

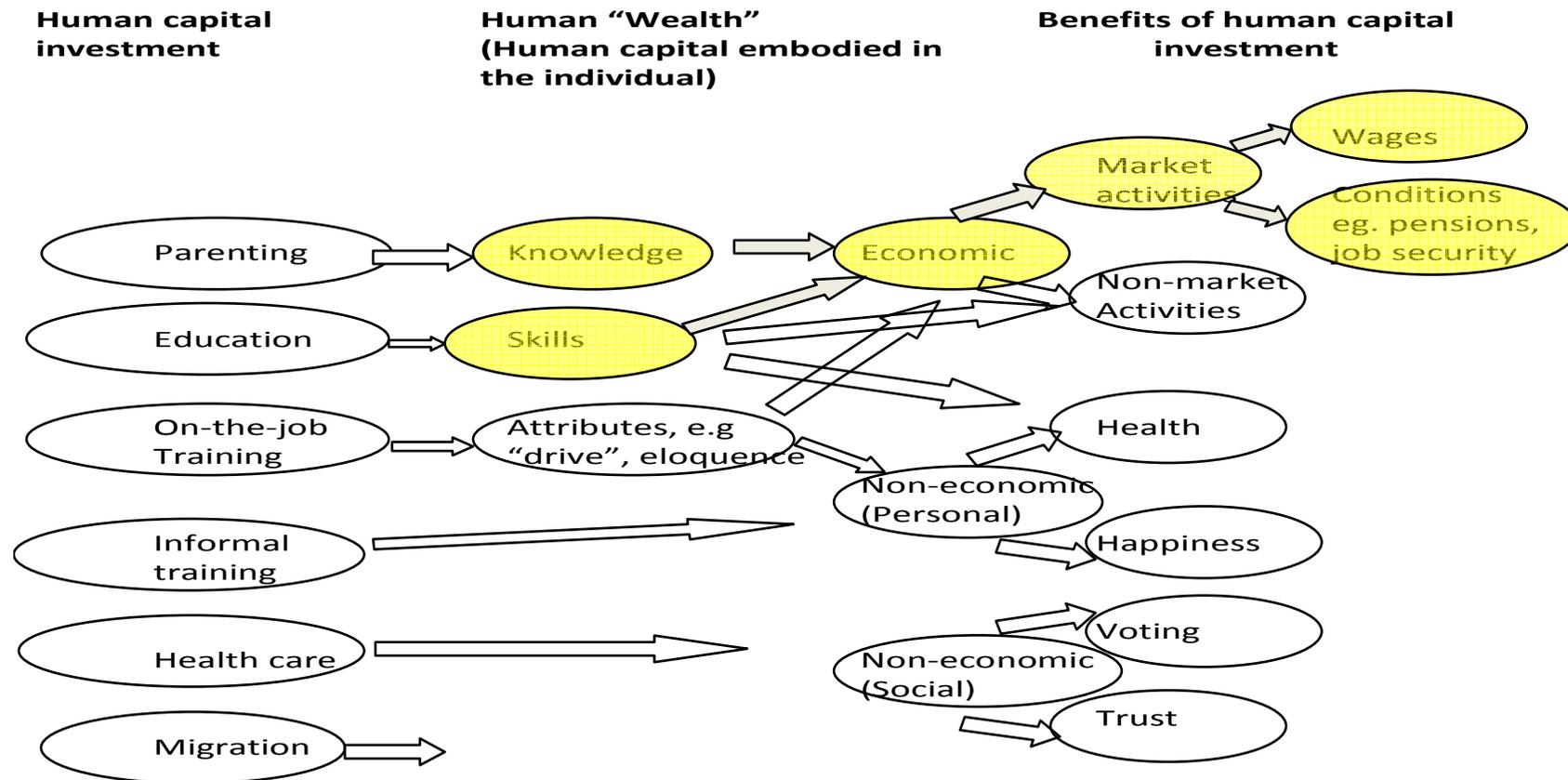
Worker Welfare, Human Capital and Labour Markets (“Beyond Wages”)

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Human “wealth” links to wages and conditions



Adapted from : Boarini et al, OECD 2012

Human “wealth” is the result of several factors, including parenting (ability and drive), as well as education. Then wealth feeds through to market activities, which include both wages and working conditions – the highlighted sequence at the top. This sequence is our focus in

“Wealth” effects

- Wealthier individuals - the better educated, and the naturally “able” - not only have higher pay, they also choose better working conditions
- Wealthier individuals therefore have to accept a negative compensating wage differential (CWD) – their money wage is lower than their “full” wage (i.e. what they could earn in a neutral job)
- Differences in wages therefore understate differences in welfare, and we need to go beyond wages.

