# One size fits all

## Sectoral collective bargaining and its implications for business and taxpayers

Iain Mansfield

# One size fits all

## Sectoral collective bargaining and its implications for business and taxpayers

Iain Mansfield

Policy Exchange

# About the Author

**Iain Mansfield** is Director of Research and Head of Education and Science at Policy Exchange. He is a former Special Adviser to three Education Secretaries. Prior to that he held a variety of senior positions in the private and public sector, including as a Senior Civil Servant at the Department for Education, as Director of UK Trade and Investment, The Philippines in the Foreign and Commonwealth Office and as Head of Public Sector at the Association of Chartered and Certified Accountants. He has served as a University Governor and as a Director of a British Chamber of Commerce.

Published by
Policy Exchange, 1 Old Queen Street, Westminster, London SW1H 9JA

www.policyexchange.org.uk

ISBN: 978-1-917201-07-0

# Contents

# Executive summary

**Labour's plans for a significant extension of workforce and trade union rights should it form the next government have started to attract scrutiny from business lobby groups.[1] However, little attention thus far has been paid to one of the most potentially far-reaching changes in the package.**

If elected, the party has promised to introduce "sectoral collective bargaining" (SCB), also known as "Fair Pay Agreements" (FPAs), initially in the social care sector. The independent, but trade union-aligned, Labour Research Department says this will "significantly reduce employers' power over pay" and transfer "some control and autonomy to the government and unions."[2]

A similar policy, when enacted in New Zealand, was calculated by the OECD to reduce GDP per capita. In the UK, if applied to adult social care – which Labour has said it will begin – the wage bill in this sector would increase by approximately £10bn per year. Almost half – £4.2bn – of those costs will fall on the taxpayer, funded via local authorities. If these additional costs were to be funded by a rise in council tax, this would result in a 10.9% increase in Council Tax, which for the average Band D Council tax payer would mean an increase of £225.

## What is sectoral collective bargaining?

All businesses across a given sector will be obliged by law to agree common levels or floors of pay, conditions and hours across their industry with the relevant trade unions. This will apply even if those unions represent only a small part of the sector's workforce. The new pay, hours and conditions will be enforced even on companies and workplaces where the unions have no members at all. If unions and employers' organisations cannot reach an agreement, the government can step in and command one.

The term, 'Fair Pay Agreements' is something of a misnomer, for the agreements are likely to cover much more than pay. Labour's 2022 Green Paper on the policy states: "The Fair Pay Agreements would cover a wide range of issues including, but not limited to, pay and pensions, working time and holidays, training, work organisation, diversity and inclusion, health and safety, and the deployment of new technologies."[3]

1 Financial Times, 'CBI pushing Labour to soften workers' rights pledges , says new president', 6th February 2024, link

2 Labour Research Department, 'Is sectoral bargaining back on the agenda?', 24th January 2024, link

3 Labour, 'Employment Rights Green Paper: A new deal for working people', 2022, link

The agreements would be "binding on all employers and workers in the sector,"[4] even if (as is likely for thousands of small businesses) they have had little or no part in the negotiations with the unions, which are likely to be dominated by the biggest and wealthiest employers. The pay levels imposed can be varied, but only upwards. They are likely to become a basis for further pay demands, as Labour indeed anticipates.

Labour has said that it will begin with the adult social care sector, but frontbenchers, including a senior parliamentary aide to Keir Starmer, have promised[5] in recent months that "all" workers and sectors will be covered.[6] Labour's 2022 policy document states that it will establish FPAs "across the economy" and cites as a model countries where "well over three quarters of their workforce" is covered by collective bargaining.[7] The deputy leader, Angela Rayner, said in autumn 2023 that social care will be only a "starting" place.[8]

## Who Pays? Economic and Fiscal Implications

As this report shows, the implications for employers, the economy, the free market in labour, the consumer - and the taxpayer - will be sizeable.

In adult social care, the unions' starting point is likely to be the demand made by the TUC in August 2023 for a "new sectoral minimum wage" of £15 per hour.[9] Around 80% of England's 1.5m adult social care workers are not in trade unions,[10] but all would still be covered by the sectoral deal.

If every English adult social care worker was paid £15ph the wage bill in this sector alone would be around £10bn per year more than now, £50bn more over a parliament[11]. In practice, of course, it would be greater than this - because some people would be paid more than £15ph, and because the FPA would cover other things, such as pensions, hours and holidays, too.

Around half of all social care costs are met by the tax or council tax payer, and are financed via local authorities. Using Department of Health figures, we find that meeting the TUC's demand would increase public spending by at least £4.23 billion per year - £21 billion more over a parliament[12]. Again, in practice, it would probably be more.

If this shortfall were met by an increase in Council tax, this would result in a 10.93% increase in Council Tax, which for the average Band D Council tax payer would have meant an increase of £225 last year[13].

Applied more widely across the economy, sectoral collective bargaining would return - on a much bigger scale - to practices which were recognised even by Labour governments of the 1960s as economically harmful.

As early as 1968, under the Wilson premiership, a Royal Commission led by Lord Donovan, whose members included the then TUC general secretary, found that sectoral collective bargaining damaged productivity and recommended it be superseded by workplace-level or company-level collective bargaining, which it largely was.[14]

Today, pay in less than 5% of private-sector jobs is set or even influenced by sectoral or national agreements, and these are not legally binding.[15]

4 Ibid

5 Anna McMorrin MP, on X (formerly Twitter), 6th November 2023, link

6 Jessica Morden MP, on X (formerly Twitter), 6th November 2023, link

7 Labour, 'Employment Rights Green Paper: A new deal for working people', 2022, link

8 TUC, 'Deputy Labour leader, Angela Rayner's speech to TUC Congress 2023', 12th September 2023, link

9 TUC, 'A strategy for the care workforce', 28th August 2023, link

10 Resolution Foundation, 'Who Cares? The experience of social care workers, and the enforcement of employment rights in the sector', January 2023, link

11 See Chapter 3.

12 See Chapter 3.

13 Calculations by Policy Exchange, see Chapter 3.

14 Lord Donovan, 'Report of the Royal Commission on Trade Unions and Employers Association (Donovan)', in Relations Industrielles/Industrial Relations, Vol 23(4), 1968, link

15 Labour Research Department (2024), 'Is sectoral bargaining back on the agenda?', 24th January 2024, link

About 27% of UK workers are covered by some form of collective bargaining, overwhelmingly workplace or company-level rather than sectoral.[16]

The clear intention is to raise pay without any commensurate rise in output. As Rayner states in her introduction to the party's green paper, the goal is "boosting people's income" and "better pay."[17] An FPA in social care will, Labour says, "raise terms and conditions across the sector"[18] and "drive up pay and living standards."[19] Yet increasing pay without increasing output or productivity will stoke inflation, negating (or more than negating) the benefit of the pay rise for the workers receiving it, making it harder to meet the 2% inflation target and potentially keeping interest rates higher for longer.

