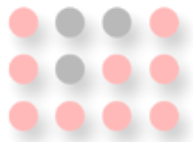


# Pay and the recession: the UK experience

A report for the TURI conference

May 2010

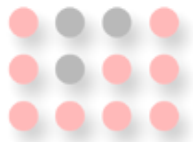
By the Labour Research Department



**Labour Research Department**

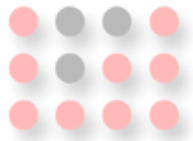
# Key points

- Key features of collective bargaining in the UK
- Factors influencing pay bargaining
- The impact of the recession
- Pay in the recession
- Pay freezes
- Prospects for the future



# Key features of bargaining in the UK

- Coverage of collective bargaining
  - 34% (19% private, 71% public)
- Level of collective bargaining
  - primarily company-based in private sector (80% in 2004)
- National minimum wage (since 1999)
  - sets floor for lowest paid



# Collective bargaining in UK - legal position

## 1

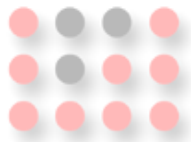
- Collective agreement not a legally-binding document
- But terms affecting individual, eg pay or holidays become part of individual's contract
- Breach of contract, if employer changes them unilaterally eg if cuts pay
- But may be difficult to enforce



# Collective bargaining in UK - legal position

## 2

- No obligation to bargain
- No rules about who can sign agreement
- No requirement for collective agreements to be deposited in central register or published
- No requirement for members of employers' association to implement agreed terms at their workplace
- No mechanism for extending agreements



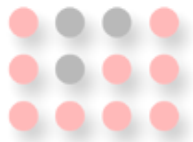
# Collective bargaining in UK - reality

- More important agreements negotiated with involvement of union officials – at smaller workplaces local union reps will negotiate alone
- In most cases unions have common position in negotiating – in terms of both claims and settlements – occasional exceptions
- Multi-year deals have been more common – around 25% for two years and 15% for three years, but majority still annual



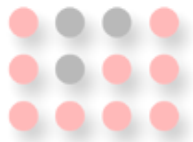
# Collecting the data

- LRD systematically collecting data on bargaining since 1979 – not just pay
- Only union-linked body doing so, but other commercial organisations (IDS, IRS)
- Request information from negotiators as agreements due to settle
- Information on 2,350 bargaining units, but up-to-date pay information on around 700

