Negotiating Wage (In)equality

COUNTRY REPORT

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University of Leicester

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Executive summary

This report studies wage inequalities in the UK with a particular interest in how collective bargaining processes and the views of social partners (unions and employers) influence outcomes. This report is part of a larger, European Commission funded project (VP/2014/004) which examines these issues in five countries; the UK, Netherlands, Germany, Italy and Slovakia. The first section presents data showing growing wage inequality over recent decades, and then examines wage distributions at sectoral level and identifies varying patterns of wage inequality between sectors.

The second section moves on to explore the national debate about wage inequality highlighting two related debates. The first relates to very high pay, where public debates focus on executive remuneration and pay structures in the banking and finance sector. The second relates to the regulation of low pay, where there are clear policy objectives to transfer the responsibility for low pay away from State subsidies (generally through household tax credits) towards employers. Both employers and unions are generally favourable to efforts to regulate pay, but some disquiet is expressed by groups particularly affected by these developments such as employers in low pay sectors.

The report then presents data from four sectoral studies: education, retail, banking and manufacturing. These have been selected for the purposes of international comparison which will form the basis of a comparative report that will be available on the NEWIN project website along with the reports from the other participating countries. The sectoral studies illustrate the centrality of government policy in these debates and issues, although they play out in complex ways within and between sectors.

Secondary *education* retains a collective pay setting mechanism through a Pay Review Body. This takes evidence from social partners and other stakeholders and recommends pay awards to the Minister for Education who usually – but not always – follows the recommendation. Here the effects of government policies are perhaps most direct. Some schools, called Academy Schools or Academies, have the right to break away from pay, terms and conditions set nationally. This group of schools has been growing in recent years as a direct result of government policy. Perhaps unsurprisingly, wage inequality in this sector has therefore been growing as some schools take advantage of the opportunity to set wage rates at local level.

In *retail*, the reform of the statutory minimum wage and the introduction in April 2016 of a higher rate National Living Wage has had a notable effect on wages in the sector. Although national-level representative data will not be available before the submission of this report, extensive evidence from our own interviews, media investigations and sector level discussions clearly show that there has been a squeeze on differentials in the lower deciles. This is likely to remain the situation unless or until margins and profitability in the sector increase.

In the *banking* sector senior staff pay has become a subject of intense scrutiny since the 2008 financial crisis. A series of statutory reforms at national and EU level have introduced significant oversight and regulation of bonuses and other aspects of remuneration in recent years. Although the UK remains resistant to some EU proposals for regulating bonuses in all financial services, the overall direction of travel has been to introduce considerably greater control over top salaries.

In *manufacturing*, debates are very different and government policy has a far less direct effect on wage (in)equalities. Here the dominant concern is to retain employment in the UK if there were a vote to leave the European Union. Despite this not having a direct effect on wage rates, there are concerns that high-skill manufacturing jobs might be lost in the event of a so-called ‘Brexit’ vote. More generally, the effects of government policy can be seen in apprenticeship wage rates although this is a sector where large employers pay significantly above the very low statutory apprenticeship wage rates.

The final section of the report returns to discuss the broad trends of wage inequality in the UK and presents an analysis of the factors that influence patterns within and between sectors. The analysis emphasises differences of profitability and margins between business models within sectors, as well as the extent to which the organisations are exposed to competitive and disruptive pressures. This section also highlights the fact that although this report has focused on collective bargaining processes, most private sector workers do not have wages determined by collective mechanisms. Rather, unilateral managerial policy is the dominant wage setting mechanism and this largely explains the patterns of wage distribution across the UK labour market more generally.

Introduction

Inequality has become a major concern for social scientists and policy makers (Wilkinson and Pickett 2009, OECD 2012, Piketty 2014, Ostry et al. 2014). In general, and across many EU member states, income inequality has been growing, although at markedly different rates (GINI 2013). A great deal of attention has been paid to the effects of education, taxation and fiscal measure in contributing to increased inequality, but remarkably little attention has been paid to how the institutions of industrial relations affect outcomes. This is a curious omission because the one of the central objectives of institutions that seek to collectively regulate the employment relationship is usually to agree common principles about pay determination and wage levels.

This project therefore sought to address that gap by looking at the views of social partners (unions, employers, employer associations etc.) around issues of wage (in)equality. This report focuses on the UK findings with the intention that they inform a comparative analysis involving similar studies in four other EU member states: Netherlands, Italy, Germany and Slovakia. Taken in comparative context, the objective of the project is to look at four common sectors (secondary education, manufacturing, retail banking and supermarket retail) to explore how wages are set, how social partners think about wage (in)equality in the wage setting processes, and what the outcomes are.

The UK has seen very profound changes to both wage inequality and collective pay regulation over the past 30 years. Wage inequality in the UK has grown rapidly in the past decades and the UK is now amongst the most unequal member states with regard to wage inequality. At the same time, structures of collective wage regulation have changed profoundly. Laws introduced in the 1980s present considerable hurdles to union organising and taking industrial action, which have had the effect of limiting the bargaining power of unions. At the same time, the ability of unions to conclude sectoral agreements has shrunk so that company level bargaining is now the norm outside the public sector. Within the public sector, collective wage determination is typically for occupational groups and is a mixture of collective bargaining and independent pay review bodies that recommend pay rates and rises for some groups in some sectors. Union membership has declined, new companies and industries rarely have a union presence, and there are no mechanisms for extending collective agreements to organisations that do not recognise unions.

It is important for the analysis presented in this report that these developments are not assumed to have a simple causal impact on wage inequality. As we shall see, there are still companies and organisations that bargain collectively in the private sector and public sector pay determination still retains strong collective elements. The project therefore focuses on both explaining the sectoral context and then focusing in on particular examples of companies where bargaining takes place. The organisations have been selected to illustrate key developments within the sectors and to highlight the *dynamics* of collective wage setting in sectoral context and how these patterns of industrial relations influence wage outcomes.

The national picture is one of growing concern from a wide range of public bodies about the challenges of growing wage inequality. Debate tends to focus both at the top and bottom ends of the wage distribution. At the lowest levels, the Low Pay Commission has statutory responsibilities to research issues around low pay and recommend adjustments to the National Living Wage (the new name for the National Minimum Wage). The Conservative government has made strong commitments to seek to uprate the NLW rapidly with a target of reaching 60% of median earnings by 2020. At the top end, organisations such as the High Pay Commission and the Trades Union Congress have no statutory powers, but have led debate about how the pay of senior executives is determined. Debates there focus on greater transparency for remuneration committees and stronger corporate governance mechanisms. In general, then, it is clear that issues of wage equality are of considerable concern in national debates and draw in stakeholder groups far wider than only social partners.

The report then moves on to look at sectoral level dynamics. Overall, the picture is a little surprising. The analysis reveals how central State policy is in influencing sectoral wage (in)equalities, even in the advanced neo-liberal setting of the UK. Interestingly State policy acts to both promote and constrain wage inequality in different ways in different sectors.

Overall, then, although these policy aspects of pay determination are only part of the story in each of the sectors studied, the influence of policy on both low and high pay – and therefore on wage inequality more generally – is striking. As the report makes clear, however, these debates and policies have much less influence in collective bargaining processes where the dominant concern of social partners is typically on workers whose wages are more likely to be in the middle deciles. This is largely because structural patterns of collective bargaining mean that these are the workers most likely to be in sectors and occupations covered by bargaining arrangements. This is not to say that social partners are uninterested in ideas of wage inequality. Rather, as later sections of the report highlight, they play out in more complex ways for particular groups of workers.

A note on sources

Much of this report has been compiled from publicly available information and data. The most important source for wage data is the Annual Survey of Hours and Earnings which provides wage deciles for SIC codes. The Department for Business, Innovation and Skills regularly publishes trade union data including membership levels, coverage of collective bargaining, union wage premia etc. and this data has been invaluable for the compilation of the report. Sector level data was collected from a wide range of sources including: market reports on key sectors, publicly available information about wage trends, submissions to public bodies, reports on key issues such as low pay, high pay and pay regulation, interviews with social partners, and publicly available information about companies.

1. The national situation

Although wage inequality in the UK has been growing for much of the past 30 years or so (Bell and Van Reenen 2010), it 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 largely 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. The Gini co-efficient was 0.266 in 1978, rising sharply to the early 1990s when it hit 0.368 in 1990. Since then, the co-efficient has stabilised between around 0.33 and 0.36 (Office for National Statistics).
Wage distribution data can most usefully be seen in data that breaks down wages into deciles across industries. Table 1 presents gross weekly earnings in this manner and table 2 presents gross hourly earnings. They appear in the appendix at the end of this report. All figures are from the 2015 Annual Survey of Hours and Earnings.

1.1. General analysis of wage distribution

Table 1 shows the distribution of weekly wages excluding overtime by decile for the main Standard Industry Classifications (SIC) from the 2015 UK Annual Survey of Hours and Earnings. This is the main measure of income distribution used in UK data reporting The top line of the table shows the whole economy and shows that the median wage is £412.50 per week. The top decile is £901.90 and the lowest decile is £125.50. This gives a benchmark distribution against which to compare the distribution of wages in particular sectors. The sectors that are featured in the later sections of this report are highlighted in red, although it should be noted that the SIC codes cover a wider range of businesses than the sub-sectors we consider. This is discussed in the relevant sections and data for the next level SIC code is added to the sector analysis.
With regard to low pay, the arts, administration, food services and wholesale/retail sectors stand out as particularly low paid sectors which reinforces widely understood patterns of wage distribution. This is partly accounted for by the high incidence of part-time work in these sectors which affects the weekly wage. However, hourly wage distribution data shown in table 2 show that there are also widespread issues of low hourly wages in those sectors. It is important to note that retail and hospitality are two of the largest employment sectors, so the effects of low pay there have a disproportionate

effect on the wage distribution as a whole. Probably unsurprisingly, the three sectors with the highest level of very top pay are banking/finance, information and communication, and professional services.

Table 2 shows gross hourly wages across industries *including* overtime but before tax and presented SIC codes. This is the main table used for the international comparative analysis presented in this project. The lower decile data probably demands the most explanation. The 2015 UK National Minimum Wage was £6.70 at the full rate for adults over the age of 21. The lowest decile wage data in agriculture, wholesale/retail, hospitality, administration, arts, and other services all fall below this level. This is almost certainly accounted for by the fact that the youth and apprenticeship rates are lower than the full £6.70 per hour. This table also illustrates the widespread impact of the National Living Wage that came into force on April 1st 2016. That is set at a rate of £7.20 per hour which is lower than the rate for the lowest decile of all employees reflecting the low rates of pay in sectors such as hospitality and retail which employ large numbers of workers.

The three public sector SIC codes (public administration, education, and health) are also interesting. Wages are slightly higher in public administration, but the wage distribution is relatively compressed in comparison with other industries. Looking at the four SIC codes that cover the sectors that are of interest later in this report, retail has the lowest median hourly wage rate at £8.84 per hour, followed by manufacturing at £12.88, education at £14.02 and finance at £17.93. This ranking is maintained when we look at the gross weekly wage in table 1.

It should be noted that the data for hospitality workers (accommodation and food service) is likely to be slightly misleading because it does not routinely take account of all gratuities, although this depends in part on how the employer calculates these and whether or not they are reported. This sector also illustrates that *wage dispersion* also varies a great deal between industries, the low wage sectors are also noteworthy for their relatively compressed wage dispersion. Hospitality (accommodation and food services) is particularly noteworthy here, with less than 10% of workers earning over £12 per hour. Given that the highest decile is likely to include managerial staff who rarely receive gratuities, this is a strikingly compressed wage distribution. Financial and insurance activities are also interesting here. Although the top 10% earn very high wages, and the median wage is high compared to all workers, it is in line with other professional activities such as law, scientific and technical workers, and ICT workers. This reflects the pattern of employment of a large number of semi-routine activities in retail banking which are discussed in later sections of this report.

