



Perspectives by Ruth Lea

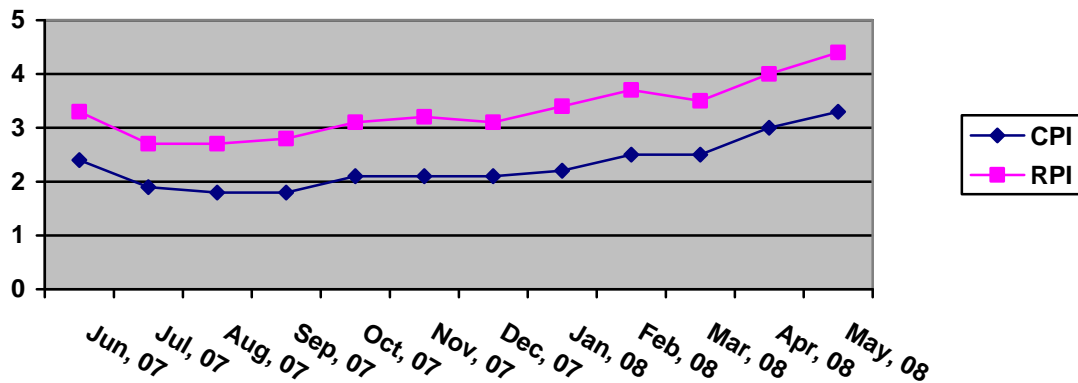
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Labour relations: a summer of discontent?

There is no doubt that the economy is caught between the twin toxic affects of the credit crunch, on the one hand, and rapidly rising commodity prices which are feeding into higher consumer prices, on the other. Chart 1 shows just how significantly prices inflation has ticked up over the last 12 months.



Chart 1 CPI and RPI annual inflation rates: June 2007 to May 2008 (%)



Source: ONS, Consumer price indices, First Release, 17 June 2008.

May's CPI annual inflation rate was a worse than expected 3.3% and, as the figure was above 3%, the Governor of the Bank was obliged to write a letter of explanation to the Chancellor.¹ In his letter he stated that much of the rise could be accounted for by large increases in prices of food, fuel, gas and electricity. These sharp changes, in turn, reflected developments in the global balance of demand and supply for food and energy. In the year to May:

- World agricultural prices had increased by 60% and UK retail food prices by 8%.
- Oil prices had risen by more than 80% to average \$123pb and UK retail fuel prices by 20%.
- Wholesale gas prices had increased by 160% and UK household electricity and gas bills by around 10%.

Fears of a wage-price spiral

Moreover, as the increases in commodity prices feed through the economy CPI inflation is likely to rise further, maybe to 4%, in the second half of 2008, before subsiding, one hopes, in 2009 as 2008's monthly increases drop out of the year-on-year calculations. Two readily identifiable developments could derail this optimism. The first is that commodity prices continue their rapid rises, but commodity analysts, on balance, do not forecast this gloomy scenario. The second is that these commodity-driven external pressures lead to internal, domestically driven inflationary pressures. Specifically, there is the concern that a "wage-price spiral" develops which locks in inflationary pressures. Such a "wage-price spiral" developed in the 1970s. It was extremely costly and difficult to control.

