

We're All in "It" Together: Without Votes at Work, People's Wages Are Pressed to the Minimum Wall

In this timely piece, Dr Ewan McGaughey writes about the Conservative Party's most recent labour policies. Seen historically, he argues that there is little new about these policies. History shows when more people are earning middle incomes, when most people are not pressed toward the minimum, and when the top-earners are not taking 'other people's money' there is greater growth, human development and prosperity. The way this always happened in Britain was through a voice at work, through collective bargaining and the right to participate in workplace governance. The Tories' policies run contrary to this.

Editor's Note: this post was subsequently developed into a [journal article](#).

In its first 100 days, the majority Conservative government announced two dramatic labour policies. First, the minimum wage would increase to £9 per hour by 2020, and be renamed a 'national living wage'. Second, a **Trade Union Bill** would suppress collective action, particularly by staff in health care and schools, to a level not seen since 1875. Increasing individual wage-labour rights; denial of cooperative autonomy. In May, the Chancellor told ITV his party was **"for working people of Britain."** "Britain is expected," he said in his **July budget speech**, "to have the strongest economic growth of any major advanced economy in the world." This bold expectation would certainly matter to everyone in Britain if the gains of growth were equitably shared. But taking away people's voice at work, and creating an economy where more and more people have no more than a minimum-living wage, usually leads to lower human development and growth for most people who work.

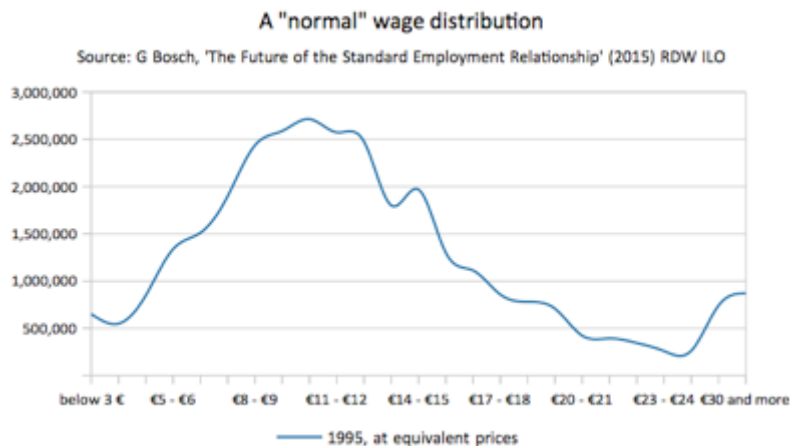
Seen historically, there is very little that is new in the new labour policy of the Conservatives. Four simple charts illustrate the four main points of the story of exactly how are **"all in it together"**. First, effective labour policy, which expands prosperity for people on middle incomes, has always required a method for people to get a fair wage beyond the minimum-living wage. There needs to be a voice at work: that comes through collective bargaining and the right of employees to participate in their workplace's governance. This creates a fair income economy. But second, the evidence shows we have drifted toward a minimum-living wage economy, where the threat to collective voice presses almost everyone's pay down. Third, while people on above-average incomes have become fewer and fewer, the people on high pay eat an ever larger slice of the economic cake. Fourth, the historical evidence is clear in support of the majority economic theory (consistent since Adam Smith in 1776) that unjustified inequality damages growth, human development and prosperity. When we understand the history and evidence, we see that the current labour policies mean that, really, we are all in "it" together.

The fair income economy

From the start of the 20th century, labour policy developed on two fronts. First, a system of 'minimum' or 'living' wages were created with the Trade Boards Acts 1909 and 1918, and later under the Wages Councils Act 1945. As Winston Churchill said when he was president of the Board of Trade, it is **'a serious national evil'** that anyone 'should receive less than a living wage in return for their utmost exertions.' But a minimum-living wage was not a fair wage. Second, there had to be legal rights to get voice in your workplace. The main channel for this in Britain was through unions and collective bargaining. Today we have a ministry devoted to business. But there is no longer a Ministry of Labour, which performed the crucial role of supporting and strengthening people's **voice at work**. In the fair income economy that government policy built, some people would earn more than the middle, some would earn less. But the deal was, if you put in the effort,