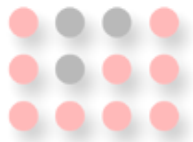
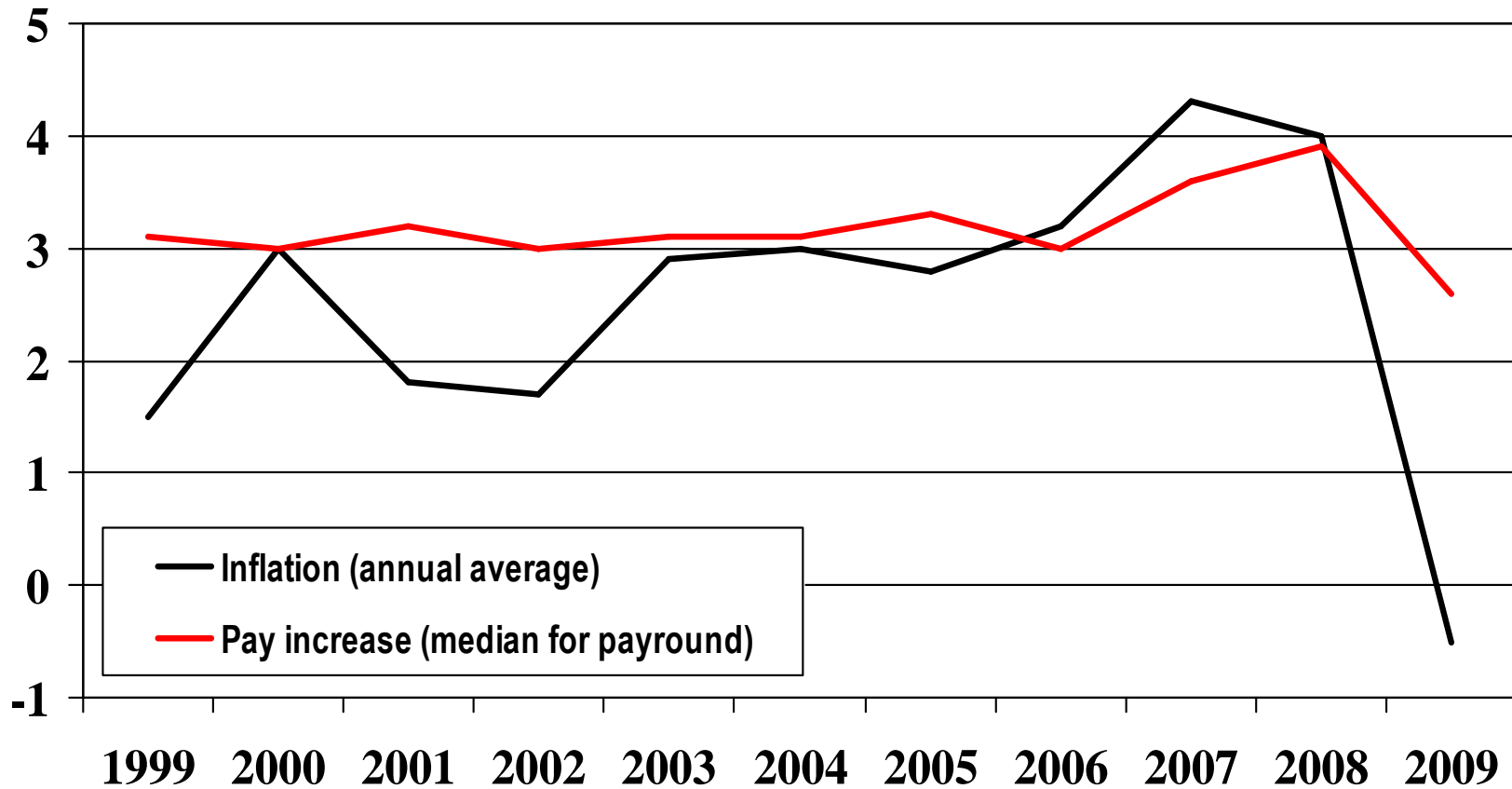


# Factors influencing bargaining

- Inflation
- Inflation expectation
- What other people are getting (union information)
- Employer's ability to pay
  - Either more or less than inflation
- Job security

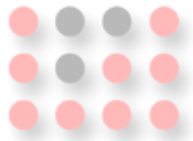


# Outcomes of collective bargaining



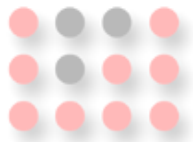
# Impact of the recession

- Job security became much more important issue
  - choice “further mass redundancies or ...short-term pain in order to secure the future” (Jaguar Land Rover)
  - Redundancies rather than pay cuts or freezes main challenge for union negotiators in public sector in 2010 (survey of negotiators – *Workplace Report* January 2010)
- But recession and measures to mitigate its effects (interest rate cuts) meant inflation (RPI) fell
  - from 5.0% in September 2008 to -1.6% in June 2009