## The case for and against sectoral collective bargaining

Supporters of sectoral collective bargaining argue strongly for the policy. The decline of collective bargaining in Britain since the 1980s has been accompanied by a rise in wage inequality, which by some measures is the second highest, for men, in the Western world, after the US.[20] Pay rises could improve that situation. SCB would also trigger a wider rise in union membership and in workplace bargaining which could further raise pay.

Supporters also argue that pay rises will of themselves improve output and productivity: making workers more motivated; reducing staff turnover; cutting vacancies; discouraging strikes; putting less productive firms out of business; incentivising employers to innovate or automate; and pushing them to get more out of their workers by improving skill levels.

As this paper will show, however, evidence for both claims is weak. In the words of the OECD, "centralised bargaining systems tend to be associated with lower productivity growth if coverage of agreements is high... Lack of flexibility at the firm level, which characterises centralised bargaining systems, may come at the expense of lower productivity growth."[21] Sectoral collective bargaining "weakens the link between individual performance, wages and working conditions."[22]

The prospects for workers are also likely to be mixed, and the promise of higher wages for all may not be kept. The same OECD report states that on average across Europe "workers are paid more with firm-level bargaining, while sectoral bargaining is not associated with relatively higher pay on average... The lower dispersion in wages associated with sectoral bargaining in part reflects lower returns to education, seniority and potential experience for workers."[23]

Countries with sectoral collective bargaining tend to have a higher proportion of workers on temporary or involuntary part-time contracts,[24] suggesting that SCB can increase the phenomenon of two-tier workforces, with a privileged "insider" group enjoying full employment status and benefits and "outsiders," particularly younger people, hired on short or casual contracts to skirt the costs of giving them full status. This is

15 Labour Research Department (2024), 'Is sectoral bargaining back on the agenda?', 24th January 2024, link

16 OECD.Stat, 'Collective Bargaining Coverage', link

17 Labour, 'A New Deal for Working People', 1st January 2024, link

18 Ibid

19 Labour, 'Employment Rights Green Paper: A new deal for working people', 2022, link

20 Inequality (The IFS Deaton Review), 'The Labour Market', link

21 OECD, '3. The role of collective bargaining systems for labour market performance' in 'Negotiating the Way Up: Collective Bargaining in a Changing World of Work', 18th November 2019, link

22 Ibid

23 Ibid

24 Ibid

supposed to become harder in Labour's plans, but it will still be possible - and the incentives to do it will be greater. Most European countries with SCB also have higher unemployment than Britain, and other European countries without SCB.

Increasing nominal wages will only lead to real wage increases if underlying productivity increases. If productivity does not increase, wage growth will simply feed through into inflation, undermining or cancelling out the effects of the wage increases. Higher taxes would be needed to pay for the increased wages in social care and other sectors which depend substantially on public funding, and the possibility of higher-for-longer interest rates needed to subdue the inflation caused by wage growth, will also reduce the benefits felt from higher nominal wages.

In other words, while some workers may gain, others may lose. Workers' own wishes and interests are not always served by moves towards one-size-fits-all pay, hours and conditions, particularly in the post-pandemic era when employees themselves seek more flexibility. In any sector-wide negotiation, employers are also likely to be conservative, creating a risk for workers of lowest-common-denominator settlements, since FPAs must, by definition, be affordable for most if not all affected employers. A further problem is that Fair Pay Agreements would apply across the country, despite the fact that £15 an hour is a very different matter in Northumbria or Cornwall than it is in London or Oxford.

Even in the 1960s, fascinatingly, the Donovan commission found that Britain's then sectoral collective bargaining framework was often a "facade," unable to meet the demands of real, individual workers. Instead, these were expressed through frequent strike action and met by "chaotic" informal arrangements at the workplace level.[25]

It is true that sector-wide collective bargaining is a feature of many successful major economies in continental Europe, such as France, Germany, Spain, Italy, the Netherlands and the Nordics. It should be noted that unemployment rates in many of these countries are much higher than in Britain (3.8%), including in France (7.3%), Spain (11.7%) and Italy (7.28%)[26].

Furthermore, this report finds that the form of sectoral collective bargaining proposed for Britain appears tighter, in the sectors where it will apply, than for almost any other major economy. Britain's proposed direction of travel is also the opposite from these and many other sectoral collective bargaining nations. In the 21st century, many countries with sectoral collective bargaining have loosened their systems.[27]

Labour's professed model, New Zealand, which introduced an sectoral collective bargaining system under the Ardern government, has just scrapped it altogether, without a single Fair Pay Agreement signed. Retailers warned that it would raise prices and inflation. And astonishingly, even the government department which introduced it assessed at the time that it would "reduce GDP per capita" in the long run[28]. In two-thirds of OECD countries, including Britain, collective bargaining now takes place

25 Lord Donovan, 'Report of the Royal Commission on Trade Unions and Employers Association (Donovan)', in Relations Industrielles/Industrial Relations, Vol 23(4), 1968, link

26 OECD, Unemployment Rates (2024) Link

27 OECD, '2. Collective bargaining systems and workers' voice arrangements in OECD countries' in 'Negotiating the Way Up: Collective Bargaining in a Changing World of Work', 18th November 2019, link

28 New Zealand Government, 'Fair Pay Agreements – Regulatory Impact Statement', April 2021, link

predominantly at firm level.[29]

Sectoral collective bargaining is among the Labour policies that have changed relatively little since the Corbyn years, appearing in Labour's 2019 manifesto in similar terms as in the Starmer-era green paper.[30] But it should not be seen as somehow unsupported by the current leadership, or as a sop to the left, destined to be abandoned. The policy, or a version of it, has long been championed by some at the centre of the Starmer project, including the shadow chancellor, Rachel Reeves, and the group Labour Together, when it was run by Starmer's current head of campaigns, Morgan McSweeney.

It is a key part of Labour's attempt to re-establish its appeal to the working class by putting the reform of work at the heart of its offer. But it may put at risk the improved relationship between Labour and business – and its ability to achieve its stated ambition of increasing economic growth.

29 OECD, Foreword in 'Negotiating the Way Up: Collective Bargaining in a Changing World of Work', 18th November 2019, link

30 Labour, 'The Labour Party Manifesto 2019', November 2019, link

# 1. Labour's plans

In 2022, Labour launched its New Deal for Working People, which it said would bring about a "fundamental change in our economy," adding: "For this to happen the world of work must be fundamentally changed... with trade unions empowered to organise, bargain and win for working people."[31]

Perhaps the most far-reaching proposal is for "Fair Pay Agreements... negotiated through sectoral collective bargaining." The Green Paper said: "Worker representatives and employer representatives would be brought together to negotiate Fair Pay Agreements that establish minimum terms and conditions, which would be binding on all employers and workers in the sector.

