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News release

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Labour’s Share – a speech by Andy Haldane, Chief Economist

In a speech to the Trade Union Congress in London, Andy Haldane discusses how developments in technology are likely to affect labour’s share of national income in years to come – and the implications this may have for policymakers.

Andy notes that arguments about “technological unemployment” – the idea that technological advance puts people out of work and bears down on wages – have been raging for centuries. According to Andy, most evidence shows that over the broad sweep of history technological progress has not damaged jobs but rather boosted wages: “Technology has enriched labour, not immiserated it.”

However, Andy notes that this broad pattern obscures the fact that there has an increasing skills premium has emerged with each passing wave of technological progress. This was especially the case in the late 20th century, as new machines such as computers began replacing not only physical but cognitive labour. He finds that each phase has eventually resulted in a “growing tree of rising skills, wages and productivity”. But they have also been associated with a “hollowing out of this tree”. Indeed, this hollowing-out of jobs has “widened and deepened with each new technological wave”. This has resulted in a widening income gap between high- and low- skilled workers.

Andy states: “By itself, a widening distribution of incomes need not imply any change in labour’s share of national income: in the past, technology’s impact on the labour share appears to have been broadly neutral. But this time could be different.”

The question now is therefore whether the latest technological cycle will follow the pattern of its 18th and 19th century predecessors, where productivity gains eventually boost wages for all – or whether the hollowing out of employment, widening distribution of wages and fall in labour’s share of income are permanent.

Machines are becoming ever smarter, Andy notes. The Bank’s own calculations show that, over the course of the next several decades, many millions jobs in the UK could be at risk of automation, with those most at risk tending to be the lowest wage. As machines improve, he states: “the greater the likelihood that the space remaining for uniquely-human skills could shrink further”.

Andy states: “If these visions were to be realised, however futuristic this sounds, the labour market patterns of the past three centuries would shift to warp speed. If the option of skilling-up is no longer available, this increases the risk of large scale un- or under-employment. The wage premium for those occupying skilled positions could explode, further widening wage differentials. And labour’s share of the pie could fall even more dramatically than in the past. On this view, the tree would be so thoroughly hollowed-out that it may no longer be able to support itself.”

Andy turns to consider what role policy might have to play in cushioning the impact of these changes. Some answers may be found in new patterns of company ownership and new educational systems.

Over the nearer term, there is a question for monetary policy.

Andy notes that the Bank’s Monetary Policy Committee has consistently been surprised by the weakness of wages, given the strong pick up in job creation.

If technological progress reduces the bargaining power of labour relative to capital, Andy notes that “it would manifest itself in weaker than expected wage growth and a secular fall in the labour share of income over time, both of which we have seen in a number of countries”.

The MPC’s current forecast assumes labour’s share of income reverts to its historical average, meaning that wages are expected to outpace productivity over the next few years.

While Andy agrees that this path is plausible, if labour’s bargaining power and share of income prove to be lower than in the past – as has been the case before and after the crisis in a number of countries – there is a different path possible.

This would result in weaker wage growth and a “materially lower path for inflation than contained in November’s Inflation Report”, with CPI reaching 1.6% at the two year horizon. Andy states: “That would put the balance of risks squarely towards a more protracted *undershoot* of the inflation target, even without any downdraught from external prices and demand.”

Andy concludes: “Against that backdrop, my view is that the case for raising interest rates is still some way from being made. Whatever the reason, the economic aircraft appears to be losing speed on the runway. That is an awkward, indeed risky, time to be contemplating take-off.”

Noting uncertainty about the strength of global demand and the slowing of growth to trend in the UK, US and elsewhere, Andy believes that a rate rise now would “increase unnecessarily the chances of the economy falling below critical velocity”.

He concludes: “For those reasons, I have continued to vote to leave rates unchanged, with a neutral stance on the future direction of monetary policy. Now more than ever, policy needs to be poised to move off either foot depending on which way the data break.”

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