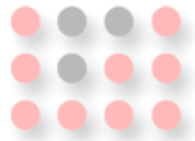
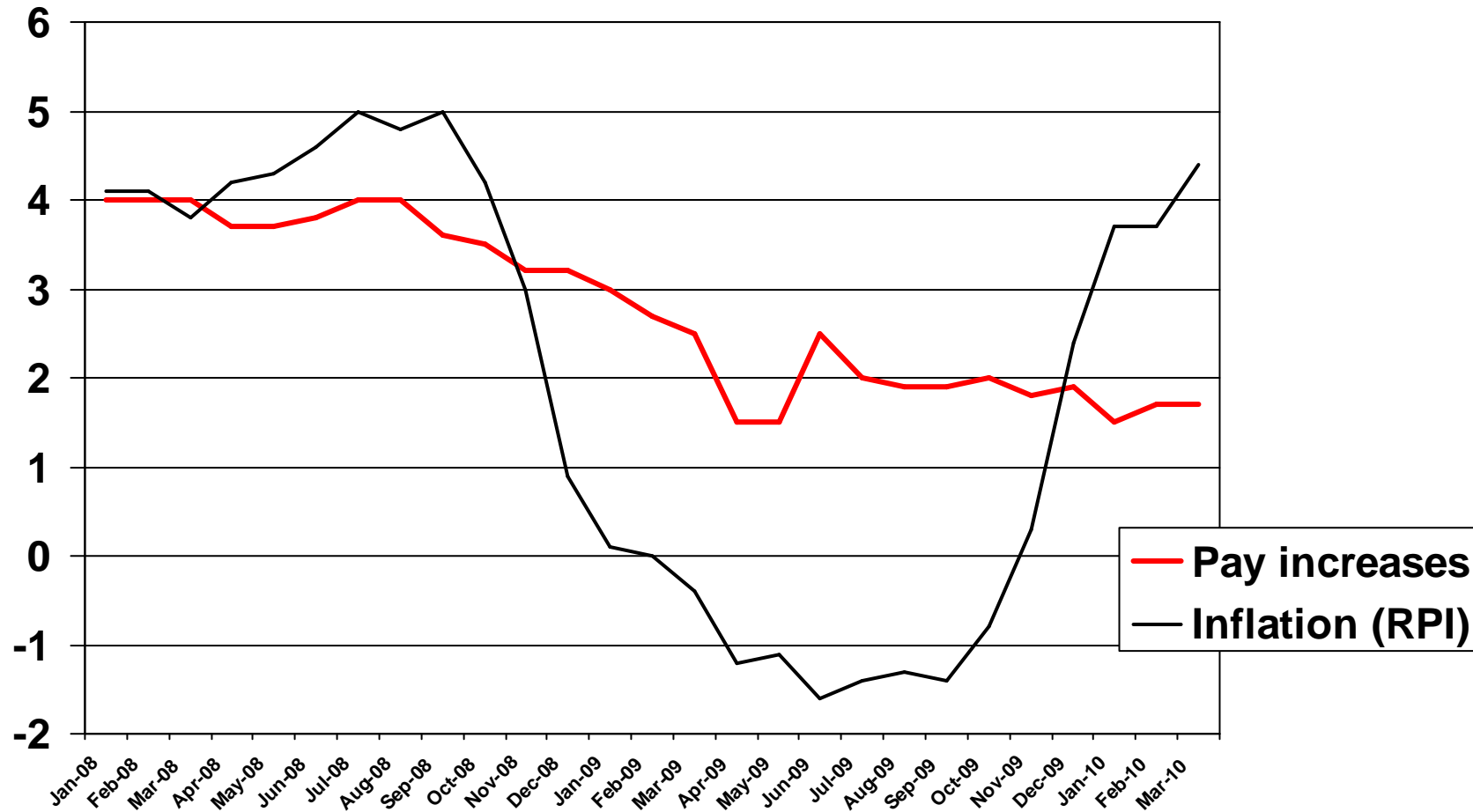


