Wage inequality in the UK has risen dramatically in the UK over the past three decades. According to Professor Stephen Machin, research director of the Centre for Economic Performance (CEP), increasing inequality has been due to a combination of ‘skill-biased technological change’ and institutional changes affecting the labour market, such as the decline of unions.

In the latest of CEP’s 21st birthday lectures, at 6.30pm on Tuesday 15 March, Professor Machin, who is a member of the Low Pay Commission and the National Equality Panel, will describe the key features and explanations of changes in UK labour market inequality:

- In the 1980s, inequality rose significantly, and at both the top and bottom ends of the wage distribution – the upper and lower tails. A key aspect to this was rising wage gaps between more and less educated workers – in other words, the wage ‘returns’ to education rose.

- ‘Skill-biased technological change’ was an important force generating greater labour market inequality. This consists of technological advances that benefit more skilled workers and are detrimental to the wages and employment prospects of less skilled workers. As these technologies diffused into modern workplaces, the relative wages of skilled versus unskilled workers rose.

- The rapid decline of trade unions, which had traditionally propped up the wages and employment of low-skilled workers, also played a role in rising lower tail inequality.

- The next two decades proved somewhat different. In the 1990s, wage inequality continued to rise but at a more muted pace. In the 2000s, ‘lower tail’ inequality narrowed but ‘upper tail’ inequality continued to expand.

- These shifts are partly explained by a more nuanced story of skill-biased technological change, in which technological advances damage the wage prospects of workers in jobs that can be replaced by machines and computers – those jobs that require workers to perform routine tasks. At the same time, jobs requiring workers to do more complex, non-routine tasks cannot be replaced or downgraded in terms of the wages they pay in the same way.

- So it was not only unskilled workers on the production line who saw their jobs disappear and wages fall, but also those relatively skilled workers like bank clerks who performed routine clerical tasks. Their jobs were increasingly replaced by computers such as ATM machines.

- There has been a growing polarisation of the labour market. At the top end of the occupational structure, job growth since the late 1970s has been rapid – and wages have
risen significantly. But the middle has hollowed out, as the jobs that could be replaced by automation have been lost. At the bottom end, there remain jobs that cannot be replaced by machines or computers – like cleaning or caring jobs – and the demand for some very low wage jobs has risen.

* The introduction of the National Minimum Wage in April 1999 has also been important in securing sizable relative wage gains for low paid workers in the 2000s and thus contributed to the more recent narrowing of lower tail inequality.

Professor Machin will conclude:

'The increase in wage inequality is an international phenomenon driven by increases in the demand for more skilled workers.

'There is relatively little that any government can do about this in the long term: the best policy is to keep improving the skills of the workforce through education and training.

'Keeping the supply of highly educated workers up should (as long as these workers acquire internationally competitive skills) moderate trend shifts in demand.

'Coupled with a sensible approach on the role of labour market institutions, there is no need for there to be continually rising wage inequality.'

ENDS