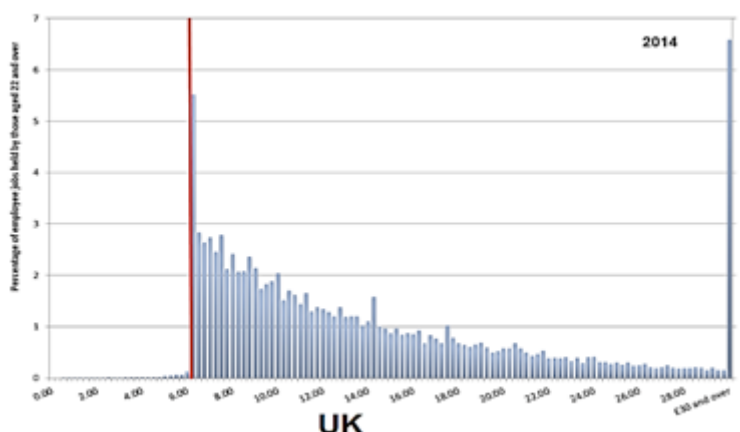
you would get a 'fair day's wage for a fair day's work'. These politics produced a normal (or 'Gaussian') wage distribution, like this:



The minimum-living wage economy

This sort of economy exists today – just not in the UK anymore. The chart is Germany in 1995. In the UK, since 1980, people’s voice in their workplace – to bargain collectively, on an equal foot with their big corporate or government employers – was taken away. The available data that we have from the Low Pay Commission shows that in 1997, the UK did look something more like Germany. The centre of middle incomes was some way ahead of the floor that was set by the National Minimum Wage Act 1998. However (and the same is increasingly true in Germany now) with the loss of collective voice, the vertex of the Gaussian curve slowly shifted to the left: almost everyone got poorer in relative terms.

Precisely because ever fewer people have a voice at work, a rise in the living wage will be welcomed by millions. Others may still be asking why the Conservative led coalition, from 2010 to 2015, had already empowered employers to cut their wages, like those formerly covered by the Agricultural Wages Board of England and Wales, before it was 'bonfired'. Yet the bigger, historical picture is the UK has moved from a fair income economy to a minimum-living wage economy. In it, more and more people are pushed down towards the minimum anyone can live on. An exponential number of people earn the minimum or little more. Put on a chart it looks like this:



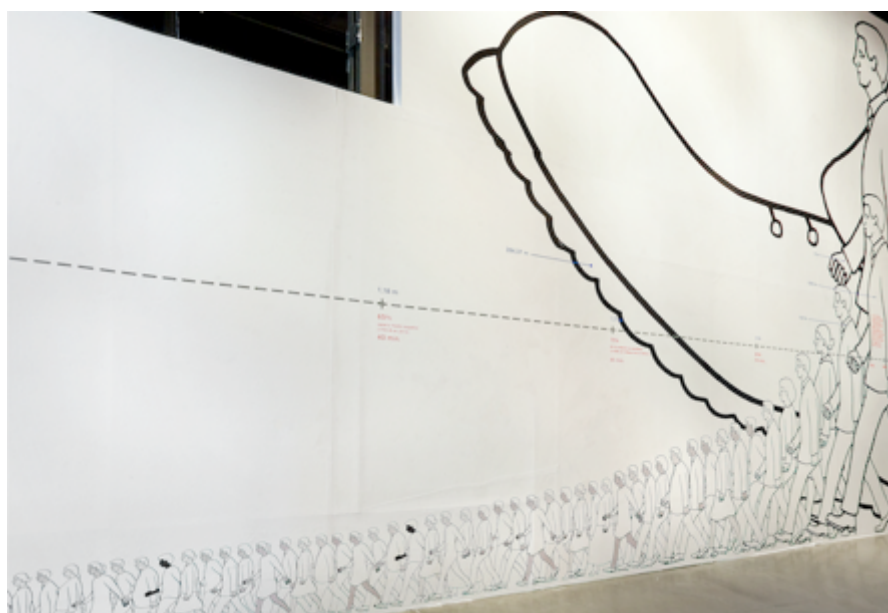
Source: Richard Dickens and the Low Pay Commission (median around £12 p/h ≈ £24k p.a.)