# Measures agreed to avoid redundancies

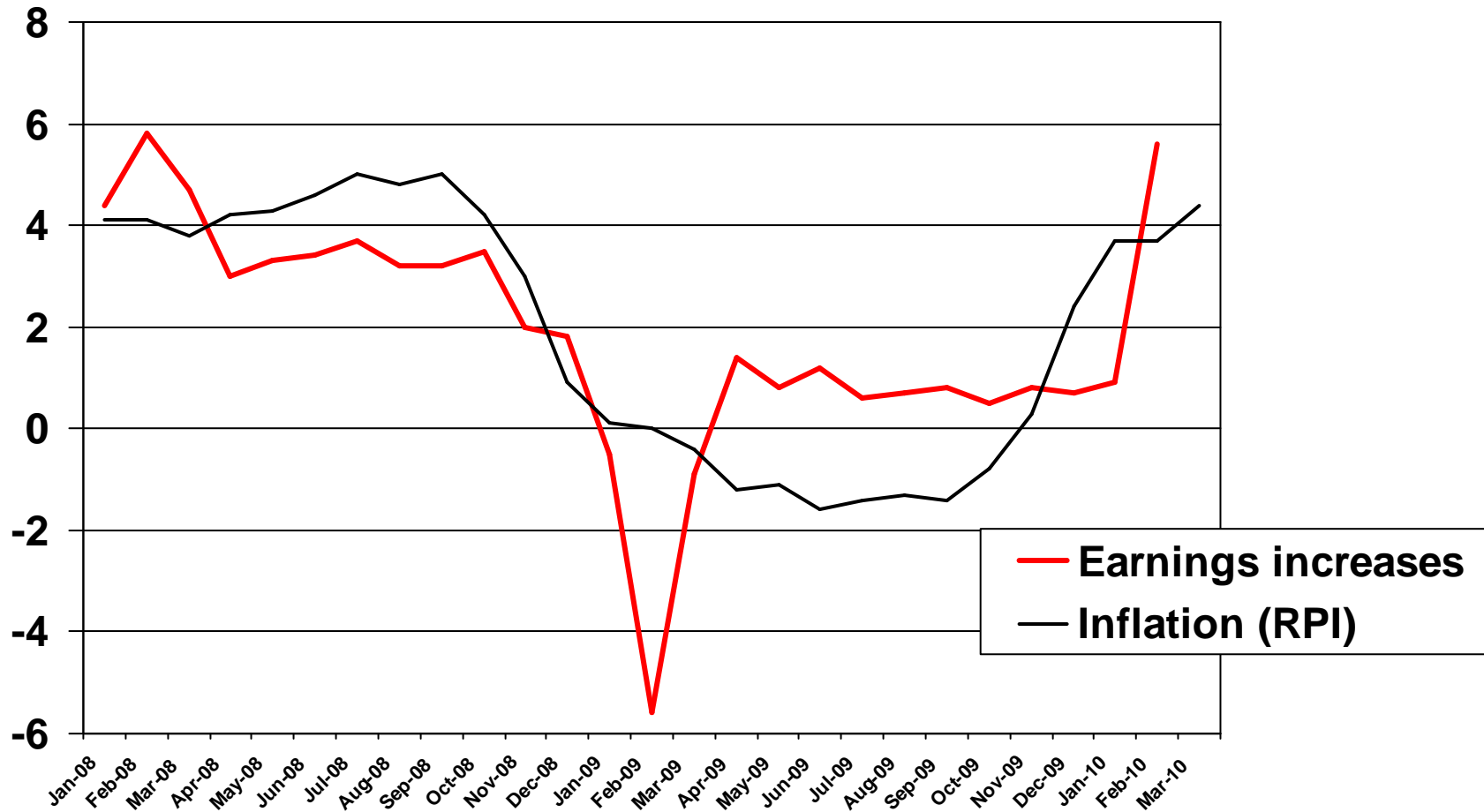
- Pay
  - Lower pay increases
  - Pay freezes
  - Pay cuts
- Cutting working hours (no government support)
  - Ending overtime
  - Shorter working week
  - Shut-downs
- Other savings
  - Reductions in employers' pension contributions
  - Reducing use of agency staff



