

Wage inequality has become an age old problem

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Appears in Belfast Telegraph Business Month published 1st December 2014

Of late, Northern Ireland has seen rising house prices, growing business output, and a general, overall recovery. One thing that hasn't been on the up though is the wage packets going into people's pockets. Northern Ireland's recent Annual Survey of Hours and Earnings showed that the earnings of a typical full-time employee here fell by 1.4 per cent this year. However, those individuals who remained in the same job for at least 12 months managed to eke out a meagre 0.3% pay rise before inflation turns it into a real terms cut. Within the survey's data though, it is a veritable mixed bag, with women faring better than men, and inequality between a range of demographics apparent.

Income inequality has been a big talking point globally this year. Thomas Piketty's award winning book *Capital in the Twenty-First Century* argued that capitalism gives rise to growing income inequality, necessitating state intervention. One of its big findings was that there has been a notably big rise in the income shares of the top 1 per cent in English-speaking countries (above all, the US) since 1980. Perhaps the most extraordinary statistic is that "the richest 1 percent appropriated 60 percent of the increase in US national income between 1977 and 2007."

So how has Northern Ireland's income inequality fared over the years? Within Northern Ireland's wage data, inequality takes a variety of forms, including gender, public sector versus private sector, and Northern Ireland's pay performance relative to the UK and other UK regions. Data limitations prevent us from identifying the 'top 1%' of earners in Northern Ireland. However, looking at earned income for all employees, it is noted that the wage packets of the top 10% are almost 7 times larger than the bottom 10%. Adjusting for full-time employees only, reduces the ratio to 3.3. This represents a slight narrowing relative to 1997 when the top 10% earned 3.6 times those in the bottom. Meanwhile the pay packets of the top 25% of full-time employees in Northern Ireland earn twice the amount of the bottom 25%.

The narrowing of the gap between the top and bottom 10% of earners has been driven by the public sector, particularly amongst part-time employees. (Conversely, the private sector has witnessed increasing wage inequality over the last 10 years.) There are two key areas of growing wage inequality that are a particular cause for particular concern. These are the recent divergence between male earnings in Northern Ireland and the UK, and the widening wage gap based on age.

Last month's survey reported a slump in Northern Ireland's male earnings. The median full-time male weekly wage fell by 3.9% over the last year or 6.4% when adjusted for inflation. The corresponding UK figure was broadly flat in cash terms. As a result, Northern Ireland's full-time median gross weekly wage for men has fallen to less than 83% of the equivalent figure in the UK. This represents the lowest share since the series began in 1997. Back then, Northern Ireland's median male earnings were 89% of their UK equivalent. Therefore the NI-UK male earnings differential for full-time employees has widened by 50% over the last 17 years. Conversely, Northern Ireland's women have narrowed the gap in full-time earnings that existed with the UK in 1997 by 60%.

When it comes to age, despite the downturn, there have been contrasting fortunes in the labour market. The older generations have witnessed a huge improvement relative to their younger counterparts. The younger generation has borne the brunt of unemployment with one-in-five of our 18-25 year olds who are looking for work unable to find employment. Our youth of today have an unemployment rate that is over four times the rate of those aged between 25-49 years of age and six times the rate for the over 50s.

When you consider that the younger generation also has a higher concentration of low wage employment, it is increasingly apparent that they have been hit hardest from the cost of living crisis too. According to some recent research, it is noted that the fall in real wages (*adjusted for inflation*) for those UK individuals aged 18-25 years has been so severe that they are back at levels last seen in 1988.

We do not have Northern Ireland wage data going back that far but our youth of today are in the same boat. Since 2008, the median wage for all employees (*full-time & part-time*) in Northern Ireland has fallen in real terms by almost 14%. However, the younger age groups have experienced steeper falls than their older counterparts. The median wage of employees aged between 18-21 years of age has almost halved between April 2008 and April 2014. Those aged between 22-29 years of age and 30-39 years of age have experienced declines of 21% and 12% respectively. Employees in their 40s and 50s have seen their pay fall by almost 15% and 12% respectively. Meanwhile those employees over 60 years of age buck the trend and are the only age-group not to experience a real terms decrease in earnings over this period (+0.4%). The wage gap between those full-time employees aged in their 20s is widening relative to all other age groups.

The huge fall in median earnings for those aged 18-21 years is largely explained by the changing composition of jobs (*a greater preponderance of part-time employment and lower job quality*). The real terms decline in the wages of full-time employees is less severe but still significant. For example, the decline for 18-21 year olds is 18%, 14% for those aged 22-29 years, around 10% for those in their 30s & 40% and just 6% for those in their 50s. Meanwhile those full-time employees aged 60 and over have seen their pay increase by 9% in real terms over the last 6 years. As a result, the wage gap between those full-time employees aged in their 20s is widening relative to all other age groups.

A big focus in Northern Ireland's economy tends to be closing the gaps with other parts of the UK. When it comes to Northern Ireland's median full-time wage, this hasn't been happening. Indeed, it was closer to the UK's when the Good Friday Agreement was signed in 1998. Indeed, whilst we have been focusing on trying to close the gap with the UK, new wage gaps have actually been emerging – notably between the young and the old. And this has economic as well as social implications.

Richard Ramsey,
24th November 2014

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