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Briefing:

Trade Unions, Collective Bargaining, and Inclusive Growth

This briefing looks at the relationship between collective bargaining and inclusive growth. It considers the relationship historically (in the UK) and geographically (across OECD countries) and explores potential drivers of this relationship.

It recommends that the Scottish Government should prioritise actions to increase trade union membership and collective bargaining coverage. In the short term it is therefore important to have a Government indicator relating to collective bargaining coverage within the National Performance Framework.

Inclusive Growth

The Scottish Government have put inequality and inclusive growth at the heart of their economic strategy, defining inclusive growth as “growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the benefits of increased prosperity fairly”.[1]

Following on from the Working Together Review, the Scottish Government have also prioritised fair work, establishing the independent Fair Work Convention.[2]

The creation of the Convention, the publication of the Fair Work Framework, and having Fair Work recognised as being central to the achievement of Inclusive Growth, are manifestations of Scotland’s commitment to the fair work agenda.

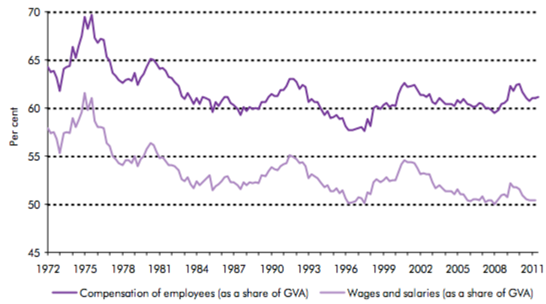
While the Convention’s Fair Work Framework emphasises the importance of effective voice in ensuring fair work and acknowledges that Trade Unions are ‘the most effective vehicle’ for providing this,[3] there is more to be done to mainstream this understanding across Government. Fair work is a fundamentally important mechanism for delivering inclusive growth. There is a body of historical and international evidence suggesting that trade unions are central to the inclusive growth agendas. Below we look at some of this evidence.

Historical Inequality Trends

It is well established that trade union membership and collective bargaining coverage has fallen in recent decades. In the UK in the late 1970s, around 58% of workers were trade union members and 82% of workers had their wages set by collective bargaining.[4] By 2016, only 23.5% of workers were members of a union and just 26.3% of workers were covered by collective bargaining.[5] In Scotland 29.3% of workers are trade union members and only 33.4% are covered by collective bargaining arrangements.

This decline has coincided with a large fall in the share of income going to wages. The table below shows the labour share of national income in the UK since the early 1970s.

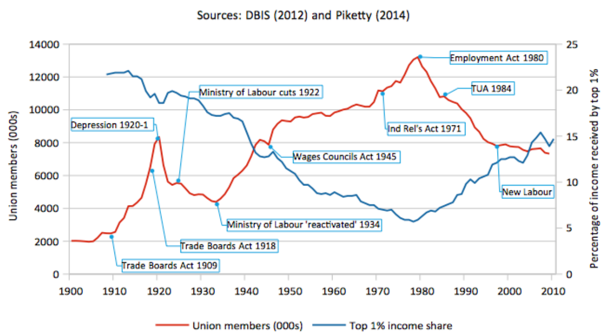
Labour Share of National Income[6]



Source: ONS.

The fall in Trade Union membership and collective bargaining has also coincided with large increases in income inequality across a range of measures including the gini coefficient, the palma ratio and even the share of income going to the top 1%. The table below shows Union membership alongside the top 1% income share in the UK over the last century.[7]

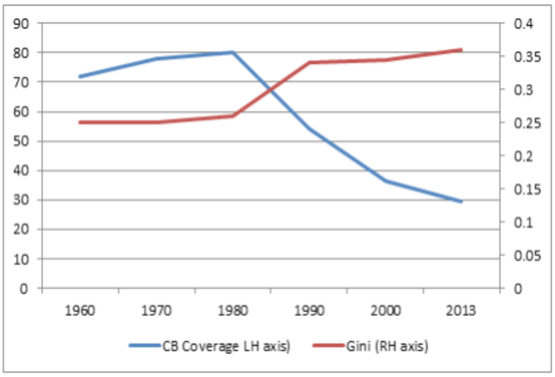
Trade Union Membership and Income Inequality in the UK



This picture of increasing inequality and decreasing Trade Union membership is also mirrored when we look at collective bargaining.

