THE GIG ECONOMY; MANAGEMENT; INEQUALITY; LATER LIFE OUTCOMES

New research from the Centre for Economic Performance in the Autumn 2019 CentrePiece magazine

New research reports from the Centre for Economic Performance (CEP) at the London School of Economics are highlighted in the Autumn 2019 CentrePiece magazine.

As CEP approaches its thirtieth birthday in 2020, emerging policy challenges – including ‘the gig economy’, ‘the rise of the robots’ and growing inequalities – are a central focus of the research agenda – and each features in this issue.

Other themes include the powerful influence of ‘structured’ management practices on firms’ performance; the positive contribution of universities to their local economies; and the effect of early life experiences on later earnings and wellbeing outcomes. The magazine reports new evidence about the importance of where you’re born, which generation you’re born into and the financial circumstances of your childhood.

Among the findings:

• GIG ECONOMY: Workers like flexibility but would prefer to have a steady job
• OCCUPATIONAL DECLINE: Consequences of machines replacing people
• POLAND: From one of the most egalitarian countries in Europe to high inequality
• PEOPLE MANAGEMENT: How firms can recruit and retain the best employees
• UNIVERSITIES: The positive contribution to business and local economies
• GENERATION GAP: Young Brits less likely to ‘do better’ than their parents
• FINANCIAL DISTRESS IN CHILDHOOD: The impact on later life outcomes
• BIG CITY, BRIGHT FUTURE: Why birthplace matters so much for earnings

The gig economy and workers’ preferences for steady jobs

While workers in the gig economy may like flexibility, they would prefer to have a steady job. Indeed, on average, they would be willing to give up roughly half of their hourly wage for a permanent contract.

That is the conclusion of research by Nikhil Datta, which investigates whether the increasing prevalence of freelancing, zero hours contracts and self-employment in the UK and the United States is a result of people wanting such work or because they have no other choice.
The study finds that most people prefer job characteristics associated with traditional employer-employee relationships. Contract length, holiday pay and sick pay are the most valued job characteristics. And over half of self-employed people in the UK would prefer to work in a permanent ‘9-to-5’ job.

**When machines replace people: individual consequences of occupational decline**

What happens to people’s careers when demand for their occupations declines, often as a result of technological change? Guy Michaels and colleagues’ analysis of detailed occupational data on Swedish workers over several decades indicates that while average losses in earnings and employment are relatively moderate, low-earners lose significantly more. They conclude that helping workers to stay productive when they face occupational decline is an important challenge for governments.

In thinking about the impact of technological change on work, the study notes that it is important to ask not only ‘will robots take my job?’, but also ‘what would happen to my career if robots took my job?’ On average, workers in declining occupations lose between 2% and 5% of cumulative earnings, compared with other similar workers. Workers with low initial earnings lose between 8% and 11% of average cumulative earnings.

The researchers also find that workers aged 25-36 exposed to occupational decline lost two to six months of employment over the next 28 years. Both the earnings and employment losses reflect more time spent in unemployment and retraining.

**Between communism and capitalism: long-run inequality in Poland**

Within one generation, Poland has moved from being one of the most egalitarian countries in Europe to one of the most unequal. Research by Pawel Bukowski and Filip Novokmet charts a century of data on Polish inequality, 1892-2015, to examine the key causes.

Their work illustrates the central role of policies and institutions in shaping long-run inequality. For example, labour market liberalisation and privatisation during the transition from communism instantly increased inequality. A further rise of Polish inequality is not inevitable: the future will depend on institutions and policies.

**Structured management: how firms can hire and keep the best people**

Firms’ decisions about whom to hire and fire have big effects, not only on their own bottom line but also on the functioning of the labour market and the performance of the whole economy. Analysis of Brazilian data by Daniela Scur and colleagues demonstrates the value of ‘structured’ management practices for better quality recruitment and retention – and improved productivity.

Their research shows that firms with structured management practices hire better, retain better and fire more selectively. Firms that are better at hiring tend to have better job matches and generally need to fire fewer workers. Both operations and people management practices are correlated with better managers at a firm.

**Business benefits of local universities: more skills and better management**

Universities are widely seen as a source of strength for local economies. Research by Andy Feng and Anna Valero confirms their potential contribution to business: firms closer to universities tend to hire better managers and workers, and have better management practices. In contrast, firms further away from universities have fewer skilled workers and managers; on average, they are worse managed.

The effects seem to be driven by universities raising the supply of skilled workers and hence reducing the cost. Skills are expensive when they are relatively scarce in a location and cheap when abundant.
The researchers conclude that a combination of policies to raise general human capital and improve management practices will provide higher pay-offs.

**Generation gap: young Brits less likely to ‘do better’ than their parents**

Doing better financially than your parents is an important marker of success, and for much of the last half century, real earnings growth in the UK was strong enough that most young people achieved this milestone. But research by Jo Blanden, Stephen Machin and Sumaiya Rahman shows that plummeting earnings since the Great Recession mean that fewer young adults now are earning more than their fathers.

Their study finds that falling real wage growth is central to the fall in absolute earnings mobility. Millennials are worst hit by the decline in absolute mobility in the UK.

**The long-term effects of financial distress in childhood**

Is there a relationship between childhood circumstances and outcomes later in life? Andrew Clark and colleagues consider the cognitive and non-cognitive consequences for young adults whose families experienced major financial problems when they were children.

They find that the number of family financial problems is a far better predictor of children’s later life behaviour and emotional health than average family income in childhood. Understanding how well families are doing financially requires information on both income and financial distress.

**Big city, bright future: why birthplace matters so much**

How much does where you were born influence your future earnings? Analysing data from the British Household Panel Survey, Clément Bosquet and Henry Overman reveal that, on average, someone born in London in the 1970s earns 6.6% more than someone born in Manchester and 9.3% more than someone born in Liverpool.

They conclude that being born in a bigger city improves your earning potential. Parental sorting and the influence of birthplace in decisions about current location both underpin the effect of birthplace on earnings.

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Notes for Editors:

1. CentrePiece is the magazine of the Centre for Economic Performance.
   • A digital version can be found at http://cep.lse.ac.uk/centrepiece/.
   • CentrePiece is published three times a year. The Autumn 2019 issue is Volume 24, Issue 3.
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2. The Centre for Economic Performance is an independent research centre based at the London School of Economics and Political Science. Its members are from the LSE and a wide range of universities within the UK and around the world.
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