Does changing employers offer a route out of low pay?

blogs.lse.ac.uk/politicsandpolicy/does-it-pay-to-change-employers/

10/24/2014

New data from ONS makes clear that those who remain in work year on year have been seeing the greatest pay increases, whereas people who changed jobs tended to see higher pay increases between 2004/05 and 2007/08. ***Ceri Hughes*** *looks at the trends.*

Too many workers remain stuck in low-wage work from one year to the next, suggesting that low paid jobs do not function as a route into better paid work for many people. As we noted in our recent report, switching jobs can be one way for workers to increase their earnings and move out of low pay. But frequent job-switching can also have a negative impact on earnings.

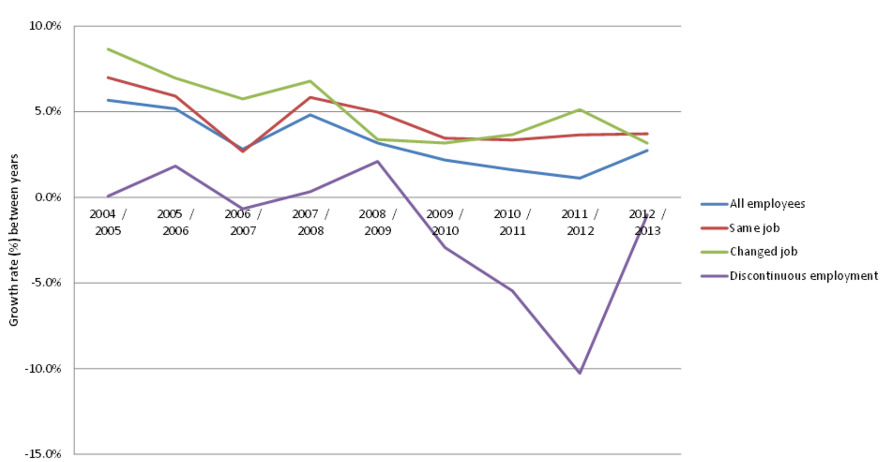
The ONS recently published the results of its hourly pay growth analysis for employees in continuous versus disrupted employment, making it possible to compare outcomes for people who have remained with their employer in recent years to the pay growth of those who have changed jobs and those who have recently moved back into employment.

Mean hourly pay for all employees grew by 2 per cent between 2012 and 2013, up on the 0.8 per cent increase registered between 2011/12. But the pay growth of someone who has stayed in work – whether with the same employer or through changing employers – looks very different to pay trends for new entrants.

Overall, those who remain in work year on year see the greatest pay increases. People who changed jobs tended to see higher pay increases between 2004/05 and 2007/08, but the gains from switching have diminished since the recession. This may mean that job switching as a means of increasing earnings is more suited to an expanding labour market. During a recession workers will be more risk averse: those who do change jobs may take up new roles with similar pay to their old job. Not all job-switchers can afford to shop around, for example, those changing employers may have been made redundant and have little time to search for a new well-paid job.

The ONS has produced analysis for all employees, as well as the core working-age population of people aged between 30 and 50. Focussing on this core age group (in the graph below), people who changed jobs between 2012/13 had slightly lower hourly pay increases than those who remained with their employer, at 3.2 per cent compared to 3.7 per cent.

Figure 1: Hourly pay growth between consecutive years for 30-50 year old employees



Source: ONS analysis of ASHE data. The measure of 'discontinuous' employment will include people who, in one of the two years, were unemployed, inactive, or self-employed. It may also be the case that they were still in *employment but failed to respond to the survey.*

But the real differences in pay trends become clear when we look at pay changes for people who have not got a sustained record of employment between one year and the next. Overall, people who have remained in work have seen some increases in hourly pay – though this may not have outpaced the rate of inflation and so would not register as real wage growth. Relative to these incumbents, however, the new entrants to the labour market have been facing the adjustment costs.

Comparing the average hourly pay of those entering employment in one year to the pay of those who were in employment the year before and who subsequently left, pay for those (re-)entering the labour market was 10 per cent lower in 2012 compared to 2011. Since then, the sharp downward trend has corrected itself somewhat with people who moved into employment in 2013 getting mean hourly pay 1 per cent lower.

What is behind these trends? It is not entirely clear why pay has dipped so much for those entering employment – and the data that we have on pay is far from perfect. It may be that some employers are able to set lower wage rates than in the past – vacancies are up but the lack of wage pressure suggests they are being filled quickly.

So does it pay to change employers? People changing jobs have seen average hourly wages going up, but the advantages of changing jobs versus staying with an employer have become less clear since the recession. If these trends hold true for low wage workers it may be that one means of achieving wage growth has become less effective in recent years.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our comments policy before posting.

About the Author

Ceri Hughes *is a Researcher at The Work Foundation and is currently contributing to research on young people's labour market transitions and low paid work.*