

Employment, Output and Real Wages

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The Data

There are a number of series that can be used to measure employment. In our work, we have estimated the equations using both full-time employment and hours worked as the measure of employment. Total employment (part-time plus full-time) was not used because factors other than output and real wages have been very important in explaining developments in part-time employment

There is also a variety of real wage measures which could be used. Most authors prefer to use either real average weekly earnings (RAWE) or a measure of real unit labour costs (RULC). In initial estimation, it was found that RAWE performed poorly. This is probably due to the fact that RAWE does not capture the effect of movements in non-wage costs and that secular influences, such as the growth in the relative importance of women in the labour force, have had a greater effect on AWE than other measures of wages.

When using RULC, allowance had to be made for the fact that, because this variable is related to productivity movements, it may be collinear with the output term. For this reason, an instrument for RULC was created by using an eight-period moving average productivity term as the denominator in RULC. This should largely eliminate cyclical influences on the RULC measure and hence reduce any multicollinearity between GDP and this measure of wages. The results reported in the paper use this measure of RULC. A comparative equation, using another measure of real wages as the explanatory variable, can be found in Appendix 2 of the paper.

The data used in the paper is reported below.