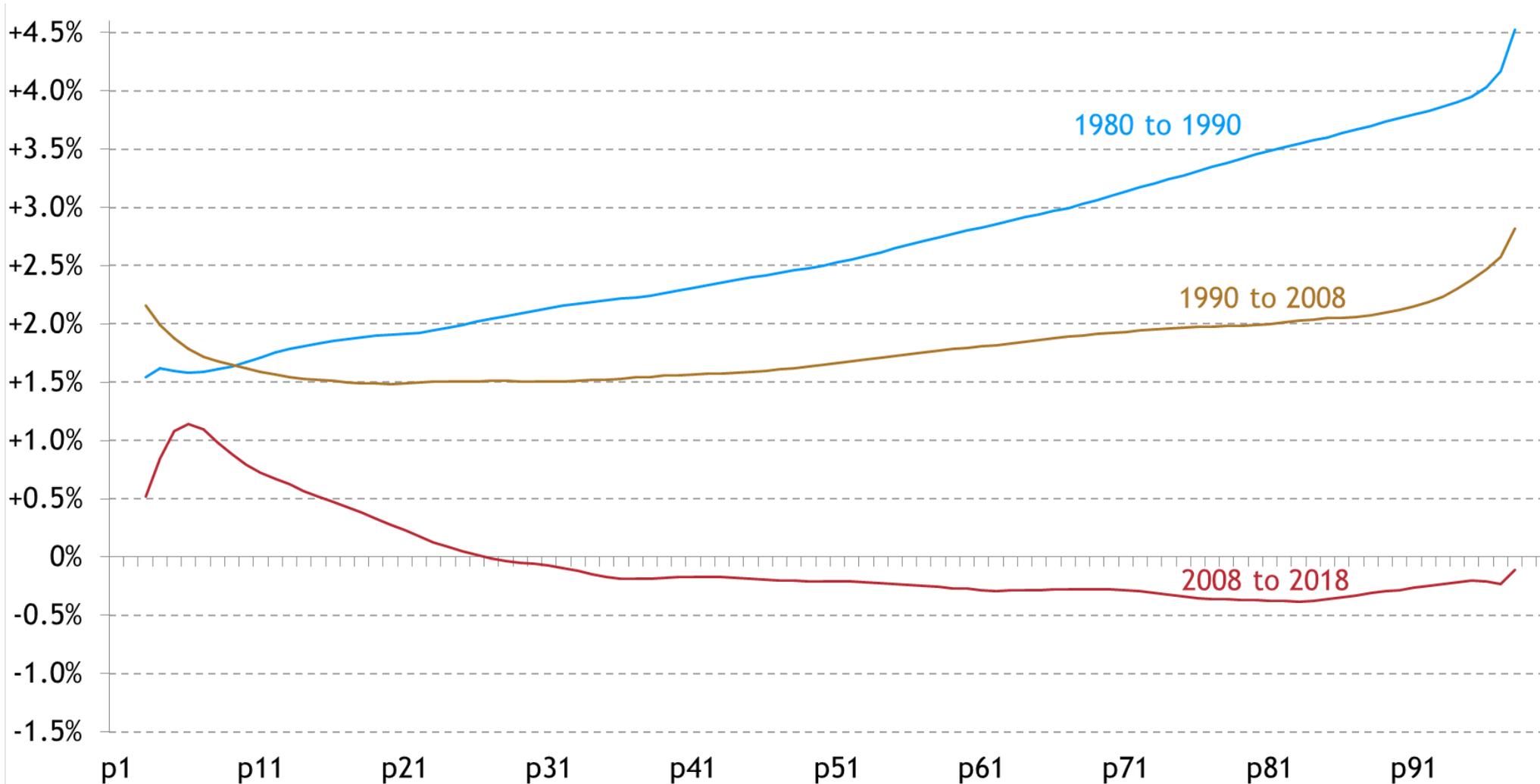


Notes: CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey, various; ONS, Consumer Prices Index including owner occupiers' housing costs (CPIH) historical series: 1988 to 2004, December 2018

# And has likewise provided some protection against the generalised pay squeeze felt post-crisis



Average annual growth in hourly employee pay by earnings percentile, CPIH-adjusted: UK

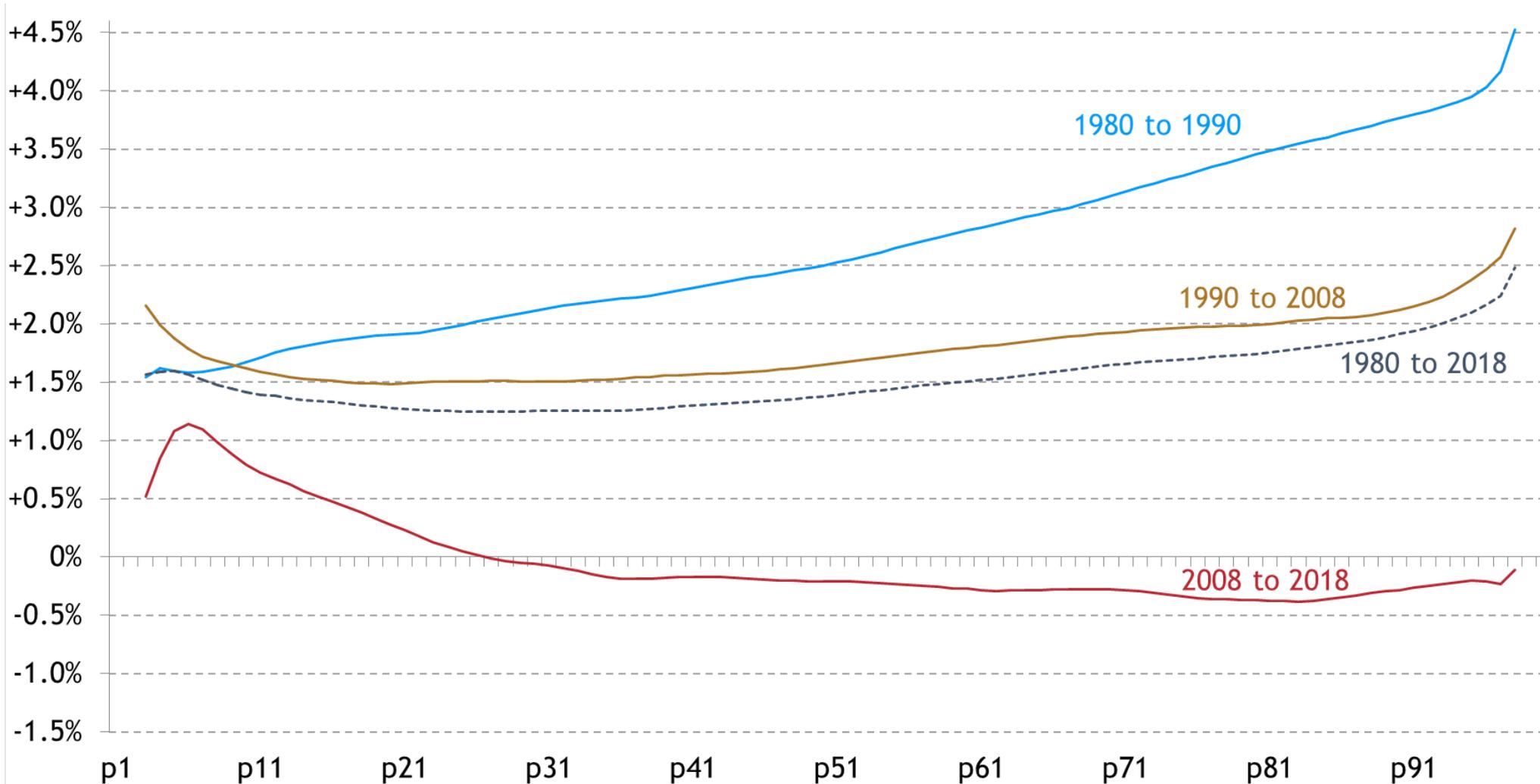


Notes: CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey, various; ONS, Consumer Prices Index including owner occupiers' housing costs (CPIH) historical series: 1988 to 2004, December 2018

# Overall, pay growth has been u-shaped over the longer term – with the slowest growth coming part way up the distribution



