

Job switching and wage growth for low-income workers

A discussion paper

James Kirkup
Kathryn Petrie

SMF

Social Market
Foundation

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This paper is drawn largely from discussions held at a private Social Market Foundation roundtable held prior to the Coronavirus pandemic and the authors are grateful to those who participated in this session.

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EXECUTIVE SUMMARY

1. Switching jobs can lead to wage progression and evidence predating the Coronavirus pandemic suggests that the wage boost received by workers who switch jobs, relative to the wages of those who do not, is growing. Given Britain's problems of persistent low pay, policymakers should give more focus to how job switching might be a route to pay progression for low-income workers.
2. Aggregate data on switching among all workers conceals significant variation by income groups. Workers on lower incomes who switch are likely to receive smaller income increases than those on higher incomes – and may experience negative wage growth.
3. The reasons for these differentials in economic experience of switching are still currently unclear, and should be investigated in more depth. Those differentials strongly suggest the labour market is working differently for people at different income levels. This is likely to be unfair and potentially inefficient.
4. Workers in the groups and industrial sectors most likely to experience persistently low pay – especially women and part-time workers – appear to be less likely than others to switch jobs, and less likely than other switchers to enjoy significant wage gains from switching.
5. Non-wage factors may play a significant role in the switching behaviour of such workers, and in their wage outcomes from switching. Again, this should be further investigated.
6. Particular focus should be put on women who work part-time on low wages and the importance of working patterns in decisions to switch or not switch jobs. Difficulties and/or worries over transferring family-friendly working patterns may be hindering the pay progression of some of these women. Policymakers should give more thought to policies that would make it easier for low-wage part-time workers to transfer their working patterns between jobs. A situation where women are trapped in low-income jobs because of problems transferring suitable working patterns to alternative, better-paying jobs should be addressed by policymakers and employers.
7. Evidence suggests that low-income workers may be unlikely to make significant geographical moves to switch jobs and increase their wages. Pay-progression policy should put more emphasis on the importance of local labour markets.
8. Higher skills can make it easier for a low-income worker to move to a higher-paid job but our anecdotal evidence suggests some employers see little benefit in helping to provide training and may even see the linkage between training and employers moving as a reason not to offer training. Coupled with evidence that employer-provided training is heavily skewed towards higher-wage workers, this supports the argument that greater attention be given to the wider, fairer provision of training for working-age adults.

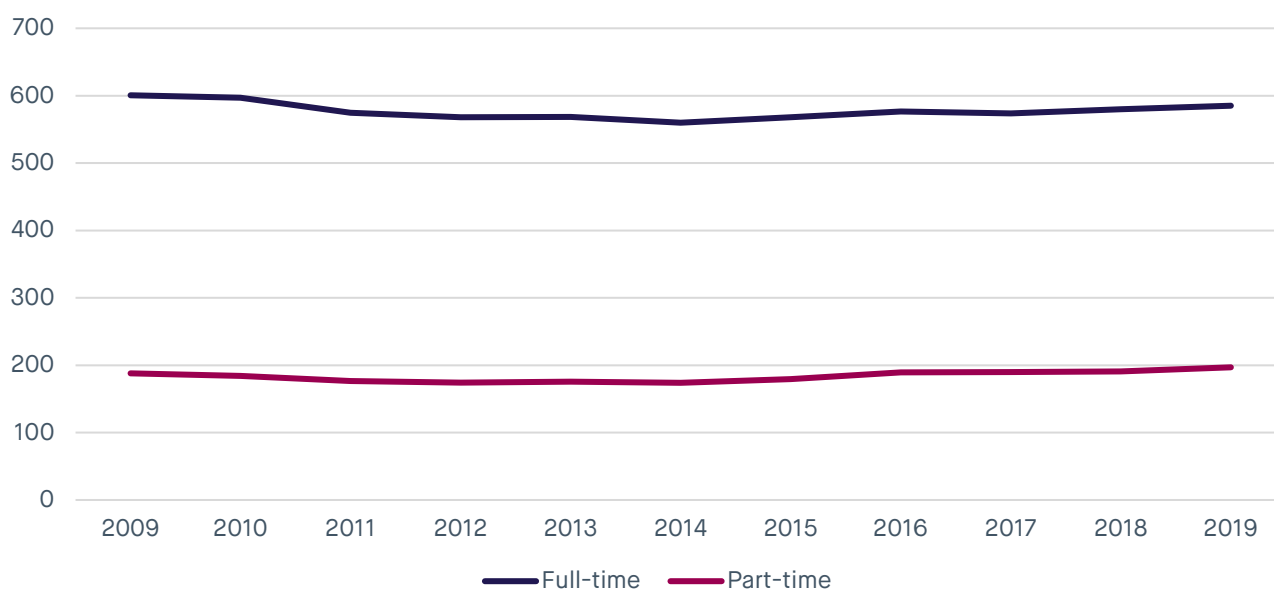
CHAPTER 1 - INTRODUCTION

This paper is largely based on a Social Market Foundation roundtable held in early-March 2020. At the risk of understatement, the economic context has changed somewhat since that event was held. The Coronavirus pandemic has had effects on the UK economy that are still not entirely clear. The labour market in particular is clouded by uncertainty: the Coronavirus Job Retention Scheme is supporting millions of workers, but also occluding their fate. The Office for Budget Responsibility forecasts that once the scheme is wound down, unemployment will increase to 10.1% in 2021.¹

At the time that our roundtable was held, the labour market was performing differently. However, for many these issues still remain. For the three months to April 2020, total pay (real) annual growth rate was negative 0.4%. This is the first negative fall in real earnings seen since the three months to January 2018.² (Total pay also includes changes to hours worked.)

Even before the pandemic, real wage growth had been volatile since the global financial crisis. In 2019, the real median weekly wages of full time workers were still below levels seen in 2009. For part-time workers the story is slightly better but not by a major margin.

Figure 1: Real median gross weekly earnings for full-time and part-time employees, UK 2009-2019



Source: ONS

Wage growth and job switching

The purpose of our event was to explore whether the act of switching jobs merits greater attention by policymakers and observers concerned about the pay progression of people with low incomes.

Emerging economic analysis suggests switching jobs is a key driver of wage growth. It is not novel to suggest that switching jobs leads to higher wage growth. However, recent evidence suggests that the differential between the wage growth of stayers and movers is increasing.

Thinking by UK policymakers in this area is relatively limited by comparison with that of their international counterparts. As long ago as 2015, a Chicago Federal Reserve paper found “a

remarkably strong relationship between job switching and nominal wage growth.”³ In July 2019, the Australian Treasury said falling rates of switching helped to explain slow wage growth in Australia and argued that “a more fluid labour market can benefit workers’ wages in two broad ways. First, it may lift labour productivity by facilitating moves from low to high productivity firms and ensuring workers’ skills and firms’ needs are well matched. Second, it may improve the bargaining position of workers.”⁴ Given the UK’s problems with persistent low pay, the possibility that switching might be a route to wage growth for low-income workers struck the authors and our sponsors as worthy of discussion in a UK context.