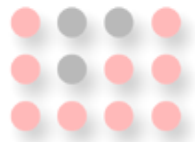
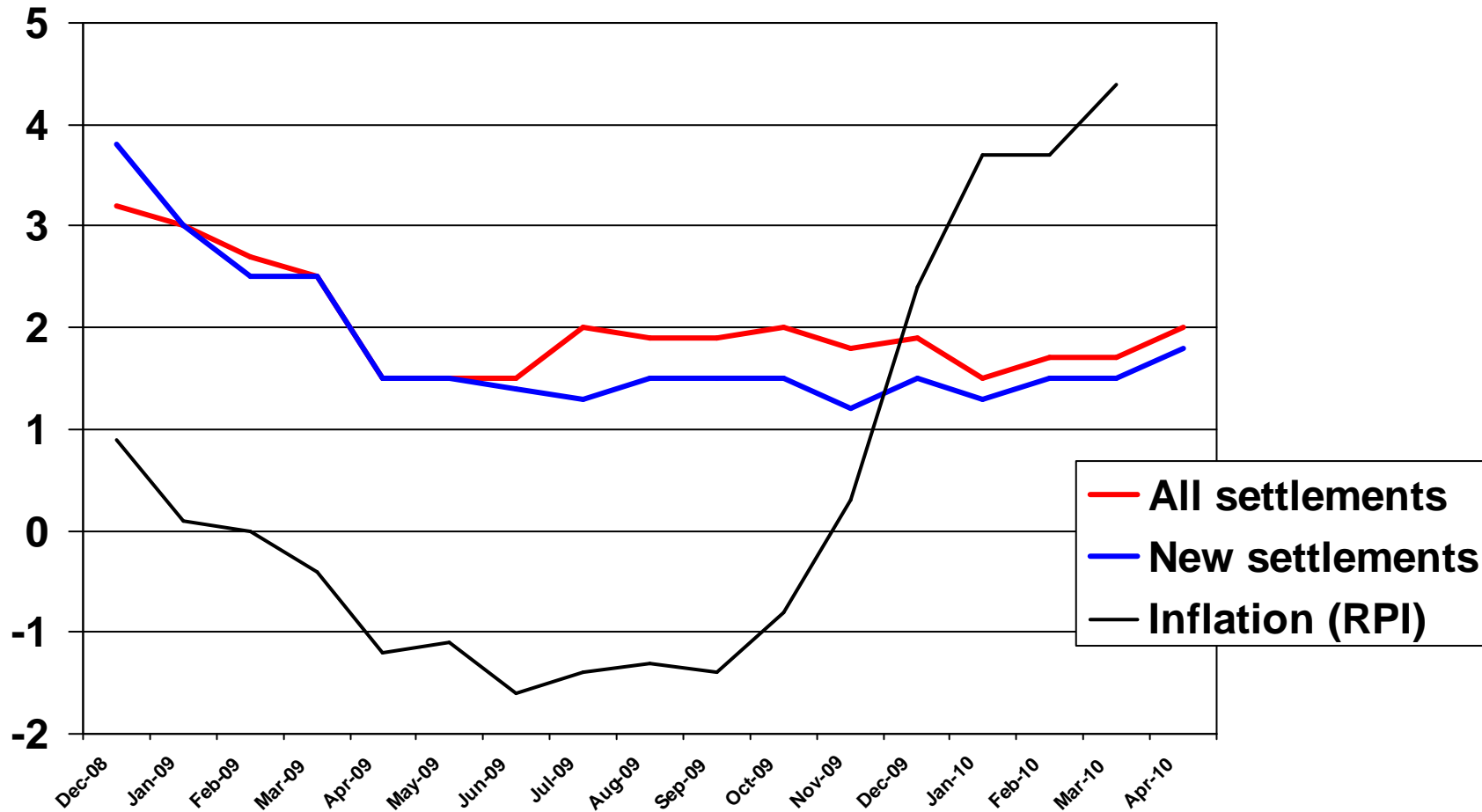
## Pay increases 2008 to 2010 (3-month median)