Average annual growth in hourly employee pay by earnings percentile, CPIH-adjusted: UK

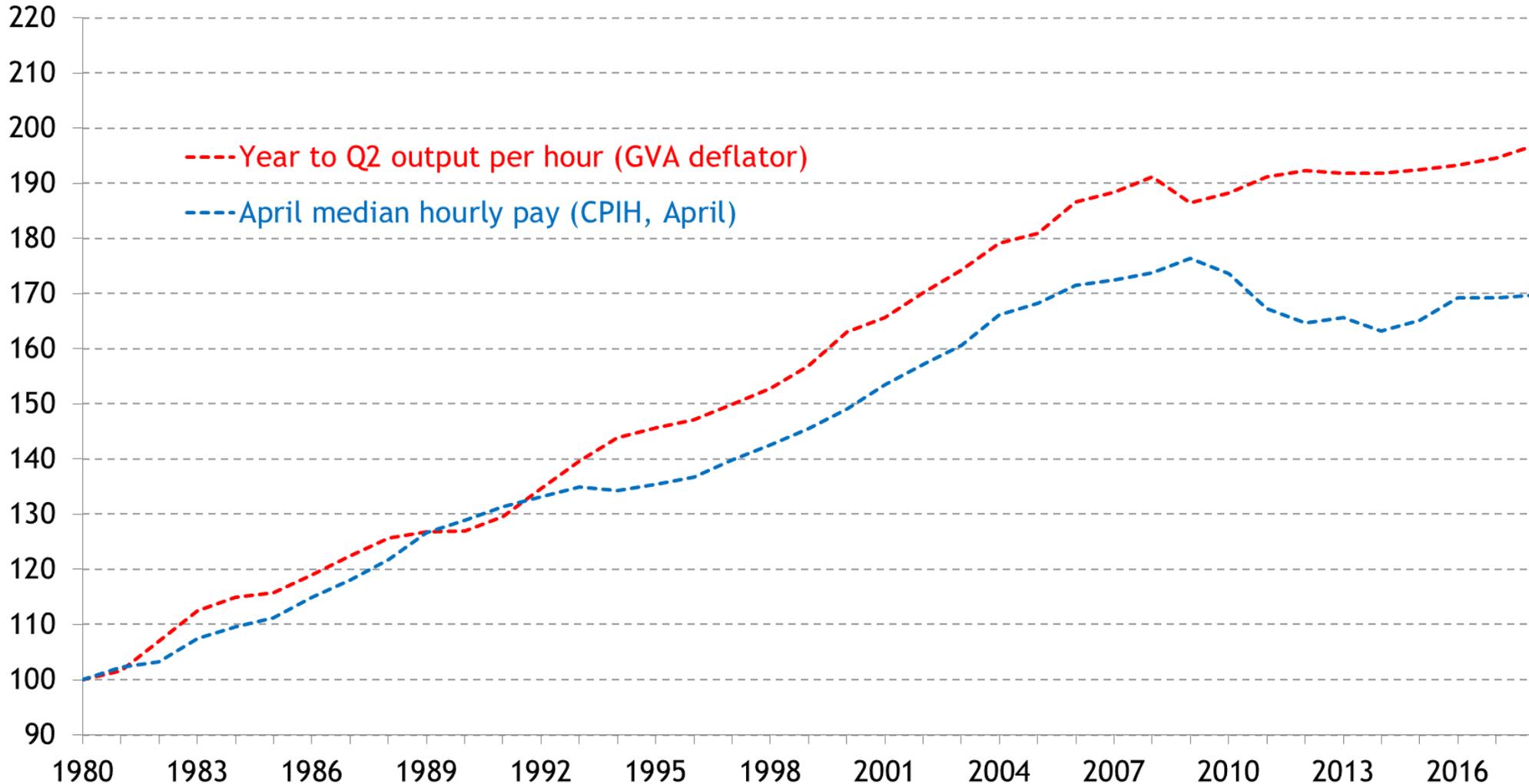


Notes: CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey, various; ONS, Consumer Prices Index including owner occupiers' housing costs (CPIH) historical series: 1988 to 2004, December 2018

# That means the nature of 'decoupling' changes depending on which part of the earnings distribution we focus on (and when)



Indices of real-terms productivity and pay, 1980=100: UK

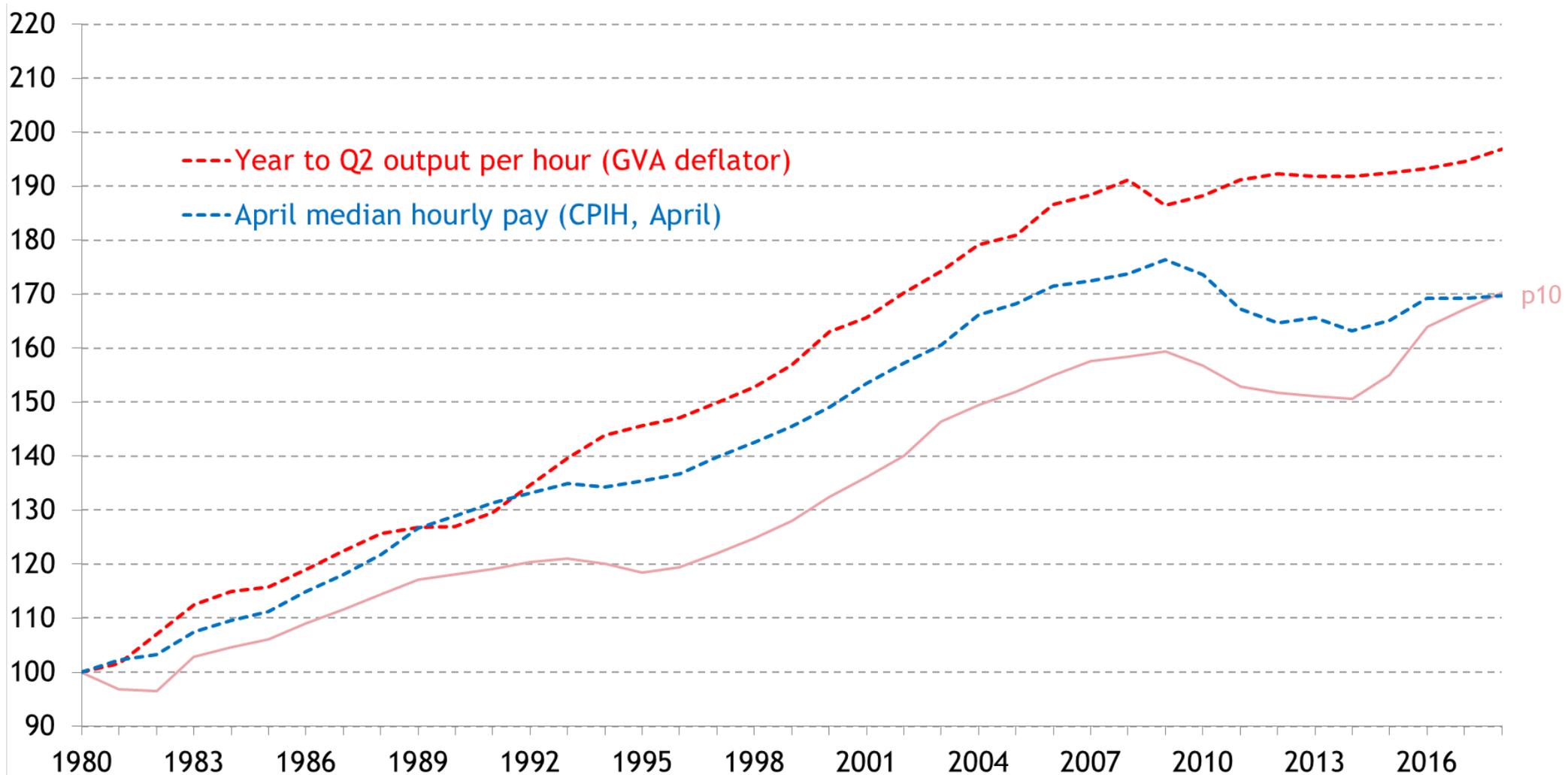


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). The percentile figures are not point estimates, but instead an average across all parts of the sample sitting within that part of the distribution. Source: RF analysis of ONS. National Accounts; ONS. Annual Survey of

