THE GOVERNMENT'S WAGE STRATEGY, 1979-1983

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The present government's economic strategy is designed to reduce the rate of inflation by controlling the rate of increase in the money supply and, amongst other things, by attempting to make labour and product markets more competitive. This objective has been reflected in the government's attitude towards pay settlements. On this front the strategy has been to convince workers that there is a demand curve for their services and that this curve is not price inelastic. Hence the constant reference by government ministers to workers pricing themselves out of jobs and more recently, to the need for them to price themselves back into work. The general theme has been to stress that pay changes should be related to productivity improvements and the ability of enterprises to pay and to reduce the emphasis both on comparability, whether expressed in terms of equity, social justice, or the 'going-rate', and on the level of inflation as the basis of wage improvements.

In addition to influencing the general economic framework in which collective bargaining takes place the government has sought to influence the level of pay settlements by legislation designed to shift the balance of power in collective bargaining towards the employer. To this end steps have been taken to limit the immunity of trade unions from legal action when involved in trade disputes (the Employment Acts of 1980 and 1982) and to increase the degree of competition in labour and product markets, by for example the closed shop provisions in the 1980 and 1982 Acts and the setting aside of the Fair Wages Resolution of 1891. The government has also made attempts to talk down pay rises. On the eve of each new pay round (which generally begins in July of each year) a senior economic minister has made an exhortation for a lower pay expectation than in the previous round, and the Chancellor of the Exchequer has spoken of the need to end the expectation of an annual pay rise.

The table below shows the annualised rate of increase of average earnings and basic weekly rates of wages over the period July 1979 to March 1983.

Date	Average Earnings	Basic Weekly Rates of Wages
1 July 1979 - 30 June 1980	21.7%	19.4%
1 July 1980 - 30 June 1981	11.8%	7.8%
1 July 1981 - 30 June 1982	10.8%	5.7%
1 July 1982 - to date	9.2% (prov.)	5.2%

With respect to the private sector the government has favoured a policy of free collective bargaining in which wage changes are based on the ability of the enterprise or industry to pay or where workers finance their own pay increases by corresponding improvements in productivity. However, high interest rates, increased taxation, cuts in public expenditure and world wide recession have weakened the bargaining power of trade unions and in this sector the general level of wage settlements has on average been below the prevailing rate of inflation. There has emerged in each wage round in the period under review a very wide range of pay settlements which have been based more on the economic circumstances of the company or industry than on comparability factors. The influence of the 'going rate' basis of pay determination appears to have declined rather than disappeared, as a major influence on the level of pay settlements in the private sector in recent years. The CBI, however, has frequently expressed concern that although the concept of 'a going rate' has perhaps lost its force there is still trade union pressure for comparability factors to be important determinants of wage changes. CBI members constantly report still being faced with wage claims supported by comparability criteria. It has been argued that the decline in the force of a 'going rate' and the emergence of economic factors in collective bargaining are the result of the economic circumstances of the last four years. It is contended that specific pay offers related to the economic circumstances of the enterprise or industry has often been accepted because workers had no alternative rather than because of a genuine realisation that it was in the best economic interests of themselves and the firms for which they work to accept that the only basis of pay improvements should be productivity or the ability to pay.

The desire to remove equity and social justice considerations from pay determination is not a new message. The view that productivity should be the only valid basis for pay changes was the message of the National Board for Prices and Incomes, the main institution for the enforcement of the Wilson Government's Productivity, Prices and Incomes Policy over the period 1964 to 1970. Indeed the White Paper 'Productivity, Prices and Incomes Policy after 1969' (Cmnd., 4237) argued that the general use of 'comparability' arguments as a basis for pay increases is a recipe for inflation.

In the more lightly unionised parts of the private sector the government has also emphasised the primacy of economic rather than social factors as the major determinants of pay changes by reforming, or threatening to reform, institutional arrangements designed to protect workers in these parts of private industry from receiving too low a wage. Parliament has approved a resolution ending the fair wages clause in Government contracts. The Fair Wages Resolution was first passed in 1891 to ensure that employers receiving government contracts paid their employees at least the wages determined by collective bargaining for the industry in which the firm existed. It has been widely used by previous governments and other public bodies and this is seen as evidence that the Resolution was needed to ensure that employers faced up to their social obligations to observe reasonable standards of pay and conditions for their employees. The government is also considering dismantling the Wage Council machinery which is designed to protect employees in certain industries from receiving very low absolute levels of pay. The twenty seven Councils which fix statutory minimum wages for about 3m workers in industries without their own bargaining procedures do not blend well with the government's policy to give a greater emphasis to market forces in wage determination. The government considers that these Councils have established pay levels above the market equilibrium and have contributed to the rising levels of unemployment in recent years. It is strongly rumoured that the government intends to abolish wage councils when the ILO Convention covering such machinery can be renounced in June 1985.