Inequality and Pen's parade

Under our current law, we are likely to see more and more people pressed towards the minimum-living wage wall, making this exponential curve even more exponential. But the other side of the story is what happens to people on top incomes. These are the people, ever fewer, that would be in the long tail of the curve if the chart above extended a thousand times or more into the distance

on the right. In an unequal society, the tail continues to grow longer as the rich get richer. It is necessary to stress, there is nothing wrong with getting rich through your own hard work, but there is something very wrong when you get rich by taking other people's money, or the benefits of other people's work.

What does the wage distribution look like when we focus on the top? In 1971, a Dutch economist called **Jan Pen** gave us an image. Imagine, wrote Pen, that we are watching an hour long parade of people, where each person's height matches their income. For most of the parade we see little people walking past: increasingly, people like us. They are far shorter than the average height of everyone. But when the parade is half way through, everyone is still short, because the median earner still earns much less than the average. As the parade continues, it is only in the last quarter hour that someone reaches average height. And then, they grow faster and faster. In the last minute, giants are thundering by, and the sole of the shoe on the last parader is a hundred feet high. Put into a chart – or even better, an art installation – it looks like this:



Source: *Magnetic Declination*, **Swift/Film/Law** (2014)

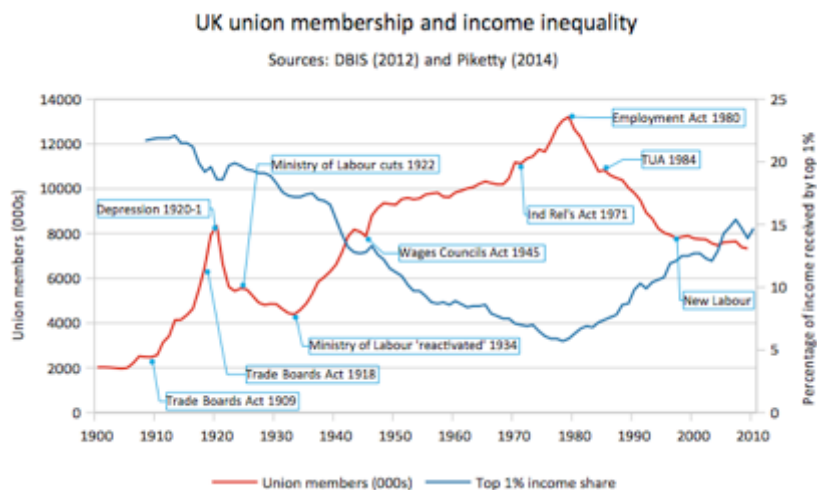
Middle incomes lead growth

The good news is that, with its policy of raising the minimum-living wage, the Conservative government has accepted 20th century economic orthodoxy. When more people have more money to spend (so the gains of growth aren't lost in agency costs on executives or financial intermediaries) there is greater effective aggregate demand to grow the economy. This is what we learned from **JM Keynes**, and the chair of the US Federal Reserve, **MS Eccles**, after the last Great Depression. With a higher minimum-living wage, inefficient employers subsidised by low pay are no longer profitable. But the loss of inefficient jobs is overwhelmed by new, better jobs as more people have more money to spend, leading to a virtuous circle of social growth. The Chancellor said the Office for Budget Responsibility **told him**, 'by 2020 there will be 60,000 fewer jobs as a result of the national living wage, but almost 1 million more jobs in total.' The exact reasoning of the OBR is undisclosed, but if it followed the logic here, the OBR and the government are right.