Persistent low pay

DWP analysis of Understanding Society data suggests that, after housing costs, 11% of working age adults are in persistent poverty,⁵ defined as being in relative low income for at least three out of the past four years.

Meanwhile, research conducted by the Resolution Foundation has investigated the extent to which low paid occupations are a steppingstone into higher paid roles. This analysis follows low paid workersⁱ over 10 years and groups them into three categories:

- ‘Stuck’: employees who were in low pay throughout the 10 years.
- ‘Escapers’: who earned above the low pay threshold in the last three years of the decade.
- ‘Cyclers’: workers who moved in and out of low pay during the 10 year period.

Their results show that just one in six (17%) of those who were on low pay in 2006 were ‘escapers’ suggesting that low pay is not the first step towards higher paying occupations. One in four remained stuck in low pay and (48%) were ‘cyclers’.⁶ One in ten had exited the labour market.

It is notable that both the DWP and Resolution Foundation findings are based on time period that included increases in the national minimum wage. Such increases do not, in themselves, address the problems of workers who are not able to progress out of low-paying roles. This suggests that more work needs to be done to help those on low income break into higher paying roles. There is therefore an important question about the extent to which job switching can be a way to move low income workers into higher paying positions and out of in-work poverty.

Who are low-paid workers?

Low-paid workers are often referred to as those who earn less than two-thirds of median earnings. Calculations by the House of Commons Library on jobs that pay less than or equivalent to the National Living Wage show that a higher proportion of such jobs done by women, by part-time workers and those in the private sector paid NLW or below.⁷

ⁱ Defined as earnings below two-thirds of median hourly pay.

Structure of the project

In addition to the broad question of whether the issue of switching merits further investigation, our event aimed to address the following questions:

- Should policymakers be concerned about the divergence in wage growth for stayers and movers?
- Should the low levels of switching amongst certain groups of workers be of concern?

The report builds upon a roundtable held at the SMF's Westminster office in March 2020 and attended by officials, academics, researchers and other policy specialists. The event was held under the Chatham House rule and while this paper reports some of the observations and ideas of attendees, all work here is the responsibility of the authors alone.

The report structure is as follows:

- **Chapter 2** - explores the demographics of those who switch jobs and the subsequent wage premium.
- **Chapter 3** - looks at the barriers to switching jobs.
- **Chapter 4** - puts forwards areas for further consideration.

CHAPTER 2 - SWITCHERS VS. STAYERS

In this chapter of the report we explore the demographics of those who switch jobs and the wage premium association with this. The analysis is based on ONS data analysis of the Annual Survey of Hours and Earnings for the UK.

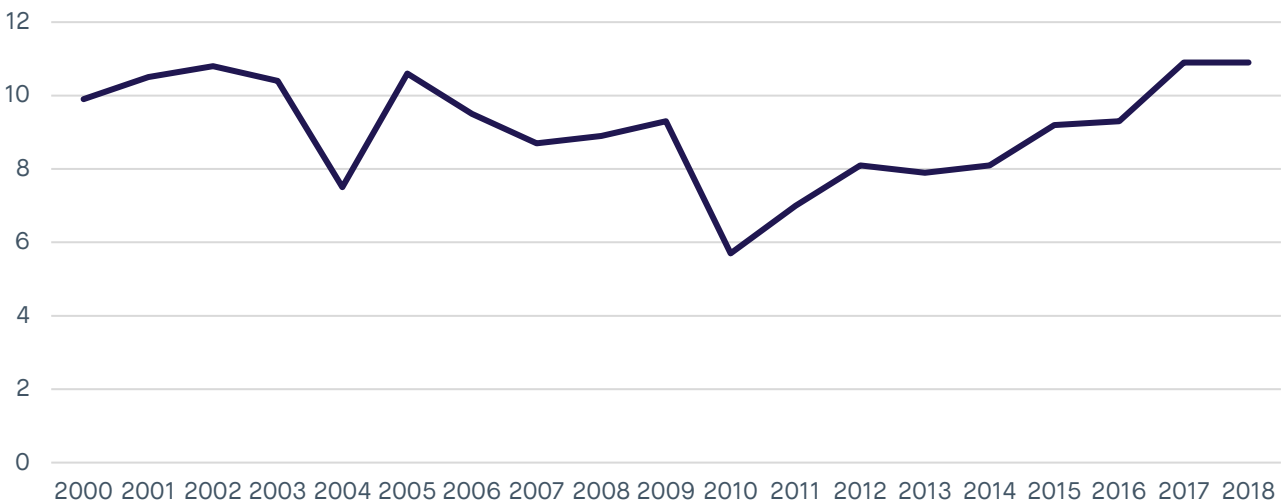
Definition of stayers and switchers⁸

- **Job stayers:** Have been in the same job for two consecutive years.
- **Job changers:** Have changed jobs from one year to another, some of this could be within firm changes.

Job-to-job transitions or job change is an important part of the labour market. Moving enables workers to allocate themselves into roles which better suit their skills and experience. This better match of worker and role can contribute to an increased salary. Evidence from the US shows that since the early 2000s there has been a decline in the number of job-to-job transitions. Work by Toshihiko Mukoyama shows that the decline in job to job transitions has had a substantial impact on total factor productivity.⁹

In the UK, between 2000 and 2018 job changes tended to represent around 10% of the workforce. The rate of job change was lowest in 2010 at 6% - this was as the UK economy began to recover from the 2008 recession. The rate has risen steadily since 2010 and this data suggests that the level of job change was beginning to recover from the lows during the previous recession. It is possible and even likely that the pandemic and subsequent recession will put an end to this trend.

Figure 2: Proportion of job changers, UK, 2000 to 2018



Source: ONS (2019)

During a recession, there is an increased likelihood that job changers are moving from unemployment into a new role and this has an impact of the pay premium associated with job changing: people taking a job from unemployment are generally in a weaker wage-bargaining