"The Fair Pay Agreements would cover a wide range of issues including, but not limited to, pay and pensions, working time and holidays, training, work organisation, diversity and inclusion, health and safety, and the deployment of new technologies."[32]

As well as this list being non-exhaustive, what is covered by "work organisation" is unclear. The Labour-allied Institute of Employment Rights has come up with a list roaming far beyond anything directly personnel-related, including R&D and investment decisions, "measures to diminish adverse impacts on the environment" and the "distribution of profit."[33]

Labour's Green Paper said FPAs would be established "across the economy" and cited other model countries where three-quarters of the economy was covered by collective bargaining.[34]

In summer 2023, Labour's national policy forum final document promised to "start by establishing a new fair pay agreement in the adult social care sector." It said it would "consult widely on the design of the FPA" and would "assess how and to what extent FPAs could benefit other sectors and tackle labour market challenges," though adding that "other forms of collective bargaining [would be] most appropriate in many areas."[35]

Labour's conference voted to go further, mandating the party in government to "immediately implement" the Green Paper "in full" including the "widespread" rollout of sectoral collective bargaining.[36]

Labour's deputy leader, Angela Rayner, stressed to the TUC in September 2023 that social care would be only the "starting" point for sectoral collective bargaining.[37] Her speech was praised by Keir Starmer as "brilliant."[38] Rayner told her own conference the following month: "I've heard some rumours that we'll be watering down our New Deal for Working People. Be in no doubt: not with Keir and I at the helm."[39]

In November 2023, two frontbenchers, Anna McMorrin and Jess

31 Labour, 'Employment Rights Green Paper: A new deal for working people', 2022, link
32 Labour, 'Employment Rights Green Paper: A new deal for working people', 2022, link
33 The Institute for Employment Rights, 'Rolling out the Manifesto for Labour Law', September 2018, link
34 Labour, Employment Rights Green Paper: A new deal for working people', 2022, link
35 Labour List, 'Revealed: Full final policy platform set to shape next Labour manifesto' ,5th October 2023, link
36 Labour List, 'Labour conference votes for no U-turns on workers' rights reforms', 10th October 2023, link
37 TUC, 'Deputy Labour leader, Angela Rayner's speech to TUC Congress 2023', 12th September 2023, link
38 Keir Starmer, on X (formerly Twitter), 12th September 2023, link
39 Labour, 'Angela Rayner Speech at Labour Party Conference', 8th October 2023, link

Morden (Keir Starmer's Parliamentary Private Secretary), said that the policy would be applied to "all" workers.[40], [41]. The immediate context was a dispute at Asda, suggesting retail may be a priority sector for this policy. Labour Unions, the party's official union arm, describes it as a policy which will be applied "across the board... for all workers... beginning in social care."[42]

The commitment to an FPA in social care was reiterated by Wes Streeting, the Shadow Health and Social Care Secretary, in his speech to the Labour Party Conference;[43] by Bridget Phillipson, the Shadow Education Secretary, in November;[44] and by Starmer himself in January 2024.[45]

Labour has said that it will need to "consult intensively" in order to iron out the details of the policy.[46] However, the party has said that it will "follow the example of the New Zealand Labour government"[47] which brought in a Fair Pay Agreements Act (covering all sectors) in 2022.

Those plans took five years to get from election promise to law: the primary legislation alone ran to 195 pages and 60,000 words.[48] But the New Zealand law did not go as far as UK Labour's current proposals. The NZ Act only mandated compulsory bargaining on pay and working time. It did not require that holidays, training, "work organisation" or, in most respects, pensions be agreed as mandatory components of the new fair pay agreements, for instance.

Even so, the New Zealand civil servants drawing up the policy warned it would "reduce GDP per capita in the long run."[49] UK Labour said New Zealand's legislation would "improve standards for all."[50] But in fact no Fair Pay Agreements were concluded in the year before it was repealed under a new administration in December 2023.

Labour's current plans are similar in language to that used by the Corbyn party in its 2017[51] and 2019[52] manifestos - but they shouldn't now be seen as somehow an oversight, at odds with the current leadership's true views, or as a sop to the unions which will be dropped in office. Reform of work is key to Starmer Labour's attempt to rebuild its appeal to working-class voters who defected in their millions to the Tories in 2019. And people now at the heart of the Starmer team have espoused these policies, or versions of them, for several years.

In 2018, the then backbencher, now shadow chancellor, Rachel Reeves, said that Labour must "help individuals to take back more control over their work. Reciprocity and a fair balance of interest between employers and employees must be restored... Stronger rights to collective bargaining and improving the effective working of modernising trade unions are vital to achieving these goals... our aim [is] shifting the balance of power so that labour receives a fairer share of resources to improve productivity and wage share." Reeves' other ideas included compulsory worker-directors taking up to a third of places on company boards.[53]

The pamphlet where she said this was produced with the help of Labour Together, which campaigned for Starmer's election as leader two years later and whose then director, Morgan McSweeney, is now Starmer's influential head of campaigns. In its own 2022 publication, Labour's

40 Jessica Morden MP, on X (formerly Twitter), 6th November 2023, link

41 Anna McMorrin MP, on X (formerly Twitter), 6th November 2023, link

42 Labour Unions, 'More Detail for Organisers and Campaigners', 2023, link

43 Labour, 'Wes Streeting's speech at Labour Conference', 11th October 2023, link /

44 Sunderland Echo, 'BRIDGET PHILLIPSON MP: The Tories are a party our of ideas and out of time', 30th November 2023, link

45 Labour, 'Keir Starmer's New Year speech', 4th January 2024, link

46 The Guardian, 'How Labour's plan for 'fair pay' deals looks to solve UK social care crisis', 29th November 2023, link

47 Policy Mogul, 'Labour sets out plans for Fair Pay Agreements to deliver New Deal for Working People', 25th September 2021, link

48 New Zealand Parliamentary Counsel Office, 'Fair Pay Agreements Act 2022' (repealed), link

49 New Zealand Government, 'Fair Pay Agreements – Regulatory Impact Statement', April 2021, link

50 Labour, 'Employment Rights Green Paper: A new deal for working people', 2022, link

51 Labour, 'The Labour Party Manifesto 2017', May 2017, link

52 Labour, 'The Labour Party Manifesto 2019', November 2019, link

53 Rachel Reeves MP, 'The Everyday Economy', 2018, link

Covenant, Labour Together said that "corporate governance needs reform so that the labour interest is included in industrial decision-making" and floated something called "social licensing" for companies involved in the provision of essential goods and services. This would "establish a reciprocal relationship that gives firms or sectors privileges and rights to trade while placing them under obligations to offer social returns. These might include, for example, local sourcing, training or payment of the living wage."[54] Worker-directors on company boards were also supported.