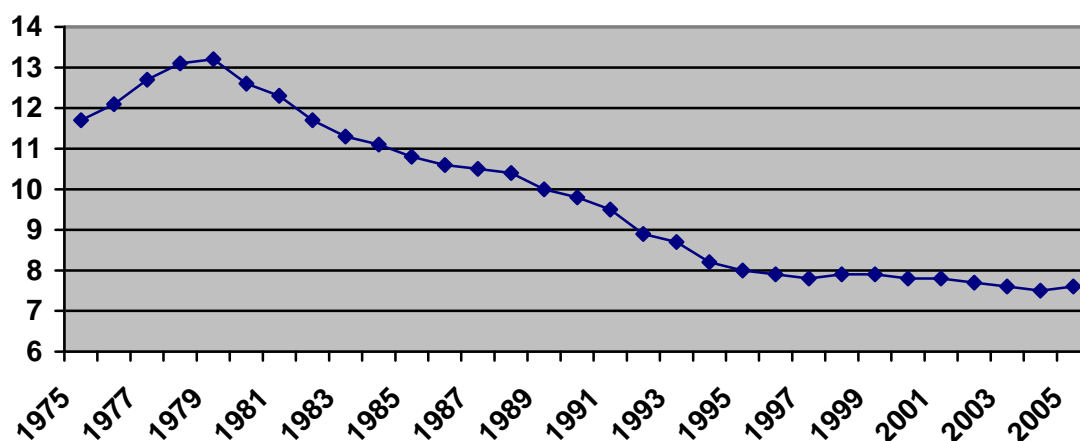
Prices inflation in the first half of the 1970s was stimulated by the oil shock of 1973/74, when oil prices quadrupled. Organised labour responded, not unreasonably some may argue, with demands for inflationary pay awards intended to maintain living standards. Given the power and pervasiveness of the trade unions at the time, and their penchant for quasi-anarchic industrial action, the consequence was a stubborn "wage-price spiral". Prices inflation eventually subsided, but as a consequence of the very painful recession of the early 1980s.

Trade unions: overall trends

The trade unions played a crucial and disruptive role in the 1970s. The question is whether they can play a similar role now. The short answer they cannot and it is salutary to note just how union membership has fallen since the 1970s.

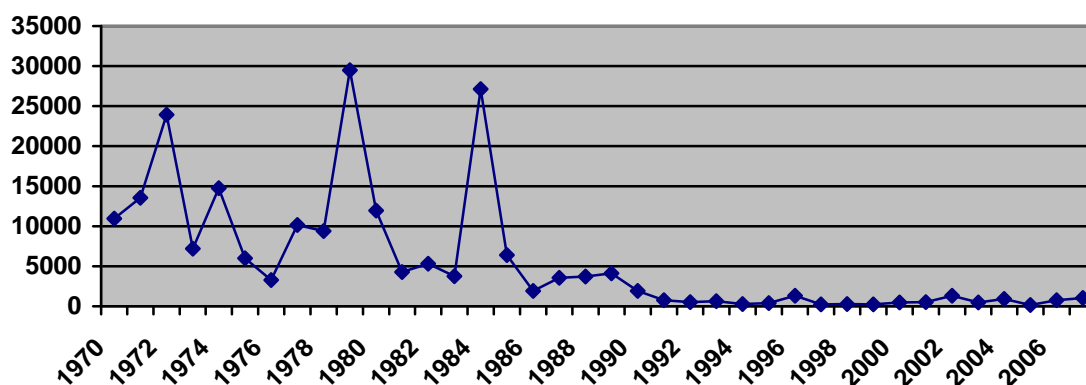
Chart 2 shows that union membership in the 1970s peaked at over 13 million in 1978 and 1979. Membership fell rapidly in the 1980s as jobs were lost in the heavily unionised manufacturing and coal industries. The early 1990s recession saw further job losses in heavily unionised industries. Since then, union membership has drifted down and by the early 2000s, at just over 7½ million, was half of that recorded in the late 1970s. It is unlikely the modest pick-up in 2005 is a sign of a significant reversal of the downward trend.

Chart 2 Trade unions: GB membership, millions, 1975-2005



It is also salutary to note organised labour’s predilection for industrial action in the 1970s, which was known in the foreign press as the “English disease”. Chart 3 shows just how many working days were lost in Britain in the 1970s. 24 million days were lost in 1972 (swollen by the 1972 miners’ strike which led to the infamous “three day week”) and nearly 30 million days were lost in 1979 (including the “winter of discontent”). By contrast “only” 15 million days were lost in 1974 when the National Union of Miners declared another strike – leading to Prime Minister Edward Heath’s decision to call a snap election in February of that year on the issue of “who rules Britain?” Unfortunately for Mr Heath, it was not his Government.