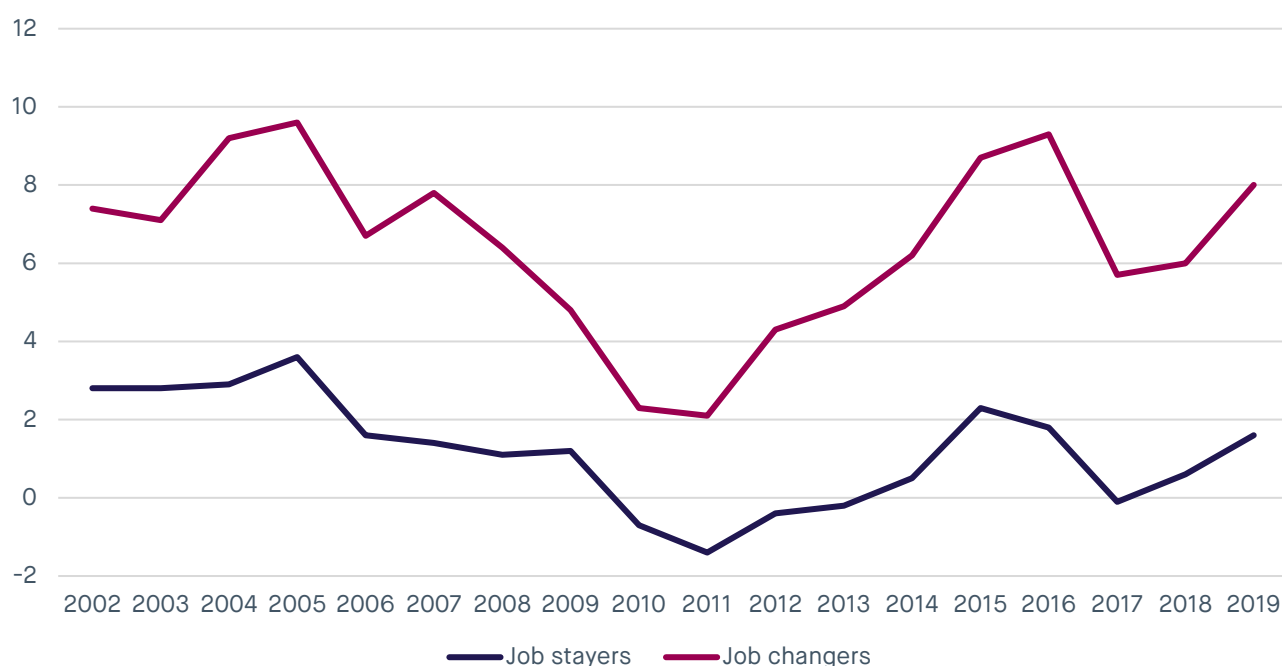
position than those already in work. Research conducted using the UK Labour Force Survey finds that during times of economic expansion the wage return associated with changing roles is positive. However this is not true during an economic downturn. In downturns, net returns are low and subsequently workers tend to stay within their role and wait for conditions to improve instead of changing to a new occupation or industry.¹⁰

Returns to changing jobs

Median wages are higher for those who remain in their job – however those who switch jobs experience higher wage growth.¹¹

Relatively low levels of wage growth in recent years have been associated with low rates of job change. Annual changes in real hourly earnings have been consistently higher for those who change roles, as shown by Figure 3. This suggests that the differential in wage growth between the two groups is increasing.

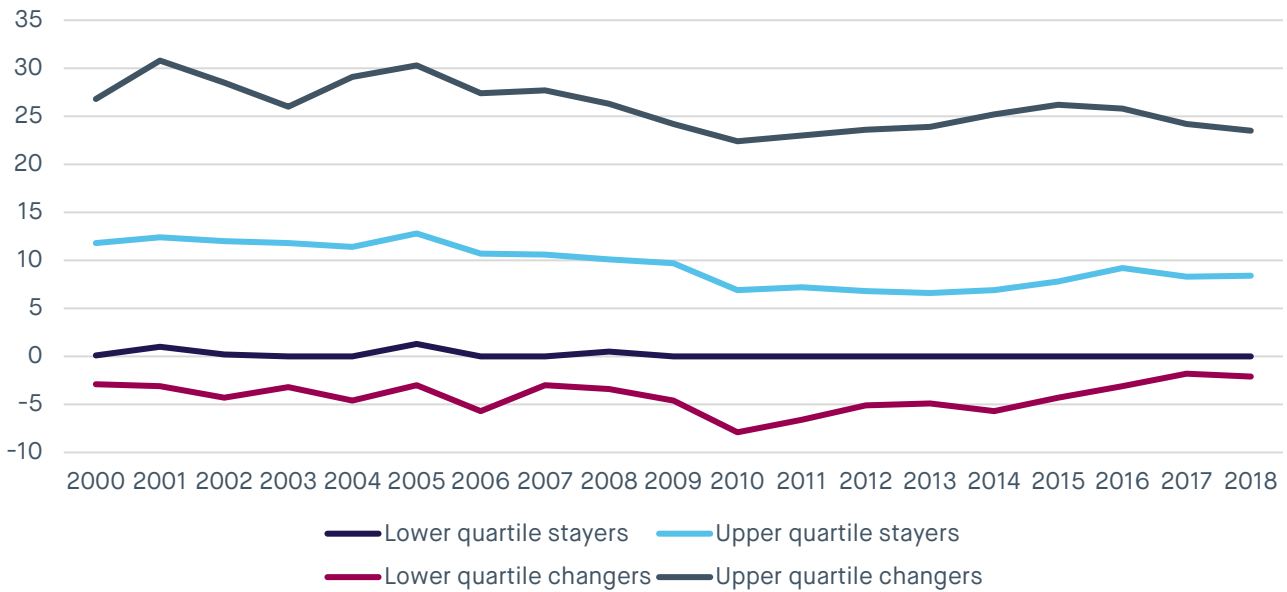
Figure 3: Annual percentage change in median full-time real gross hourly earnings for job stayers and job changers, UK, April 2002 to 2019



Source: ONS (2019)

However, not all stayers and switchers experience the same wage growth. Job stayers on higher incomes almost always experience positive wage growth, but the lower quartile of wage growth for job stayers has been 0% since 2009. Meanwhile, there is a wide gap in the experiences of job changers. High-earning job changers experience the highest wage growth, while workers in the lowest quartile of wages who change jobs have seen consistently *negative* wage growth throughout the time period of the data. Seen in context of the data from Figure 3, this suggests that the widening gap between the broad groups of switchers and stayers is likely be driven by the different experiences of high-earning switchers and low-income stayers. If so, this in turn suggests that low-wage job-stayers should be of particular interest to policymakers interested wage progression and narrowing the gaps between the top and bottom of the wage scale.

Figure 4: Hourly earnings growth for job changers and stayers, upper and lower quartiles, UK, 2000-2018



Source: ONS (2019)

There are reasons beyond wage growth that workers may decide to leave their place of employment such as better working hours, flexibility and a change of location. These non-wage related factors could be contributing to the negative wage growth of changers in the lowest quartile.

Within vs. between firm differences

The ONS has carried out analysis on the movement of workers ‘between’ and ‘within’ firms.

Definition of movement ‘within’ and ‘between’ firms¹²

- **Between firms:** This is those who work in a different location compared with the year before, or have changed the industry they work in, or are in a different occupational category.
- **Within firm:** all the other remaining individuals

Between-firm movement is almost a proxy for how different their job is compared to the year before. Those who moved within their firm experience higher median earnings, but lower wage growth. Those who change jobs between firms experience the highest growth in median earnings. Moving between firms can be a riskier and more disruptive prospect than an internal move and therefore workers could be seeking higher rewards to offset the risk, and employers must pay more to persuade workers to move. It could also represent a move towards a role that better reflects the individual’s skill set.