# The bottom of the pay scale less closely matched productivity growth in the 1980s, but has narrowed the gap recently



Indices of real-terms productivity and pay, 1980=100: UK

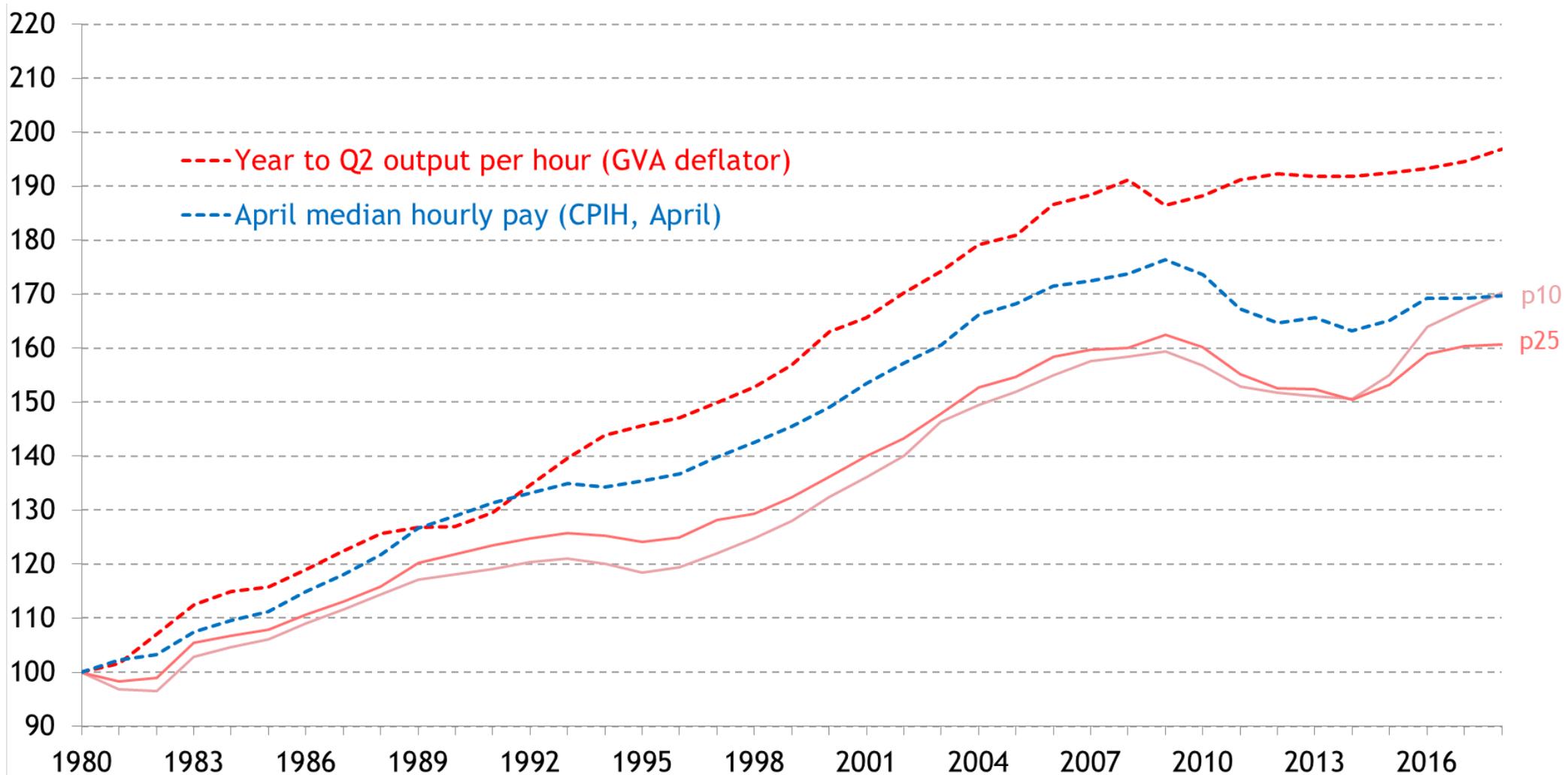


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# Decoupling from average productivity looks most pronounced around one-quarter of the way up the pay distribution



Indices of real-terms productivity and pay, 1980=100: UK

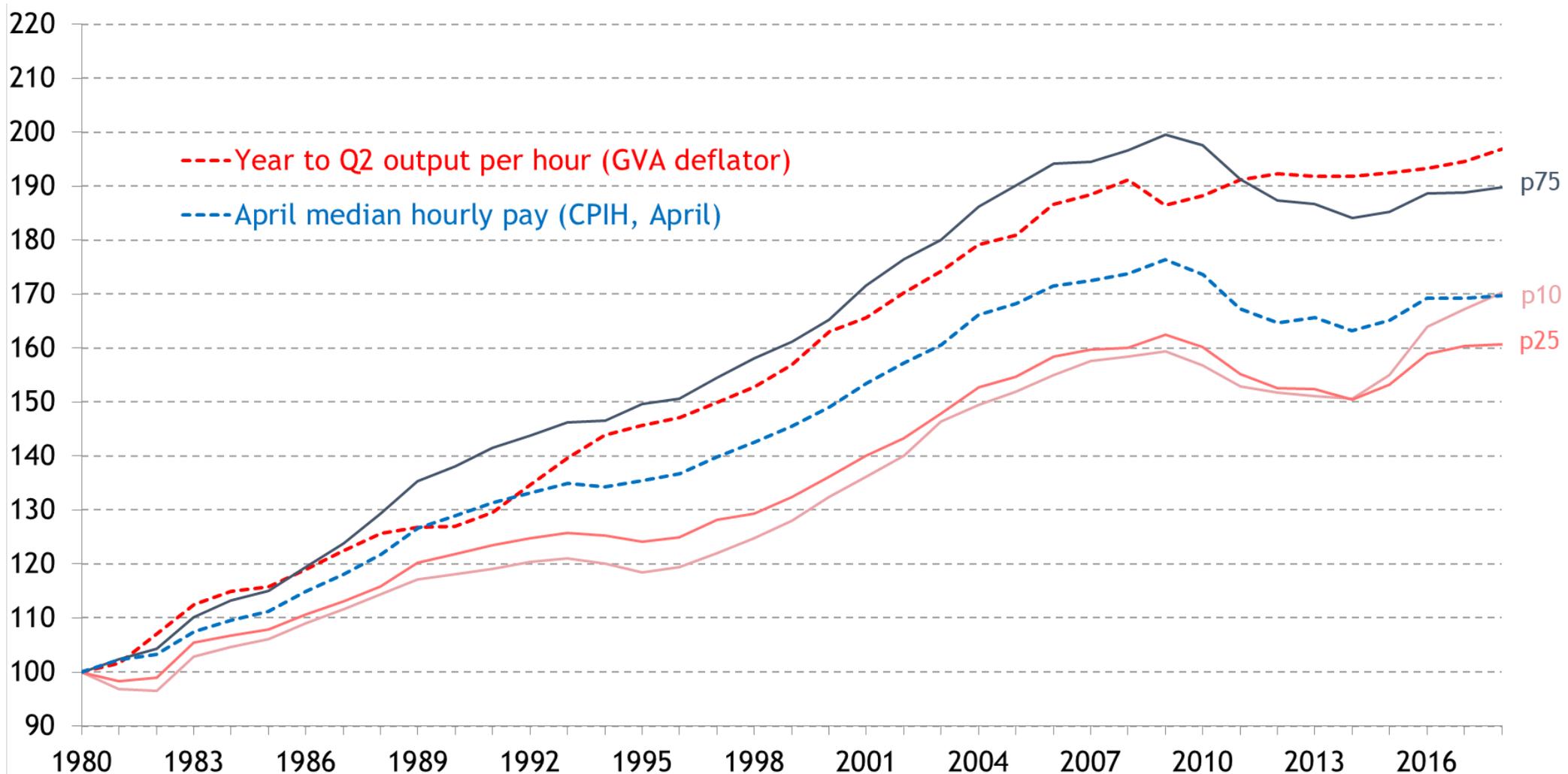


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). The percentile figures are not point estimates, but instead an average across all parts of the sample sitting within that part of the distribution. Source: RF analysis of ONS. National Accounts; ONS. Annual Survey of

