

## Wage Growth: What's happened to wages in Britain?

In 2016 the UK government introduced the National Living Wage. It wanted to make sure that “*low wage workers can take a greater share of the gains from growth*”.<sup>1</sup> To find out what share of the gains from growth workers have been receiving, we need to look at the ‘labour share of income’ - wages expressed as a share or percentage of the nation’s income. Between 1955 and 1979 the average share of national income that went to wages was 68.9%. The highest share during that period was 71.9% in 1956 and the lowest was 63.1% in 1979. Since 1980 however the share of national income that has gone to wages has fallen considerably. The average share since 1980 has been 58.3%. The highest share was 64% in 1980 and the lowest was 53.9% in 1996.<sup>2</sup>

Annual growth rates of average weekly earnings %, January 2001 to October 2023



The effects of the falling wage share can be seen by looking at average real wages. Between 1951 and 1973 average real wages grew at their fastest ever rate of 2.72%. Between 1973 and 2001 average real wages grew more slowly at a rate of 1.58%.<sup>3</sup> Between 2001 and 2023 real earnings grew on average by only 0.7% per year. The chart<sup>4</sup> shows that the highest growth was 5.8% in April 2021. The lowest was a fall of -3.5% in April 2022.

If we calculate from the financial crisis in 2008 we find that average growth has been even lower at 0.1%. This means that average wages in the UK have risen by only 1.5% over the last 15 years. By comparison real wage growth among the twenty countries of the Eurozone has been 0.42% per year or 6.3% over 15 years.<sup>5</sup>

The most recent figures for the UK show that in October 2023 average real wages grew by 1.5% - this is the fifth consecutive month of positive growth. Since the beginning of the pandemic around April 2020 there have been 23 months of negative growth. Before that however there were 81 months of negative growth in the 10 years or so following the financial crisis in 2008.<sup>4</sup> As a result average weekly earnings are about £205 per week or £10,700 per year lower than they would have been had previous growth rates continued.<sup>6</sup>

Among the most important factors contributing to the falling wage share and stagnant real wages has been legislation aimed at restricting the activities of trade unions. This has gradually eroded the power workers had to improve their wages and conditions.<sup>7</sup>

For example there has been a huge decline in the level of trade union membership. Trade union membership levels reached their peak in 1979 at 13.2 million and declined through the 1980s and early 1990s. In 1996 membership was 7.94 million and this had dropped to 6.22 million by 2022. As a proportion of employees union membership has fallen from 52% in 1980 to 32.4% in 1995 and to 22.3% in 2022.<sup>8</sup> The evidence suggests that “*declining levels of worker power .....drives down wages.*” Wages could be at least 15% per cent lower as a result of falling union membership – this would mean the average worker today is losing out on almost £100 a week.<sup>9</sup>

There has also been a fall in the number of employees whose wages are covered by collective bargaining. It is estimated that in 1970, 80% of jobs were set by collective bargaining. This had fallen to 40 per cent by 1998, which is much the same as it is today. Most of these are in the public sector where around 90% of jobs have pay set by collective agreements, compared to around 21% in the private sector.<sup>10</sup> In a recent directive the EU says that countries with a high level of collective bargaining tend to have a smaller number of low-wage workers and higher minimum wages. They recommend that member states, where less than 80% of jobs are covered by collective bargaining, should take action to increase it. *The countries with high collective bargaining coverage tend to display a lower share of low-wage workers, higher minimum wages .....lower wage inequality and higher wages than the others.*”<sup>11</sup>

In addition wages councils have been abolished. From 1945 wages councils had provided legally binding minimum wage rates for a number of low-paying industries such as retail, hospitality, hairdressing, social and health care, childcare and cleaning. In 1960 25% of employees were covered by wage councils. From 1986 wages councils were restricted to setting a minimum hourly pay and were no longer able to get involved in holidays and working conditions.<sup>12</sup> In 1993 they were abolished altogether. In 2013 the Agricultural Wages Board that had protected pay and conditions in low-skill farming jobs since 1948 was also abolished, although Boards still exist in Scotland, Wales and Northern Ireland. “*Wage Councils could help deliver a fairer deal for the low paid, but they need a proper system of enforcement which would enable them to take meaningful action against employers who violate the conditions they set down.*”<sup>13</sup>

## References

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## Notes

The National Living Wage was introduced in 2016 and brought in a higher minimum wage for employees aged 25 and above. It was extended in 2021 to workers aged 23 and above. See our article, Low Pay in Britain: Where are we now?

Between 1979 and 1997 when the Conservatives left office, there were 11 major pieces of trade union legislation, 7 of them under Margaret Thatcher. A key measure was contained in the Employment Act of 1982 which overturned the financial protection given to trade unions in the 1906 Trade Disputes Act – this had made it illegal to sue the unions for the costs of strikes. Employers could now obtain injunctions through the courts and also sue unions for damages. The 1984 Trade Union Act made secret ballots mandatory before strike action. The 1986 Public Order Act introduced new criminal offences in relation to picketing and the 1990 Employment Act made all secondary action unlawful.

The most recent legislation is a Code of Practice relating to minimum service levels during strike action, issued on 6 December 2023. It applies to areas such as health, fire and rescue, education and transport. *“Where a trade union gives an employer a notice of strike action the employer may issue a work notice identifying persons who are required to work and the work they are required to carry out during the strike to secure minimum levels of service”.*

<https://www.gov.uk/government/publications/reasonable-steps-to-be-taken-by-a-trade-union-code-of-practice/code-of-practice-issued-by-the-secretary-of-state-under-section-203-of-the-trade-union-and-labour-relations-consolidation-act-1992-on-reasonable-steps-to-be-taken-by-a-trade-union>