In 2018, 75% of job changers moved between firms. 25% moved within firms.¹³

The demographics of those changing jobs

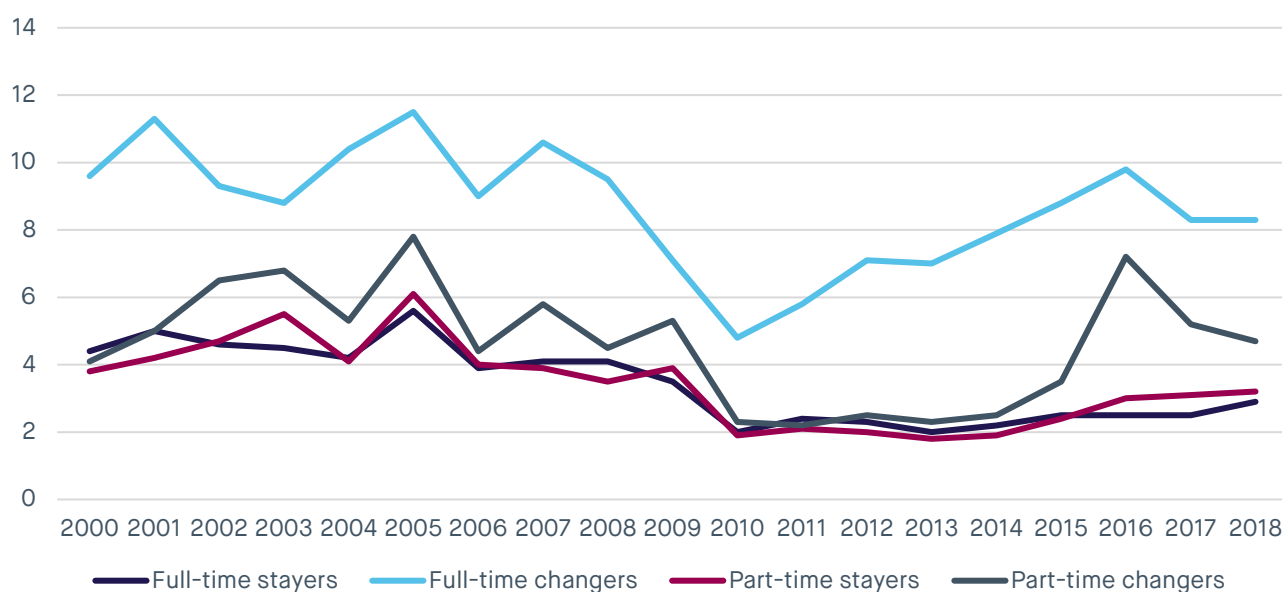
There are a range of characteristics associated with increased labour market mobility. Different groups of individuals are likely to have a different propensity to switch jobs based on the mobility and preferences. This propensity to change jobs could also influence the wage growth premium associated with changing jobs. In this section we look at the demographics of those who change job and the associated hourly wage growth premium.

Working patterns

ONS figures show that full-time workers were very marginally more likely to switch jobs than part-time workers: in 2018, 11% of full-time workers were in a different job compared to the year before. This was true of only 10% of part-time workers.¹⁴

As shown in Figure 5, there is very little difference in the hourly wage growth of stayers by working pattern. In 2018, full-time stayers experienced wage growth of 2.9% whereas for part-time stayers the figure was 3.2%. However, there is a clear difference in the hourly wage growth associated with changing jobs by type of contract. Full-time job changers experienced a wage growth of 8.3% compared to just 4.7% for part-time changers. Regardless of working hours, changers experience a higher wage growth than stayers.

Figure 5: Median growth of hourly earnings for job changers and stayers, by contract type, UK, 2000-2018



Source: ONS (2019)

Impact on low income workers?

Low income workers are less likely to be in full-time jobs and therefore the smaller wage premium associated with a job change could mean those on low incomes experience smaller increase in pay from a job move; this may reduce the incentive to move. However, it is important to note that this data specifically relates to the *hourly* wages of workers and therefore does not reflect any change in average *number* of hours worked. Low paid part-time workers could move to another employer who offer them a higher number of guaranteed hours per week therefore deliver higher weekly pay without experiencing hourly wage growth.

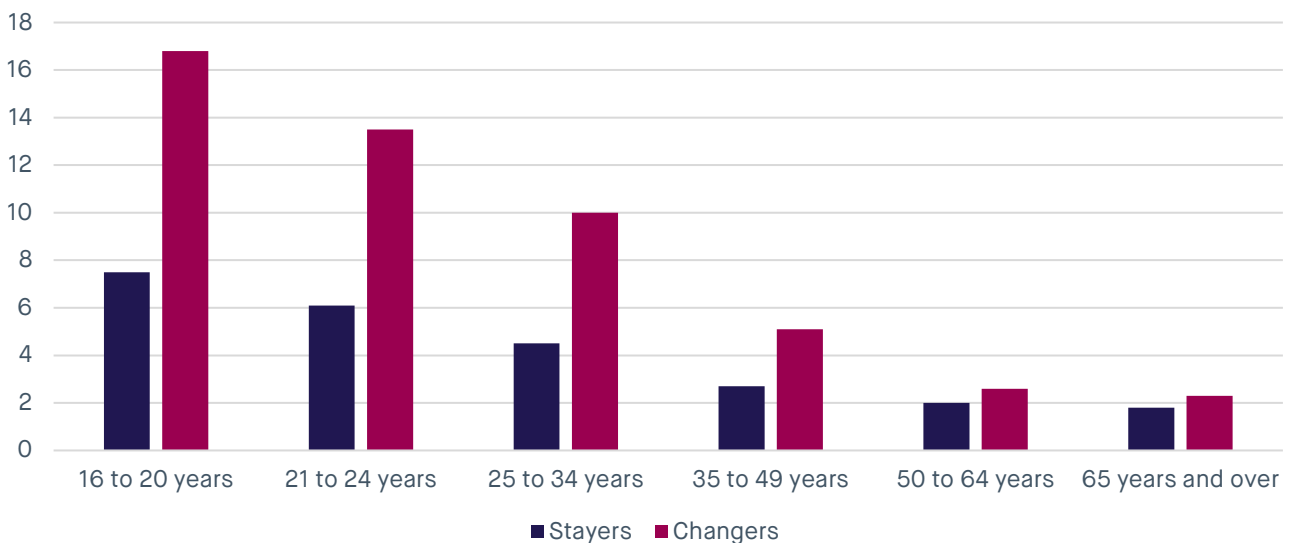
Age

The likelihood of changing job is negatively correlated with age. Carillo-Tudela et al. highlighted that younger individuals are more likely to change career.¹⁵ Evidence from the US shows that young (and less educated) workers have the highest propensity to move from low productivity and lower paying firms to high productivity, higher paying firms. For younger workers this is due to the fact that they tend to begin their careers at the bottom of the job ladder – they are disproportionately likely to move up the job ladder via job-to-job flow during economic booms.¹⁶ During times of economic contraction, the option to continue to move up the job ladder through job to job moves is stunted and young people can find themselves instead moving into unemployment.