The control of public expenditure is an important part of the government policy to curb inflation by regulating the rate of increase in the supply of money. Since the public sector numbers about seven million employees their pay is a significant component of total public expenditure. In the public sector of the economy therefore the government has sought to have a more direct influence on pay settlements than in the private sector. Its strategy has been to influence pay settlements by the use of cash limits, the ending of wage adjustments based on comparability with other groups within and outwith the public sector, the introduction of market forces elements into pay offers, and the avoidance of arbitration in public sector pay disputes. One of the first acts of the government was to disband the Clegg Commission, established in early 1979, to which pay claims based on comparability could be put. Market forces elements were seen in the pay offers made in 1982 to civil servants and health service workers. A reduced pay offer was made to lower grade civil servants than to the higher paid because less difficulty was experienced in attracting applicants to the former grades than to the latter. The same market forces argument was used to make a higher offer to nurses than to health service ancillary workers. The government's anti-arbitration attitude to settling public sector pay disputes was seen in the health service dispute and in its advice to nationalised industries to end the system of unilateral access to arbitration in pay disputes. The government justifies its attitude to arbitration on the grounds that since pay is an important element in public expenditure they are not prepared to let its control pass to outside bodies. Cash limits inter alia place restrictions on the amount of money the Civil Service, local authorities, the health service, and nationalised industries, etc can spend on wage increases. By the use of such limits the government hopes workers will see that they can only settle their wage claims outside these limits at the expense of jobs. Or put more simply to realise that even in the public sector there is some elasticity in the demand curve for labour services.

There are and have been exceptions to the government's pay policy in the public sector and there have been unsuccessful challenges to it. Groups of workers with strong bargaining power, eg electricity supply workers and coal miners, appear in practice to have been treated more flexibly under the policy. Linking pay with movements in national average earnings has continued for the police and armed forces whilst firemen have succeeded in maintaining their pay link with movements in average earnings in manufacturing industry. Comparability with the pay of the higher paid in the private sector still exists for 'top people' in the public sector such as doctors, judges and chairmen of nationalised industries. Under this government equity and social justice have been accorded a lower priority than previously in determining pay movements in the public sector and economic factors have in general become more paramount.

The first challenge to the policy was the steel strike of 1980 which was designed to obtain a higher pay increase by forcing the government to raise the cash limit set for the industry. The next challenge was that of the civil service unions who conducted selective strike action in 1981 against an unacceptable pay offer and the government's unilateral and arbitrary ending of a twenty five year old system of pay determination based on pay for comparable jobs in the private sector. The dispute ended with a small improvement in the original pay offer and the setting up of a Committee to advise on a new system of pay determination in the civil service. The remit of the Committee is to take account of factors other than comparability, in particular market forces and the need to reconcile the government's responsibility as an employer and its role as controller of public expenditure. In 1982 health service employees unsuccessfully challenged the government's public sector pay strategy. However the settlement of that dispute provided that discussion should begin on the establishment of wage fixing machinery for various groups in the Health Service. It will be interesting to see how the pressures to relate pay more to market forces than to the comparable pay of other groups will be reconciled.

In 1983 manual workers in the water supply industry in England and Wales successfully challenged the government's public sector pay policy but there is little evidence to suggest that their pay settlement has or will spill over to other groups. The dispute was settled by a Committee of Inquiry which, however, failed to concede the water workers demand that their previous pay link with gas and electricity workers should be re-established. The dispute led to a demand for strike action in essential services to be severely restricted and the government has indicated that it is considering doing this. It is interesting to speculate how the government might buy off the strike weapon in such industries without having to accept methods of pay determination which it has previously sought to discourage. Presumably such a 'buy out' would have to be in return for such things as compulsory arbitration on pay disputes, linking pay movements to changes in the rate of inflation, or relating pay movement to those of other groups of workers.