Labour's plans in its 2019 election manifesto drew on the Institute of Employment Rights' (IER) Manifesto for Labour Law, which was described as a "blueprint" by the then shadow chancellor, John McDonnell.[55] This proposed a new Ministry of Labour and a Collective Bargaining Act establishing "national joint councils" to lay down sector-wide norms for each industry, enforced by a dedicated team of labour inspectors and a new Labour Court.[56]

The new joint councils would be composed equally of representatives chosen by trade unions and by employers. No representative could be removed by the government, except for misconduct. The IER suggested that as well as adult social care, the first sectors covered could be retail; hotel and catering; agriculture; taxis and private hire; cleaning; and delivery riders and drivers.[57]

These are not sectors characterised by massive profit margins – something that could be a sign that staff were being underpaid. Quite the contrary, in fact. The Competition and Markets Authority found in 2023 that, in grocery retail, "operating profits fell by 41.5% in aggregate in 2022/23, compared with the previous year, while average operating margins fell from 3.2% to 1.8%."[58] Similarly, the hospitality industry has been described as 'teetering on the brink of collapse', with rising prices, minimum wage increases and inflation putting pressure on the viability of many venues.[59]

The new structures, the IER proposed, should set mandatory requirements for more than 40 different aspects of working life, not just pay but also among other things hours; pensions; holidays; car parking; canteen facilities; "standardised job titles and descriptions;" time off for education even if unrelated to work; staffing levels; reorganisations; policies for ensuring the participation of mentally and physically disabled people; relocation of workplaces; closures and "all issues likely to affect job prospects or job security." [60]

The IER said sectoral agreements should reach far beyond personnel and staffing matters to impose mandatory requirements on "strategic and operational issues" including "investment," "research and development," "productivity," "efficiency," "skills planning," "measures to diminish adverse impacts on the environment" and the "distribution of profit."[61]

Some of these may still be on the agenda. Labour's current policy[62] includes "work organisation" in its (non-exhaustive) list of things which will be covered, a topic which could be interpreted either narrowly or expansively.

54 Labour Together, 'Labour's Covenant, A Plan for National Reconstruction', 2022, link

55 The Telegraph, 'John McDonnell backs return of flying pickets in Labour drive to take Britain back to the 70s', 27th December 2027, link

56 The Institute for Employment Rights, 'Rolling out the Manifesto for Labour Law', September 2018, link

57 Ibid

58 Competition & Markets Authority 'Competition, Choice and Rising Prices in Groceries', July 2023, Link

59 City AM, 'UK nightlife and hospitality 'teetering on brink' of collapse as government intervention urged', 17th January 2024, Link

60 The Institute for Employment Rights, 'Rolling out the Manifesto for Labour Law', September 2018, link

61 Ibid

62 Labour, 'Employment Rights Green Paper: A new deal for working people', 2022, link

# 2. The case for sectoral collective bargaining

Britain has relatively high earnings inequality, higher for men than almost all other Western countries. Since the 1980s and the decline of trade unions and collective bargaining, the UK has, as the Institute for Fiscal Studies puts it, "moved from being in the middle of the earnings inequality pack of OECD countries, with a 90:10 percentile ratio of gross earnings for men of 2.7 in 1980, to 3.5 in 2019 and second only to the US. There were similar but less dramatic rises among women."[63]

According to the Institute for Employment Rights: "Widespread collective bargaining is the most efficient means of raising wages. This is obviously good for the workers. But it is also good for the economy by increasing demand. This stimulates more investment which in turn stimulates the creation of more and better jobs. It is also good for government revenue as taxes increase and benefits to subsidise low wages diminish.

"By raising wages and improving conditions, collective bargaining reduces inequality. Economic inequality is now known to cause huge damage to individuals and to society."[64]

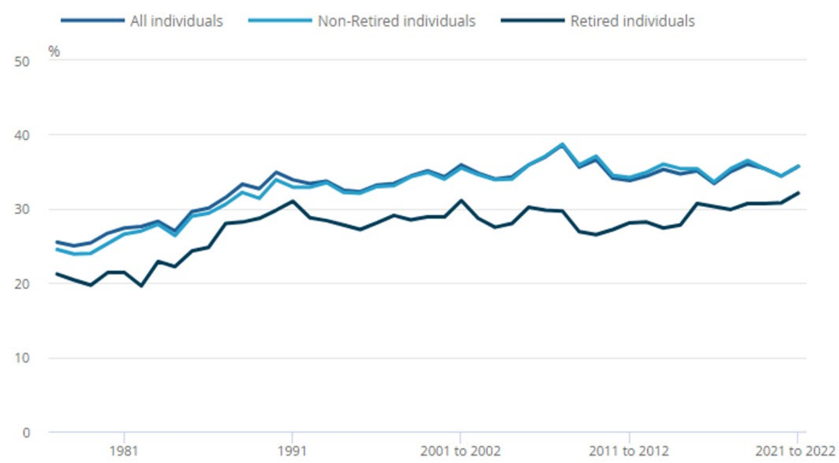
After rising sharply in the 1980s, inequality has since fluctuated around a Gini coefficient of 35%, due to the introduction and steady rise in the minimum wage and to in-work transfers, mostly through the tax credit system. Following the pandemic, inequality has edged up slightly, to 35.7 – though remains below its 2008 peak of 38.6[65]. Millions of lower-paid workers have also been taken out of tax altogether, further reducing overall inequality and improving living standards at the bottom.

63 Inequality (The IFS Deaton Review), 'The Labour Market', link

64 The Institute for Employment Rights, 'Rolling out the Manifesto for Labour Law', September 2018, link

65 ONS, 'Household income inequality, UK: financial year ending 2022', 25th January 2023, Link

**Gini coefficients for disposable income by household type, UK, 1977 to financial year ending 2022**




**Source: Office for National Statistics – Household Finances Survey**

Yet such policy interventions have made only modest dents in the "inequality boom"[66] which occurred during the Thatcher years. Increasingly, left-wing thinkers see the approach as insufficient. In the words of Andrew Pakes, research director of the Prospect union, and the labour academic Frederick Harry Pitts, Labour under Blair and Brown focused too much "on the distribution of wealth rather than the conditions of its production – taxes, deficits and benefits rather than wages, skills and productivity."[67]

The New Statesman has reported that Keir Starmer agrees with this analysis: "In private, he [Starmer] speaks of people wanting more money in their 'front pocket' – a decent wage – rather than merely more in their "back pocket" through tax credits and other benefits."[68]

Labour should now, Pakes and Pitts say, "move beyond [its] redistributionist bias in policy-making" to an approach of "fundamentally reconfiguring how and under what conditions that wealth and value are produced." A big drive to change the balance of power in the workplace, could, they say, do this while also reconnecting the party to the working-class voters it has lost.

"Work is not only an economic activity, but a foundational part of identity, dignity, sense of worth and pride," the authors say. "A work-based agenda would construct alliances across the economic and cultural divides that have characterised the vexed politics of our age of populism.... The politics of 'taking back control' stretches far beyond the question of the UK's relationship with the EU, and also includes agency in day-to-day life and work."[69]

66 IFS, op.cit.

67 Progressive Britain, 'Labour and the Past, Present and Future of Work', March 2022, link

68 New Statesman, 'What is Starmerism', 2024 Link

69 Progressive Britain, 'Labour and the Past, Present and Future of Work', March 2022, link

Supporters say the policy would also improve output, arguing that better-paid workers are more motivated (the so-called "fair wage effort hypothesis," which states that if a pay discrepancy exists which workers see as unfair, they may simply withdraw their effort.) By reducing competition on labour costs, it is argued, competition will focus on investment, efficiency, productivity, and research and development; bad firms will not be able to undercut good ones. Vacancy rates, turnover and strikes will fall.