Evidence from the ONS clearly shows this negative correlation between age and job changing. In 2018, 26% of those aged 21 to 24 experienced a job change compared to just 5.5% of those aged 50 to 64.¹⁷

Younger workers are at an earlier stage in their career younger and therefore experience higher wage growth than older workers regardless of whether they are job movers or stayers. In 2018 there was a considerable difference in wage growth for stayers and changers in the young age groups. Job changers aged 25 to 34 experienced more than double the wage growth of job stayers in this age group.

Figure 6: Median growth of hourly earnings for job changers and stayers, by age, UK 2018



Source: ONS (2019)

Impact on low paid workers?

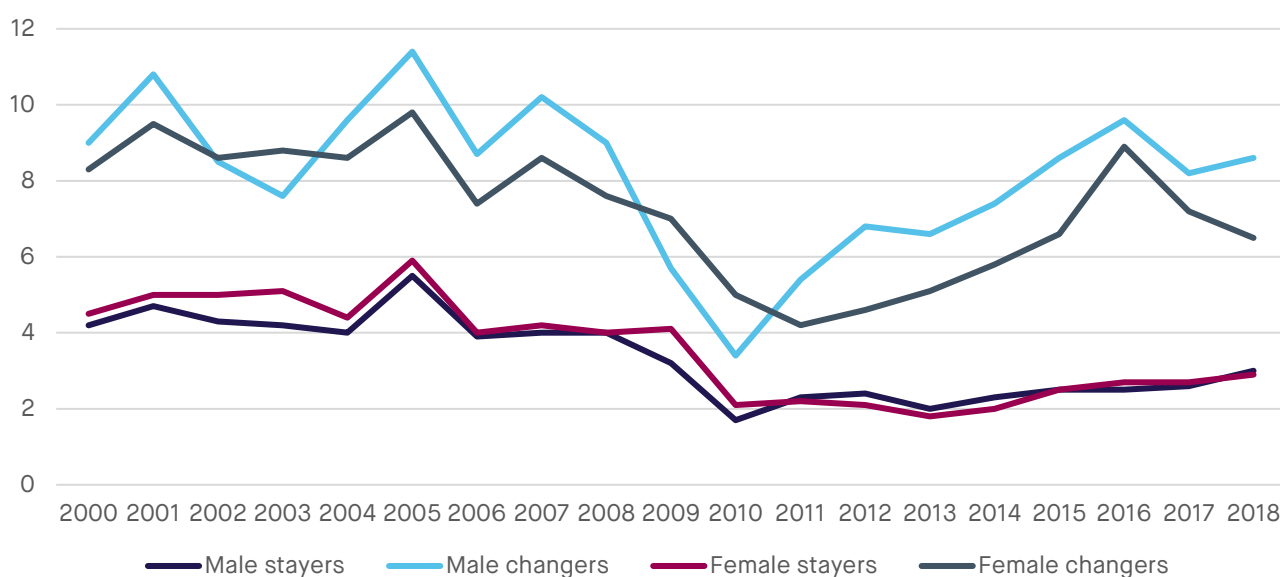
Workers aged 25 to 29 have the highest proportion (8%) of jobs paid at or below NLW. Whilst the proportion of jobs paid at or below NLW reduces with age, it remains consistently around 6% of all jobs for those aged 30 to 59.¹⁸ What we do not know is whether the reduction in job switching that occurs as people age is consistent across income groups. If it is consistent across income groups, there is a risk that a decline in the propensity to switch as people age could be contributing to persistent low pay.

Gender

There is some of evidence from the UK and internationally on the propensity to change jobs or careers by gender. Research by the Resolution Foundation in 2015 suggested that there was no difference in the likelihood of job to job moves by gender.¹⁹ However, research by Carillo-Tudela et al. on career changes in the UK found that women were more likely than men to experience a career change. It also suggests the likelihood of changing careers reduces as the size of the household increases.²⁰

Both male and female job changers experience higher wage growth than those who stay within their role. The wage growth for job stayers is almost identical for men and women. However male job changers tend to experience slightly higher wage growth than female job changers. One of the potential reasons for the lower wage growth experience by female job changers could be an increased likelihood of working in a part-time role.

Figure 7: Median growth of hourly earnings for job changers and stayers, by sex, UK, 2000-2018



Source: ONS (2019)

Skill level

The evidence from the ONS shows there are marginal differences in the likelihood of switching career by skill level. Low skilled and upper-middle skilled individuals are the most likely to change jobs whereas upper skilled individuals are the least likely.

Figure 8: Proportion of workers changing jobs by skill level, UK, 2018

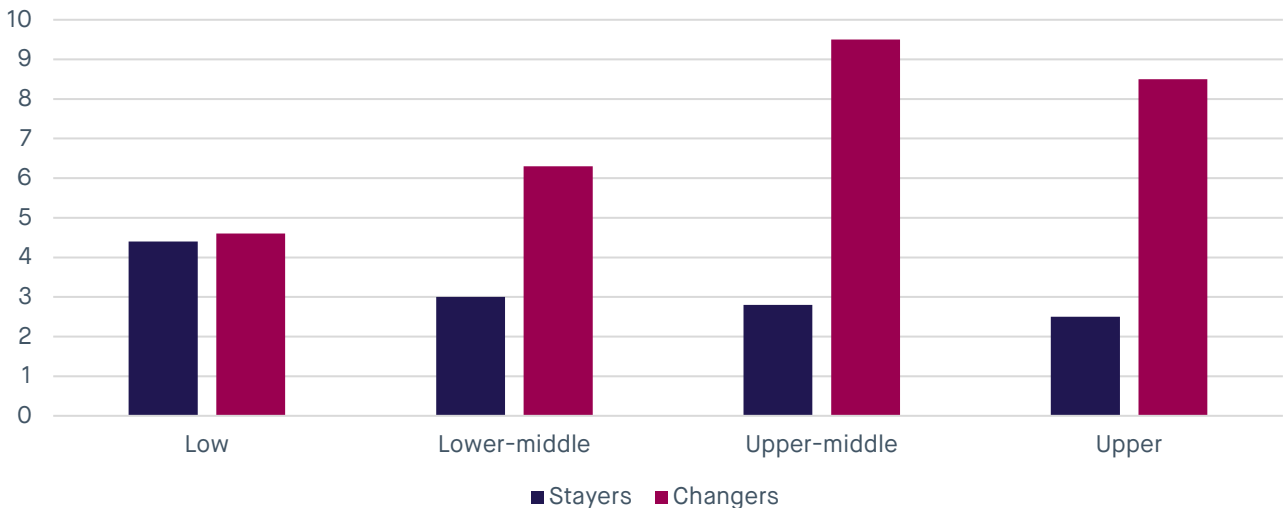


Source: ONS (2019)

Across all skill levels, job changers receive larger increases in hourly earnings growth than stayers. The wage growth premium increases as the level of skills increase. Those with lower-middle skills have relatively low switching rates yet the return to switching is relatively high.