# At around three-quarters of the way up the distribution, pay growth is broadly in line with mean productivity growth



Indices of real-terms productivity and pay, 1980=100: UK

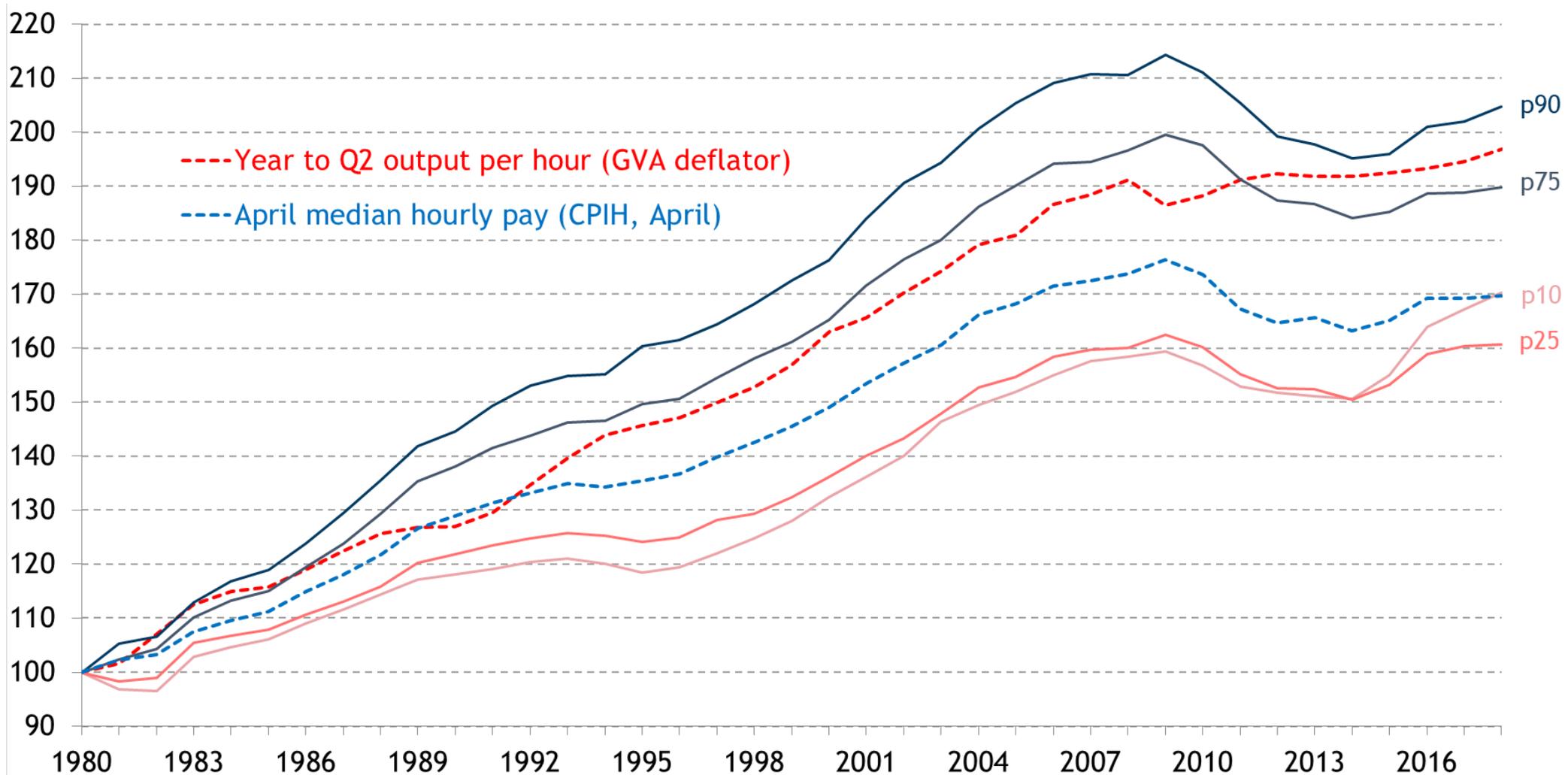


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). The percentile figures are not point estimates, but instead an average across all parts of the sample sitting within that part of the distribution. Source: RF analysis of ONS. National Accounts; ONS. Annual Survey of

# And at the top of the distribution, pay growth has outpaced average productivity growth



Indices of real-terms productivity and pay, 1980=100: UK

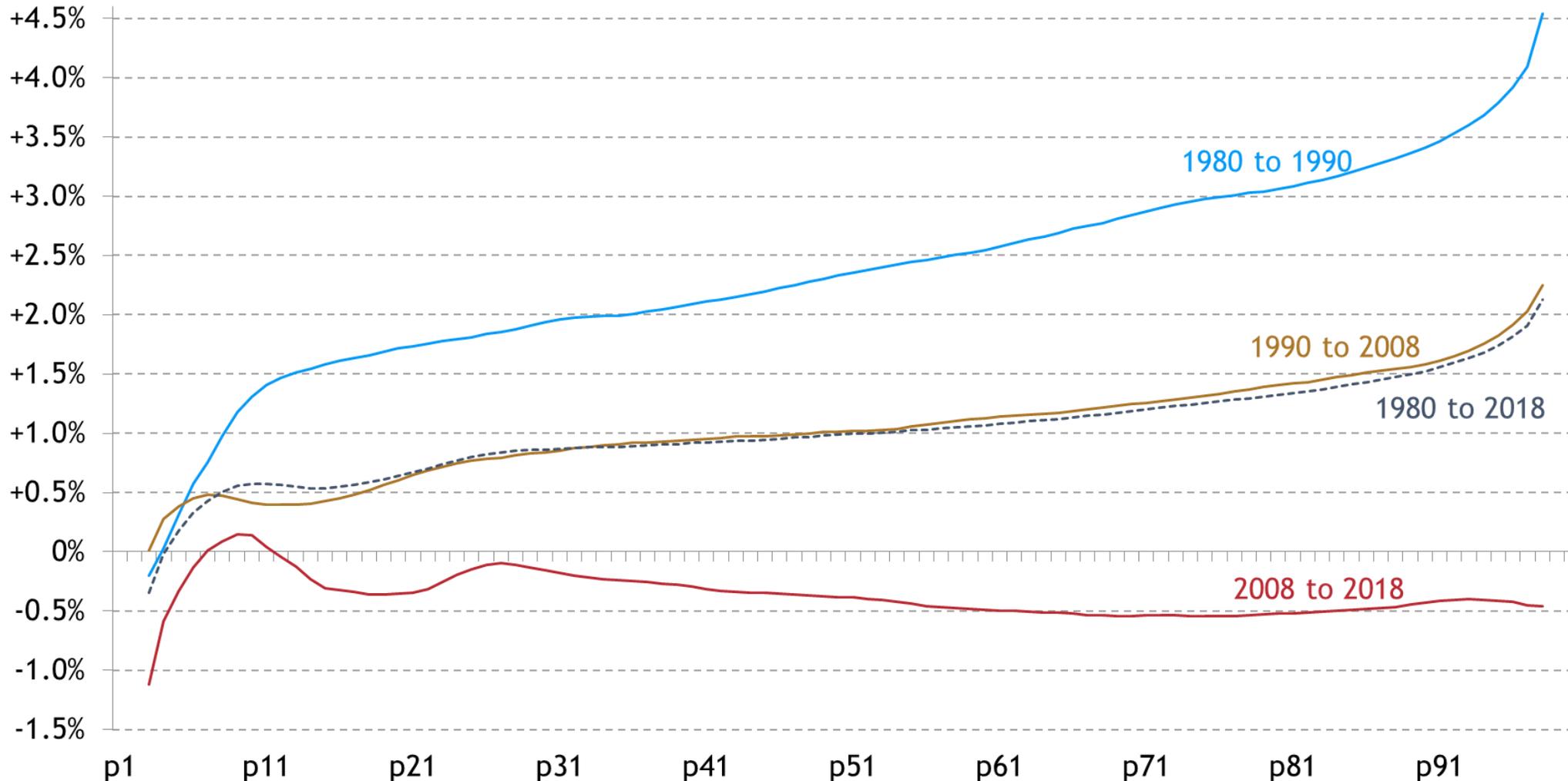


Notes: Data cover hourly wages of all employees and total output (GVA at basic prices) per hour worked by all workers (including the self-employed). Output is deflated using the GVA deflator, while pay is deflated using the CPIH deflator. Median wage data refers to April, so we contrast this with GVA in each year in the four quarters ending Q2 (on the basis that pay is a product of observed, rather than projected, productivity). The percentile figures are not point estimates, but instead an average across all parts of the sample sitting within that part of the distribution. Source: RF analysis of ONS. National Accounts; ONS. Annual Survey of