In social care, the first sector to be covered, it does seem likely that low pay has contributed to the 152,000 vacancies[70] in the sector, a tenth of the total workforce, which must affect care quality and people's ability to access care. Almost half a million people are on waiting lists (though despite the pandemic this number has fallen substantially).[71]

In 2023 around 1% of care homes were rated "inadequate" and 16% as "requiring improvement,"[72] though again this has also fallen, despite the pandemic.[73] Indeed, a sectoral minimum wage of £15 per hour is not just a trade union demand. Even the care home industry themselves support it - that is, as long as the government pays the whole cost.[74]

Everything in this section, of course, rests on whether the arguments about productivity and wage rises are right. In the rest of this paper, we examine how much real-world experience supports those arguments.

70 Skills for Care, Workforce Intelligence, 'The size and structure of the adult social care sector and workforce in England', July 2023, link

71 ADASS, 'ADASS Spring Survey 2023', 21st June 2023, link

72 Care Quality Commission, 'State of Care 2022/23, Appendix: CQC ratings charts', 20th October 2023, link

73 Care Quality Commission [accessed via The National Archives], 'State of Care 2018/19', 14th October 2019, link

74 The Guardian, 'UK care home bosses demand next government funds 44% pay rise for staff', 19th September 2023, link

# 3. The cost of the policy: who pays?

When asked in October 2023 how much the party's proposed social care FPA would cost, or how it would be paid for, Angela Rayner did not give a clear answer. She said that Labour would deliver a long-term strategy for councils, and that it would be possible to save money by improving standards in the sector, thus diverting people from hospitals.[75]

However, the Guardian reported the following month that Labour sources had admitted that the plans for social care, which is substantially publicly-funded, would cause a direct impact on the public purse, via an increase in the cost of providing taxpayer-funded care. The sources said that the party was not expected to cost such an increase in its manifesto.[76]

The cost depends, of course, on what the new wage level agreed is. But the unions' starting point is likely to be the TUC's demand in summer 2023 for a "new sectoral minimum wage" in social care of £15 per hour.[77]

In the year to March 2023, according to Skills for Care, the workforce development and planning body, there were 1.52m social care workers in England (there were 1.635m filled posts, but some people have more than one post.)[78] Skills for Care state that the wage bill for England's social care workforce in the year to March 2023 was £26.6bn.[79]

According to the Office for National Statistics, the average care worker worked 30.8 hours a week in 2022/3, allowing for holidays.[80] If the number of care workers stays the same, the hours they work stay the same, and they are all paid £15 per hour, the annual wage bill rises to £36.5bn (1.52 million x £15 x 30.8 hours x 52 weeks.) That is £9.9bn per year more than now.

In practice, it would be more than this, because £15 is a minimum and some, perhaps many, workers would be paid more (some already are paid more and others would receive increases to maintain pay differentials.) Nor do the figures include employers' National Insurance or pension contributions. Not all care workers have pensions now, but Labour's FPA policy would also cover pensions, presumably mandating that more workers have them, as well as covering other stipulations on hours and conditions of work that would further increase the wage bill.

The ONS, incidentally, states that average pay for social care workers is £12.85 per hour, giving a higher total wage bill than Skills for Care's - £31.3 billion per year. That would mean that a £15 per hour rate cost £5.3bn a year more than now. The difference may be accounted for by the fact that the ONS figures cover the period to June 2023, while Skills for Care's end in March.

75 Sam Coates, via X (formerly Twitter), 12th September 2023, link

76The Guardian, 'How Labour's plan for 'fair play' deals looks to solve UK social care crisis', 29th November 2023, link

77 TUC, 'A strategy for the care workforce', 28th August 2023, link

78 Skills for Care, Adult Social Care Workforce data, 2023, link

79 Ibid

80 ONS, 'Earnings and hours worked, care workers: ASHE Table 26: time-series', 15th January 2024, link

## 3.1 How much of this cost would fall on taxpayers?

About 63% of care home residents are publicly funded,[81] as is a similar proportion of domiciliary care. Enormous and growing sums of public money are spent on care - at least £23.7bn last year - and there is already a funding gap of £1.5bn per year, according to Care England.[82]

According to the answer to a Parliamentary Question, raising the minimum wage in adult social care would cost taxpayers an extra £9.23 million per year for every penny above the existing statutory minimum wage.[83]

Thus the TUC's 2023/4 demand for a minimum £15ph (£4.58 above the 2023/4 statutory minimum wage) would have cost taxpayers an extra £4.23bn in 2023/4.

This is likely to be an underestimate because, as stated above, raising the minimum would probably also raise wages for those already paid over £15ph as these workers would seek to maintain pay differentials, and because of other items, such as pensions, also covered by FPAs.

Labour's plans would also force care operators to raise their prices for self-funders - meaning that some of these could no longer pay and would have to fall back on public funding, further increasing the cost to taxpayers.

Publicly funded adult social care is financed through local authorities – there is no national budget. Local authorities in turn get their funding from central government, council tax, business rates and other locally raised sources. There is also a 'social care precept', a portion of council tax which is explicitly ear-marked for – and must be spent on – social care.

The total Council Tax requirement – the amount raised by council tax - in 2023/24 was £38.7 billion, a number which includes all precepts, including the existing, relatively small, social care precept[84],[85].

If the cost of the new policy to taxpayers in 2023/4 was £4.23bn and it had been met by an increase in council tax, this would have required a 10.9% increase. That would have resulted in the average Band D Council tax increasing by £225, from £2,065 to £2,290[86].

If the extra cost was the same - £4.23bn – in the current year, 2024/5, it would require a 10.3% increase in council tax bills, adding an extra £223 to the average Band D bill[87]. It could, of course, be more than £4.23bn this year, since inflation could lead the unions to raise their demand above last year's £15 per hour, as the existing statutory minimum wage has also risen.

Instead of council tax, the Government could choose to increase the funds given to local authorities from central Government, which would require either an increase in other forms of taxation, or a rise in borrowing. The sum of £4.23bn represents an additional 0.7p on the basic rate of income tax.

Ben Zaranko, of the Institute for Fiscal Studies, makes a more conservative estimate. He suggests a rough estimate for costs to taxpayers might be £1bn-£1.5bn a year for every £1-an-hour increase in social care wages – though says the disparate nature of the workforce means it is difficult to calculate.[88]

81 National Audit Office, 'Reforming adult social care in England', 10th November 2023, link

82 LGC, 'Adult social care facing £1.5bn funding gap', 2nd August 2023, link

83 Parliamentary Question 2024, Link

84 UK Government, 'Council Tax Levels set by Local Authorities in England 2023 – 24', 2023, Link

85 The adult social care precept was £561m in 2023/24 and is already fully committed..

86 Calculations by Policy Exchange, based on figures from UK Government, 'Council Tax Levels set by Local Authorities in England 2023 – 24', 2023 Link

87 UK Government, 'Council Tax Levels set by Local Authorities in England 2024 – 25', 2024 Link

88 The Guardian, 'How Labour's plan for 'fair play' deals looks to solve UK social care crisis', 29th November 2023, link

On this basis, if the current average (£12.85ph) rises to the TUC's demand (£15ph) it would make the cost to taxpayers at least £2.2- £3.2bn per year.