For low-skilled workers the wage growth premium associated with switching jobs is almost zero: their earnings grow by 4.6% compared to 4.4% for stayers. One possibility is that these individuals, regardless of whether they are stayers or changers, could be experiencing wage growth due to changes in the National Minimum Wage.

Figure 9: Median growth of hourly earnings for job changers and stayers, by skill level, UK, 2018



Source: ONS (2019)

Impact on low paid workers?

Skill levels can be a useful proxy for income levels. Low-skilled workers tend to be paid the least and in-work poverty in the UK is high. A lack of hourly wage growth associated with changing careers for low skilled workers is a concern, since it adds to the evidence that job switching does not deliver the same benefits for low-paid workers as for better-paid ones. There could be a range of issues contributing to the lack of wage growth which could be causing low skilled workers to be trapped in low paying roles. However, again, the ONS analysis focuses purely on hourly earnings and therefore low skilled workers could be moving to a job with more hours and therefore experiencing a wage rise.

Broad industry group

There is a relationship between the industry in which an individual is employed and the likelihood of job changing. The table below shows how the rate of job change varies by broad industry group.

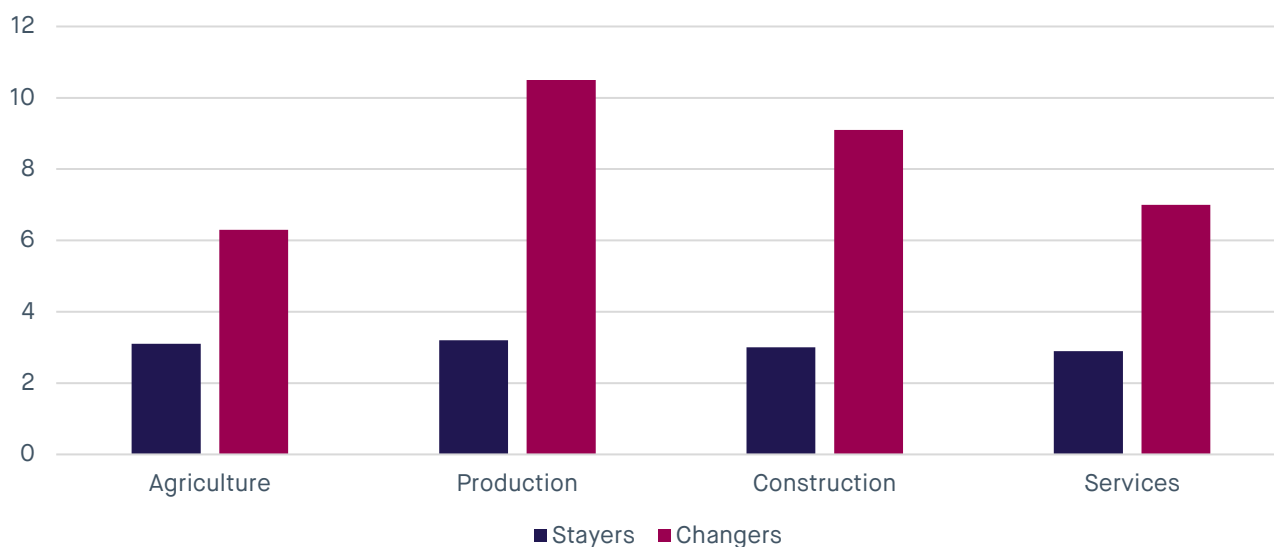
Table 1: Proportion of workers changing jobs by broad industry, UK, 2018

Industry	Proportion changing jobs
Agriculture	9.8%
Construction	11.1%
Production	8.5%
Services	11.3%

Source: ONS (2019)

Workers in the services and construction sectors were the most likely to change jobs in 2018. Workers in the production industry were the least likely to move even though they have the largest difference in pay growth between movers and stayers.

Figure 10: Median growth of hourly earnings for job changers and stayers, by broad industry, UK, 2018



Source: ONS (2019)

Impact on low paid workers?

Of the broad industries represented in Figure 10 the lowest median salaries are in Agriculture and Services which also have the lowest returns to switching. However, if we look within these broad categories we can see that the average figures can hide significant detail.

When we look within certain industries, the median growth in hourly earnings for job stayers in 'Wholesale, Retail and Repair of Motor vehicles' was 3.4% in 2018. For job changers the rate of

growth was almost double that at 6.6%. This industry has many low paid workers and therefore could highlight the importance of job switching to gain a wage rise in this industry.

Implications for those on low incomes

The data analysis above does not include information on wage growth by income. However, we can see that job switching can be important for the wage growth of women, younger individuals and those who are deemed to have 'lower-middle' skills. Workers with these characteristics are often on low pay.

According to various wage-related theories, the starting salary of a worker is an important component of job switching and job search.

Job switching can occur 'within' firms. Efficiency wage theory suggest that large employers often pay a wage above the market rate to retain their most productive staff – this promotes the theory that some internal job changes can also bring about higher wages. However, for low income workers this may not be the case as they are less likely to be involved in training and skills development which can lead to internal promotion.²¹

Research by Dimitris Pavlopoulos et al. shows that low-paid workers in the UK do experience a larger increase in pay when undertaking a job move compared to low-paid stayers.²² Their research compares the wage return in both the UK and Germanyⁱⁱ. They find that the low-paid external mover enjoyed 6.5% higher wage growth than a low-paid stayer; in Germany the gap was 6.1%. They also find the relative wage returns to external job changes are higher for the low-paid worker than for the high-paid worker in both countries.

This supports the theory that job change can be an important component of wage growth for low paid workers.

ⁱⁱ The focus is purely on the labour market of what was West Germany due to the longitudinal nature of the study.

CHAPTER 3 - EVIDENCE ON SWITCHING JOBS

The earlier chapter of this work highlighted the benefits switching jobs can have on worker's wages. In order to encourage job switching in the labour market it is important to understand why people do, and do not, switch jobs.

Reasons for a job change

There are important distinctions to make about the reasons why people change jobs. Our earlier analysis showed that workers are more likely to change jobs between firms and this brings higher wage growth. This could mean workers are changing roles to work in a position that better reflects their experience and skills. This means workers are allocating themselves into better positions. This brings with it productivity benefits as demonstrated by previously mentioned literature.

Job-to-job changes occur more often during times of economic expansion. During these times unemployment in the economy is low and therefore employers are likely to offer higher wages to entice workers to leave their current role. However, not everyone changes jobs voluntarily and this could have an impact on the premium associated with job change especially during times of economic uncertainty. Job to job change is procyclical and voluntary job changes are less likely to occur during economic downturns as employees and employers reframe from moving / hiring.