Table 3 shows the ratio between the top and bottom deciles, the ratio between the top and median deciles and the ratio of the median to mean wage for both weekly and hourly wages. These are a useful measure in illustrating the pattern of wage compression or dispersion across the sectors.

Table 3. Weekly and hourly pay ratios

	Weekly 1:9 ratio	**Weekly 5:9 ratio**	**Weekly median: mean ratio**	**Hourly 1:9 ratio**	**Hourly 5:9 ratio**	**Hourly median: mean ratio**
All employees	0.13	0.46	0.83	0.27	0.46	0.77
Agriculture, forestry and fishing	0.22	0.56	0.90	0.40	0.55	0.85
Mining and quarrying*	0.35	0.62	0.80	0.35	0.64	0.83
Manufacturing	0.29	0.52	0.86	0.30	0.51	0.85
Electricity, gas, steam and air conditioning supply	0.35	0.66	0.89	0.31	0.55	0.89
Water supply, sewerage waste management and remediation activities	0.28	0.51	0.85	0.30	0.49	0.83
Construction	0.23	0.54	0.88	0.33	0.54	0.86
Wholesale and retail trade, repair of motor vehicles and motor cycles	0.13	0.43	0.81	0.33	0.46	0.72
Transportation and storage	0.29	0.52	0.86	0.42	0.65	0.82
Accommodation and food service activities	0.12	0.46	0.84	0.50	0.61	0.80
Information and communication	0.21	0.49	0.86	0.26	0.50	0.84
Financial and insurance activities	0.17	0.36	0.71	0.19	0.37	0.71
Real estate activities	0.18	0.50	0.87	0.31	0.50	0.82
Professional, scientific and technical activities	0.15	0.44	0.82	0.24	0.45	0.79
Administrative and support service activities	0.13	0.46	0.83	0.33	0.47	0.76
Public administration and defence, compulsory social security	0.30	0.64	0.97	0.40	0.63	0.91
Education	0.12	0.48	0.90	0.28	0.51	0.85
Human health and social work activities	0.18	0.47	0.82	0.31	0.52	0.80
Arts, entertainment and recreation	0.06	0.42	0.79	0.33	0.46	0.67
Other service activities	0.13	0.43	0.82	0.29	0.46	0.76

* Data point missing for 9^{th} decile for Mining and quarrying – calculated using 8^{th} decile instead

The 1:9 ratio for both weekly and hourly pay is especially revealing. Looking first at weekly wages, we see considerable variation in distributions between sectors. Arts, entertainment and recreation is the most striking with the lowest decile of earners having a weekly wage of just 6% of earners in the highest decile. However, hourly pay rates have a far more standard ratio of around 33%. This strongly indicates that there are a large number of workers in that sector working very few hours per week. In other words, this is a sector where there is a high degree of inequality when we consider weekly wages, but a far narrower inequality across the wage dispersion when we consider hourly rates.

Putting aside the mining and quarrying sector where the data is incomplete and therefore the ratios are distorted, the sector covering electricity, gas, steam and air conditioning has the most egalitarian weekly wage distribution, with public administration, water supply, manufacturing and transportation close behind. These are all sectors where unionisation and collective bargaining are present to some degree and – with the exception of public administration – are sectors where full-time work predominates.

In addition to the arts, the sectors with the highest inequalities in the distribution of weekly wage distribution are: education, administration, professional work, hospitality, wholesale/retail and other services. However, it should be noted that these include some large employment sectors and this is reflected in the fact that they are similar to the distribution across the whole wage distribution. They are also sectors where part-time working is common which influences the weekly wage rates.

Turning therefore to the hourly wage rates, financial and insurance services jump to being the most unequal industry by some considerable margin. Taking the data as a whole, it is clear that this is a sector where very high wages in the top decile distort the data considerably and this is discussed in more detail in the relevant section of this report.

Using hourly wage data is an effective way to address the challenge of accounting for the variations in the rates of part-time work across industries. When we look at the ratio of the distribution between highest and lowest deciles (9:1 ratio) for hourly wages, we see that hospitality has the most egalitarian of hourly wage distributions. This is largely accounted for by the fact that it is a very low paying sector at all levels, including managerial levels. The hourly wage distribution in agriculture and transportation are similarly explained.

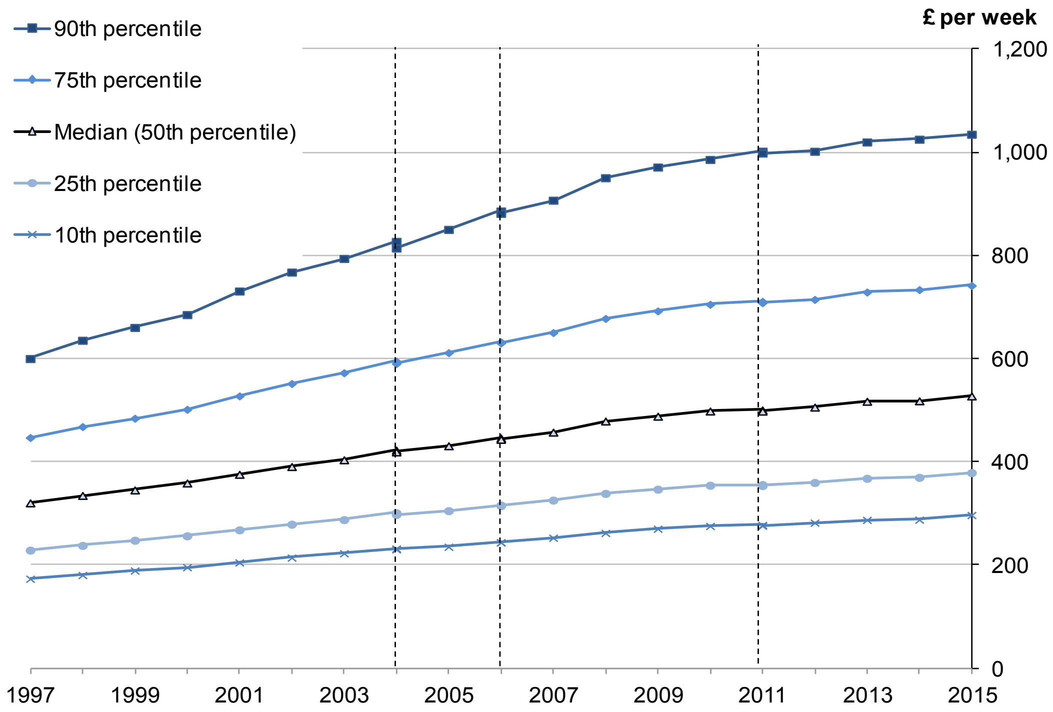
Public administration is particularly interesting here because table 3 shows that the lowest decile are earning 40% of the hourly wages of the highest decile, and it is not a generally very low paying sector. This is accounted for by three main features: the widespread use of collective pay regulation, relatively strong pressures to restrain pay at the top levels, and the contracting out of low wage work such as cleaning and catering from this sector into the private sector.

Overall, then, these tables show a great deal of detail about patterns of wage inequality in different industries and, by looking at differences between patterns of hourly and weekly wages, we can start to identify factors that influence those distributions. The four sectors that are the focus of the more detailed analysis later in this report (retail banking, supermarkets, secondary education and manufacturing) capture a range of different patterns of inequalities. The sectoral case studies therefore allow further opportunity to explore how these patterns emerge and how social partners regard them. Before moving on to examine the sectors in more detail, there are other features of the national picture that require description and explanation, in particular the changes to wage inequality over time and differences across regions.

1.2. Change in wage inequality over time

Another important measure of wage inequality can be seen in the way the gap between the top and bottom decile of pay has increased since the 1970s.

Graph 1. Distribution of full-time gross weekly earnings, UK, April 1997 to 2015



Notes:
Employees on adult rates, pay unaffected by absence.
Full-time defined as employees working more than 30 paid hours per week (or 25 or more for the teaching professions).
Dashed lines represent discontinuities in 2004, 2006 and 2011 ASHE estimates.
Figures rounded to one decimal place.

Source: Annual Survey of Hours and Earnings – Office for National Statistics

Wage inequality has grown for two main reasons that are related but conceptually differentiated: dramatic wage rises at the top end of the income structure, and shrinking wages in the middle and bottom of the distribution. Each has attracted attention and research. Overall, key reasons given for the growth in wage inequality relate to: increasing returns to education, changes in employment patterns, the decline of collective bargaining, changes to national minimum wage regulation, changes to taxation and social security spending, and broader economic changes resulting from trade patterns. Of particular interest for this report is the effect of collective bargaining and other forms of wage negotiation which is considered in the discussion of the sectors in later sections of the report. Collective bargaining in general has declined dramatically since the State made active efforts to undermine collective wage determination in the 1980s. As a result, wages in most organisations are unilaterally determined by management. In these workplaces, there is therefore no formal mechanism for unions as social partners to express their views in the processes of collective wage regulation. Lansley and Reed (2013) note a shift not just since the financial crisis, but over the last thirty years, in the distribution of national income toward profit rather than wages. In 1980 the wage share was 59.2%, and by 2011 this had fallen to 53.7%.

Median household income in the United Kingdom is now at a similar level to prior to the financial crisis, with the lowest point coming in 2012/2013. The poorest fifth of households were the only group whose average income did not fall in the period following the crisis until 2012/2013 and by 2014/2015 this group's income was above the pre-crisis level. The median disposable income of the richest fifth of households fell the most following the financial crisis, and in 2014/2015 remained below the pre-crisis level. Whereas retired households' median income was largely unaffected by the crisis, non-retired households' median income remains below pre-crisis levels (Office for National Statistics, 2016). Redistribution under the previous Labour government was mainly through the form of tax credits, although policy related to these has changed under the more recent coalition and Conservative governments.

The decline of collective bargaining is a factor in explaining low wage growth and a low share of profit being returned to labour over the past 30 years. More recently, however, the financial crisis of 2008 onwards turned considerable political attention onto the issue of wage inequality. Political attention focuses on two main issues: the 'fairness' of high pay, and the challenges of low pay. Each is discussed in turn.

1.3. Top-decile wage growth

The High Pay Commission reports that the share of national income that goes to the top 1% of the wage distribution has more than doubled from 1979 from around 6% to around 14.5% today (High Pay Centre 2013). For the top 0.1% these figures had moved from around 1.3% of national income to around 6.5%. In short, the challenge with high income is not mainly an issue with top decile pay, but with the very sharp rise in the incomes at the very highest end of the distribution. Because of this, another way to consider the issue is to look at the salaries of the CEOs of FTSE100 companies. These show that CEO pay has risen sharply even in the past 10 years and now averages just under £5 million per year, or approximately 183 times the average UK worker (High Pay Centre 2015). The supermarket retail case study highlighted later in this report strongly demonstrates this development.

A central reason why top-end pay has accelerated so quickly relates to the mechanisms for determining pay for executives and other very senior professionals. Performance schemes have often rewarded these staff with huge bonuses when stock markets have performed well, without an associated reduction in pay when performance has been lower. Critics point to the structures of remuneration committees and other forms of UK corporate governance that not only allow but encourage this behaviour (High Pay Commission 2013). Mimetic effects mean that outside the commercial sector high pay has also become a concern elsewhere. The Hutton Report examined issues of senior management pay in the public sector, and third sector organisations have also come under scrutiny (Brown 2015).

The financial crisis of 2008 onwards stimulated significant debate about the reward structures of finance professionals, and by association, many others in the highest wage percentile. EU regulations around pay in the financial sector, particularly around bonus payments, apply in the UK, but proposals to extend these to smaller employers are being strongly resisted (Financial Times, 29 February 2015).

Unsurprisingly given the complexity of the issue, there are a wide range of suggestions about how executive remuneration could be better regulated. The High Pay Centre (2015) has been particularly vocal in calling for companies to publish pay ratios calculated by comparing annual CEO pay with the median pay within the company. They have also raised concerns about the links between pay consultancy firms and the organisations to which they provide services. Conservative MP David Davis has also been a voice in support of greater shareholder engagement with issues of senior executive remuneration. However, there seems to be little political appetite within the Conservative government to pursue this kind of regulation.