# Focusing instead on *weekly* pay, we see that growth has been more straightforwardly downward sloping over the longer term



Average annual growth in weekly employee pay by earnings percentile, CPIH-adjusted: UK

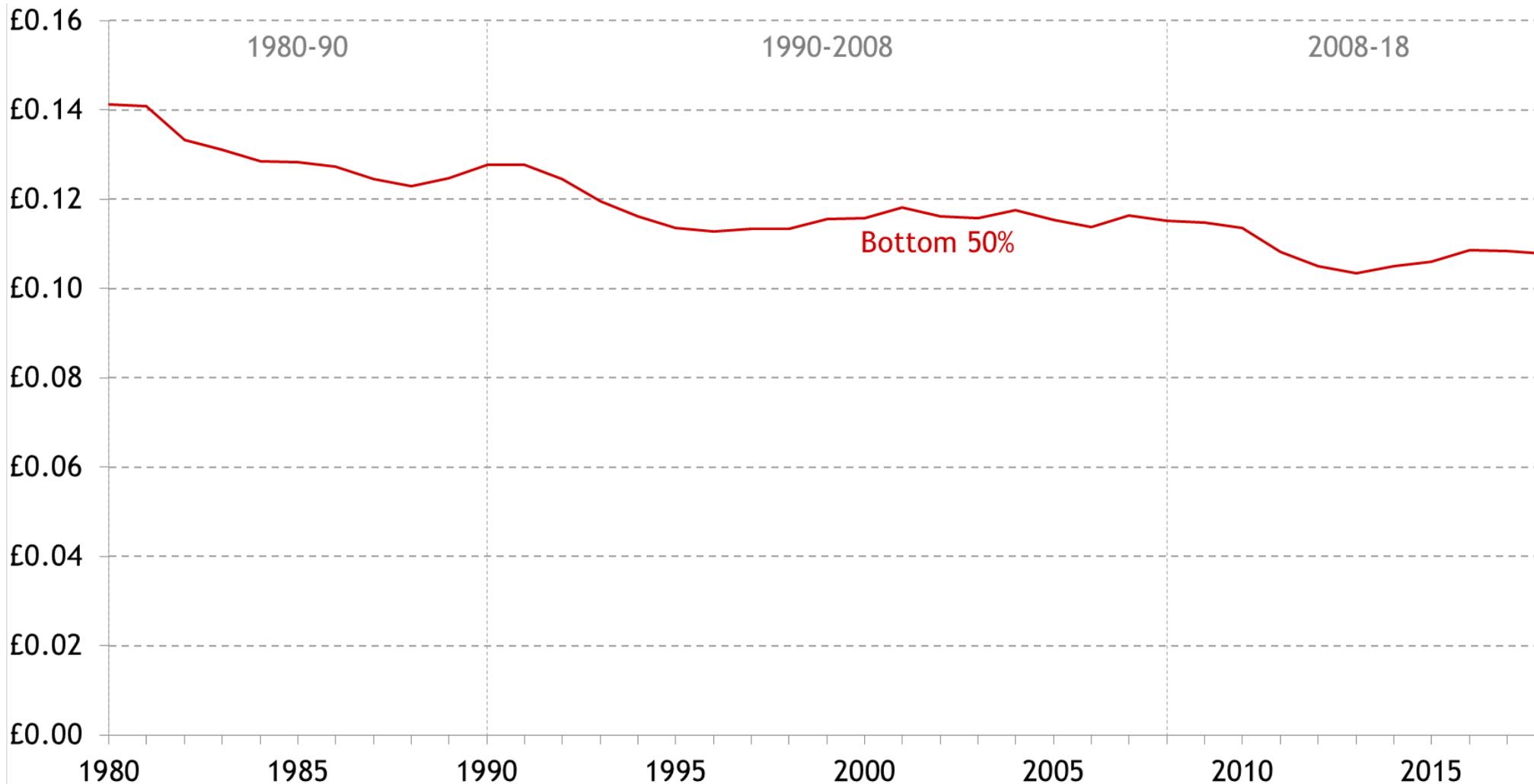


Notes: CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS, Annual Survey of Hours and Earnings and New Earnings Survey, various; ONS, Consumer Prices Index including owner occupiers' housing costs (CPIH) historical series: 1988 to 2004, December 2018

# Meaning the share of total GVA flowing into the pay packets of the bottom half of employees *has been falling*



Part of every £1 GVA paid as wages to different parts of the employee weekly earnings distribution, UK

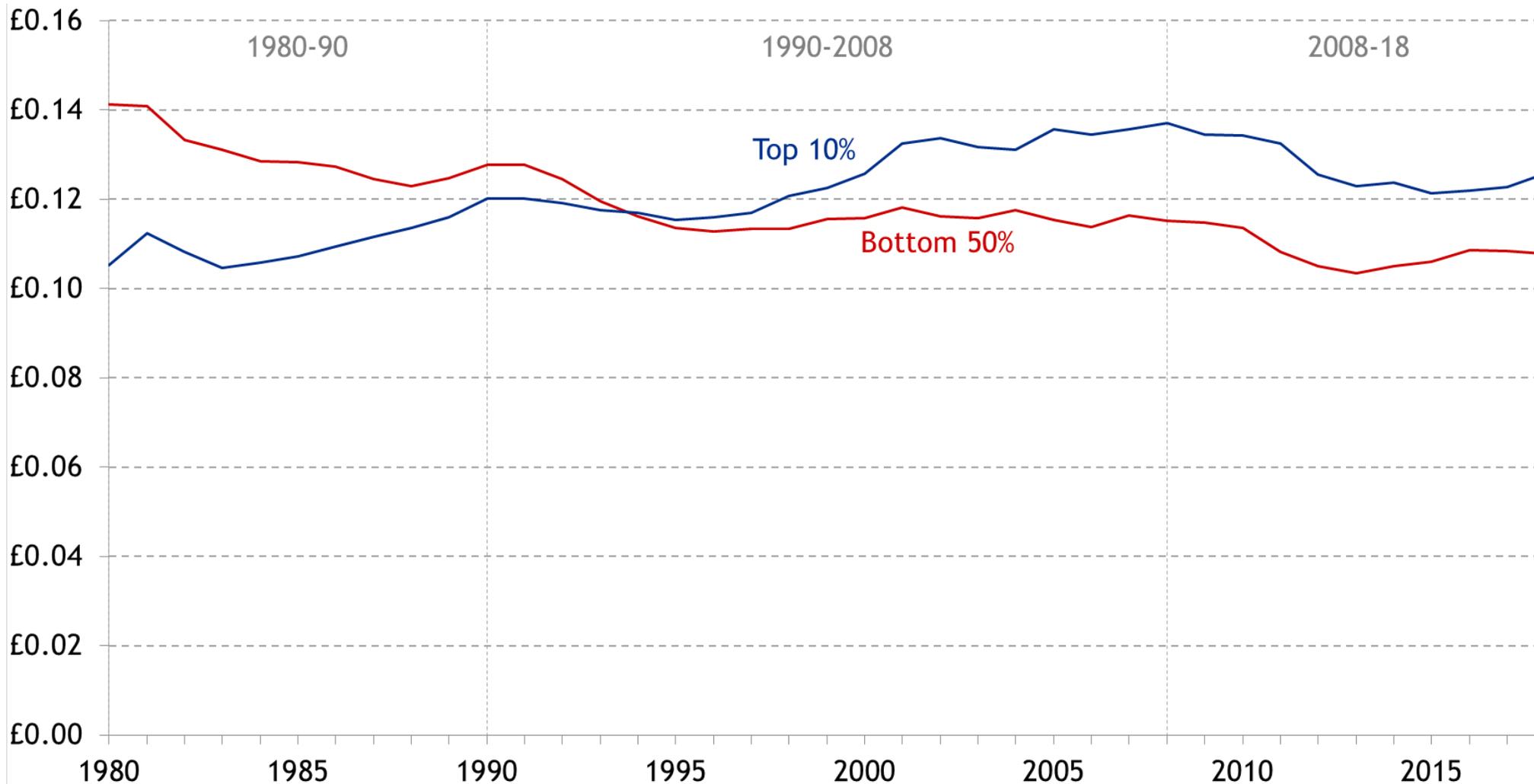


Notes: This analysis considers how much real-terms GVA (GVA-deflated) flows as real-terms wages and salaries (CPIH-deflated) to different parts of the weekly earnings distribution. CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS. National Accounts; ONS. Annual Survey of Hours and Earnings; ONS. New Earnings Survey