Consequences of CWDS

- Cross-country comparisons are distorted:
 - An example: we estimate that an extra 6 months severance pay for dismissal (the difference between Denmark and Austria) means a 2% lower wage.
 - Hence Austrians have a 2% lower wage than Danes doing the same job, to reflect greater job security in Austria
- Within-country comparisons are also distorted, because the better educated systematically choose better conditions – e.g. better pensions

Measuring working conditions

- Working conditions and “wealth”, need to be measured
- OECD studies (How’s Life?) have started measuring conditions :
 - “prospects” including job security, career progression
 - “job quality including discretion, environment, work intensity
 - Working time including work duration, work flexibility

What needs to be done

- We then need to estimate:
 - 1) which conditions are demanded by the wealthy – for example, the better educated choose more secure jobs, and jobs with better pensions
 - 2) The (negative) CWDs associated with job security and better pensions e.g. employer-provided pensions in the UK case means that true wages are essentially 20% higher than recorded wages
- With this information we can add an estimated CWD to the wages of workers in secure jobs or highly pensioned jobs and derive better measures of inequality.

Possible Uses of CWD measures

- Measuring working conditions and worker valuations of these conditions (CWDs) allows:
 - Better international comparisons e.g. Pension systems differ between countries
 - Better analysis of inequality e.g. Educated workers are in jobs with better conditions, so their wages understate their welfare
 - Better measures of human capital stocks which should be based on “full” rather than actual wages

Human Capital Stocks

NSIs currently experimenting with measuring human capital stocks

Human capital is important as:

A driver of economic growth

Facilitating knowledge exchange

Means to remedy social exclusion

Social benefits such as reduced crime, more civic engagement etc.

Measuring Human Capital Stocks

Three Methods commonly used:

Educational attainment

Volumes of individuals who have acquired particular levels of education, frequently adjusted for quality using outcome measures such as test scores.

Cost approach

Inputs required to produce education outputs.

Output approach

The outputs produced by the education system based on incomes earned of those with various education levels

Measuring Human Capital Stocks

All three methods have advantages and limitations but the output approach is most commonly used as it is most consistent with National Accounts

Original framework due to Jorgenson and Fraumeni (J-F)

Measures lifetime incomes for various education levels, gender and age

Recent experiments tend to focus on working population and on formal education

J-F also included the value of non-market activities

Estimates also sensitive to discount rates and assumptions on aggregate growth rates

Extending Human Capital Stocks

Definition (OECD, 2001) *“the knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances.”*

Raises issues of what attributes should be included and how to value them

Attributes

Skills and competencies should also include on the job training and informal education - Some paid for by employers.

Need to also allow for health impacts on working life, such as later retirement, improved occupational health and attritions due to caring responsibilities

Extending Human Capital Stocks

Valuing attributes

Need to measure labour costs rather than individual earnings – difference is employers contributions to pensions, health insurance etc.

Need to take account of value of working conditions, such as contract types, payment systems, health etc.

Spillovers from human capital might also be significant

Data Requirements

- Much of the required information is already available but needs to be combined
- e.g. In labour force, earnings and living conditions surveys such as EU LFS, EU SES and EU SILC
- Working conditions surveys are also available although many lack information on wages

Going forward

- We need more longitudinal data, so as to overcome the problem of idiosyncratic valuation of working conditions (such as EU SILC)
- We need to have matched worker-employer data so as to bring in the employer side. Well managed firms will help motivate workers who may therefore accept lower CWDs for good conditions
- Such matched worker-employer longitudinal data exist e.g. in Finland with the FLEED database which needs extending