1.4. Middle and low wage developments

Focusing on the other end of the wage distribution also reveals clear reasons why wage inequality in the UK is so striking. The National Minimum Wage (NMW) was introduced in 1999 and was a flagship policy of the Labour government that was elected in 1997. There had never previously been a nationwide mechanism for setting a statutory floor for wages in the UK and it was justified at the time by evidence of very low pay in some sectors, especially areas of the service sector where unions struggle to organise and gain representation rights. The establishment of the NMW was politically controversial and was resisted by the Conservative Party and many employer organisations. Over time, however, most of these have come to support the principle of regulation of low pay in some way. The rate for the NMW is set by government on the advice of the Low Pay Commission (LPC). The LPC is unusual in UK employment regulation as it is a national, tripartite organisation with significant resources for research to support its work.

Broadly speaking, social partners agree that the NMW works reasonably effectively. Many unions, and the Trades Union Congress, are concerned that the enforcement mechanisms are not as well-resourced as they might hope, but have on occasion taken to ‘naming and shaming’ organisations where they have evidence of bad practice. Related to enforcement issues, some legal cases have had to be taken to clarify the definition of working hours. Some sectors where low pay is prevalent (such as hairdressing) have been able to take advantage of lower youth rates and apprentice rates with some concerns that some of the more exploitative pay practices may be returning to these sectors. Overall, though, the NMW is an example of how an institution of collective wage regulation can be introduced with some considerable degree of success despite notable scepticism (and some resistance) at the start.

More recently, a new debate has emerged about the extent to which the NMW creates a context in which State support for low paid workers is almost inevitable. This debate highlights that the aggregate effect of a relatively low NMW is that the State supports many households and individuals through social security payments (often, although not always in the form of tax credits for low-wage working families) rather than expecting employers to pay a higher wage. This is the core thinking behind Living Wage campaigns and the resultant policy developments have led to some confusion in nomenclature.

Living Wage campaigns gained some momentum initially in London in the early 2000s as the cost of living (and especially the cost of housing) soared. High-profile campaigns gained considerable support from unions although they were generally not the instigators. There was also some success in persuading good practice employers in the public sector to put pressure on companies tendering for contracts that might otherwise have been subject to strong wage competition such as cleaning, catering and security contracts.

The growing momentum supporting these campaigns eventually developed into funding and support for the Living Wage Foundation which promotes and supports living wage campaigns around England as well as working closely with similar campaigns elsewhere in the UK. It also works with think tanks to develop calculations on which the living wage rate is based. At the time of writing (2016), the UK living wage is £8.25 compared to the NMW adult rate of £7.20 for workers over the age of 25. Campaigners have had considerable success in gaining formal, high-profile commitments from some employers in a wide range of sectors and have developed a living wage accreditation that some employers display with pride as evidence of their commitment to paying this higher rate.

This language of a ‘living wage’ has been adopted in Conservative Party policy. From April 2016, the government introduced the National Living Wage of £7.20 for all workers over the age of 25. Social partners have expressed serious concerns about these developments. Trade unions are concerned that this is significantly below the rate promoted by the Living Wage Foundation and argue that this is a tactic to remove some of the momentum from living wage campaigns arguing for the higher £8.25 rate. Unions are also very concerned that the age requirement for the full adult rate will rise from 21 to 25. Concerns have also been expressed that these developments may signal a choice to move away from the recommendations of the LPC (Resolution Foundation 2015).

Employers, by contrast, have expressed considerable disquiet about the rapid rise in the rate, especially in low-pay sectors such as retail and hospitality as will be further illustrate in the supermarket retail case that appears later in this report. These employers have had to respond to this changing policy context relatively rapidly and even where they recognise unions have struggled to have enough time to negotiate the transition in an orderly manner.

Overall, then, low wages, wage inequality and interaction with social security systems have been a major area of policy concern in the UK for some time. It is likely to continue to be politically sensitive for the foreseeable future. The Labour Party leader, Jeremy Corbyn has recently floated the idea of limiting the ability of companies to pay shareholder dividends if they do not pay the Living Wage. Although this is unlikely to be adopted as formal Labour Party policy, it does indicate that there is a commitment to thinking innovatively around issues of wage inequality and, as in this case, linking this to the share of capital.
With regard to middle incomes there has been a general and long-term trend towards wage stagnation, leading to the popular political concept of the 'squeezed middle'. Although this is a highly nebulous term typically used to political ends, it reflects concern about a long period of falling average wage increases from about 2008 to 2015 and changes to tax regulations which have increased income tax for middle-income earners. Although it is hard to argue that this category of wage earners is distressed, taken together these developments do mean that wage differentials with lower paid workers are shrinking as a result of changing regulation of low pay, and that employed wage earners are disadvantaged in the tax system compared to self-employed workers.

1.5. Regional patterns of wage inequality

One important feature of UK wage inequality is that it is highly variable across the country (Lee et al 2013). This is largely accounted for by the dominance of London and the financial services industry within the UK labour market. This effect 'ripples out' from London as those with greater wealth relocate further outside the city. Three major factors that exacerbate the geographical unevenness of the distribution of wage inequality are the rise of the 'knowledge economy', the changing geography of skills, and public sector cuts. Specifically, the dominance of London in creating high skill, high wage jobs has acted as a further pull for key sectors. The result is that large parts of the post-industrial UK beyond London have become reliant on public sector jobs (and quasi-public sector jobs such as higher education). As public spending has been reduced, these sectors have shrunk, exerting further 'push factors' towards London and the South East. The regional aspect of wage determination was also highlighted in discussions with the Federation of Small Businesses.

1.6. Views of social partners

The Trades Union Congress has highlighted wage inequality as a key concern as discussed, for example, in a speech by Deputy General Secretary Paul Nowak at the UK's NEWIN national workshop held in April 2016. Amongst individual trade unions, by comparison, there has been effort to reduce wage inequality based on the specific issues faced by members in different sectors. For example, USDAW has campaigned for equal hourly rates for workers in the supermarket retail sector regardless of the age of the

worker. This campaign has seen some success, with some supermarkets paying their new rates following the introduction of the national living wage to all workers, even though the national living wage applies only to those aged 25 and over.
Amongst employers' organisations the Confederation of British Industry have expressed less concern about very high wages in organisations that are performing well, but more concern with those organisations that pay bonuses and high wages when the organisation is not performing well. The Chartered Institute for Personnel and Development have highlighted potential productivity issues related to wages with a particular concern that wage stagnation may in part explain the low productivity levels in the UK economy. Additionally, the Federation of Small Businesses have highlighted the particular issues faced by smaller business, particularly around the need to improve productivity where the increase in the minimum wage has had a significant impact on cost.
This generalised concern about wage inequality – rather than a specific focus on pay dispersion in particular sectors or occupations – is almost certainly explained by the fact that collective bargaining is patchy within and between sectors and occupations. Table 4 shows union density, the proportion of workplaces with a union presence and the proportion of employees affected by collective bargaining broken down by industry.

Table 4. Collective regulation of pay, terms and conditions

Industry	**Union density**	**% workplace with union presence**	**% employees with pay affected by collective agreement**
All employees	25	43	28
Agriculture, forestry and fishing	*	11.1	*
Mining and quarrying	18.4	35.3	16.1
Manufacturing	18.0	36.8	21.8
Electricity, gas, steam and air conditioning supply	40.2	64.1	47.6
Water supply, sewerage, waste management and remediation activities	28.6	52.8	38.4
Construction	13.8	26.8	15.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	11.9	25.8	13.3
Transportation and storage	37.4	58.9	45.4
Accommodation and food service activities	3.5	7.9	3.9
Information and communication	11.4	23.9	14.0
Financial and insurance activities	17.0	38.1	22.9
Real estate activities	8.9	24.4	13.1

Professional, scientific and technical activities	9.3	19.1	11.2
Administrative and support service activities	12.0	24.3	11.5
Public administration and defence; compulsory social security	49.8	79.8	61.4
Education	50.3	79.9	51.9
Human health and social work activities	39.9	62.1	38.5
Arts, entertainment and recreation	15.6	31.7	18.6
Other service activities	11.4	20.5	13.2

Table 4 shows that collective agreements influence pay, terms and conditions for only 28% of UK workers, so in practice many of the concerns about wage inequality expressed by collective social partners are largely out of their direct control although the striking variation between sectors should be acknowledged and is discussed in greater detail in the following sections of the report.

Perhaps unsurprisingly given the relatively low union membership and collective bargaining coverage in many sectors – especially within the private sector – the union wage premium is highly variable across industries. Table 5 shows the varying union wage premium broken down by industry.

Table 5. Union wage premia. Average Hourly Earnings by Union Status (£)

Sector	**All employees**	**Union members**	**Non-members**	**Union wage premium %**
All employees	13.19	14.77	12.66	16.7
Agriculture, forestry and fishing	9.13	*	9.00	*
Mining and quarrying	24.12	*	24.34	*
Manufacturing	13.53	14.01	13.42	4.4
Electricity, gas, steam and air conditioning supply	17.86	15.94	19.15	-16.8
Water supply, sewerage, waste management and remediation activities	14.32	14.67	14.17	3.5
Construction	13.20	14.33	12.95	10.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	9.62	9.41	9.64	-2.4

Transportation and storage	12.51	14.15	11.58	22.2
Accommodation and food service activities	7.67	7.53	7.68	-2.0
Information and communication	19.77	18.27	19.98	-8.6
Financial and insurance activities	21.00	16.51	21.67	-23.8
Real estate activities	13.60	*	13.85	*
Professional, scientific and technical activities	17.54	15.67	17.63	-11.1
Administrative and support service activities	10.86	11.51	10.79	6.7
Public administration and defence; compulsory social security	15.24	15.68	14.86	5.5
Education	13.92	16.10	11.50	40.0
Human health and social work activities	12.43	14.97	10.77	39.0
Arts, entertainment and recreation	10.80	11.98	10.51	14.0
Other service activities	10.91	14.89	10.53	41.4

Across the labour market as a whole, there is a strong union wage premium of nearly 17%, but closer examination of the industry level data shows that this is largely accounted for by the increased wages of public sector workers. In much of the private sector – and especially in the large sectors such as retail and hospitality – there is little difference between wage rates for union and non-union workers.

Having outlined the key features of wage dispersion across the labour market as a whole, and identified some of the factors that are driving increasing wage inequality, it is helpful to identify the dynamics of these developments at the level of individual sectors. Four sectors have been identified in common across all of the countries participating in the NEWIN research with the intention that they enable us to explore the relative effects of national and sectoral developments.

Of particular relevance to the UK setting is that sectoral collective wage regulation is unusual outside the public sector. Secondary schools are therefore included as an example of sectoral collective wage regulation, although – as we shall see – the pressures on this system are likely to undermine this in the near future. The three private sector examples (retail banking, supermarket retail and manufacturing) are intended to capture sectors paying across the range of wage distributions, but importantly, where collective bargaining exists it is at company level in at least some areas of the sector.

In general, the broad picture in the UK is of growing wage inequality over recent decades, explained by rapid rises in pay for senior executives and some in the banking and finance sector, while low and middle incomes have stagnated and – at some periods – shrunk. These changes have taken place at a time when collective pay regulation has declined rapidly and, where it continues, now takes place largely at organisational level outside the public sector. Even within the public sector – as we shall see with the example of education – there are strong pressures for a further decentralisation of bargaining to organisational level. But it is important not to assume a simple causality in these developments. Other pressures such as changing profitability and margins (supermarket retail), changes to the structure of organisations within the sector (education) and mimetic isomorphism with regard to pay practices (banking, but also executive pay in general) all contribute to explaining the specific pressures within and between sectors.

2. Wage inequalities in compulsory education

Table 6 reproduces the data in table 1 and 2 for the education sector. Education is unusual in this data set because it is not broken down into sub-sectors beyond the Standard Industry Classification. Both hourly and weekly pay distribution data are presented alongside the data for all employees as point of comparison.