# While the share flowing to the top has increased (despite the drop in the labour share and wage share of income)



Part of every £1 GVA paid as wages to different parts of the employee weekly earnings distribution, UK

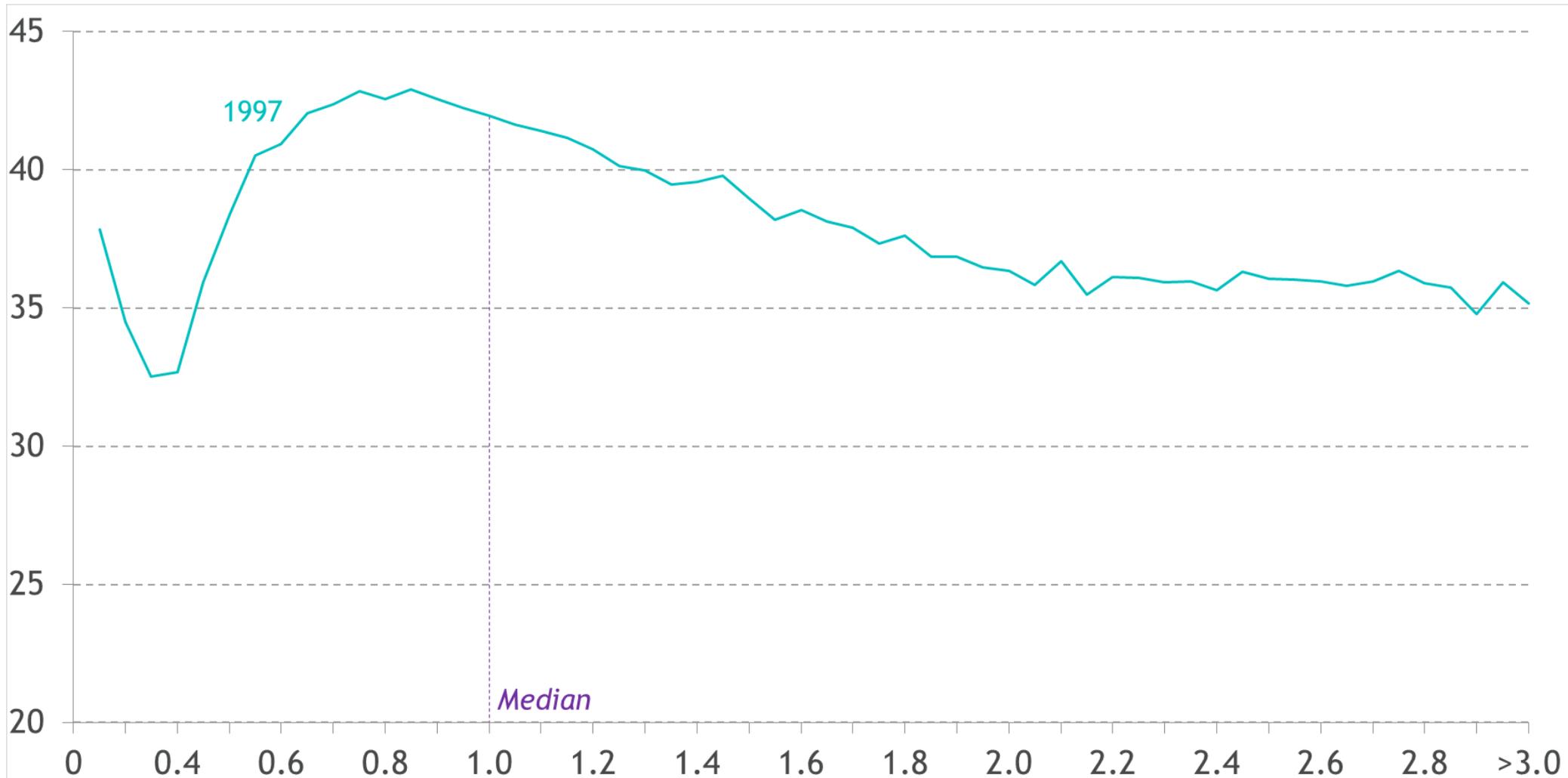


Notes: This analysis considers how much real-terms GVA (GVA-deflated) flows as real-terms wages and salaries (CPIH-deflated) to different parts of the weekly earnings distribution. CPIH is only available as a 'National Statistic' from 2005 onwards. The ONS has modelled a historical CPIH series from 1988 and, prior to that, we construct our own version by adjusting the RPI for both the estimated 'formula effect' (which drives a difference between RPI and CPI) and the imputed rents deflator from the National Accounts. Source: RF analysis of ONS. National Accounts; ONS. Annual Survey of Hours and Earnings; ONS. New Earnings Survey

# But this owes something to changes in working patterns too – with lower paid men undergoing a particularly marked shift



Average hours worked by male employees in each pay band relative to median hourly pay: UK