## Earnings increases 2008 to 2010 (3-month average)

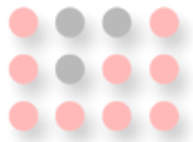


## All settlements and new settlements 2009 to 2010

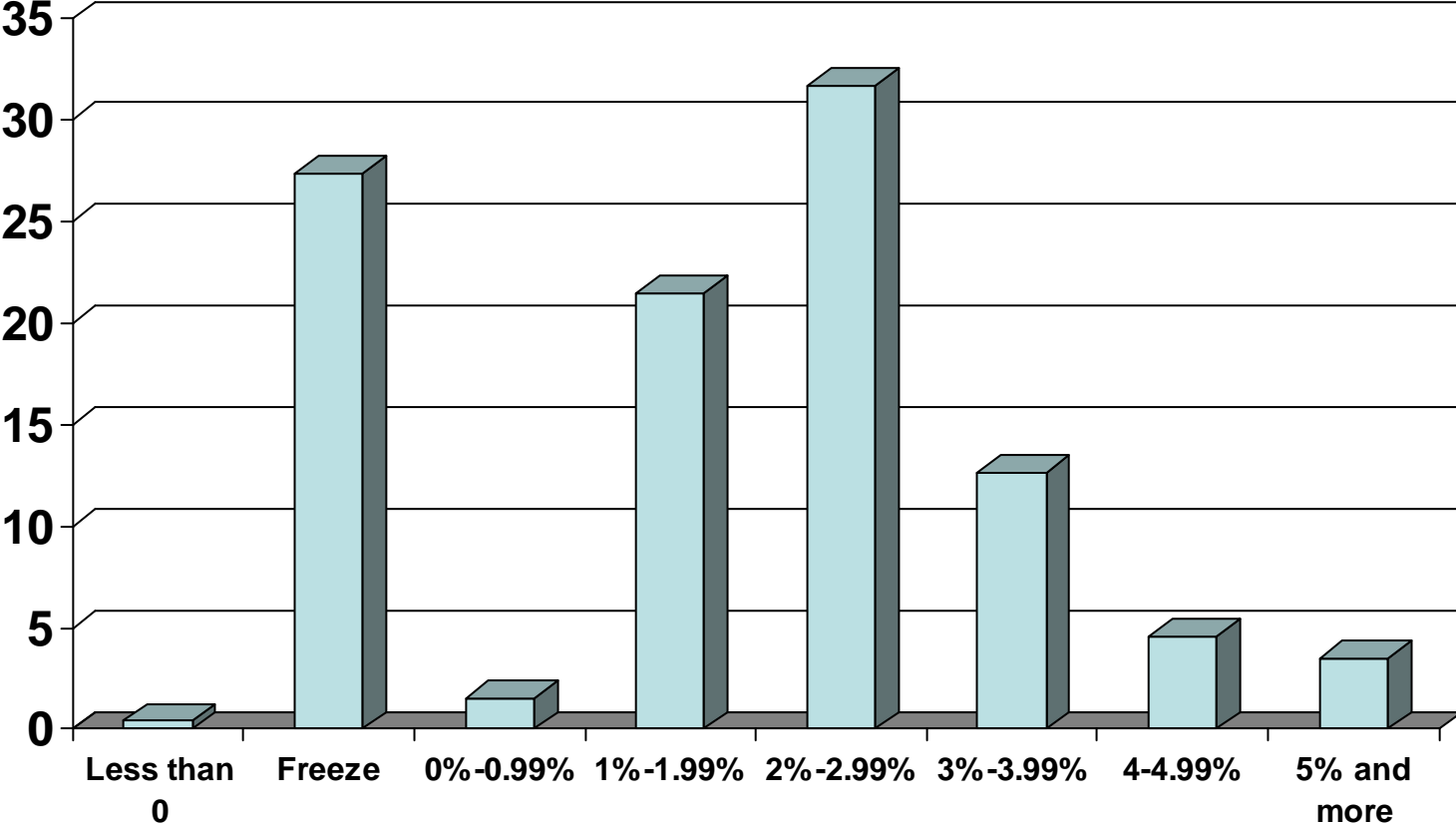


# Pay freezes

- Most visible evidence of impact of recession
  - 2008: only 8 freezes in whole year
  - 2009: freezes are around 25% of all settlements and 33% of new settlements
- But not all pay is frozen
  - Concentrated in certain industries, media, building, cars
- National minimum wage not frozen
  - 2.1% increase in October 2009