Table 6. Wage Distribution in Education

	Number of jobs (‘000s)	Mean	10	20	30	40	50	60	70	80	90
Weekly wages											
All employees	25,459	494.30	125.50	211.30	287.20	346.70	412.50	484.60	574.90	695.90	901.90
Education	3,734	469.10	106.90	193.50	269.30	345.20	422.10	504.40	611.60	717.20	865.90
Hourly wages											
All employees	25,459	15.27	6.90	7.82	8.94	10.20	11.80	13.82	17.88	19.75	25.64
Education	3,734	16.58	7.62	8.59	9.94	11.69	14.02	16.72	19.43	22.72	27.47

Initial reading of table 6 shows that education as a whole is broadly in line with the wider pattern of wage distribution across all employees. Median hourly rates are slightly higher, but median weekly rates are very close to the labour force as a whole. This is in large part accounted for by ‘term time only’ contracts which reduce total hours worked.

The top end of the wage distribution is largely accounted for by headteachers and other very senior managers. There is concern amongst unions about the upward pressure on wages in the top decile because of the changing structure of the sector. Increasingly, schools have been encouraged or pressurised from central government to change their status to become independent of local government control, often – although not always – to become Academy Schools. This allows them to break away from national agreements (discussed in more detail below) and there is some evidence discussed by unions in interviews for this report that the biggest recent movement in wages has been for senior staff, especially headteachers who take executive responsibility for a group of schools. Interviewees reported that their pay often includes performance bonuses related to key milestones such as improving the classification of a school within the inspection rankings. Unions are generally concerned about this upward pressure on wages because it increases the wage inequality with core staff grades.

At the lower end of the wage distribution, many of these staff will be support staff and teaching assistants who work alongside qualified teachers. Teaching assistants taken on a wide range of roles and wages reflect differing levels of qualifications and experience. At the bottom end of the wage distribution, some start on apprenticeship contracts (not limited to young workers) which are very low paid with a statutory minimum of just £3.30 per hour. Unions are particularly concerned about Academy Schools widening wage inequality at both top and bottom ends, although acknowledge that these are trends which are developing slowly.

The sector is notable for significant rivalries between unions. There are 14 separate unions representing teachers with different demarcations for different countries (England, Scotland, Wales and Northern Ireland), some differences in whether they represent all teachers or only some grades and levels, and some ideological differences such as whether or not they will take strike action. For non-teaching staff, the main unions are Unison for administrative staff and Unite for manual grades. Inevitably, this complexity leads to varying positions on wages and wage inequality within the sector.

2.1. Who works in secondary education?

This data reports the English workforce which is the largest of the four countries of the United Kingdom. Over 1.3 million people (0.9 million full-time equivalents) work in State-funded schools in England. 48% are teachers, 27% are teaching assistants and 25% are non-classroom based support staff. Secondary schools are the focus of this report and in November 2014 (the most recent data) there were 213,400 FTE teachers, 53,9000 FTE teaching assistants, 75,500 FTE support staff and 26,900 FTE auxiliary staff. The complex arrangements for funding and managing schools mean that around 58% of teaching staff work in schools that are not obliged to follow collective agreements. Increasingly rapidly this is as direct result of the current government policy to encourage local government schools into largely independent Academies.

2.2. Pay distribution in secondary schools

Looking first at teacher pay the percentage of teachers paid on each of the main scales is presented below. Rules for progression from the main pay scale to the upper pay scale vary by school, but typically require a certain length of service and good performance reviews. Payment of Teaching and Learning Responsibility (TLR) payments are regulated by the nationally agreed School Teachers' Pay and Conditions Document. Overall, we see very few teachers at the very lowest end of the pay scales for unqualified classroom teachers and very few teachers at the highest end of the scale for 'leading practitioners'. Most are clustered in the two main bands that range from £22,203 to £58,096. The majority of teachers are also not in receipt of the TLR payments, although it is clear that this is a way to significantly boost basic salaries.

Table 7. Percentages of the headcount of full-time regular classroom teachers in state funded schools: % distribution of teachers on the classroom teachers' pay scales

	LA maintained schools	**Secondary academies**
Unqualified classroom teacher pay scale £16,136 to £25,520	2.4	2.8
Classroom teacher pay scales		
Main classroom pay scale £22,203 to £32,187	32.3	34
Upper pay scale £34,869 to £37,496	42.7	38.5
Leading practitioners £38,215 to £58,096	0.8	0.9
Not applicable	1.2	1.9
Other or unknown	20.6	21.8
Total	100	100
Teaching and learning responsibility (TLR) payments		
Not in receipt	57.1	61.7
TLR1 £7,471 to £12,643	7.6	5.8
TLR2 £2,587 to £6,322	18.2	15.0
TLR3 Other amount	17.1	17.5

The other main category of staff is teaching assistants. In local authority schools, these staff are paid on the Local Government pay scales. Academies either follow national agreements, or negotiate locally. Industry data indicates the median salary for a teaching assistant is around £12,300. Entry level salaries are typically around £9,000 rising to a maximum of around £18,000 for assistants with experience and who specialise in particular areas.

2.3. Mechanisms of pay determination in Local Authority controlled schools

Terms and conditions of work for teachers in Local Authority maintained schools (a shrinking sub-set of secondary schools) are set in England and Wales and are subject to regulation in the devolved authorities of Scotland and Northern Ireland. Two main documents regulate wages, terms and conditions: 1) the 'Burgundy Book' and 2) the

School Teachers’ Pay and Conditions Document (STPCD). The Burgundy Book is the result of collective negotiations between trade unions, employers' organisations and government, and applies to most teachers employed in the maintained sector in England and Wales. The STPCD is a statutory document and is usually revised every year by the Secretary of State for Education and Skills after consultation.

The Burgundy Book covers conditions of service such as appointments, resignation, retirement, sick pay, maternity and other leave, and grievance and disciplinary procedures. It is periodically renegotiated between the six main teaching unions (ATL, NAHT, NASUWT, NUT, PAT and SHA) and the employers’ associations (the Local Government Association and National Employers’ Organisation for School Teachers). Because of the focus on conditions rather than pay, the Burgundy Book is not the main focus of this report.

Key aspects of pay regulation are found in the STPCD which is a document issued annually by the School Teachers’ Review Body (STRB). It is very important to note here that a Review Body is not, technically, a form of collective bargaining. The STRB is an advisory, non-departmental public body, sponsored by the Department for Education. It comprises of 8 members who have a range of interests and experiences in HR management, economics, teaching and consultancy. They take submissions of evidence from interested parties (unions, employer associations, the Secretary of State and others) and produce an annual report on pay, professional duties and working time for teachers. Review Bodies have become common across the public sector partly as a way of distancing governments from some of the most politically problematic aspects of pay determination in the public sector. Historically, governments have tended to implement the recommendations of Review Bodies although recent austerity initiatives have brought some conflict on this with the government choosing to reject the 2014 recommendation of the health pay review body.

Most other school staff fall into local government pay grades which are negotiated through regular collective bargaining with the relevant unions – mainly Unite and Unison. Again, Academy Schools can break away from these agreements and social partners are particularly concerned that lower grades such as classroom assistants and administrative staff are where Academy Trusts have put downward pressure on wages in recent years. It is difficult to tell, however, in the context of the relatively short period of time for which data has been collected, and the general stagnation of wages in the wide labour market, whether or not this is a clear and consistent trend.

2.4. Pressures on wage inequalities in recent years

Two key government policies have informed changes to pay in secondary education in recent years: austerity policies and the policy to give schools increasing autonomy to break away from collective wage regulation.

Government pay restraint policy for workers in the public sector continues to very explicitly influence the recommendations of the STRB (STRB Report 2015). Reforms of teacher pay scales that have been developed since 2011 have increased the flexibility of schools to appoint above the minima of the pay range, to extend performance-related progression to all classroom teachers and to increase the discretion of schools to award allowances to staff. Taken together, these policies push in rather different directions; the former towards retention of current patterns of wage dispersion and the latter towards greater wage dispersion. It is probable that the response of many schools will be to target wage increases at particular groups of staff, although it is difficult at this stage to say how this might happen in practice. In general, then the likely effect of these policies is to keep the wage budget as a whole relatively stable, while increasing wage dispersion across the sector.

The stated ambition of the government is to encourage state-funded schools to be Academy schools which is likely to put further pressures on wage developments. All social partners interviewed for this report indicated that they felt it was likely that this would lead to greater wage dispersion as schools were increasingly given the opportunity to target wage rises at particular groups of workers.

Perhaps counter-intuitively, this is not yet evident in current wage dispersion data. Despite the political initiative to expand Academy Schools and thus to extend the right to set local terms and conditions across the education sector, adherence to centrally negotiated pay rates has remained remarkably robust at present. This is something of an empirical puzzle and therefore demands further attention.

Many Academy Schools – like other schools – are relatively small and do not have the expertise to determine pay, terms and conditions unilaterally so tend to default to existing, published pay scales as an indicator of market rates. This context – combined with the national labour market for teachers – has meant that for many Academy schools, there is little incentive to strongly break away from nationally established pay rates. However, interviews with social partners – especially the unions – indicate that there are widespread fears that schools may increasingly use their freedom to set pay leading to wage suppression in some areas.

2.5. Wage inequalities as compared with other sectors

A particular concern of social partners – particularly, but not only, unions – in this sector is wage inequality as compared to other professions, especially at entry level. The STRB has consistently expressed an objective to keep teacher salaries at an attractive level as compared to other graduate professions and until around 2010 wage data shows that this was broadly achieved (Cohen 2015). However, pay freezes in 2011 and 2012, followed by caps of 1% pay rises since then has limited the ability of the STRB to achieve this. There is currently something of a crisis of recruitment in the sector, especially of classroom teachers, and wage inequality as compared to other professions is argued to be part of the reason for this. This position is supported both by the national level decile data presented at the start of this report and also sector-specific data analysis prepared for social partners (Cohen 2015).

What is clear from the case of education is that although there is considerable and increasing freedom for a large number of schools to break away from the nationally agreed wage levels set by the Secondary Teachers' Pay Review Body, there is relatively little evidence that this is currently a widespread phenomenon. That said, it seems unlikely that this will remain the case in future. The centrality of government policy in determining wage equality in this sector is perhaps not that surprising as local government remains a major employer of teachers. Government policy also explicitly pushes towards giving Academy schools increasing freedoms in this area. What is perhaps more surprising is that the effect of government policy in wage determination in the supermarket sector is also very important and it is to this that our attention now turns.

3. Wage inequalities in the supermarket retail sector

This section investigates the supermarket retail sector in the UK, establishing wage inequality in this sector as compared to others, wage inequality within this sector, and wage inequality between groups. The key theme in supermarket retail affecting these inequalities in the UK is the introduction of the national living wage highlighted previously. The national living wage has been identified both by the TUC and by member unions as one of the key areas that will affect wage inequality in the UK over the coming years and, in particular, the need to differentiate between the national living wage, seen as an increase in the current minimum wage, and the 'real' living wage which is at a higher rate, particularly in London.

3.1. Sector overview

Table 8 presents the retail sector data as compared with all employees and the subsector 'retail trade except of motor vehicles and motor cycles' which is the subsector including supermarket retailing (SIC 47).

Table 8. Wage distribution in retail

	Number of jobs ('000s)	Mean	10	20	30	40	50	60	70	80	90
Weekly wages											
All employees	25,459	494.30	125.50	211.30	287.20	346.70	412.50	484.60	574.90	695.90	901.90
Wholesale and retail trade, repair of motor vehicles and motor cycles	3,714	382.20	91.00	138.80	195.50	261.90	311.00	362.10	432.60	532.70	719.30
Retail trade except of motor vehicles and motor cycles	2,265	297	69.70	107.6	139.8	179.50	230.00	280.3	332.00	409.20	574.90
Hourly wages											
All employees	25,459	15.27	6.90	7.82	8.94	10.20	11.80	13.82	17.88	19.75	25.64
Wholesale and retail trade,	3,714	12.23	6.53	7.00	7.39	8.00	8.84	9.92	11.49	13.97	19.23

repair of motor vehicles and motor cycles											
Retail trade except of motor vehicles and motor cycles	2,265	10.77	6.50	6.73	7.08	7.39	7.87	8.57	9.56	11.28	15.54

The first point to note from table 8 is that once the sub-industries of the repair and sales of motor vehicles has been taken out of the wholesale and retail data, the wage data falls quite notably. Hourly median rates of pay fall to £7.87 as compared to £11.80 for all employees. It is also evident that many of the higher paying jobs in the broader industry definition are within the motor retail trade rather than other forms of retail and wholesale. Although it is impossible to disaggregate supermarket retail from this data it is evident from the discussion below that supermarkets are fairly typical of the sub-industry.