The table below shows the relationship between collective bargaining coverage and income inequality (as measured by the Gini coefficient) in the UK between 1960 and 2013.[8]

Collective Bargaining Coverage and Income Inequality



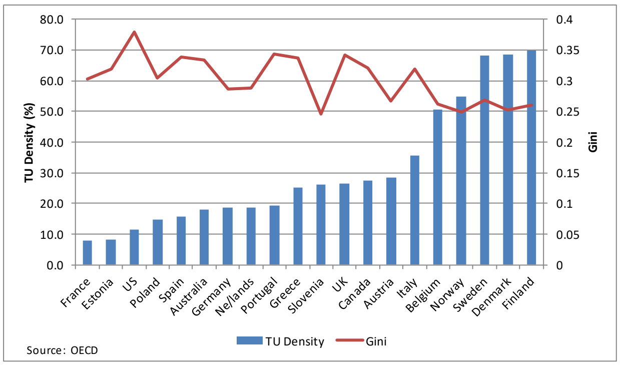
The tables above confirm for a UK context what organisations including the IMF and the OECD have been saying in recent years relating to a number of advanced economies. That is that inequality is a function of institutional changes, particularly labour market institutions.[9]

Geographical Comparisons

While a number of developed countries have seen falls in Trade Union membership and increases in income inequality, the extent to which this is the case varies significantly.

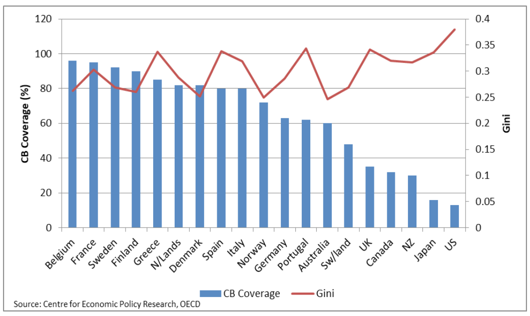
The chart below shows the varying levels of trade union density and income inequality (as measured by the Gini coefficient) in various OECD countries in 2011.

Trade Union Density & Income Inequality in OECD Countries (2011)



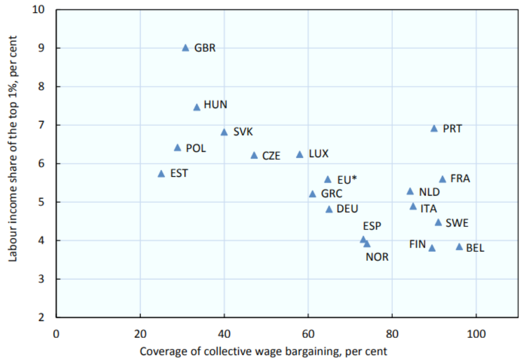
A similar picture is seen when we look at the relationship between collective bargaining and inequality across countries.

Collective Bargaining & Income Inequality in OECD Countries (2011)



This link between collective bargaining and inequality also holds when we look at the share of income going to the top 1%.[10]

Collective Bargaining and Top 1% Share of Income in EU Countries (2010)



Note: The figure shows a negative, statistically significant at the 1% level, cross-country correlation between the coverage of collective wage bargaining and the labour income share of the top 1%. EU* is the unweighted average across the European countries in the sample.

Source: Author calculations using Eurostat Structure of Earnings Survey; ICTWSS.

Trade Unions and Economic Growth

While the Scottish Government's economic strategy accepts that inequality is damaging for growth and therefore institutions which address inequality such as trade unions are good for growth, it is also worth looking at whether there is specific evidence of trade unions impact on growth and productivity.

Onaran et al contend that the decline in union density since 1975 has reduced UK GDP by 1.6% and that restoring union density to the levels seen in the early 1980s would add up to £27.2bn to GDP.[11] The authors contend that this is because UK growth is driven by growing wages more than profits. Related to this they argue that union density is therefore of far greater impact than 'skill-biased' technological change or globalisation in explaining the decline in the wage share.

Trade Unions and Productivity

Since the financial crisis there has been an increased and welcome interest in productivity. The most recent statistics for Scotland show a concerning drop of 3.2% in the year to quarter 3 of 2017.[12]

While we would argue that aggregate demand is the central driver of productivity, there is also evidence to suggest trade unions boost productivity.[13] Research from NIESR into the response of employers to the recession found that 'there is no evidence that workplaces have benefitted from Britain's "flexible" labour market… on the contrary, workplaces with increasing unionisation appeared to benefit in terms of improved workplace performance'.[14]

Longitudinal research from Norway also finds that 'increases in union density lead to substantial increases in firm productivity and wages'.[15]

At a Scottish level this relationship is acknowledged by the Fair Work Convention and the Scottish Government's Labour Market Strategy which states:

“Our research, and the work of the Fair Work Convention, tells us that secure, well-paid jobs which give fulfilment and offer opportunities for progression in organisations where employees have effective voice are the key to increasing workplace innovation. We believe that this can help to deliver a measurable shift in productivity and boost business success.” [16]

However, the truth is that too many businesses in Scotland and the UK are predicated on a low-road model of economic development – whereby costs and risk are offloaded to workers and value is extracted to shareholders and executives rather than invested in workers skills and organisational innovation.