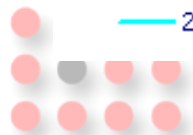
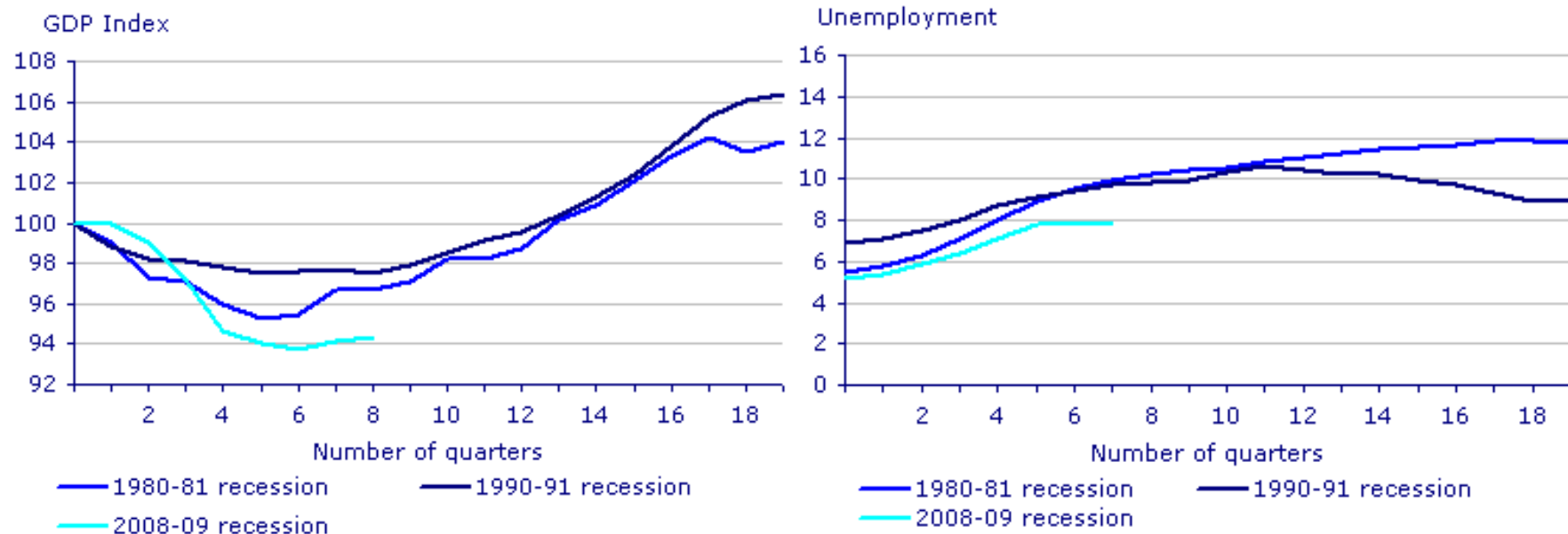


# Proportion of pay increases (%) March 2009-April 2010



# Impact on jobs

Unemployment not growing as rapidly as in past recessions  
– despite sharper GDP decline