There are reasons other than wages that contribute to people changing roles, such as fringe benefits, better working patterns and future opportunities for progression. It is too simple to think about job changers as an exogenous group of individuals.

Barriers to changing jobs

There is a range of literature on which factors tend to be associated with higher or lower rates of job switching. However, the vast majority of this literature is related to the US.

Working patterns

The ONS evidence shows that part-time workers are marginally less likely to switch roles and when they do they are less likely to experience significant wage growth. In the UK, a large proportion (41%) of the female workforce work part-time, often due to family commitments.²³ Almost three quarters of part-time workers in the UK are female. Therefore, issues related to the wage growth of part-time workers are likely to disproportionately affect women.

In the roundtable held as part of this project, it was suggested that part-time jobs tend to have small travel-to-work areas due to the need to be close to home or childcare, and therefore employers have monopsony power over their workforce. This means that an employer has the ability to set wages as it faces an upwards sloping supply curve of labour. Geographical restrictions could also reduce the pool of opportunities available to part-time workers and subsequently reduce their likelihood of job changes.

The number of hours worked was also cited by several participants as significant. Research by the Resolution Foundation for the Social Mobility Commission has shown that workers who move from part-time to full-time work are less likely to become trapped in low pay. This work also finds women are the overrepresented amongst those who remain trapped in low pay.²⁴ Research shows that women are unlikely to transition from part-time to full-time employment after

childbirth: only 4% of women who return to work part-time after becoming a mother are employed full-time five years later.²⁵

One of the possible reasons for the low wage growth associated with moving jobs when working in a part-time position could be the lack of higher-wage roles offered part-time. Research by the Joseph Rowntree Foundation in 2012 showed that part-time jobs vacancies were often below £20,000 full time equivalent earnings. (An FTE salary above £20k is a proxy for 'quality work'.)²⁶ The part-time labour market is skewed towards lower-paid roles, meaning people who need or want to work part-time are likely to have fewer options to increase their wages by moving to another job.

An additional factor suggested by some roundtable participants was that workers who have succeeded in finding a part-time working pattern that fits with other responsibilities (especially childcare) may be reluctant to consider a job move because of the potential disruption to their working patterns and therefore consequences for those other responsibilities. This account echoes evidence collected from employers in earlier SMF research on wage progression, which suggests that some female workers in low-wage roles can be reluctant to consider intra-company job moves, even for higher wages, for fear of jeopardising or disrupting working patterns.²⁷

Who are low-paid workers? Pharmacy case study

In the US, Pharmacy is a highly remunerated female-majority profession. The occupation has undergone a range of changes in the last half-century to become a family-friendly occupation as highlighted by the work of Claudia Goldin and Lawrence Katz.²⁸

Their research states one of the main reasons that the industry has become more family friendly is due to increased substitutability amongst workers. Uniform training, standardisation of products and extensive use of IT have meant it is easy to hand over work and clients.

Today, US pharmacy has a low gender earning gap and a modest part-time work penalty relative to comparable occupations. The hourly earnings penalty associated with working part-time work in pharmacy has virtually disappeared during the past four decades, whereas it has remained substantial for other US college graduates.

The industry could be a helpful model for how other occupations can make changes to become more family friendly and provide more well paid part-time positions.

The role of place

Place was also cited as an important factor in understanding job switching. There has been a decline in the proportion of people moving regions to find a new job in the UK. Therefore, if job switching is to occur there must be better (or at least alternative) opportunities available to the person looking for a job change. In the pre-pandemic economy, Northern Ireland and the East of England had the highest proportion of job changers (11.8%), while North East had the lowest

(8.3%) in 2018. In the same year in London, around 11.1% of workers changed jobs from the previous year.²⁹

Evidence shows that most job changers stay within their region when changing jobs, as is shown by Table 2. The UK region with highest proportion of workers remaining in the area is Northern Ireland, where 95% of workers remained in the area after a job change. London and the East Midlands have the lowest proportion of workers remaining in the region after a job change at 75%. The vast majority of workers remain in the same region. This could contribute to labour market mismatches between the worker's skill and the opportunities available.

Table 2: Proportion of job changes within and between regions and nations of the UK, from 2017 to 2018, UK

		Region of location in 2018											
		North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	South West	East of England	London	South East	Wales	Scotland	Northern Ireland
Region of location in 2017	North East	82.0	0.7	2.3	0.4	0.3	0.6	0.6	1.0	0.6	0.0	0.7	0.2
	North West	2.8	83.8	2.8	2.2	3.2	1.1	1.0	2.1	1.3	4.4	0.7	0.7
	Yorkshire and the Humber	3.0	2.4	80.5	5.1	0.7	1.0	1.0	1.9	1.3	0.4	0.9	0.3
	East Midlands	1.0	1.4	3.9	74.5	4.8	1.4	2.4	1.8	1.6	1.4	0.9	0.0
	West Midlands	1.2	2.4	2.1	5.0	77.4	3.1	1.7	1.7	2.2	2.2	1.2	0.2
	South West	1.9	1.5	1.3	1.5	1.9	81.9	1.2	1.6	2.6	3.3	0.6	0.5
	East of England	0.4	1.7	2.4	6.0	2.9	2.1	77.8	4.2	3.3	1.5	0.8	0.9
	London	2.3	1.6	1.9	1.2	3.2	2.2	7.3	74.8	8.2	2.1	1.6	0.6
	South East	4.3	2.2	1.8	3.1	3.0	5.3	5.4	9.1	76.7	1.8	1.0	0.8
	Wales	0.0	0.6	0.1	0.4	1.0	0.9	0.5	0.6	1.0	82.9	0.2	0.2
	Scotland	0.8	1.2	0.7	0.4	1.2	0.4	0.9	0.9	1.0	0.0	91.3	0.2
	Northern Ireland	0.3	0.5	0.1	0.1	0.4	0.1	0.2	0.2	0.3	0.0	0.0	95.4

Source: ONS (2019)

Research by the ONS shows that the wage premium associated with switching jobs varies by region. Workers in London who changed job in 2018 experienced a 12% growth in median wages – this is more than double the wage growth of job changers in Scotland and the East of England.³⁰

The nature of homeownership and housing tenure is often a topic of interest when looking at job mobility. Research by Harminder Battu et al. finds that home-ownership is a constraint for the employed whereas public renting has an impact on the unemployed.³¹ Employed home-owners have a lower probability of gaining employment in more distant labour markets compared to private renters. Their work also finds that unemployed public renters are much less likely to enter a distant job than private renters.

Home ownership may create additional barriers to relocating due to the cost, disruption and an attachment to an area. At the roundtable, some participants suggested that this may specifically be an issue in London and the South East where stamp duty can act as strong deterrent to moving to a new house.

Dual earner households are also less likely to relocate for a job move.³² There is a gendered nature to this fact. Females in dual earning households are more likely to be the “trailing” spouse. This is referred to as the ‘tied mover hypothesis’ whereby women follow their partner who tends to be the higher paid, but this can lead to labour market losses for women.

