Wage (In)Equality and Wage Setting – Challenges for United Kingdom

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Wage inequality became an issue of considerable political concern in the immediate aftermath of the financial crisis. This reflected and extended what had been a growing concern with acceleration of Director-level pay that had been identified by the Trades Union Congress (TUC – peak level union organisation) during the early 2000s. The position of the New Labour governments between 1997 and 2010 had been to actively reject a concern about wage (and wealth) inequality arguing that as long as the poorest in society and the labour market had a reasonable standard of living (income, not only wages) then the level of inequality was irrelevant. During this period, wage inequality expanded rapidly pushing the UK into the group of countries experiencing the highest inequality levels as measured by the Gini co-efficient (see GINI project data).

The financial crisis of 2008 gave impetus to those calling for greater political attention to be paid to income inequalities. One development was the establishment in 2009 of a High Pay Commission (echoing the title of the body that recommends the rate of the National Minimum Wage; the Low Pay Commission) by a pressure group and with support from charities with an interest in the topic. Amongst other recommendations, the final report of the Commission recommended establishing a think tank with a specific focus on the effect of high pay on wage inequalities. The High Pay Centre was established in 2011 as an independent thinktank with funding largely from charities to research and campaign around these issues. Similarly commentator Will Hutton reported on fair pay in the public sector.

These initiatives demonstrate the growth of political interest in the topic after 2008, but have had little effect. Income inequality in the UK has grown in the past 5 years, fuelled both by limited wage growth for the vast majority of workers, and continued high wage growth in the top decile of the labour market.

Looking at social partners' attitudes to wage inequality in the four sectors under examination starts to highlight some of the dynamics underlying these headline data.

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Further information is available at **http://moodle.adaptland.it/newin**

1) Secondary education

The key issue in this sector is that although wages are subject to joint regulation at national level, there is increasing scope for individual schools to break away from national agreements. The main mechanism to do this is for a school to become an ‘Academy School’. Academy Schools are explicitly excluded from national agreements and this is highlighted by the government as one of the main advantages of schools becoming Academies.

Despite this, there is less wage drift that might have been expected. Union respondents report that many Academies have used national agreements as a framework for their grading structures as many schools lack HR expertise and the ability to deal with local unions over such sensitive issues. Over time, however, we might expect to see greater wage differentials, especially at regional level as London and the South East become so significantly more expensive than other regions.

Overall, social partners – especially unions – are very concerned about about wage inequality. Unions have lost one of the key mechanisms for constraining wage inequality – near-universal national pay regulation, but pay dispersion has not accelerated as fast as anticipated.

2) Metalworking – auto manufacturing

There is little to report from the metalworking sector at this stage as the fieldwork is not yet complete. However, the main concern of unions has been to extend their representation as the structure of the industry has changed. Specifically, technological innovation means fewer workers employed in routine occupations, with more employed in design and management who are less represented within unions. Over time, this has created an upward momentum wage growth across the sector, although differentials are still a concern.

3) Retail banking

The financial crisis of 2008 had significant effects for the banking sector in the UK, perhaps most noticeably the part-nationalisation of some companies. However, in 2010 the banking sector was still estimated to be the fifth highest-paying sector for CEOs. This pay was estimated to average £6.4 million amongst bank CEOs, or 304 times the median UK wage (Equality Trust). Inequality issues are compounded by low pay amongst workers in the lowest grades, together with gender and ethnicity wage gaps. For example, the Lloyds Trade Union found that within the retail bank of that group, 79% of females are segregated into the lowest three grades, as compared to just 28% in the top three grades. Additionally, within these grades, female members of staff are paid less than male colleagues. LTU also note an ethnicity pay gap within pay grades.

In response, some retail banks, particularly those which are part state-owned, have introduced schemes to address pay inequality. For example, when spun out of the Lloyds Banking Group, TSB limited the ratio of CEO-to-worker pay to 65:1. By comparison, this ratio is limited to 75:1 in the employee-owned retail chain John Lewis, whilst the average for FTSE 100 companies is 170:1.

4) Supermarket retail

The supermarket retail sector in the United Kingdom is dominated by the ‘Big Four’ of Tesco, Asda, Sainsbury’s and Morrisons, who between them hold a market share of nearly 75%. Approaches to social partnership vary significantly between the companies, from the partnership agreement between Tesco and USDAW, to the strongly anti-union stance of Asda, which is part of the Walmart group.

The sector has high levels of part-time work, a factor in increasing wage inequality. However, in August 2015, Sainsbury’s increased its pay for hourly paid workers by 4%, to £7.36. This rate will also be applied to workers aged under 25. Outside of the big four, during the recession there has been a significant growth amongst low cost retailers, particularly the German Aldi and Lidl chains, but also the more expensive, and employee-owned, Waitrose. Aldi and Lidl pay higher wages at both store assistant and store manager level than their big four competitors.