But a higher living wage will not lead to growth, innovation, and human development, as much as a raise for more people to get middle incomes. There is a view, that tackling inequality across the board could harm growth. This view had the support of a minority of libertarian economists like Ronald Coase since the 1960s. But the majority view, since Adam Smith, is that inequality damages growth because unequal pay hits productivity. Smith told us in 1776, the underpaid become **demotivated**. Alfred Marshall knew **this** in 1890, and today we have conclusive evidence that it is true from **behavioural economics**. It is quintessential economic theory, whereas the minority view represented by Coase (which maintains there is *no* connection between fair pay and productivity) simply has no evidence behind it at all. On the other side, we know that **unjustified**

high pay also makes the overpaid less productive: Adam Smith told us this was true of company executives who use 'other people's money' leading to 'profusion' or unjust enrichment at others' expense. Berle and Means, the great lawyer and economist partnership, who laid the foundations for the US New Deal from 1932, stressed this was true when unaccountable executives – or any financial intermediary – 'can serve their own pockets better by profiting at the expense of the company than by making profits for it.'

The more extreme inequality becomes, the more growth is damaged. So what is the principal driver of inequality? No doubt regression in tax policy has had a major impact, as Wilkinson and Pickett, Stiglitz, Piketty and many more have stressed. In the UK, particularly, the evidence suggests that among the greatest 'pre-tax' causes of inequality is the loss of collective voice at work. In the UK's 'single channel' system of labour relations, this has always meant the strength of trade union membership.



From E McGaughey, 'Do corporations increase inequality' (2015) ssrn.com

What this chart shows is that UK inequality (measured by the share of income for the top 1%) and unionisation levels were almost a mirror image. With stronger union membership there was a less divided society. And when income was distributed equitably, more people prospered: growth was not irrelevant. But the more extreme inequality becomes, the more economic growth becomes a **secondary concern** for the majority of people. Instead of **a rising tide that lifts all boats**, Titanic ships leave little life-rafts stranded their wake, and in the end the Titans, with all their extravagance, sink.

If it suppresses collective labour rights the Conservative party, for all the wrong reasons, risks really being as George Osborne put it, "for working people of Britain": for working people of Britain harder, and longer, for less. The last time collective action and peaceful persuasion on a picket could be so easily criminalised, as the Trade Union Bill proposes, was before the Conspiracy and Protection of Property Act 1875, passed by Benjamin Disraeli. Disraeli fought to get proposals like today's overturned. The Bill also targets the right to take collective action especially for teachers, nurses, train and bus drivers, breaks trade union democracy, and ties the process of balloting into more red tape, which will reduce certainty for everyone involved in collective bargaining, especially employers. 'Two nations', is what the Bill is driving, 'between whom there is no intercourse and no sympathy', and that is not right. It will damage fair pay, productivity, growth and prosperity.

As it happens, Churchill had a way forth: instead of restricting collective voice, he wanted to give staff a voice in their enterprise. The year before Churchill introduced the UK's first living wage law, he created the world's first law for employee voice directly on a company board, in Port of London Authority Act 1908. Employees could elect one member of the board of directors. In 1920, the Conservative Minister for Transport **proposed** employees could elect up to a third of the railways' board of directors. In the event, the government could not overcome divisions between entrenched management opposition and those who campaigned for nationalisation, but neglected **a direct voice** for employees (or, indeed, passengers) in the governance of enterprise. We do **have** this

channel of worker voice today (though everyone forgets it) in universities. But the UK has fallen behind the majority of rich European countries in securing legal rights to participate in workplace governance, and we're all worse off. We're all in "it" together.

Conclusion

While any sensible person can see that a higher minimum-living wage is a positive step, the missing link in today's labour policy is a method to ensure fair wages. Historically we know that when more people are earning middle incomes, when most people are not pressed toward the minimum, and when the top-earners are not taking 'other people's money' – in short with a more equal society than today – there is greater growth, human development and prosperity. The way this always happened in Britain was through a voice at work, through collective bargaining and the right to participate in workplace governance. We may have just reached the point when a political consensus has emerged around the need for a higher minimum-living wage. We also need a political consensus that a fair day's wage through a voice at work must be central to every government's labour policy.

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