It is important here to reflect on a point made previously as this sector illustrates the pattern very clearly. Although this is a low paying sector, it is a comparatively egalitarian one. The ratio of the median to the lowest paid decile is 0.83. In other words, the lowest paid in the sector are paid 83% of the median wage. The ratio of the lowest paid to the highest paid deciles is 0.42 – or to express it another way, the lowest paid receive 42% of the wage rates of the highest paid decile. And the ratio of the median wage to the highest paid decile is 0.51. This summary tells us that wage distribution in the sector is relatively compressed and that it is relatively low paid throughout. Another way to summarise the decile data and illustrate this point is to highlight that using an assumption of a 40-hour week only the top decile of wage earners in this sector earn more than around £30,000 per annum.

One final point to note is the total number of jobs in the industry and sub-industry. The retail trade (excluding motor repair and retail) has 2.3 million workers which is more than any of the headline industries with the exception of health and education. It is evident, therefore, that this is a low paid sector that dominates the UK labour market. As a result, and discussed further below, it is a sector that will be widely affected by policy interventions to increase the national minimum wage rapidly in the coming years.

3.2. Supermarket retail

Turning specifically to the supermarket retail sector, we see that it is dominated by the ‘Big Four’ of Tesco, Asda, Sainsbury’s and Morrisons. Despite a consolidation of market share of nearly 75% amongst these four companies, it is problematic to identify a ‘typical’ supermarket retailer in the UK as each has characteristics of ownership and employment that are unusual. For example, although Tesco has a long-running partnership agreement with the USDAW trade union, Asda is part of the Walmart group.

The sector has been in a period of change for some time and this accelerated from 2008. Since then there has been a significant growth amongst low cost retailers, particularly the

German Aldi and Lidl chains. Interestingly, there has also been an increase in market share for the more high-end, and employee-owned, Waitrose. In addition, during this period the big four have increased their numbers of smaller convenience stores, which has placed these chains in direct competition with smaller privately-owned stores.

These changes have intensified competition in what was already a highly competitive market. It has led to squeezes on already-low profit margins which has prompted the big four to reconsider their market strategy and employment relationships. The big four are all currently in the process of reducing their workforce – for example, Tesco has cut 2,418 head office jobs and is planning for a further reduction of 2,500 store management jobs. Tesco is somewhat emblematic of the supermarket retail sector in the UK, despite its unusual status of having a deeply embedded relationship with the sector trade union, USDAW. As a result, Tesco is used as an example here to illustrate key developments in wages across the sector. Most significant is the change of regulation of low pay through the introduction of the 'national living wage'.

Collective bargaining in the sector is rare, and where this does occur it is conducted at company level and in larger organisations. An example of this is Tesco which is examined in more detail later, although it is important to note that much of the rest of the retail sector is not unionised. Wages for most workers in the sector are therefore set at company level, with increases linked to sector benchmarking data. However, the introduction of the national living wage has been the key factor in the setting of the lowest pay levels in 2016. Bonus payments may be paid based on company performance, as noted in the Tesco example given below, and for management grades this will also be linked to the size of the store. The introduction of the national living wage has meant that recent increases have proportionately been higher for lower wage groups. This has meant that low wages are determined by legislation, although some organisations have endeavoured to differentiate themselves by paying above this. Importantly, there is now a concentration on the hourly rate paid, with premia for overtime or weekend working, or other benefits, being reduced or removed. Top incomes, as with many other sectors in the UK, remain high and are a particular concern in poorly performing organisations.

3.3. Supermarket retailers and the 'National Living Wage'

Supermarket retail is a sector that has been particularly affected by the introduction of the 'national living wage' in the United Kingdom. From 1 April 2016 this has been set at £7.20 per hour, applicable to workers over the age of 25. This represents a £0.50 raise from the previous adult minimum wage rate. The terming of this level as a 'national living wage' rather than the current 'national minimum wage' has drawn some criticism because the 'national living wage rates' are below those suggested by the Living Wage Campaign, currently at £8.25 outside of London. Additionally, the Living Wage Foundation further note that this rate does not cover workers under the age of 25, and also note the London Living Wage is at a higher rate of £9.40.

Nonetheless, supermarket retail has been particularly affected by the introduction of the national living wage as a result of the large numbers of workers employed by these organisations either at or just above the minimum wage. Those who are currently paid the adult minimum wage saw an increase in their hourly rates from the current £6.70 to a rate of £7.20. In addition, there have also been calls from those who are currently paid above the minimum wage rate to keep their differentials as compared to staff paid at the national living wage, leading to a push-through effect on the lower deciles of the wage structure. One potential side-effect of this introduction could also be a preference for hiring younger workers who receive a lower rate. Table 8 illustrates that it is likely to directly affect at least the lowest paid third of workers in the sector with likely knock on consequences for wage differentials at higher rates.

The responses amongst supermarket retailers to the introduction of the national living wage have been surprisingly diverse. Amongst the discount retailers, Aldi and Lidl have announced that they will be paying £8.40 and £8.20 respectively, above the legislated national living wage. Both will also pay higher rates in London. Two of the big four – Sainsbury’s and Morrisons – have both announced that they will be paying above the new national living wage, and will be paying hourly rates of £7.36 and £8.20 respectively. Importantly, these rates will also apply to those workers aged under 25. Although these new rates from Sainsbury’s and Morrisons are below the living wage rate proposed by the Living Wage Campaign, payment above the national living wage rate allows for both legal compliance, and also claims to be employers who pay above the statutory minimum.

The response to the introduction of the national living wage by Tesco has been different to its competitors, and is the focus of this section. From huge success through the early 1990s and early 2000s, where it was claimed that one pound in every seven spent in the UK was spent at Tesco, the company has recently struggled, leading to the closing of 43 sites and the mothballing of a number of proposed stores. The company was also reported to have overstated profits by more than £263 million in 2012 (Financial Times, 23 October 2014). Partly in response to this Tesco appointed a new CEO – Dave Lewis – in September 2014. Rather than mirroring Sainsbury’s and Morrisons, Tesco has announced that it will be paying new employees at the statutory minimum of the national living wage of £7.20 from April 2016, rising to £7.62 in July 2016.

The Union of Shop, Distributive and Allied Workers has the largest private sector recognition agreement. Around 160,000 of its members work for Tesco, which is more than a third of its total membership. Tesco has over 310, 000 workers in the UK. Salary scales for shop floor staff are dependent upon location and experience, while pay levels for managers are related to the size of their store. Bonuses are also payable. The basis for wage increases has been strongly linked to the introduction of the national living wage. Minimum pay at Tesco rose from £7.02 to £7.20 in April 2016 in line with legislation. However, as with the other large supermarkets, Tesco will pay above this level at £7.62 per hour from July 2016. For 2016, a one-off ‘turnaround bonus’ of around 5% will be paid as the company returned to profit. As this is a percentage bonus, those on higher wages will receive a higher absolute amount.

3.4. Case study: Tesco

The lowest salary paid by Tesco is above the new national living wage level at £7.62 per hour. This new level represents a 3.1% increase for the year, which is higher than for previous years. However, this has come at the cost of overtime and bank holiday premia. 15% of the workforce will be worse off under this new system, but will receive a one off payment equal to 18 months of the pay that they have lost. Top incomes remain a concern in the organisation. New CEO Dave Lewis received a salary of £4.13 million in his first six months with the organisation, but 11% of shareholders voted against this, and abstentions meant that 18% of shareholders did not back the remuneration report.

In a speech to the Confederation of British Industry on 9 November 2015, amongst other issues such as business rates, Dave Lewis discussed the reasons behind the decision to pay at the statutory minimum rather than above this rate:

“No doubt you’re all familiar with the National Living Wage. Now the debate around pay is really important – our colleagues are the greatest asset we have. Their quality, unrelenting commitment and passion for doing the right thing are at the heart of our business turnaround. Notwithstanding the challenge we face this year, at Tesco we have a good history of paying well – and we were supportive of the Living Wage when it was announced. Our pay and benefits package is already significantly above the new voluntary Living Wage rate.

If you monetise benefits – for the sake of argument, for our colleagues outside London – we are already at £8.80 today. Our concern, and the concern of many colleagues, is that there is pressure to increase base pay at the expense of benefits. We don’t think this is the answer. We shouldn’t simply strip down employment to an hourly rate or draw arbitrary lines. It’s more complex than that. Benefits are hugely important to our colleagues. Valuable too. Our workforce is not homogenous [sic].

Our colleagues say they value different things at different stages in their lives and at Tesco this is what we are trying to accommodate. We need a fuller debate aimed at doing the right thing for the people in our industry without imposing more cost without providing individual benefit or business return. At Tesco, we’re working on a menu of benefits which gives colleagues flexibility of choice and support which they value – including a competitive pension scheme, a 5% turnaround bonus, colleague discount, plus the opportunity to invest in the business through Save as You Earn”.

Under this wider concept of total reward, Tesco argue that the hourly rate is not the only element that should be considered, and that the benefits offered in addition to this, once monetised, are valued at nearly an additional pound an hour above the hourly pay rate for established workers at the time of this speech. In the later section on manufacturing, the learning environment in organisations is sometimes argued to be part of the reward package, especially for apprentices and young workers.

Although the monetisation of these benefits was not provided in Lewis’ speech, a request to the Tesco press office has provided this calculation, which is as follows:

Pay / benefit	Rate per hour
Hourly rate (Outside London)	£7.39
Profit share (5% turnaround bonus)	£0.38
Sunday premium	£0.16
Bank Holiday premium	£0.04
Pension (New DC scheme)	£0.62
Colleague 10% discount	£0.19
Total reward (Outside London)	**£8.78**

There are, however, two important areas to note in this calculation. Firstly, Lewis claimed in his speech that "we are already at £8.80 today". However, the turnaround bonus is described by Tesco as follows – "the one off turnaround Bonus will reward UK colleagues if we are successful in delivering our UK turnaround plans this year". This means that the 5% bonus was not paid at the time of the speech, and was also contingent upon certain targets being met by the organisation overall.

The effects of the national living wage on supermarket retail can be contrasted with those on smaller retailers. Representatives from the Federation of Small Businesses indicated that amongst smaller businesses, there may be a reduction in owners' salaries to ensure that workers receive the new rates without cutting jobs. This is in sharp contrast to larger organisations, which have come under pressure to address the issue of high salaries for directors, for example through the Fat Cat Tuesday campaign by the High Pay Centre. This highlighted that by Tuesday 5th January 2016, CEOs of FTSE 100 companies will already have earned the average yearly salary, although these figures have been questioned by the Adam Smith Institute. As an example, Tesco CEO Dave Lewis earned £4.2 million in his first six months with the company. There is also a possibility that retailers will endeavour to introduce new technology, for example digital pricing indicators on shelves, in order to reduce the numbers of workers required.

3.5. Inequalities between sectors, within sector, between groups

Considering firstly inequality between sectors, wage inequality in the supermarket retail sector is marked by a large number of workers on low paying jobs, many of whom work on a part-time basis. Although inequality is high when we compare the very highest salaries of CEOs and other corporate managers, only around 10% of managerial salaries are above around £30,000. As a result, this is a sector that has a more compressed wage distribution than some, notably banking which is discussed later in this report.