In practice, again, it would be more, since £15ph would be a floor and the average would be higher than £15.

## 3.2 What of the impact on other parts of the economy?

No reliable UK estimates exist, but during the sectoral collective bargaining debates in New Zealand the government there estimated the cost of implementing sectoral collective bargaining in the country's eight lowest-paid sectors.

If the policy resulted in a 10% pay increase for all workers in those eight sectors who were currently paid less than NZ$20 (£9.70) per hour, the government found, it would cost employers NZ$593m per year (2018 prices, equivalent to NZ$750m now, or £365m.)[89] Britain's economy is about 13 times bigger than New Zealand's, so a very crude equivalent cost of the same policy, assuming the eight sectors are the same proportion of Britain's economy as they are of New Zealand's, could be £4.75bn per year.

This is almost certainly an underestimate, since the modest increases, for relatively small numbers of workers, modelled in the New Zealand estimate may well be too conservative. As noted above, Labour's proposals are more comprehensive than New Zealand's, covering more than pay and hours. UK union demands in some target sectors are also for increases much greater than 10%, are on a higher base level of pay than New Zealand's, and are for higher proportions of the workforce, incurring commensurately higher costs.

### Inflation and Interest Rates

Increasing nominal wages will only lead to real wage increases if underlying productivity increases. If productivity does not increase, wage growth will simply feed through into inflation, negating the effects of the increases (or worse) for the workers concerned, imposing a still higher penalty on workers not covered by FPAs and damaging the economy more widely. This is what occurred in the UK during the 1970s, where rising prices, combined with high pay rises as a result of collective bargaining, formed a vicious cycle that served to 'lock-in' high inflation.

It is undeniable that high wage growth is continuing to have an impact on UK inflation remaining above the 2% target. The minutes of the Bank of England's March Monetary Policy Committee meeting refer, in reference to their decision to maintain interest rates at 5.25%, to *"The underlying tightness of labour market conditions, wage growth and services price inflation,"* and that *"most indicators of pay growth had declined, although they had remained elevated."* [90]

There is clearly a risk that sectoral collective bargaining serves to stoke inflation, keeping it at a higher rate for longer and worsening the cost of living crisis. This in turn would make it more likely that the Bank of England would keep interest rates higher for longer, with the consequent impact on mortgages and on the economy more widely.

89 New Zealand Government, 'Fair Pay Agreements – Regulatory Impact Statement', April 2021, link

90 Bank of England, 'Monetary Policy Summary and minutes of the Monetary Policy Committee Meeting', March 2024, Link

# 4. New Zealand: Labour's model?

As we have seen, Labour has cited New Zealand, with its many economic and political similarities to Britain, as a template for its own policy.[91] The New Zealand Labour Party under Jacinda Ardern promised in its winning 2017 election campaign to change from a broadly British-style system of fully decentralised (i.e. workplace-based) collective bargaining to a system of sectoral collective bargaining and FPAs.

Even the New Zealand government's own officials said the plans would "reduce GDP per capita over the long run."[92] Though the legislation was passed, no FPAs ever came of it. After little more than a year, and a change of government, the Fair Pay Agreements Act has now been repealed.

## New Zealand's proposals in greater detail

The proposals were summarised by the New Zealand government as follows. They were less ambitious than UK Labour's current plans, with the mandatory element essentially confined to pay and hours. The inclusion of stipulations for holidays, training and other aspects specifically promised by UK Labour were not mandatory, though could be added by consent. The NZ proposals also appear in some other respects less favourable to the unions; for instance, in the prohibition on strikes over the negotiation of the FPA.

- The process could only be started by workers for the first initiation. There would be two possible ways into the FPA bargaining system through a representative test of either 1,000 or 10% of all affected workers, whichever is lower. Alternatively, parties could initiate bargaining through a public interest test, based on factors to be set in law. This would enable many FPAs to be negotiated at once.

- Parties would negotiate which occupation(s) or sector(s) should be included.

- The system will only set pay and terms and conditions for employees (not contractors).

- Employers and employees would be bound by the resulting FPA regardless of whether they had participated in the process or not.

91 Policy Mogul, 'Labour sets out plans for Fair Pay Agreements to deliver New Deal for Working People', 25th September 2021, link

92 New Zealand Government, 'Fair Pay Agreements – Regulatory Impact Statement', April 2021, link

- The legislation would specify 'mandatory to agree' and 'mandatory to discuss' topics for FPAs. The mandatory to agree topics are base wage rates, how wage rates will be adjusted, whether superannuation contributions are included in base wage rates, ordinary hours, overtime, penalty rates, coverage, duration of the FPA and governance arrangements. The mandatory to discuss topics are redundancy, leave entitlements, objectives of the FPA, skills and training, health and safety, and flexible working.

- Affected parties would be represented by unions and employer representatives. BusinessNZ [the equivalent of the CBI] would be the default bargaining representative for employers in the event that no employer organisation was willing to be bargaining representative.

- Negotiations will be supported by good-faith bargaining, an independent facilitator, and government-funded dispute resolution processes. No strikes or lock-outs would be permitted.

- FPAs will be put in place either through ratification by a majority of workers and employers, or by an Employment Relations Authority determination if an agreement cannot be reached.

- Before FPAs go to ratification they would be subject to a vetting process by the Employment Relations Authority to ensure the FPA complies with the requirements of the FPA legislation, minimum employment standards and is not otherwise contrary to law. This would not be required for an FPA determined by the Authority.

- Once FPAs had been vetted or determined, they would be referred to MBIE [Ministry of Business] who would bring them into force through secondary legislation.

- Once in force, FPAs would bind the relevant sector or occupation. Bargaining parties could potentially include regional variations and exemptions for employers facing severe financial hardship (with a limit of 12 months).[93]

### The reaction

The policy was controversial. Trade unions and groups representing lower-paid workers strongly supported it, saying it would rectify the imbalance of power between them and employers and redress that wages and terms did not live up to reasonable standards of fairness.

Business NZ, the employers' organisation, said that "unions with years of experience of collective bargaining will negotiate with employer groups

93 Ibid

cobbled together for the occasion, many of which have no experience of industrial relations and collective bargaining."[94] It said small businesses would be badly affected, hit by the costs of the wage rises but without any real role in the negotiations on them, which would be dominated by larger firms.

It also criticised the proposed system as "cumbersome, labour intensive, costly [and] of monumental complexity," adding: "There are a large number of points in the process at which lengthy litigation is almost inevitable."[95]

The chief executive of Retail NZ said FPAs would "drive up costs of businesses, and cost increases will be likely passed on directly to the consumers. This will simply add a further burden to the inflationary pressures facing the economy". [96]

### Even the government's own officials assessed that it would be harmful

More interestingly, even those drawing up the policy doubted it would work and specifically warned that it would harm economic growth. The New Zealand government's official impact assessment said the option preferred and taken forward by ministers "would reduce GDP per capita in the long run, the more so, the greater the extent of [the] agreements."[97]

It added: "The benefits achieved may not outweigh the potential risks... the case for the introduction of sector-based compulsory standards is only weakly positive in light of the overall likely benefits and costs." Though the proposal would "ultimately improve terms and conditions for workers within coverage," it "could result in lower employment/reduced hours for existing workers if bargained increases/changes mean employers cannot retain competitiveness."[98]

It warned that the policy "could reduce... productivity growth"[99] and said that "the marginal improvement in terms and conditions for existing workers [could be] achieved at a significant cost to employer flexibility. Given that the main benefits to workers are effectively a transfer from employers, we think there is a significant risk of setting up a system which has net overall costs if the other benefits to workers are less than the cost to employers."[100]

The Fair Pay Act was eventually passed in 2022, but no FPAs were ever agreed under it. After Labour lost power at the October 2023 election, the act was repealed in December.