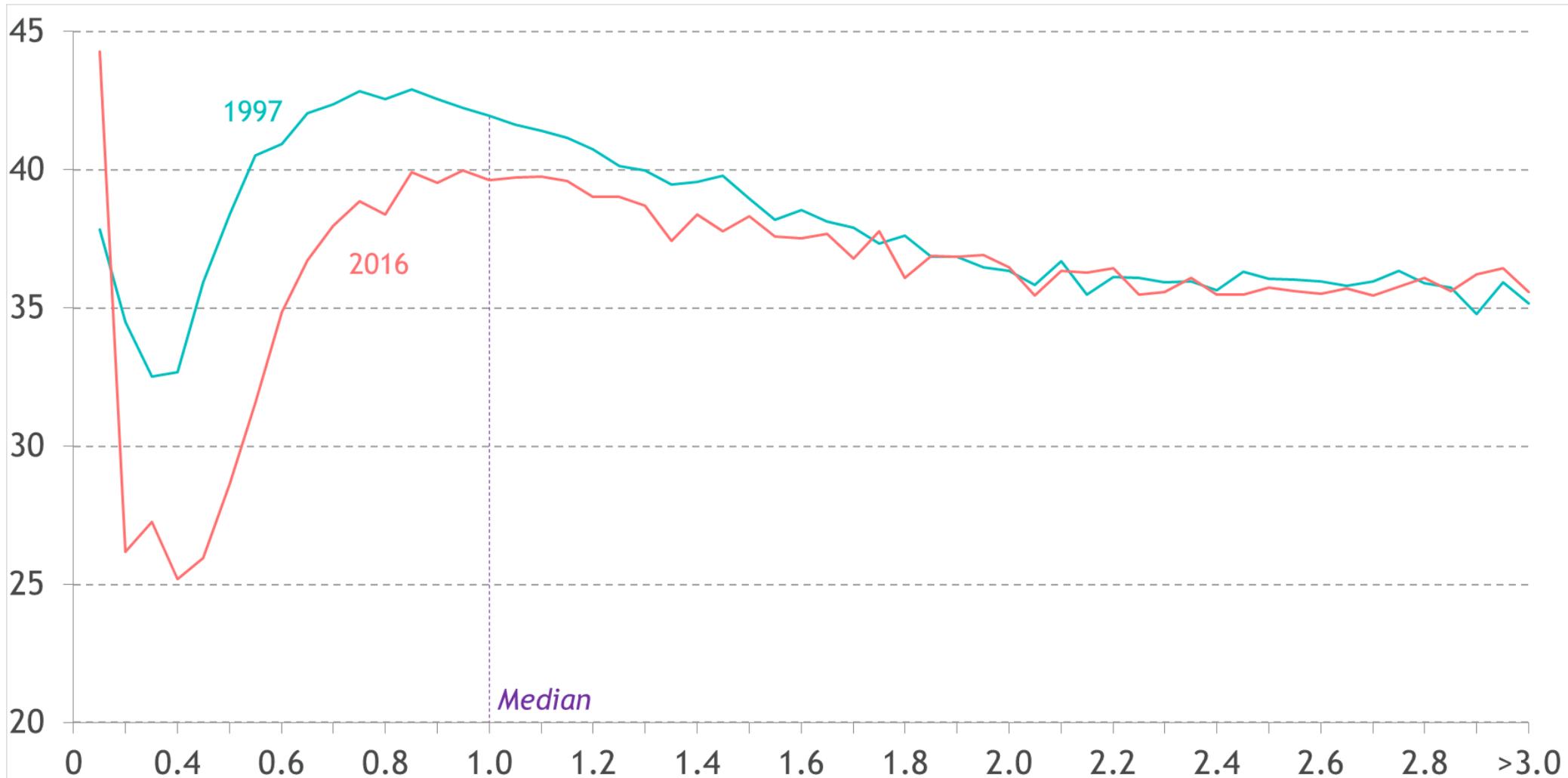


Source: RF analysis of ONS, Annual Survey of Hours and Earnings

# But this owes something to changes in working patterns too – with lower paid men undergoing a particularly marked shift



Average hours worked by male employees in each pay band relative to median hourly pay: UK



Source: RF analysis of ONS, Annual Survey of Hours and Earnings

# Conclusion

A rising tide *can* still lift all boats

# The notion of a 'decoupling' of pay from productivity growth is persuasive, but the headline results tell us only so much

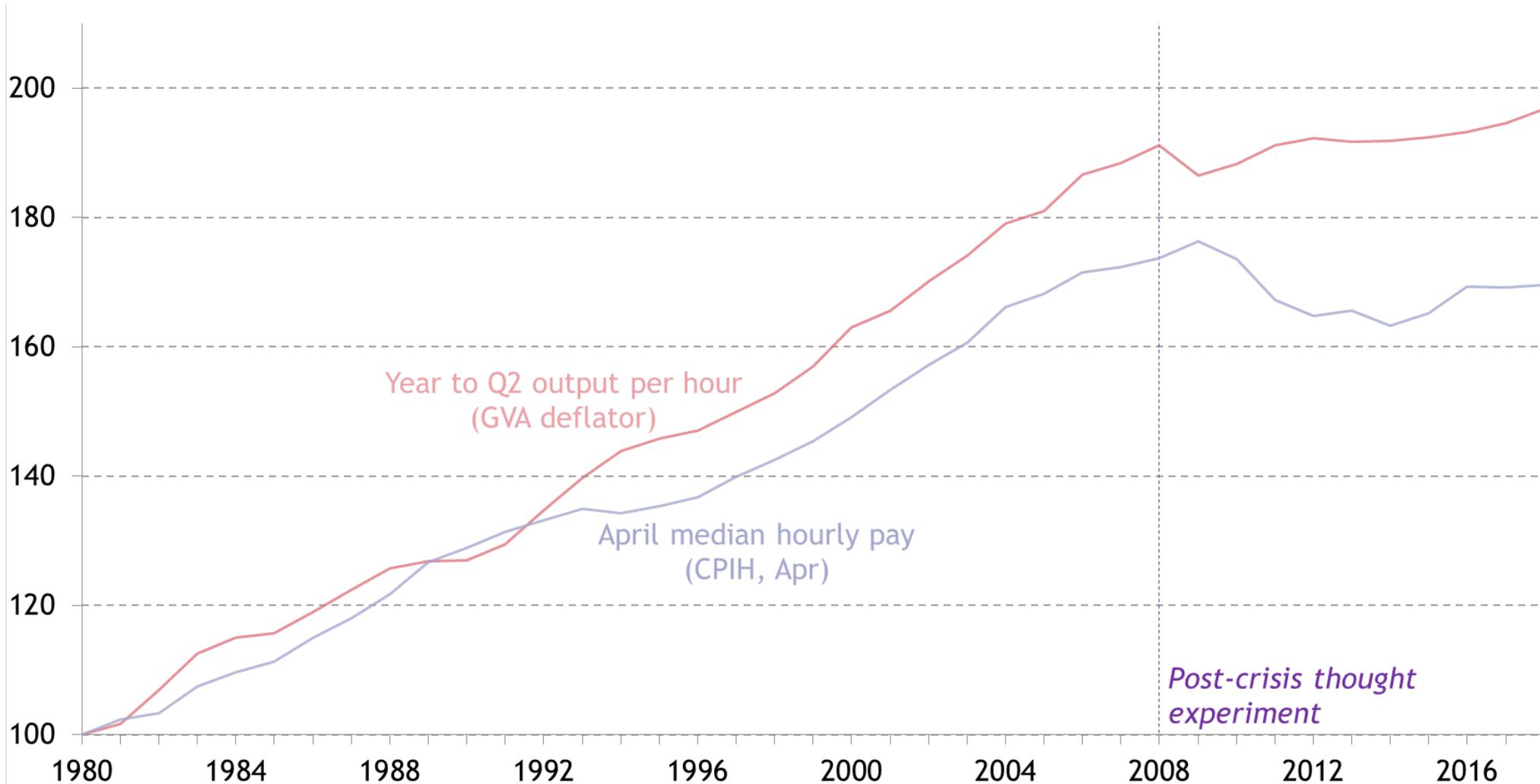


- The UK isn't the US: decoupling may be present in both countries, but the drivers are very different
- UK exceptionalism needs better understanding: the UK's labour share experience pushes back against fatalism and could offer clues for future pay gains
- Earnings inequality is at the heart of the story: an individual's relationship with aggregate productivity growth rests on where they are in the distribution (and where they are relative to overall output rests also on the hours they work)
- The size of the pie matters too: post-crisis, the pay problem has less to do with decoupling and more to do with productivity stagnation