As compared with other sectors, the ways in which supermarkets are funding the increases in statutory wages can be considered to be similar as in other low paying sectors. In the main, this is coming at the expense of premium payments in order to have a consolidated single hourly wage. For example, Incomes Data Research note that Morrisons are to eliminate the premia paid for early and late shifts, overtime, and Sunday working. This has come within the wider context of a reduction in unsociable hours premia throughout the sector, although it is acknowledged that for some workers, particularly students and part-time workers, evening and weekend work may not be seen as unsociable as it fits into their wider schedules. There will also be a reduction in paid breaks for workers with, for example, Morrisons announcing that breaks will no longer be paid at all. This matches wider trends, for example the move towards reducing unsociable payment premia for NHS workers including nurses, midwives and paramedics. These make up a significant proportion of overall wages; for example, in the case of midwives the Royal College of Midwives estimate this to be around one-third.

Secondly, inequality within the sector can be examined. Early indications suggest that the introduction of the national living wage means that, although those at the very bottom end of the wage scale are seeing an increase in their hourly rate, this is not being matched by maintaining wage differentials further up the pay scale. It is likely that this may lead to further wage compression in the mid deciles of the wage distribution in the sector. An important likely outcome is that more highly skilled or experienced workers will see premia over entry-level positions reduced. For example, Incomes Data Research note that Morrisons are to eliminate the premia paid for more highly skilled roles, such as cooks and forklift drivers. They further note that Sainsbury’s is to give smaller pay increase awards to supervisory roles of 1.7%. In addition, starter rates for new workers are likely to be swallowed up by the new national living wage, meaning that there will be a single hourly rate for both new and experienced workers. Incomes Data Research further suggest that supervisory roles may be expanded in scope, and USDAW note that these may become salaried rather than hourly-paid roles. The Low Pay Commission estimate that the ‘bite’ of the national living wage, which is the value relative to median earnings of others, will reach 100% of retail workers by 2020.

Finally, the introduction of the national living wage will have differing impacts on different groups of workers in the sector. In particular, this will affect different age groups to different extents. The national living wage only applies to those aged 25 and over. Previously in this sector USDAW has campaigned to remove age-related wage differentials, arguing that people should receive the same rate for the same job. As many development rates for new starters have been swallowed up by the national living wage, but supermarkets have stated they will pay one rate to all workers, this means that there will be a reduction in inequality based on age. This may, however, be different in other retailers who do not offer a single rate, and where there may be a preference for hiring younger workers, who can be paid a lower rate than the full national living wage.

Overall, supermarket retail provides a particularly interesting case study in the UK as the big four present differing responses to the introduction of a national living wage. While Sainsbury’s, as well as Morrisons, Aldi and Lidl, have all announced that they will exceed the statutory level, Tesco have instead argued that a wider view of reward, rather than just hourly rates, should be considered.

4. Wage inequalities in the banking sector

Table 9. Wage Distribution in Financial Services

	Number of jobs ('000s)	Mean	10	20	30	40	50	60	70	80	90
Weekly wages											
All employees	25,459	494.30	125.50	211.30	287.20	346.70	412.50	484.60	574.90	695.90	901.90
Financial and insurance activities	929	866.40	287.80	360.30	433.10	521.60	622.90	766.60	951.80	1217.00	1731.40
Financial service activities except insurance and pension funding	469	918.50	297.10	369.00	444.00	538.40	664.90	814.50	1025.20	1318.60	1820.70
Hourly wages											
All employees	25,459	15.27	6.90	7.82	8.94	10.20	11.80	13.82	17.88	19.75	25.64
Financial and insurance activities	929	25.40	9.28	10.96	12.83	15.18	17.93	21.85	26.81	34.81	48.59
Financial service activities except insurance and pension funding	269	27.19	9.60	11.25	13.23	15.78	19.19	23.41	29.19	37.51	51.35

In the table above, wages are presented for both the aggregate industry (financial and insurance activities) and for the sub-industry that includes banking. The most immediately obvious point to highlight is that the banking sector is one of the best paying sectors in the UK labour market with wages significantly higher than average. Median gross hourly wages for all employees are only 61% of the level of median gross hourly wages in the banking sector. Mean gross hourly wages are only 56% of the level of those in the banking sector.

This difference between mean and median wages illustrates a second important feature of this sector which is that the data is strongly influenced by very high wages at very top levels. This is discussed in more detail later in this section, but it is important here to note that the high wage levels spread across the wage distribution as well which contrast with the retail sector where low pay is common.
Despite this very high level of wages in general, this is a very unequal sector. The 1:9 decile ratio (presented in table 3 at the start of this report) is 0.19 meaning that those in the lowest decile of wages receive only 19% of the wages of those in the highest decile. As that table illustrates, this is by far the lowest percentage of any of the sectors which is remarkable given how high the lowest decile of wages is. The table above shows that the lowest decile of wages is at £9.60. This can be compared to the retail sector where only the top 20% of gross hourly wages are above that level.
In short, this is a highly unequal, but generally well-paid sector.

4.1. Collective bargaining in the banking sector

Around 20% of organisations in the sector have some form of collective bargaining, although this rarely extends to all occupational groups. Union membership density for Financial and Insurance activities is around 17% (compared to 25% across the labour force as a whole) and has declined since many of the lower grade occupations in the sector have been outsourced, offshored or moved into greenfield sites such as call centres. The pattern in the sector since 2008 has been that there was a big drop in percentage of employees who are union members between 2008 (21%) and 2010 (17.4%), reflecting the job losses in the sector. Membership density since stabilised at around 17%. In short, although the sector is unusual in the fact that it is part of the private sector where union membership exists, it is not widespread.
The banking sector is also unusual because it does have some collective bargaining, although it is not universal. This makes it very unusual in the largely de-regulated UK private sector. Collective bargaining operates at company level through a large number of unions representing workers, many of which are specific to individual organisations such Advance which is the union representing staff in Santander. Some large unions such as Unite and the Communication Workers Union also have a presence in the sector. Again, unusually for the UK, the unions are co-ordinated through an organisation called Alliance for Finance. There is no sectoral bargaining, so this is simply a co-ordination and information sharing organisation. In general, and unlike in the education sector, there are few rivalries between unions and the general spirit is of co-operation.
Employers are represented through the British Bankers' Association (BBA). Not all banks are members of the BBA, but it does have the largest employers within its membership. It also functions as a co-ordinating and information sharing association, with no collective bargaining powers. It also speaks on behalf of the sector in media interviews and similar.
Despite being a sector that does have a union presence, Unite estimate that the coverage of collective bargaining only extends to around 20% of employees in the sector. It is

difficult to know whether this is an accurate estimate, but social partners indicate that it seems likely and this would still place it above the national level data which shows that only 16% of the private sector is covered by bargaining agreements.
The sector is also unusual in the fact that there is a large, negative union wage premium. The overall union wage premium across the UK labour force is around 16.7% with some sectors such as transport and retail attracting very high premia associated with union membership. In banking, however, hourly wage rates for union members stand at £16.51 as compared to £21.67 for non-union members – a wage disadvantage of around 24%. This is easily accounted for, however, by the fact that – as we have seen previously – there are huge wage disparities between the top and bottom ends of the wage dispersion. Union membership is closely associated with those in the lower deciles of wages.

4.2. Individual wage determination

Individual wage determination in the sector varies considerably between levels and occupational groups. Increasingly, the sector has seen a shift towards a great part of individual total reward packages being determined by performance-related payments. Almost all staff grades in almost all organisations receive some form of bonus payments with back office staff typically receiving 5-10% of salary and other basic grades varying from 20-70% of annual salary. This rises to bonuses of many multiples of salary for senior staff and executives. On aggregate across the banking and finance sector, national data shows the 2014-15 bonus pot to be around 20% of total pay, as compared to around 6% for the whole workforce. The same Office for National Statistics data shows that the average bonus per employee in the banking and finance sector was around £13,100 in 2015 which is far higher than any other sector. However, the known inequalities in the sector mean that there is a very high variation between bonuses paid in lower grade jobs as compared to those at the very top end.
Individual merit pay and bonus systems are well known to potentially disadvantage minority groups, including women. The gender pay gap (all earnings, irrespective of hours) in the banking and finance sector is around 60% which is much higher than the gap of 42% cited for the workforce as a whole. There is also strong evidence that performance-related pay and bonuses exacerbate these inequalities (EHRC 2009). In UK law, legal challenges to discriminatory practices – including sex discrimination – have no cap on the award that can be made to (former) employees if the employer is found to be liable. Unsurprisingly given the salary and bonus structures in banking and finance, it is a sector where some of the highest awards have been made for sex discrimination.
The challenge is regarded as so serious that in 2009, the Equalities and Human Rights Commission (EHRC) published a high-profile inquiry looking specifically at issues of pay regulation in the sector. That report highlighted a number of important issues underpinning pay inequality. First, they identified organisational and professional cultures in which there was a degree of secrecy about pay levels. The report also specifically identified bonus systems as being important explanatory factors in discriminatory pay practices. A number of issues were also identified with hiring and

promotion practices including assumptions about whose 'face fits' and the unusually young age profile of the sector. Interestingly the closure of local branches towards more centralised head offices and call centres was highlighted as having closed down the path from entry-level jobs to managerial jobs in many organisations.

A further issue compounding wage inequality in the sector is that the ECHR established that only around a third of organisations in the sector use job evaluation to determine wage bands or wage rates. This is relevant here because job evaluation has a strong tendency to mitigate unjustified wage inequalities. Importantly for this report, the EHRC inquiry also confirmed the long-standing belief that in organisations that recognise trade unions, there was a greater degree of transparency about remuneration. Transparency in pay systems has been argued to be a major contributory factor in reducing unjustified pay inequality.

4.3. High and low pay

As highlighted in the national overview, this is the sector that has attracted most attention on the issue of high pay, especially within the top decile of wage distribution. Bell and Van Reenen (2010) explore extreme wage inequality in the banking sector. They confirm that the dramatic rise in wage inequality in banking is largely accounted for by rises in the very top percentiles and is by rises in bonuses. Research reported by the trade union, Unite, indicated that most banks have CEO salaries of between 80 and 100 times the wages a typical employee. Concern has also been expressed that reward mechanisms incentivised risk taking behaviour of some senior banking staff prior to the financial crisis in 2008.

In this context, the European Union has sought to regulate and cap bonus payments in the sector. This has had some degree of success in limiting the significant upward trend in top decile pay within the sector, but has mainly had the effect of redistributing reward towards fixed pay and away from variable pay. New mechanisms also came into force in 2015 which strengthen systems to defer and, if necessary, claw back high bonuses in times of firm-level financial stress. This is an unusual example of how regulators – including government, the Bank of England, the Financial Conduct Authority and the European Union – have worked together to regulate high pay in a key sector of the economy. It is interesting to note, however, that although it is too soon to know the full effects of these regulation efforts, the effects on overall levels of remuneration (as opposed to distribution of remuneration between variable and fixed pay) are not immediately evident.

It is also important to note that this is a sector where low pay exists, although debates around low pay tend to be somewhat eclipsed by public debates about high pay. In particular, regional retail banking includes some low paid grades. Unions have been keen to emphasise this in their negotiations and routinely use arguments about the generally high levels of profitability of the sector to try to negotiate improvements for these staff, as is clear in the example of Barclays Bank below. However, collective bargaining is not universal across the sector and has not extended to newly established 'challenger' banks which aim to gain market share at the expense of declining public trust in the major retail banks. If this sector of the market continues to grow as strongly as it has since 2008, it is probable that we will see more areas of retail banking where unilateral management pay setting is the norm. This is likely to increase wage differentials within the sector.

4.4. Case study: Barclays Bank

Barclays Bank is made up of two clearly defined businesses: Barclays UK and Barclays Corporate & International. This separation of roles is intended to ensure a separation between retail and corporate activities and is intended to culminate in 2019 with a full separation into two separate companies. These structural changes have been required of all four major UK retail banks (Lloyds, HSBC and RBS being the other three) in an effort to mitigate the worst effects of possible future losses in the corporate sector on the retail business. The focus here is on the retail section of the company. That part of the company has around 16 million retail customers.