Without significant changes to inter-regional geographical mobility of the population, the strengthening of *local* labour markets is essential if people are to move onwards and upwards in the labour market following a job-to-job transition. Battu’s evidence around the lack of mobility among unemployed public renters (who can be assumed to have lower incomes) underlines the importance of a local labour market focus for policymakers interested in low income workers, pay progression and job switching: if such workers are to gain greater benefit from job switching, they will largely have to do so in their current local area.

Age

In chapter two it was apparent that younger workers are more likely to experience a job change. It is not necessarily true that age is a barrier to switching jobs but older workers tend to be in more stable occupations and therefore could be less willing to take a risk for a new position.

However, there is some evidence to suggest that the UK labour market is becoming less mobile due to changes such as our ageing population, more returners and job stability. In this instance the labour market can be thought of in a similar way to the housing ladder – without movements at the top of the chain there cannot be movement at the bottom. In some cases, if older people are not leaving jobs for retirement, then this does not trickle down into more / new opportunities.³³ This could lead to a long-term decline in labour market mobility.

Income and workplace structure

Many workplaces operate as pyramids with a large pool of low paid workers at the bottom. This is particularly true in industries such as retail and hospitality. It can be difficult in these situations to move up the ladder due to high levels of competition for the positions on higher levels of the pyramid. Roundtable participants also reported anecdotal evidence that some employers in these sectors are reluctant to take actions that could help employees rising in such a way, for instance by providing in-work training; some hospitality industry sources suggest that

employees are wary of training staff because higher skill levels would make it easier for trained staff to move away, meaning the employer's training costs had been "wasted", insofar as the employer would gain no benefit from the worker's increased skills.

There has been some suggestion that in work progression has been hampered by increases in the National Minimum Wage and this was supported by some of those who attended the roundtable. The minimum wage has increased rapidly over the last decade. In the UK, 7% of workers currently earn the NMW (or below) although this varies by location.³⁴

There are a range of arguments to be made about the impact of increased coverage of minimum wage. If minimum wage reduces the pay differentials between different roles at the bottom of the pay distribution this could reduce the incentive to progress. There is also the potential that employers will reduce investment in training to cope with the additional costs which would also reduce the opportunity for staff to move upwards.

Research by Silvia Avram and Susan Harkness for the Low Pay Commission looks at whether the share of people working for the minimum wage in an area influences job progression. Their results suggest that minimum wage rises (relative to the median) are associated with a *lower* probability of progressing into higher paid roles in areas where there is a high share of minimum wage workers. They find no evidence of a significant effect on the transition into low (above NMW) pay from minimum wage.³⁵

Further, they find that individual and job characteristics are important factors in determining the probability of moving out of a minimum wage job. Factors associated with an increased likelihood of transition into a high paid role include: 'high' educational qualifications; working in the public sector; and working in large firms. On the other hand, the following appeared to *depress* the likelihood of moving to high pay: working part-time; having a history of unemployment; and being female.³⁶

CHAPTER 4 - AREAS FOR FURTHER EXPLORATION

The aim of this report is not to suggest how the government should design policy to encourage job switching but to explore and raise the importance of the topic.

The evidence gathered before and offered at our roundtable lead us to conclude that the relationship between low incomes, wage progression and job switching should be given more focus by policymakers. That evidence shows that switching jobs can lead to wage progression, but also suggests that i) switching delivers less advantage to low-paid workers than higher-paid counterparts and ii) some groups who disproportionately experience low pay are less likely to switch jobs than other groups.

This question of **groups' experience of switching** is worthy of further exploration.

There is a significant body of academic literature, mainly from the US, that supports the theory that job to job changes are important for women and part-time workers, both groups that are disproportionately likely to experience low pay.

Our first suggestion for further investigation in the UK context would be **more data analysis** on those groups' experience of job switching and their pay progression. The ONS data on which some of this paper is based does not disaggregate switchers and stayers by income band. We suggest that such official data would be a useful contribution to policymaking here.

The relationship between **non-wage factors**, wage progression and switching should also be examined more closely. Our roundtable identified hours worked and working patterns as a significant factor here, especially for women working part-time. Many of those women balance working patterns with family responsibilities; the difficulty of replicating those patterns in another job may well curb their scope to switch job and potentially see their wages rise. Policies aimed at making working patterns (and hours) more easily transferable between jobs might therefore deliver useful outcomes for such workers.

Drawing on earlier SMF work with employees and employers, we also suggest that non-wage factors including workers' feeling of security in the context of job switches be further explored. Some employers of low-wage workers report that some staff are reluctant to consider in-firm job switches despite the prospect of higher pay, fearing that the new job "might not work out" and raise the risk of unemployment. Qualitative work with low-income workers exploring **attitudes to switching** would be a useful exercise here.

Also potentially important are the lessons from US pharmacy about how to increase the ease of substitution among higher-wage workers, making such work more easily accessible to people who want or need to work part-time. This might make it easier for more women who work part-time on lower wages to work part-time for higher wages.

Arising from that is the issue of **skills and training**. Higher skills can make it easier for a worker to move to a higher-paid job but our anecdotal evidence suggests some employers see little benefit in helping to provide training and may even see the linkage between training and switching as a reason not to offer training. Evidence from elsewhere³⁷ also suggests "employers are more likely to invest in those with higher skills" rather than low-income workers. Investigating how equipping low-income workers with better skills might change their scope to move jobs and increase their wages would therefore be a worthwhile exercise.

Our final observation relates to the importance of **locality**. National-level economic data can conceal significant local issues. As discussed, low-income workers may be particularly prone to low levels of geographical mobility. Increasing that mobility might, potentially, be a route to pay progression for low-income workers, but this seems likely to a complex, difficult and circuitous route, even if one overlooks questions about its social desirability or political viability. A better approach would be to accept that many low-income workers will not move region in order to switch jobs and potentially increase their wages - then focus on facilitating such switches locally, and on ensuring that switches deliver significant wage rises.

Post-script: job switching and the Coronavirus economy

Reflecting the timing and nature of the roundtable, this paper is an artefact of the economy that existed before the onset of the Coronavirus pandemic. That does not make it irrelevant to the economy that will exist in the wake of the pandemic, but it does mean that some differences of emphasis may be helpful. Our discussion back in March mainly concerned switching from job to job. In an economy where unemployment is likely to be high and rising, a more pressing concern may be switching from unemployment to employment. Some of the observations reflections here are relevant to that challenge. We also urge policymakers not to lose sight of the underlying issues raised here amid the post-pandemic downturn. The challenges of persistent poverty and low wage progression will not go away simply because they get less attention; indeed, it is quite possible that they will worsen. Long-term answers will remain necessary, and – whatever the prevailing economic conditions for the next few years – we argue strongly that developing research and policy aimed at helping low-income workers gain greater advantage from job switching are and will remain worthwhile aims.

ENDNOTES

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