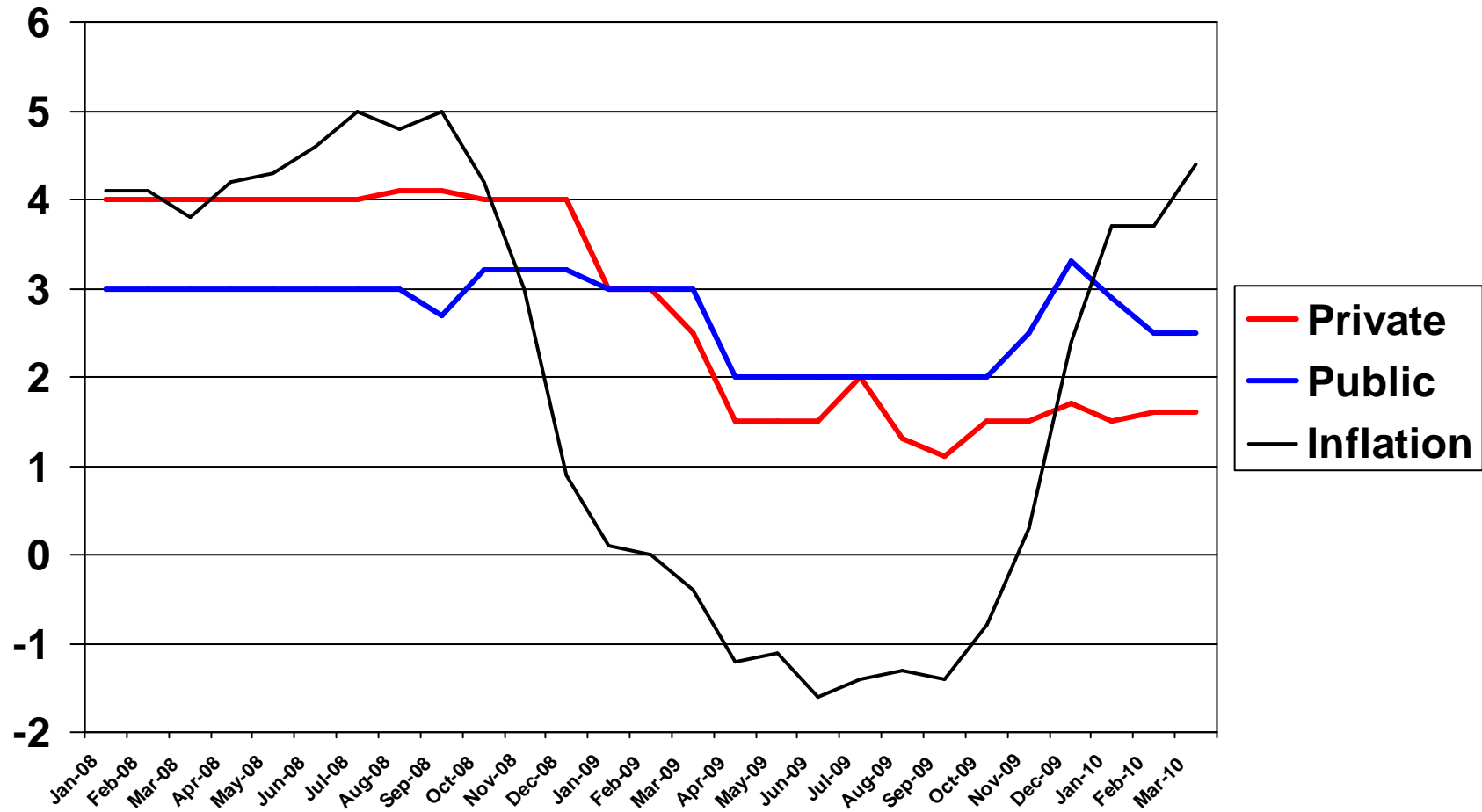


# Issues for future

- Inflation has returned
  - In September 2008 was -1.4%
  - In March 2010 was 4.8%
- Is the number of pay freezes falling?
  - Fewer (16%) in 3 months to end April but may change as delayed deals are signed
  - Some lump sum payments rather than increases (Honda)
- National minimum wage
  - Due to go up by 2.2% in October
- What happens in public sector
  - All parties are promising pay freezes after election

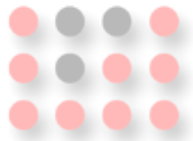


# Private and public sector pay increases 2008 to 2010



# Prospects for conflict

- In private sector
  - ACAS reports “much tougher negotiating positions from unions as economic outlook becomes more optimistic”
  - Limit to what members will accept
- In public sector
  - Not just pay freezes but job cuts as well
- The context
  - Still bonuses for top-paid (especially in finance)
  - Who will win tomorrow?

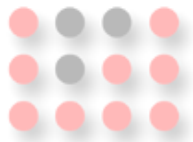


# Comments & questions

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