
Skill imbalances in the UK labour market: 1979–99

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This paper examines the evolution of skill imbalances in the UK labour market over the past two decades. A rise in skill imbalances is defined as an increase in the difficulty of recruiting skilled workers compared with unskilled workers. Our investigation is primarily motivated by the observation that different balance indicators often send conflicting messages. These differences could reflect several factors, including the underlying definitions of skilled and unskilled workers, and the sensitivity of each measure to different types of labour market shock.

We consider three approaches in the literature to measuring skill imbalances:

- Comparing the growth rate of the ratio of the skilled and unskilled wage bill shares with the growth rate of the ratio of the skilled and unskilled labour force shares. This measure, which uses educational attainment to define skill groups, suggests that imbalances have been rising steadily over the past two decades, especially in the market for graduates. This implies that the widely perceived decline in the NAIRU over the recent cyclical upswing does not reflect an improvement
- in the relative ease with which firms can hire educated workers. Movements of this index seem to reflect genuine reallocations of labour demand/supply across educational groups.
- The dispersion of wages and unemployment rates across education groups. These measures also point to rising imbalances since 1979. However, our analysis suggests that the unemployment measures are primarily driven by aggregate labour demand/supply shocks that have no implications for the skill balance. This undermines their reliability as measures of it.
- The Confederation of British Industry (CBI) ratio of skilled labour shortages and unskilled labour shortages in manufacturing. The CBI ratio indicates that imbalances have declined over 1979–99. This does not necessarily contradict the other measures, because the CBI data are not based upon an explicit definition of skilled and unskilled workers and only cover the manufacturing sector. However, the robustness of the CBI ratio to skill-neutral shocks is also questionable.