Barclays is one of the four major retail banks in the UK and has enjoyed this dominant position for many decades. The UK retail banking market is increasingly facing competition from so-called ‘challenger’ brands, but these currently make up a small proportion of the retail market (probably between 10 and 15% of personal current accounts).

Barclays recognises the Unite union which has a separate section representing staff in the finance and law industries. The union has a recognition agreement with the bank which grants collective bargaining rights and rights to represent members who have problems at work. In the late 1990s, that agreement was renegotiated and rebranded as a ‘partnership agreement’ which committed both parties to work towards the long-term objectives of the bank. Since then, the union has merged to form a section of the large, general union, Unite.

Pay negotiations in 2013 led to a three year pay deal between Barclays and Unite. That pay round saw a major success in agreeing that the lowest grade cashiers were re-graded from BA1 to BA2 level which resulted in an average increase for those staff of 2.8% on top of agreed general uprating. Unite continues to make the very clear point that low pay underpins much of the basic branch level work where annual salaries are typically between £14,500 and £15,000 as compared to a national average of £26,500. The union also highlight the significant gender pay gap and high inequalities that are present even when bonuses are not included in the data.

The union is extremely concerned about pay inequality and wage dispersion and has had this as a central bargaining objective for some time, especially since profitability of the sector has improved. Of particular concern are very low paid staff and staff in middle grades whose wages are not negotiated as part of the ‘pay matrix’. 2015 saw some success in extending negotiated settlements to some of those middle level grades and the 2013 deal in general commits the organisation to greater pay transparency.

5. Wage inequality in manufacturing

Table 10. Wage Distribution in Manufacturing

	Number of jobs ('000s)	Mean	10	20	30	40	50	60	70	80	90
Weekly wages											
All employees	25,459	494.30	125.50	211.30	287.20	346.70	412.50	484.60	574.90	695.90	901.90
Manufacturing	2,468	563.00	269.30	324.20	375.00	427.40	485.60	552.50	632.40	744.30	932.00
Manufacturing of other transport equipment	172	716.30	402.90	480.40	539.40	605.20	652.70	717.40	792.40	877.60	1069.40
Hourly wages											
All employees	25,459	15.27	6.90	7.82	8.94	10.20	11.80	13.82	17.88	19.75	25.64
Manufacturing	2,468	15.13	7.50	8.77	10.00	11.37	12.88	14.61	16.86	19.88	25.04
Manufacturing of other transport equipment	172	19.25	11.10	13.09	14.67	16.16	17.90	19.51	21.41	23.84	28.77

5.1. Overview of sector

Manufacturing in general – and high skill manufacturing in particular – is a relatively highly paid industry. It is notable how comparatively well-paid the lowest decile is in this industry. This in part reflects the practice of developing apprenticeships and entry routes which pay far above the statutory minima. Very low pay tends to be a feature in certain sub-sectors such as food manufacturing which are relatively low-skill and often low level, low margin production. The sub-industry of manufacturing of other transport equipment (i.e. excluding motor vehicle manufacturing) is a very high paid industry reflecting the need for specialist expertise and reinforcement of strong internal labour markets.
Trends in wage inequality in the UK manufacturing sector are inextricably tied to increased internationalisation of production. The sector has been in overall decline in the UK, but has also seen a substantial shift from heavy to lighter manufacturing. Despite this decline, the sector remains important for the UK economy, having impacts along the supply chain back to, for example, steel processing. The sector is also spread throughout

the country, and away from high wage areas such as London and the South East. Workers in sectors such as aviation, including firms such as Rolls Royce and Airbus, are highly skilled and frequently unionised. However, a number of concerns over possible relocation of production means that issues around job retention, rather than reducing wage inequality, are the key concerns for unions.

The decline of heavy manufacturing has had impacts along the entire supply chain and into other sectors; for example, the UK steel industry has been in significant decline. With most production based in areas of high unemployment, much of this previously nationalised industry has been sold to international companies such as Tata, who own plants in areas such as South Wales, Yorkshire and Lincolnshire, and the North East of England. Shipbuilding has been in significant decline in other high unemployment areas such as Belfast and Glasgow. As these heavy industries have declined there has instead been a shift towards higher technology and higher value added manufacturing, such as Rolls Royce aero engines and Airbus UK, who are both in the aviation sector. Again, these firms are based away from lower unemployment regions; Rolls Royce has plants in the East Midlands and North East of England, and Airbus on the England/Wales border.

Manufacturing is an area that is significantly affected by international influences, particularly where owners threaten to move production to different nations. It has also been significantly affected by changes in commodity prices, with Tata citing high energy costs and high levels of steel production in China as factors in their decision to sell and potentially close the Port Talbot steelworks in South Wales. As a result, the sector has become something of a political challenge and the UK government has offered to take a 25% stake in the plant to aid with a sale, although insists that "[we are] not sure we would accept the concept of part-nationalisation. We will be investing on a commercial basis. We would not see this as nationalisation. We would not be seeking to acquire a control in the business. We don't think that nationalisation is the right answer".

Further instability in the sector has been caused by the June 2016 referendum on UK membership of the European Union. This has driven considerable attention of social partners towards retaining manufacturing employment within the UK and diverted attention away from wage (in)equality. The issue has divided organisations. European-owned organisations, such as Siemens which has thirteen factories in the United Kingdom, has suggested that high technology manufacturing such as driverless cars would be moved to their facilities on the continent. This has also been the stance of overseas owners of originally UK-owned businesses. For example, employees of Rolls Royce cars, which is owned by the German BMW company, received a letter from the owners stating that EU exit would lead to increased costs and prices and therefore threaten the company's "employment base" in the UK. However, there are a number of UK-owned organisations which have backed a UK exit from the EU. These include JCB, which manufactures construction equipment, and Dyson, which manufactures vacuum cleaners and heaters.

Although some firms in the sector remain strongly trade unionised, the broader international context has resulted in these unions concentrating on retaining production in the UK. Multinational organisations have historically used whipsaw tactics in order to increase efficiency as they threaten to move production facilities from one nation to another. However, UK manufacturers have also been strongly hit by factors such as commodity prices and political instability related to the UK's position in Europe. As a result, simply retaining production and jobs in UK facilities has instead been the key concerns of unions in metal and manufacturing, rather than campaigning on issues such as wage inequality.

Collective bargaining takes place at company level so the case study below examines how wages are determined, how wage increases are negotiated, and how these are distributed. There are fewer workers on very low wages in the sector owing to the higher skilled nature of the jobs, although there is a concern about apprentice wages which are determined by legislation. In lower skilled manufacturing organisations, for example in food manufacturing, there are larger proportions of workers on the statutory minimum wage. Top incomes, as with many other sectors in the UK, remain high and of concern in those organisations with weak financial performance. In order to investigate the responses of both organisations and trade unions to wage inequality in the sector, this section examines wage setting in a multinational high technology organisation in the aviation sector. The case study allows for an investigation of how these wider pressures impact on wage setting within this context.

5.2. Case study: wage negotiation in the aviation sector[1]

The case study is of a high technology manufacturing organisation based in the UK, but with production based in a number of sites globally. The company has three different categories of employees – works, staff, and management. The former two categories are both covered by collective bargaining agreements. For the works category this is negotiated over a two to three-year time period. There are local pay structures based on a skilled and semi-skilled rate, and a pay increase is negotiated annually with the organisation. Entry pay levels are high, and there is little concern amongst this group of workers related to wage inequality as they are well paid as compared to competitor industries, particularly where the organisation has manufacturing sites away from London and the South East. However, these pay scales are quite compressed, so once employees have joined the organisation and trained there is little opportunity for pay scale increases unless they move into a managerial role. This is common in the sector and explains the relatively compressed wage differentials seen in table 10.

For those workers who fall under the staff category there is again a collective bargaining arrangement which has led to a UK pay structure linked to defined skill levels. Employees can move up through the pay scales through professional development and a formal 'boarding' process. The pay scale and associated reward package are negotiated through collective bargaining; a group annual increase is agreed through the same negotiation mechanism. As well as this, an element of performance related pay is applied which is based on a split between company performance and individual performance.

[1] This case study is based on interviews within the organisation, and interviewees have requested anonymity.

Generally, company performance metrics need to be achieved to trigger increases. Increases are then either blanket applied to represented groups (e.g. works) or applied based on individual performance (e.g. management).
Managers are not covered by any collective agreement, and individual wages and bonuses are negotiated. As with most private sector organisations, this has resulted in high wages for top earners. Wage increases are distributed based on individual performance as well as where employees sit within the pay scale. Top incomes, as well as those toward the bottom end, are based on benchmarking against similar roles in the industry in the region.

5.3. Inequalities between sectors, within sector, between groups

Firstly, considering inequality between sectors, high technology manufacturing sees less inequality as compared to low paying sectors, partly due to unionisation. This leads to higher average wages, and a compression of these scales. However, amongst individually negotiated salaries there are some high earning managers. Within the sector, however, there remains many low cost manufacturers, particularly in the food manufacturing sector, who require low levels of skill in production and thus also pay low wages. The food manufacturing sector also uses high levels of non-standard work, included fixed-term contracts and agency work. Finally, when considering inequalities between groups, as shown in the case study, there are salary scales for workers and staff, which means more equality between the two groups. However, two potentially disadvantaged groups within the sector are younger people and women. Low levels of apprentice wages disproportionately affect younger people, while the sector has historically struggled to attract women into more senior roles.
Providing a learning environment in which to complete an apprenticeship is argued by some employers to be a wider benefit under total reward models. However, the use of apprenticeships is a contributory factor in creating wage inequality between groups. Crucially, the minimum wage level for apprentices is set much lower than the national living wage. Apprentices are paid for their normal working hours, which are a minimum of 30 per week, and also for training that is part of their apprenticeship, usually one day per week. This rate applies to apprentices aged 16 to 18 and those aged 19 or over who are in their first year. As of April 2016, this statutory minimum rate was £3.30 per hour.
Anderson et al. (2015) identify several gendered structural barriers to women working in manufacturing, which include cultures of presenteeism, informal recruitment practices, employer preferences which are based on gender-stereotyped attitudes and assumptions about women’s skills, capabilities and interests, and finally direct unlawful discrimination. In the case of Scotland, they find that women make up 53, 000 of the approximately 200, 000 workers in the sector, and make up 24% of managers, directors and senior officials, and 15% of professional occupations. However, they make up 77% of administrative and secretarial staff, and 56% of sales and customer service occupations. Women also only make up 20% of modern apprentices. Across the UK, the gender pay gap in the sector for median hourly pay excluding overtime is 21%, and 19% for mean hourly pay excluding overtime. This is partly driven by bonus payments, with

women significantly less likely to report a bonus in their most recent salary payment. However, women are more likely to hold a degree level qualification than men, with 17.5% of women as compared to 16% of men holding this qualification.
Overall, issues of wage inequality in manufacturing take place in a broader context in the United Kingdom that has seen long term decline from heavy industry toward some higher technology areas, although there are still significant areas of low skilled manufacturing, most notably in the food and drink sector. However, growing internationalisation has led to unions in these sectors concentrating on ensuring the survival of these jobs in the UK. It is this fight for jobs, rather than an endeavour to reduce wage inequality, that has been the focus of both unions and employees in this sector.

6. Comparison between sectors

The UK is unusual in comparison with the other countries in this study because sectoral bargaining is rare. Even where there is collective wage setting at sectoral level – as in the case of education – this does not take the form of free collective bargaining. As a result, it is impossible to systematically compare the dynamics of collective bargaining at sectoral level. It is also impossible to gain access to detailed information about company-level bargaining agreements, so our data reflects information from publicly available information (e.g. on company and union websites, media reports etc.) and insights from interviews with social partners. What we can also do is to compare the general trends and pressures within and between sectors.

