Funding the Future

The UK needs a pay rise now if we are to get out of rec...

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I have already this morning quoted extensively from one article in the Observer yesterday and now I will from another. This one was the argument made by Frances O'Grady of the TUC, for whom I work, in favour of what she called 'a new deal on wages to kickstart a true UK recovery'. The argument was as follows, and I share it because like the earlier argument I think it of considerable importance:

Back in the 1950s Henry Ford took the US union leader Walter Reuther on a tour of a highly automated new factory. Ford gleefully asked Reuther how he would get robots to pay union dues. Reuther shot back: "And how are you going to get them to buy your cars?"

It is a classic dilemma. Employers want to keep their workers' wages and bargaining power to a minimum, but need their customers to have money to spend. And that can only happen if they can negotiate decent pay.

Decent wages are good not only for those who get them, but for economic growth, too. Yet the business-friendly policy of recent decades has favoured the selfish, short-termist employer keeping wage costs down.

The minimum wage set a welcome floor, but poverty wages just above the minimum were considered fine. Indeed the state has subsidised low pay through tax credits. In-work benefits should be defended, but it is right to query why the taxpayer should subsidise so many low-paying employers. Deliberate policies of labour market deregulation continued to send the signal that workers' wages should fall.

The result has been a steady decline in the share of the economy going to wages — a drop from 60% in 1980 to 54% in 2011. It is probable that the decline is continuing, as around four in five new private sector jobs are in low-paid sectors. This job creation may be better than unemployment but still leaves households struggling to make ends meet and is no recipe for economic recovery.

Not only has there been a decline in the wage share of the economy, but those in the *middle and at the lower end have been getting a smaller share of this shrinking pie. The Resolution Foundation has forecast that a typical low-income household in 2020 will have an income 15% lower than they would have had in 2008.*

But many orthodox economists have seen nothing to worry about. The slide in the wage share was inevitable. Technological change meant that the economy needed fewer skilled workers; and globalisation reduced real wages in advanced economies as developing countries industrialised.

Labour market deregulation was a core belief of the 1980s free-market consensus. It was meant to remedy the squeeze on profits and investment caused by union-bargained wages and the costs of "welfare capitalism". Everyone would win as profits drove new investments and innovation, which eventually would trickle down to all. Even today, the coalition claims that it is necessary to squeeze the working-age social security bill, even though the share of GDP going to these benefits has barely changed.

But the theory did not work. Profits grew as the wage share declined, but the increase in the profit share went entirely into the finance sector and personal fortunes, with no greater benefit for anyone else. Growth and productivity increases were a third down on the level achieved in the postwar decades. Unemployment was higher and recessions longer and deeper. Instead of the saving made on the wages bill being invested in new plant, skills and equipment, it funded a big increase in remuneration for those at the very top, plus financial engineering and mergers and acquisitions. Borrowing rocketed as consumption became increasingly dependent upon personal debt, and the seeds of the financial crisis were sown.

That is why I am making a call for a new deal to boost growth and rebalance the economy — as pressing a problem today as the price-wage spiral was in the 1970s. Improving the wages of those who have been left out of the finance sector bonanza makes sense all round. Higher wages would help rebalance our economy, increase the tax take and reduce the benefits bill. Even the OECD and the IMF now say that inequality has gone too far.

Such a new deal would have at its heart a national consensus that if companies making a good return on investment are to create decent, properly rewarded jobs, government, business and labour must work together. Increasing demand for productive skilled workers should be the key aim of industrial policy, and it should be linked to the capital investment that can help kickstart growth. Economic policy should have achieving full employment as an explicit priority, and this in turn is good for pay.

Wage restraint will have a place too, but applied to those at the top: this can release resources for better pay and more jobs lower down. And with even the IMF and OECD recognising the importance of reducing inequality, a new deal would promote the extension of responsible collective bargaining.

A modest increase in the minimum wage would have a minimal effect on employment. We should also expect companies that can afford it to pay a living wage. While there is a trade-off between jobs and the wage floor, many sectors and companies could pay more while continuing to increase employment. Modern wages councils could set new minimums in some sectors. The government has just abolished the Agricultural Wages Boardwhich did just that.

This adds up to an ambitious agenda for a new government, with some quick wins that can help build longer-term support. Britain needs a pay rise or we will be stuck in a damaging low-wage, low-productivity spiral where economic prospects remain bleak.

This, I believe is the economic policy that the UK needs.

And this, I think, is what the dispute with Labour is now all about.

But that's a theme I will have to return to later.

There is though more on this here and here.