Chart 3 Working days lost (thousands), UK, 1970-2007



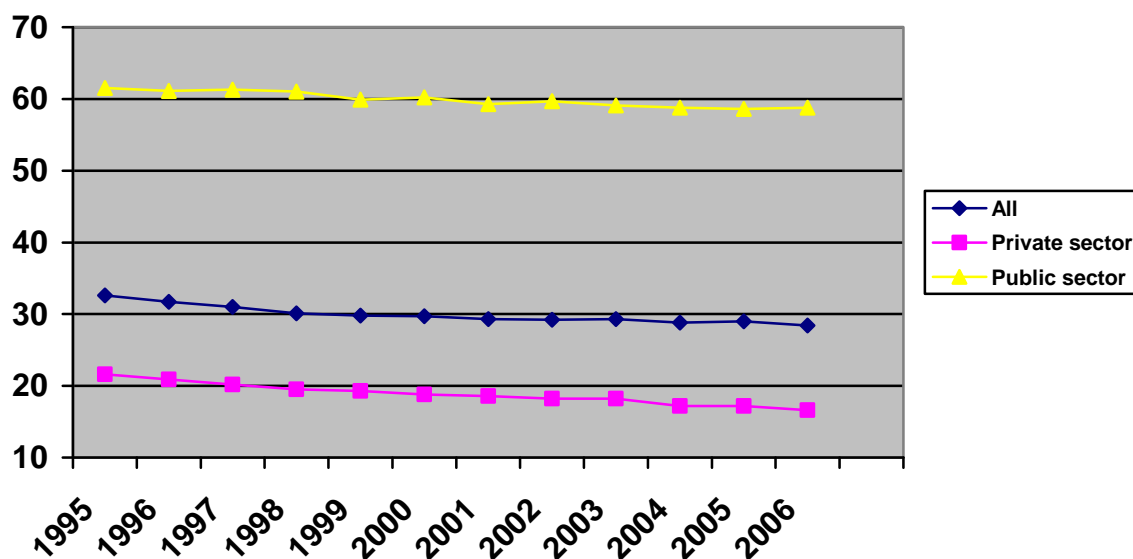
Source: ONS database: www.statistics.gov.uk

During the 1980s, a combination of trade union membership losses (as discussed above) and the fundamental reform of employment and trade union law by the Conservative Government radically altered Britain’s strike-prone behaviour and reputation. Apart from 1984, when there were 27 million lost days (and the last of the great miners’ strikes), Britain has been *relatively* free of industrial action with the exception of specific sectors (including transport).

Trade unions: sectoral breakdown

Within the total membership data, however, there are very divergent sectoral trends. In particular, the public sector (about 20% of total employment) is still very heavily unionised, whereas the private sector is not – and getting less so. The union density in the public sector in 2006 was still nearly 60%.² By contrast over the last decade the union density for the private sector has fallen from nearly 22% to under 17% and appears to be a clear downward path. It is now relatively unusual for young employees in the private sector to belong to a union. Taking the public and private sectors together, the union density for all employees fell from 32½% in 1995 to 28½% in 2006.

Chart 4 Union density (%), UK, by sector, employees, 1995-2006



Source: Heidi Grainger & Martin Crowther, *Trade Union Membership 2006*, DTI/ONS, April 2007. The data are taken from the Labour Force Survey (LFS). The data for 1995-2005, refer to the autumn. The 2006 data are 4th quarter.

A summer of discontent?

Even though unions are most unlikely to be as disruptive as in the 1970s, there is still scope for industrial action – especially in the public sector. In particular, there is currently public sector disquiet that the Government, hemmed in by tight public spending plans, is attempting to impose modest and below-inflation pay rises, which necessarily lead to falling living standards. Unison (see annex for a list of selected unions) has confirmed that industrial action will go ahead on 16-17 July in England, Wales and Northern Ireland (with Scotland likely to follow) to protest about a pay offer of 2.45%. This action will affect 600,000 of the union’s local government members, including social workers, librarians, school meals workers, refuse collectors, surveyors and teaching assistants. Unison is also itching to renegotiate its 2.75% pay deal for its NHS employed members, if inflation creeps higher.³ A summer of industrial action, a summer of discontent, at least in the public sector, seems all too likely.

