How shall we protect the wages of the weak?

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How might we deal with increasing income inequality?

- The 20th century use of collective worker power to win a share of an industry’s profits
- How and why it has collapsed
- The return of government intervention – minimum wage legislation
- How do we protect ‘good’ employers?
- Addressing product markets through the demand side – consumer campaigns

The 20th century system relied on bargaining within product markets

- The product markets for most goods are imperfect
  - Profitability tends to be higher where productivity gain is greater
  - The main source of productivity gain is technological innovation
  - But how are the benefits to be shared across society?
- In 20th century product markets tended to be localised
- Collective bargaining took advantage of this by national, industry-level wage agreements
- Comparability claims by unions spread the benefits to wages in less profitable and in state sectors
- Employers supported the system so long as they were not under-cut
- Governments supported the system as a basis for industrial peace
- Consequences were relatively egalitarian – promoting common standards of decency in employment

This system has fallen apart

- Competition has become more intense, more international, and more pervasive
- Ownership of employing enterprises has become more international and mobile
- Public sectors have been increasingly privatised or exposed to competition
- There is less scope for employers to collude at national level
- The consequences for collective bargaining have been profound,
  - In UK, private sector coverage fell from 55% in 1980 to 18% in 2009
  - ... and private sector union density from 57% to 15%
The collapse of collective bargaining was closely related to declining profitability

- UK WERS data provide clear evidence
- The more profitable sectors had a higher probability of collective bargaining
- ...and they saw it decline less

The collapse of collective bargaining also reflected the severity of sectoral competitive shock

- It was least in sectors which sustained high profitability
- It was greatest where the relative decline was greatest
- In the public sector it has declined in extent and influence
- ...the consequences are irreversible

A return to state intervention

- 1896 – Victorian wage boards for clothing, boot-making, baking and furniture making
- 1909 – British introduction of wages councils for certain sectors
- 1999 – British introduction of a National Minimum Wage
- 2010 – Australian introduction of Minimum Wage Panel

- UK NMW widely perceived as successful
- ... with no evidence of adverse effects on employment
- Importance of the ‘social partnership’ basis of setting it through the Low Pay Commission
- ... of the Commission’s independence of government
- ... of the quality of statistical data and of independent research
- ... and of its being well enforced

Adult UK NMW grew faster than average earnings growth and price inflation – especially 2003 - 2008
Minimum wage has clearly affected the distribution of earnings

Indirect influence on pay fixing elsewhere in the economy - NMW has increased October pay settlements

Increasing inequity before 1998 was sharply reversed, with continuing weak gains for the lowest paid continued after 2004

Influence on small firms - the proportion paid at or below NMW is significantly greater in micro firms
But – uniform rights are product market blind

- Minimum wages push up the bottom of the income distribution
  - but they do not make inroads into the more profitable sectors
- What policies might lead to more diffusion of profitability?
- Strengthening trade unions through legislation?
  - Recent UK attempts (statutory recognition and increased consultation rights) were largely ineffective - membership and collective bargaining continued to decline in 2000s
- How can we protect the ‘good’ employer?

Putting pressure on product markets from the demand side

- How can the benefits of productivity be shared more widely?
- How can this be done in an international economy?
- Supply chains have become more inter-connected
  - with targetable monopsonist and monopolist links
- Reputation and brand names have become central to marketing
- Electronic communication with and between consumers is increasingly cheap and pervasive
- Consumer campaigns restrict competition by enforcing constraints on the employment conditions of production

Rapid growth of consumer campaigns since 1990s

- Supplying employers comply if there is reputational risk
  - ... or if retailers make compliance a condition of dealing with them
- Retailers comply if common standards are accepted by other retailers – development of a retailers’ international concordat
- Growth of ‘ethical audits’ by producer firms
- And by retailers – hence UK Ethical Trading Initiative
- Success of Fairtrade movement indicates consumer willingness to pay a ‘conscience premium’

……only a partial answer

- The mobilisation of consumer power is only possible for a limited range of markets – where:
  - Consumers can afford to choose
  - There are choke points in the supply chain
  - Supply chains can be traced for some distance
  - Brand name and reputation have substantial value
- Ethical audits are only effective with authoritative standards (such as minimum wages) - governments may collude with employers to weaken them
- Protecting the good employer is analogous to protecting the environmentally responsible producer
- … a new challenge for collectivism?