So much for New Zealand. What of countries where sectoral collective bargaining has been put into effect?

94 BusinessNZ, 'Submission to the Employment and Workforce Select Committee on the Fair Pay Agreements Bill', 19th May 2022, link

95 Ibid

96 Retail NZ, 'So-called "Fair Pay agreements" will drive unfair price rises', 29th March 2022, link

97 Fair Pay Agreements Regulatory Impact Assessment, New Zealand Government, 2022 Link

98 Ibid

99 Ibid

100 Ibid

# 5. Sectoral collective bargaining in action

## 5.1 Four main groups of countries

In 2019, the Organisation for Economic Cooperation and Development (OECD) published a comprehensive statistical study and literature review[101] of the effects of collective bargaining in its 38 members, largely advanced economies but also middle-income countries such as Mexico, Turkey and Colombia. The OECD placed countries into four main categories:[102]

- **Fully decentralised**, where collective bargaining is essentially confined to the firm or workplace level with little or no sectoral bargaining, no co-ordination and no (or very limited) influence by the government. Britain is currently in this category. In less than 5% of UK private-sector jobs is pay set or even influenced by sectoral or national agreements, and even these are not legally binding.[103]

About 30% of UK workers are covered by some form of collective bargaining, overwhelmingly workplace or company-level rather than sectoral.[104] Other countries in this group include Canada, New Zealand, the Czech Republic, South Korea, Poland, the Baltics, Mexico, Turkey, Chile and the United States.

- **Largely decentralised,** where firm-level bargaining is dominant, but sectoral bargaining (or a functional equivalent) or wage co-ordination play some role. Australia, Japan and Ireland are in this group.

- **Organised decentralised and co-ordinated**, where sectoral agreements play an important role, but also leave significant room for lower-level agreements to set the standards – for instance, by allowing opt-outs or allowing the bargaining parties to decide which level of agreement (workplace/company or sector-wide) takes precedence. Austria, Denmark, Germany, the Netherlands, Norway and Sweden are in this group (often after relaxing their SCB systems since the 1980s).

- **Predominantly centralised and weakly co-ordinated collective bargaining systems**, where sectoral agreements play a strong role in pay. Derogations from higher-level agreements are possible but not often used. Italy, Spain, France and Switzerland are in this group.

There is also a small fifth group, centralised collective bargaining systems with strongly co-ordinated wage setting between sectors. The main members of this group are Belgium and Finland.

Labour's plan, at least in the sectors it covered, would appear to move

103 OECD, 'Negotiating Our Way Up, Collective Bargaining in a Changing World of Work', 18th November 2019, link

102 Ibid

103 Labour Research Department, 'Is sectoral bargaining back on the agenda?', 24th January 2024, link

104 OECD.Stat, 'Collective bargaining coverage', 2024, link

Britain to the higher end of this spectrum: more prescriptive than Germany, the Netherlands or the Nordic countries (because opt-outs would not be allowed and companies and workforces would not be able to agree that lower-level agreements took precedence).

It would also arguably be tighter than France or Spain, which have both relaxed their sectoral collective bargaining systems in recent years. France now allows workplace-level bargaining to take precedence for non-pay elements such as hours and terms of employment, which under Labour's plans would be covered by sector-level bargaining. Spain also now allows priority to be given to workplace-level agreements, and opt-outs, though these provisions have been little used.[105]

### Wages "not higher" under sectoral collective bargaining

Using its classification, the OECD took average wage rates across countries achieved by different levels of bargaining and compared them with average wages paid to those who had no form of bargaining. It found that "workers are paid more with firm-level bargaining, while sectoral bargaining is not associated with relatively higher pay on average... the results [of our research] are in line with a large body of the literature which finds that sectoral bargaining is not linked with higher wages on average."[106]

Averages still, of course, mean that some workers will be paid more. And it is also true that the imposition of an SCB system makes it more likely that unionisation will spread and that firm-level bargaining will be layered on top, securing additional pay for some workers.

In any sector-wide negotiation, as was pointed out in the debate in New Zealand, employers are likely to be conservative, creating a risk for workers of lowest-common-denominator settlements, since FPAs must, by definition, be affordable for most if not all affected employers.

The findings for the UK alone are more mixed. The OECD data does, in fact, show that sectoral bargaining produces higher average wages here than workplace bargaining. But given the small number of employees, almost all public sector, with sectoral bargaining in Britain the finding is of lesser value than the Europe-wide finding covering countries where the practice is widespread.

The figures also show that the presence of workplace or company-based collective bargaining in Britain increases wages (though not by much) compared with workforces who have no form of collective bargaining at all. The imposition of sectoral bargaining in Britain may therefore indirectly drive wage rises by encouraging wider unionisation and the growth of workplace collective bargaining, both in the sectors covered by SCB and outside them.

However, while some workers may gain, others may lose. The OECD finds that there are "lower returns to education, seniority and potential experience for workers covered by collective agreements."[107] Those who are relatively better-paid now, because they are older or better qualified, may find themselves being at least relatively less well-paid under the levelling effect of SCB. The OECD adds: "A lower payoff from education,

105 OECD, '2. Collective bargaining systems and workers' voice arrangements in OECD countries' in 'Negotiating the Way Up: Collective Bargaining in a Changing World of Work', 18th November 2019, link

106 OECD, '3. The role of collective bargaining systems for labour market performance' in 'Negotiating the Way Up: Collective Bargaining in a Changing World of Work', 18th November 2019, link

107 Ibid

while reducing inequality, may also negatively affect productivity growth if this leads to lower investment in education."[108]

## Less secure work is more prevalent

The research also finds that countries with sectoral collective bargaining tend to have a higher proportion of workers on temporary and involuntary part-time contracts.[109] Countries such as France with high employment rights for permanent staff have seen a phenomenon of two-tier workforces, with a privileged "insider" group enjoying full employment status and benefits and "outsiders," particularly younger people, hired on short, part-time or casual contracts to avoid the costs of giving them full status.

As the research puts it: "While decreasing wage inequality among full-time workers, collective bargaining may increase earnings inequality between full-time employees and other workers, in the spirit of an insider-outsider model," though noting the "limited empirical backing for such a model" and that disadvantaged groups did not appear to suffer lower wages under SCB.[110]

Unemployment rates in most European countries with SCB[111] are also higher, often much higher, than in Britain (3.8%), including in including in France (7.3%), Spain (11.7%) and Italy (7.2%), though Switzerland's, at 4.1%, was more comparable to that in the UK[112]. The OECD research does not find that unemployment is lower overall in non-SCB countries, but employment rates in many of the non-SCB countries its data includes, such as Mexico, Chile and Turkey, are not comparable to those of more advanced economies such as the UK.