Inflationary settlements in the public sector, in themselves, do not directly trigger off a “wage-price spiral,” as their goods and services are not, on the whole, sold on the open market at a “price”. Instead there is yet a further deterioration in the public services – fewer refuse collections for example. But inflationary pay awards in the public sector can, arguably, add to the pressure for inflationary pay awards in the private sector – insofar as the private sector feels it can, or needs to, meet such demands at a time of rising costs and weakening demand. The Government is correct in its policy of keeping public sector pay settlements low.

Inflationary pay awards in the private sector directly risk the return of a “wage-price spiral.” The Bank of England’s inflationary expectations indicators are rising and pay awards do now seem to be moving up. According to Incomes Data Services (IDS) for most of the past year the median pay settlement was typically 3.5%, but in the three months to April it was 3.8%. Many firms, which had secured lower increases in 2007 in the expectation that inflation would fall in 2008, have had to agree to higher increases this year.⁴ Moreover, many deals still tend to be struck on the basis of RPI inflation rather than CPI inflation and, as can be seen from Chart 1 above, RPI inflation is running well above 4%. And there are already signs of some clearly inflationary deals. The recent generous 14% 2-year pay deal for tanker drivers after their industrial action, organised by the union Unite, was not a good omen.

The Bank’s strategy is clear. They will be extremely vigilant of any further acceleration in inflationary expectations and pay settlements. Currently they seem to be taking the view that a slackening labour market (unemployment is now rising) and weakening profit margins will prevent inflationary pay awards in the private sector and a “wage-price spiral” from taking hold. The low union density in the private sector, outside certain sectors such as transport, will doubtless help this situation. But if they felt the situation was deteriorating, rates would undoubtedly rise, adding another twist to the economy’s problems. A summer of discontent indeed...

References

1. The correspondence between the Governor and the Chancellor is available from www.bankofengland.co.uk.
2. Union density is defined as the rate or proportion of employees who are trade union members, expressed as a percentage.
3. Times leader, “Payload”, *Times*, 25 June 2008.
4. “Resistance struggles”, *Economist*, 28 June 2008.

Annex table: selected trade unions

Union	General Secretary	Membership (thousands)	Notes
Associated Society of Locomotive Engineers & Firemen (ASLEF)	Keith Norman	16.5	
Communication Workers Union (CWU)	Billy Hayes	240.8	
Fire Brigades Union (FBU)	Matt Wrack	45.8	
GBM	Paul Kenny	575.9	A general union, which was renamed in 1982 the General, Municipal, Boilermakers and Allied Trade Union
National Union of Teachers (NUT)	Christine Blower (acting)	All: 270.4 Men: 64.9 Women: 205.6	
Public & Commercial Services Union (PCS)	Mark Serwotka	All: 311.3 Men: 123.8 Women: 186.7	Important in the public sector
Prospect	Paul Noon	101.5	Professional staff
National Union of Rail, Maritime & Transport Workers (RMT)	Bob Crow	74.5	
Union of Construction,	Alan Ritchie	128.9	

Allied Trades & Technicians (UCATT)			
UNISON	Dave Prentis	All: 1,343.0 Men: 398.6 Women: 944.4	A public service union, formed 1993 by merger of: <ul style="list-style-type: none"> • The National & Local Government Officers (NALGO). • The National Union of Public Employees (NUPE). • The Confederation of Health Service Employees (COHSE).
Unite	Tony Woodley (TGWU), Derek Simpson (Amicus)	1,941.6	Formed 2007 by merger of: <ul style="list-style-type: none"> • Amicus (formed in 2001 from 4 unions including the AEEU [1992: merger of AEU & EETPU] and the MSF). • The Transport & General Workers' Union (TGWU). Unite merged with the United Steelworkers (US union) in 2008.
Union of Shop, Distributive & Allied Workers (USDAW)	John Hannett	341.3	

Main source: Trades Union Congress (TUC) website: www.tuc.org.uk. These unions are members of the TUC.

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