This is typified by an increase in zero hour and atypical contacts – 71,000 people in Scotland are currently working on zero hour contracts [17] and more than 200,000 workers in Scotland are under-employed.[18] We have also significant increases in low-paid self-employment (including in the gig economy) and in part time work.[19]

For many – particularly women – this means low paid, insecure, part-time work, arrangements they are forced to accept to accommodate their disproportionate responsibilities for unpaid caring, where it suits employers to offer work on this basis.

With output per worker in Scotland having increased at an average of 0.5% a year since 2007, it defies logic to believe that the growth in precarious work practices, insecure employment and comparatively low levels in international terms of investment in training is unconnected with a decline in productivity.

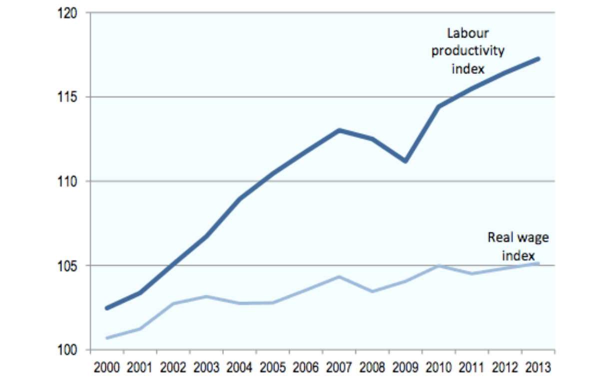
Trade unions can help counter these low-road strategies as well as acting as a counter force to the top 1%, reducing over-reliance on financial services and short-termism that inhibits investment. It is worth noting that in the UK productivity increased at an annual rate of 2.6% between 1945-1980 but only 1.5% between 1980 and 2015.

We only need to look around Europe to see that a number of countries, most obviously the Nordics, have higher levels of trade union membership and collective bargaining, tolerate far lower levels of inequality and have far more productive economies. In addition the Nordic model of social partnership enables engagement in the political process which can aid good decision making, in turn boosting productivity.

Productivity and Wage Decoupling

As well as boosting productivity, there is a need for productivity gains to feed through to workers if prosperity is to be shared. This has not been the case in a number of developed countries in recent years. The chart below shows the evolution of average wages and labour productivity in selected G20 economies between 1993 and 2013.[20]

Labour productivity and average wages in selected G20 economies (1999-2013)

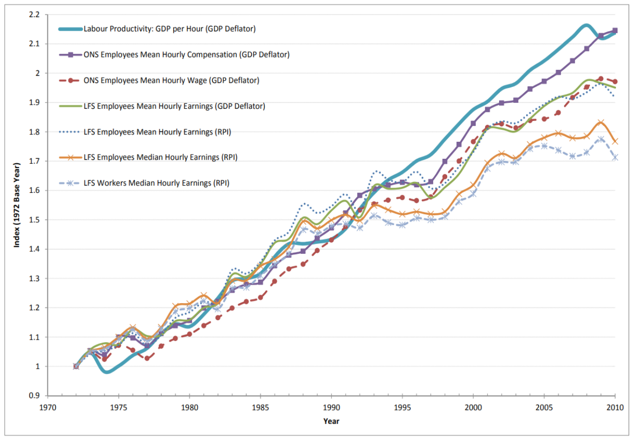


Notes: Data refer to Australia, Canada, France, Germany, Italy, Japan, Rep. of Korea, the United Kingdom and the United States. Real wage growth is calculated as a weighted average of year-on-year growth in real average monthly wages in the advanced G20 economies (for a description of the methodology, see ILO Global Wage Report 2014-15, Appendix I). Index is based on 1999 because of data availability.

Sources: ILO Global Wage Database; ILO Trends Econometric Models, Apr. 2014.