## Productivity may suffer

In the end, of course, workers' prosperity and security of employment depend on the overall health and growth of the economy. One of the British economy's key health and growth problems is its poor productivity. Supporters of sectoral collective bargaining argue that forcing up wages can improve productivity by putting less productive firms out of business; or by incentivising employers to innovate or automate; or by pushing them to get more out of their workers by improving their skill levels (though some of these changes would not be in the interests of the workers who lost their jobs.)

It is notable that this increase in productivity as a result of artificially inflated wages was not observed in Britain during the 1970s. Research makes clear that "centralisation [of bargaining] is linked with lower productivity growth, both for total factor and labour productivity.... In the longer term, such delinking of wages from productivity could have potentially important implications for productivity growth. It could reduce incentives for workers to innovate, work hard and move to a better-paid job... More centralised bargaining at sectoral or national level may come at the cost of reduced flexibility to adjust pay and working conditions in line with business conditions for the individual sector or firm, with potentially adverse implications for productivity."[113]

108 Ibid,

109 Ibid

110 Ibid

111 Statista, 'Unemployment rate in the European Union as of October 2023, by country', 9th January 2024, link

112 OECD, Unemployment Rates (2024) Link

113 OECD, '3. The role of collective bargaining systems for labour market performance' in 'Negotiating the Way Up: Collective Bargaining in a Changing World of Work', 18th November 2019, link

The new policy may also flatten regional differences in pay, both between and within employers. £15 means something very different in Northumbria or Cornwall than it does in London. This may mean that it becomes harder for companies to recruit and operate in high-living cost areas, such as London, if pay in other parts of the country becomes relatively more attractive.

### Other promised gains may not materialise

Arguments that sectoral collective bargaining would help UK business by improving worker morale and lowering industrial unrest are not supported by the experience in other countries. Clearly, industrial action can be seen as a symptom of, among other things, worker morale. Strike action over the most recent ten-year period measured (2010-2019) in Britain was lower, often vastly lower, than in the sectoral collective bargaining countries of France, Italy, Spain, Belgium, the Netherlands, Norway, Finland and Denmark. (Strike action in France was seven times higher than in Britain.) Strike action was about the same in Britain as in the SCB country of Germany. Of sectoral collective bargaining countries for which there is data, only Austria, Switzerland, Portugal and Sweden had significantly fewer strikes per 1000 employees than Britain.[114]

### Bargaining works when it is at the right level

It should be stressed that the OECD report is very far from hostile to collective bargaining arrangements as such, saying they reduce the power imbalance between employers and workers, drive up pay and conditions and "remain unique tools enabling governments and social partners to find tailored and fair solutions."[115]

But the report suggests that collective bargaining at the workplace or company rather than sectoral level is usually more effective in achieving all of these things; and that any system must be flexible enough to allow such bargaining whenever it is more appropriate than sector-wide arrangements.

As it said: "The best outcomes in terms of employment, productivity and wages seem to be reached when sectoral agreements set broad framework conditions but leave detailed provisions to firm-level negotiations... State regulations need to leave space for collective bargaining and local representative structures and promote (or at least not discourage) self-organisation by workers and employers. The latter is a precondition for an inclusive and flexible labour market....

"National systems need to be adapted to the new challenges and the right balance has to be found between inclusiveness and flexibility for stakeholders to adapt rules and regulations to their specific conditions....

"Experience shows that even apparently well-crafted reforms of collective bargaining may be partially or totally ineffective if they fail to change practices on the ground and the overall bargaining culture. Or, they may sometimes lead to major and often unintended shifts in bargaining behaviour (e.g. a total blockage of collective bargaining), even if the initial intention was only to change specific elements of the system."[116]

114 Etui, 'Strike map of Europe', link

115 OECD, '2. Collective bargaining systems and workers' voice arrangements in OECD countries' in 'Negotiating the Way Up: Collective Bargaining in a Changing World of Work', 18th November 2019, link

116 Ibid

## 5.2 The UK experience

Britain may offer a lesson in sectoral collective bargaining failing to "change practices on the ground and the overall bargaining culture." It had a system of sectoral collective bargaining, also known as Wages Councils, for about 40 years after World War II, a development of the "trade boards" and "national joint industrial councils" introduced from 1909 onwards, originally in a few trades and then during the Depression in a larger number. By the mid-1950s, 3.5m workers, about 20% of the labour force, were covered (and the majority of other workers were covered by lower-level collective bargaining.)[117]

By the 1960s, the country's growing economic difficulties and industrial unrest led the Wilson government to set up a Royal Commission into industrial relations under Lord Donovan. Members included George Woodcock, the then general secretary of the TUC. Their report, in 1968, supported collective bargaining but said it should take place at the workplace or company, rather than sectoral or national level.

In an era of full employment, very different from the 1920s and 30s when the sectoral bargaining arrangements grew, the Donovan Commission said the formal system of sectoral collective bargaining harmed flexibility and productivity and did not meet workers' needs, calling it an "increasingly empty...facade" at odds with, and often ignored by, "the emergence of an informal system of plant bargaining" and a "rising incidence of informal and unofficial strikes over local issues not covered by industry-wide agreements."

It proposed to deal with this by moving to a formal system of workplace bargaining instead, which duly occurred, often with the support of unions themselves, which thought they could get better deals out of it. Most of the Wages Councils were abolished by the Thatcher government in the 1980s. The reach of workplace-level collective bargaining also declined with economic change, the rise of unemployment, employment fragmentation, union decline and legislation restricting the activities of trade unions. A national minimum wage was established for all workers in 1998. A handful of sector-wide deals remain in small parts of the private sector, including engineering, construction and papermaking, but they are not legally binding.

**117** The Institute for Employment Rights, 'Rolling out the Manifesto for Labour Law', September 2018, link

# Conclusion

The international evidence suggests that the case for introducing sectoral collective bargaining is weak. The potential for negative impacts on the economy – on productivity growth, on GDP per capita, on inflation and on unemployment – is significant; and, furthermore, it is likely to be less effective at increasing wages than firm-level collective bargaining would be.

Stagnating productivity and low economic growth has been a feature of the UK economy since 2008. Politicians from across the political spectrum have set out that increasing economic growth is a top priority. If this is to be more than words it will require a ruthless and single-minded focus on growth and productivity – and the will to resist false sirens such as sectoral collective bargaining that would damage our economic competitiveness.

Evidence from both British history and international experience suggests that simply raising wages, and hoping that productivity will follow, is magical thinking. Increases in productivity – the only long-term determinant of higher wages – will need to come from more substantive and fundamental interventions in the economy, including a long-term increase in investment and significant supply side reforms.

£10.00
ISBN: 978-1-917201-07-0

Policy Exchange
1 Old Queen Street
Westminster
London SW1H 9JA

www.policyexchange.org.uk