Table 11 in the appendix of this report attempts to capture the notion of an 'equality index'. It reports an overview of the evidence relating to collective agreements reached by social partners about wages and makes qualitative judgments about whether the general trends are towards increasing or decreasing wage equality across the sector. Table 11 reports the trends in outcomes for two groups: wage (in)equality between organisations, and wage (in)equality between different groups of workers. In the UK, only secondary education has a sectoral agreement and – as we have seen – that is under significant pressure. Therefore, it is only in this sector that we can comment on the effects of the sectoral agreement on wage equality between organisations. The notion of opening clauses is also not relevant in the UK context in any of these sectors.

However, we can comment on the general trends in wage equality between groups of workers because collective bargaining takes place at organisational-level within the other three sectors. Within manufacturing, we see very little change in the approach and content of collective agreements. As highlighted in the discussion above, dominant concerns of social partners relate to other issues such as job retention and skills development rather than wage levels. As a result, the general trends across sectors and organisations can be summarised as steady state.

In supermarkets, collective agreements have had to account for the uprating of the statutory minimum wages for over-25s. Where these have been negotiated (as compared to supermarkets without trade union representation where they have largely just been imposed) wage rates for other workers have had to retain some level of differentials while also accounting for the fact that this is a low-margin sector. Many employers have also integrated the higher age rate and have institutionalised lower rates for young workers. This has had the effect of increasing inequality between age groups.

In banking, we also see contradictory pressures. Some of the agreements that have recently been concluded – including the one discussed in this report – have had the effect of successfully negotiating upwards the very lowest paid in the sector. This has largely been achieved in the context of a great deal of public and political attention being paid to high levels of profitability of banking organisations, including most (but not all) retail banks. By contrast, the increased use of individual pay for at least some aspects of remuneration packages has an inevitable tendency to create greater wage dispersion. Although there has been a public debate about whether bonus schemes increase the likelihood of inappropriate behaviour, they are common even at lower pay grades. One concern has been that bonus systems not only incentivise risk taking behaviour for senior staff, but also create incentives for mis-selling of banking products. One recent scandal around the mis-selling of a product know as Payment Protection Insurance has led to regulators insisting that banks repay customers and retail banks have set aside over £8 billion to do that. This mis-selling took place in routine customer interactions such as selling loans, overdrafts and mortgages and is just one example where branch staff in retail banks were inappropriately incentivised to increase sales. These scandals have prompted something of a re-evaluation of pay in retail banking, but most remain committed to variable pay as a strong element of individual reward packages.

In education, at aggregate level we see the most consistent trends towards increasing wage inequality. This is mainly driven by the policy of encouraging schools to become more independent of local government control by becoming Academies. Because Academies do not have to follow nationally agreed bargaining arrangements, some increasing wage inequality is already visible and social partners believe this is likely to increase in future. Indeed, some unions argue that they believe this wage flexibility is one of the main reasons why the programme of academisation is being pursued as energetically as it is.

Overall, then, the pressures towards wage inequality are extremely varied between sectors and play out very differently. Important influences include government policies and legislation, exposure to international markets, profitability and margins within sectors and business models, and pressures for organisations to copy each other through benchmarking and 'best practice' models which can lead to forms of mimetic isomorphism.

6.1. Views and strategies of actors

In general, although unions have a considerable concern for the lowest paid in their sectors and occupational groups, this is rarely expressed as an explicit concern about wage (in)equality. The introduction of the higher rate of National Living Wage, combined with the stated objective to uprate it rapidly over the next 4 years, is strongly supported by unions and is likely to have a notable effect on the wages of workers in the bottom decile in coming years. However, it will be some time before extensive data on this is available.

What we know from qualitative studies – including this report – is that the effects of the NLW are highly sectorally variable, with retail, hospitality, catering and care work being most strongly affected because of the generally low wages in these sectors. The retail sector case shows how employers have generally adjusted to the higher rates by changing overtime premia, changing staff bonus payments, and adjusting non-pay rewards such as staff discounts. Media reports indicate that this has been a common response across the retail sector. The small number of retail companies with collective bargaining arrangements have generally been able to reach agreement with the unions concerned, but it is clear that even the rate rise this year has been difficult to accommodate and has demanded significant concessions from workers and their unions. It is very unclear how future rate rises will be accommodated in the context of very low margins and generally low profitability in this sector.

One other effect of the NLW rate rise is the squeeze on differentials between the lowest paid workers and the levels above. Where unions have been present, their concern has largely been to try to maintain some differentials which has, in some organisations, led to an uprating of salaries in supervisory and lower managerial grades, together with a narrowing of the pay bands for these grades in order to maintain the differentials between them and more senior managers. When we look at the narrow wage dispersion in sectors such as retail, hospitality and care, this is a rational response. However, it is also impossible to know how this will develop in future, as it could indicate the start of a period of further wage compression in these sectors which would put them significantly out of line with others.

The other sectors considered in this report have seen a less immediate and widespread effect of the NLW, but may well be affected by future rate rises. Table 1 and 2 show that the bottom decile of both sectors would be affected by a rate rise to £7.60 and anything above £8.60 would affect the bottom two deciles in those sectors. Even when we account for the fact that this data includes rates for under-25s (which are significantly lower than the full adult rate), the uprating plans are likely to see strong effects in a far wider number of sectors.

The ability of unions to argue that wage increases (including the NLW) should come from profit is also highly variable. Retail – and especially UK supermarket retail – is a low margin sector and the arguments here have been extremely difficult which explains in part why unions have conceded changes in premia rates and similar. Higher margin and more profitable employers – such as in manufacturing and banking – are more likely to be responsive to arguments that increases should be funded in part from profits as the example of the uprating of low-paid staff in the retail bank illustrates.

Despite these sectoral differences, individual employers and employer organisations generally regard the NLW proposals as problematic. In part, this is because of the relatively speedy introduction of the new mechanisms as well as the pace at which uprating is likely to happen. The fact that this has been introduced by a Conservative government is also a source of frustration. The government is clear that the stated objective is to move the burden of low pay from the State (where tax credits are used to subsidise low income households) to employers.

At the top end of the wage distribution, both unions and employer representative organisations are clear that there are concerns about the wages of the very highest percentile of earners. Even the Institute of Directors is clear that ultra-high pay is a threat to business objectives and that there is a clear case for robust scrutiny of reward packages for senior executives. Their broad position is that this should be done via stronger remuneration committees and that high pay is justified only where the performance of both the individual and the organisation warrant it. The sector studied in this report where these arguments are most visible is the banking sector, but senior executives in other sectors – including supermarket retailing and headteachers – have also come under scrutiny.

Unions are – perhaps surprisingly – less vocal about issues of high pay. They have been active supporters of various campaigns such as the establishment of the lobbying organisation, the High Pay Commission and the TUC has been vocal about linking executive pay to questions about fairness and wider societal problems. But there is little evidence in the sectors that we have studied that high pay features strongly in how unions think about wage determination and the pay claims they make.

Rather, the concerns of unions relate more to the mechanisms to determine pay rates for their membership. Given the relatively low levels of unionisation and the very low coverage of collective bargaining outside the public sector, this is itself a rather narrow range of workers and occupations. Generally, unions in both banking and education have been extremely cautious about the introduction and implementation of individual pay – usually through performance measurement – but this has become common in both sectors. Specific concerns relate to the risk of systematically disadvantaging some groups – notably women. Nonetheless, unions in both sectors have been able to reach collective agreements about the general principles of operation of such schemes.

When pushed, all union respondents did agree that wage differentials were important within organisations, sectors and society more widely. A particularly common response was that wage differences should be agreed on the basis of differences of skill and responsibility. A very small number of participants recognised that skill is, itself, a social construct that can be gendered and discriminatory. More general responses accepted the need for wage differentials but focused on the perceived problems of very high pay for executives and within the finance sector.

Probably unsurprisingly within the UK context, most social partners from both sides saw the company or organisation as the appropriate level at which to determine pay rates. A small number of union officers had previous experience with sectoral pay bargaining, and recognised the egalitarian pressures that this tends to put on wage settlements. Generally, in the few cases where a union officer had a strong view, sectoral agreements were seen to be preferable to company-level bargaining, but most had little experience and few views about alternatives. By contrast, employers and employer organisations generally have strong views that company or organisation level bargaining is most appropriate as this is the level at which organisational-level factors such as market strategy, HR strategy and profitability can be fully accounted for in bargaining processes.

The exception is education where there was a strong view from social partners that the pressures on sectoral pay determination were problematic and both sides expressed a view to retain existing arrangements. The pay review body generally benefits from a high degree of credibility and legitimacy and seems to be trusted by both sides. The expansion of Academy schools and the related right to break away from sectoral arrangements was seen by the unions as particularly problematic and likely to significantly increase pressures for growing wage inequality. Employers representatives engaged in the pay review system also saw notable benefits in sectoral pay regulation. The exception has been some Academy Trusts which have publicly expressed a desire to be able to use more flexible pay strategies to attract employees in shortage areas. Given the clearly stated direction of government policy in this area, it seems likely that there will continue to be strong pressures on sectoral pay determination and the future of the pay review system remains unclear.

Conclusions

General developments in wage inequality in the UK are largely explained by factors focusing on the top and bottom of the wage distribution. At the top end, the growth of senior executive pay is largely attributed to changes in remuneration strategies for this level, mimetic isomorphism where companies feel obliged to match pay rates offered elsewhere, and a general lack of regulation which has allowed the top percentile of earners to take a greater proportion of profit. The UK – largely, although not only, the City of London – is also a hub for banking and finance where there has been a growing culture of rewarding top performers with bonuses that are significantly larger than their basic salary. Although there are relatively few employees in each of these groups, the extent to which their wages outstrip even those of the rest of the top decile means that they are important to account for within the data. It is also relevant here that there have been efforts to strengthen State regulation in both areas.

At the bottom end of the wage distribution, the dominant explanatory narrative is that State policies of giving tax credits (and other social security payments) to low income households with children has had the unintended consequence of subsidising low wages. The rapid uprating of the National Living Wage is explicitly intended to be an effort to change this dynamic and refocus attention on employers' responsibilities. Whether the policy will achieve its stated objective is unclear, but it certainly seems likely that it will cause a significant challenge to even very large employers in some sectors such as retail.

What is interesting here is that even a Conservative government with a strong tendency towards laissez-faire labour market policies has felt an obligation to attempt to regulate pay at both ends of the distribution. Although the consequences of State regulation never play out in any simple way, the effects of these regulatory effects can be seen in all of the sectors in this report.

The strong sectoral differences in wage distribution data indicate that at least some of the reasons for these wage inequalities must lie at sectoral level. Broadly speaking, the extent to which organisations are exposed to (international) competition, combined with profitability and skills requirements seems to explain some of the patterns observed. Education has retained a sectoral pay determination mechanism because of its public sector status. Retail has such a narrow wage dispersion largely because of low margins. Manufacturing and banking are both sectors with a high degree of international exposure and reasonably strong profitability. Social partners report that these factors set the parameters within which organisation-level negotiations and implementation can take place.

One issue that is slightly obscured because of the research design is the general changes in collective bargaining within the UK labour market over the past 30 years. The research design specifically led to our focus on organisations that have a union presence and therefore some form of collective pay regulation. But in some of the sectors – especially retail, but also in banking – this gives a slightly skewed perspective on developments. In those sectors, for most workers, pay is determined unilaterally by managers and this is the dominant story of wage determination outside the public sector.

This managerial unilateralism in wage determination is the dominant mechanism for wage setting across the UK labour market. The Labour Force Survey shows that only 29% of the total workforce is covered by collective bargaining, dropping to around 16% in the private sector. Around 25% of workers are covered by some form of performance-related pay, although some of these may also be covered by collective agreements as well. In short, then, the dominant experience of pay determination is a ‘take it or leave it’ approach where organisations determine pay scales and processes as is suitable to the particular conditions in which they find themselves. In practice, HR pay policies demonstrate a strong degree of mimetic and normative isomorphism through networks through such as the Chartered Institute of Personnel and Development, HR consultants, and pay benchmarking services. It is therefore very probable that these mechanisms explain a strong element of wage dispersion within many sectors of the UK labour market.

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