# A simple thought experiment highlights the continued importance of productivity to pay growth...



Indices of real-terms productivity and pay, 1980=100: UK

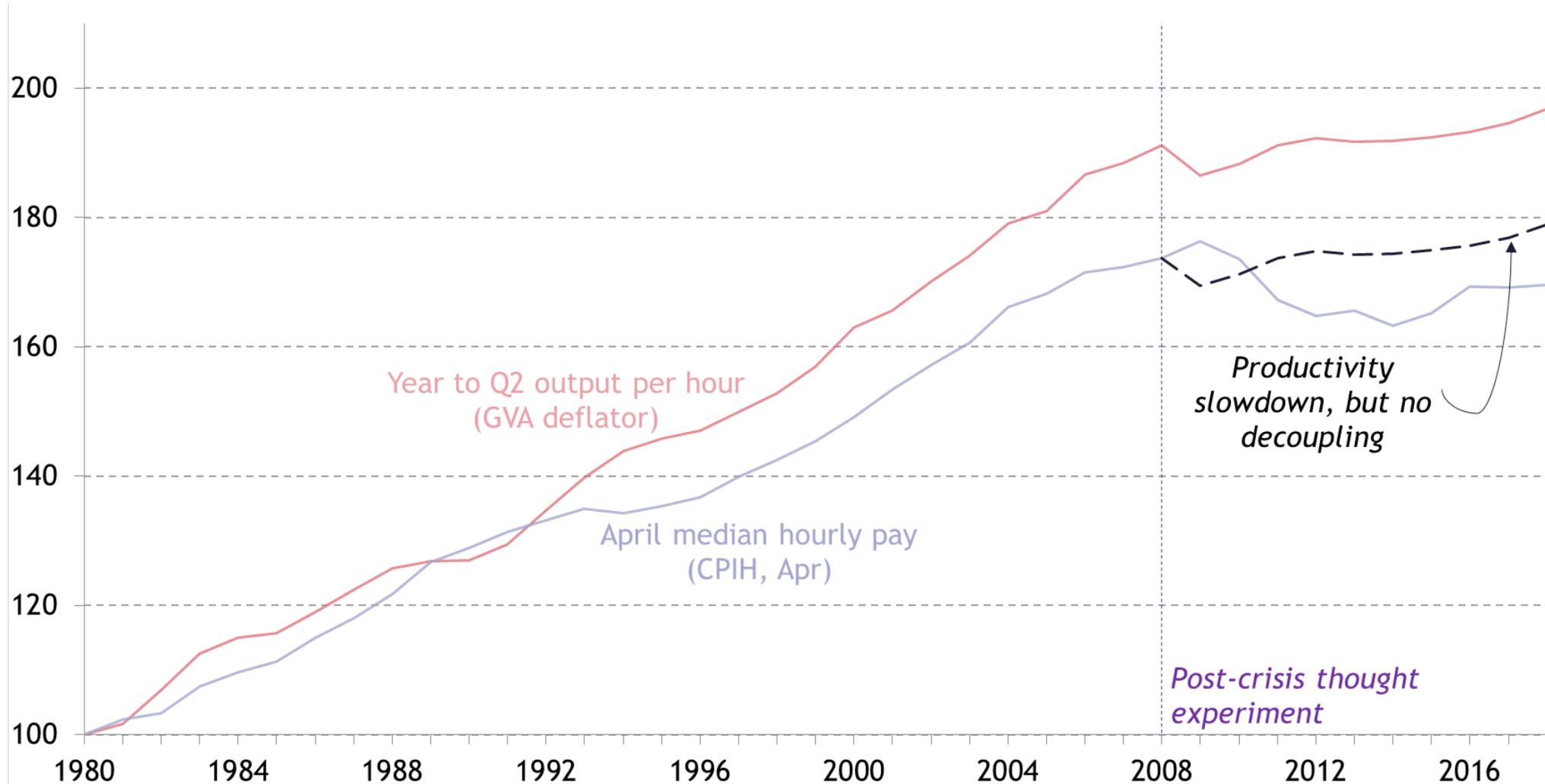


Notes: In the 'post-crisis thought experiment' period, we increase the productivity measure in line with the average growth rate recorded between 1980 and 2008 (2.2 per cent). We then maintain the same relationship between our counterfactual median pay measure and this constructed productivity one as exists in the outturn data between productivity and median pay. Source: RF analysis of ONS, National Accounts, ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

*..in the absence of any post-crisis decoupling, median pay would today stand around 5% higher (£1,230 on a fulltime basis)...*



Indices of real-terms productivity and pay, 1980=100: UK

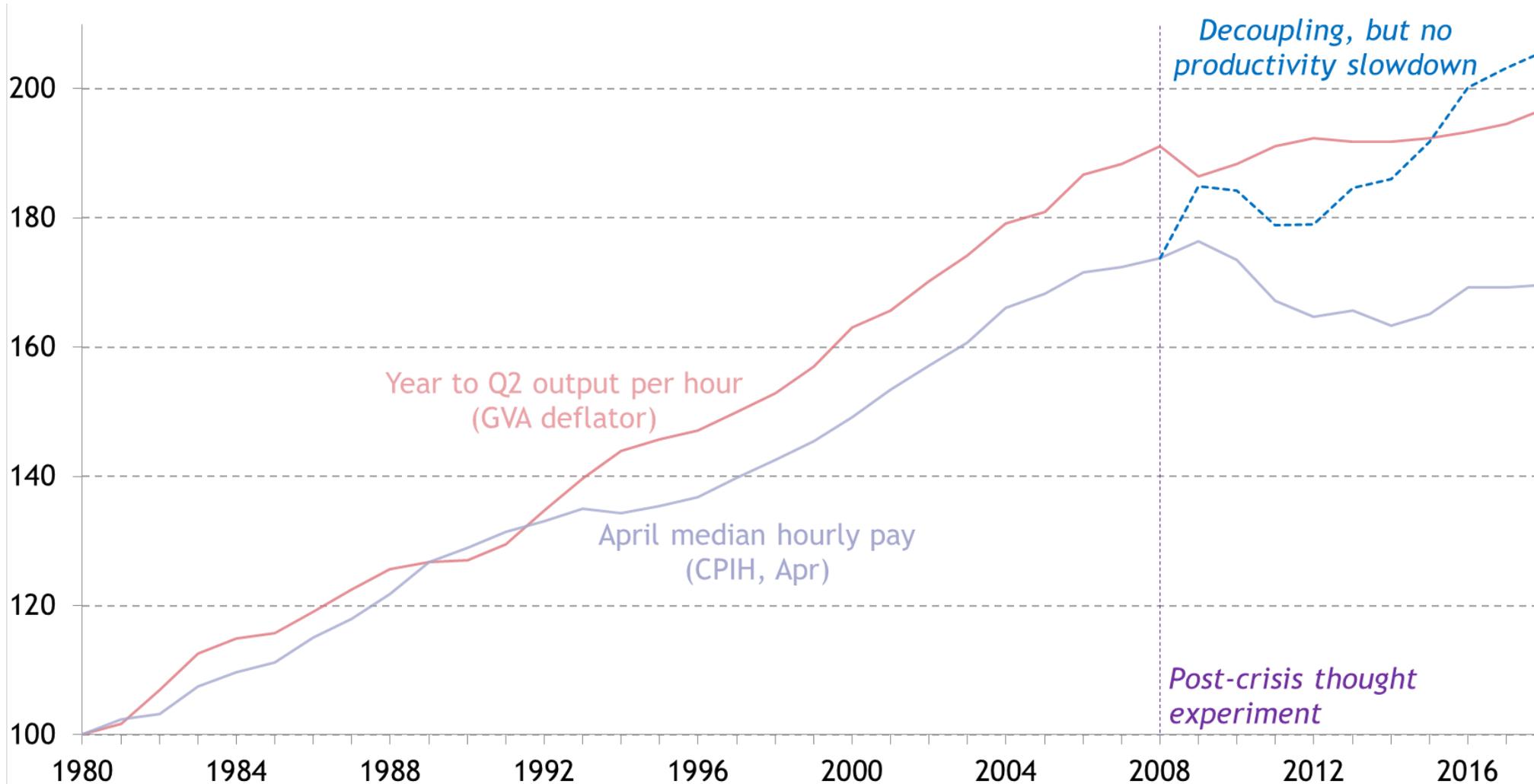


Notes: In the 'post-crisis thought experiment' period, we increase the productivity measure in line with the average growth rate recorded between 1980 and 2008 (2.2 per cent). We then maintain the same relationship between our counterfactual median pay measure and this constructed productivity one as exists in the outturn data between productivity and median pay. Source: RF analysis of ONS, National Accounts, ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

*..but if we instead model the same level of decoupling but no productivity slowdown, median pay is 22% higher (£5,500 a year)*

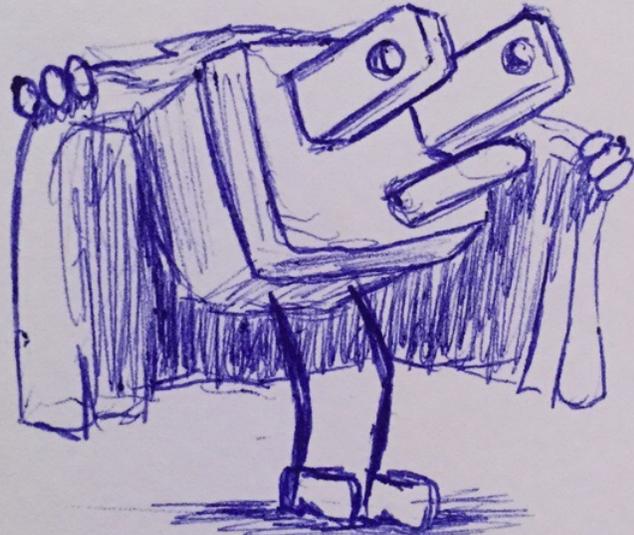


Indices of real-terms productivity and pay, 1980=100: UK



Notes: In the 'post-crisis thought experiment' period, we increase the productivity measure in line with the average growth rate recorded between 1980 and 2008 (2.2 per cent). We then maintain the same relationship between our counterfactual median pay measure and this constructed productivity one as exists in the outturn data between productivity and median pay. Source: RF analysis of ONS, National Accounts, ONS, Annual Survey of Hours and Earnings; ONS, New Earnings Survey

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*Exploring the link between  
UK growth and workers'  
pay packets*

Matt Whittaker

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