Evidence from the UK shows a gross decoupling of 43% between 1970 and 2010, although this disappears when looking at net decoupling, suggesting that wage inequality is one of the key drivers.[21]

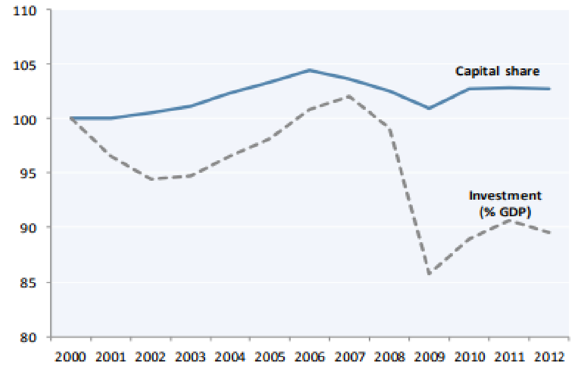
Hourly decoupling in the UK (1970-2010)



Sources: GHS/LFS Survey, OECD, HM Treasury, and ONS. “Workers” includes both Employees and Self-Employed.

It could be argued that should the gains from increased labour productivity be reinvested, then decoupling could still lead to economic benefits in terms of productivity and job creation. However, the evidence suggests that this investment is not taking place. The table below shows the capital share and investment as a share of GDP in various G20 countries.[22]

Capital Share and Investment as a Percentage of GDP in G20 Economies



Note: The sample analyzed comprises 17 G20 countries, namely Australia, Brazil, Canada, China, European Union, France, Germany, India, Italy, Japan, Mexico, Republic of Korea, Russian Federation, Saudi Arabia, South Africa, United Kingdom and United States. Data for Brazil refer to 2000-2009; China: 2000-2011; European Union: 2002-2012; India: 2000-2011; Mexico: 2003-2012; Republic of Korea: 2000-2011; Russia Federation: 2002-2012; and Saudi Arabia: 2002-2009. Income groups are based on gross national income (GNI) per capita, according to the World Bank country classification. High-income countries are those countries with a GNI per capita of USD 12,476 or more. Averages are weighted based upon 2013 GDP at purchasing power parity.

Source: ILO calculations based on the OECD and UN National Accounts databases and IMF (2014).

Trade Unions and Instability

In STUC's view, which would seem to be supported by the evidence, economic inequality ultimately reflects asymmetries of economic power.

Declining trade union membership has led to increasingly insecure labour markets and lower wages. This leads to a lower labour share and higher profit share with higher household debt filling the gap.

In turn we see runaway wages at top and less real investment as well as a larger financial sector (to meet the demand for credit) leading to destabilising speculative investment and greater propensity for bubbles.

So while historically some associate trade unions with instability, it may be that the opposite is true. A lack of workers power leads to reckless behaviour at the top and an unstable debt fuelled economy.

Conclusion

There is a clear body of evidence showing a strong relationship between trade union density, collective bargaining coverage and income inequality across a range of measures. There is also a body of evidence showing links between trade union density and collective bargaining and productivity and growth.

It is worth revisiting the Working Together Review from 2014 which stated:

"The fundamental role that unions play in increasing employment opportunities, reducing income inequality, improving opportunities to develop skills and reducing income differentials, and therefore increasing and improved labour market participation and use of human capital, is key to driving sustainable economic growth."[23]

The STUC fully supports this statement and believes that the Scottish Government should prioritise action to increase trade union membership and collective bargaining as a means of promoting inclusive growth. A national indicator within the National Performance Framework would be an extremely welcome first step towards this.

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End Notes

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2. Fair Work Convention http://www.fairworkconvention.scot/

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6. Pybus, T for Office for Budget Responsibility (2011) 'Estimating the UK's historical output gap' http://obr.uk/docs/dlm_uploads/WorkingPaperNo1-Estimating-the-UKs-historical-output-gap.pdf

7. Chart from E McGaughey, 'All in 'It' Together: Worker Wages Without Worker Votes' (2016) 27(1) King's Law Journal 1, 8. Chart also available online: http://blogs.lse.ac.uk/politicsandpolicy/why-workers-votes-promote-good-corporate-governance/

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12. Scottish Government (2018) 'Labour Productivity Stats Quarter 3 2017' http://www.gov.scot/Resource/0053/00531282.pdf

13. TUC (2015) 'Productivity: no puzzle about it' https://www.tuc.org.uk/sites/default/files/productivitypuzzle.pdf

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17. ONS (2017) 'Labour Force Survey: Zero-hours contracts data tables' https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/zerohourssummarydatatables

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