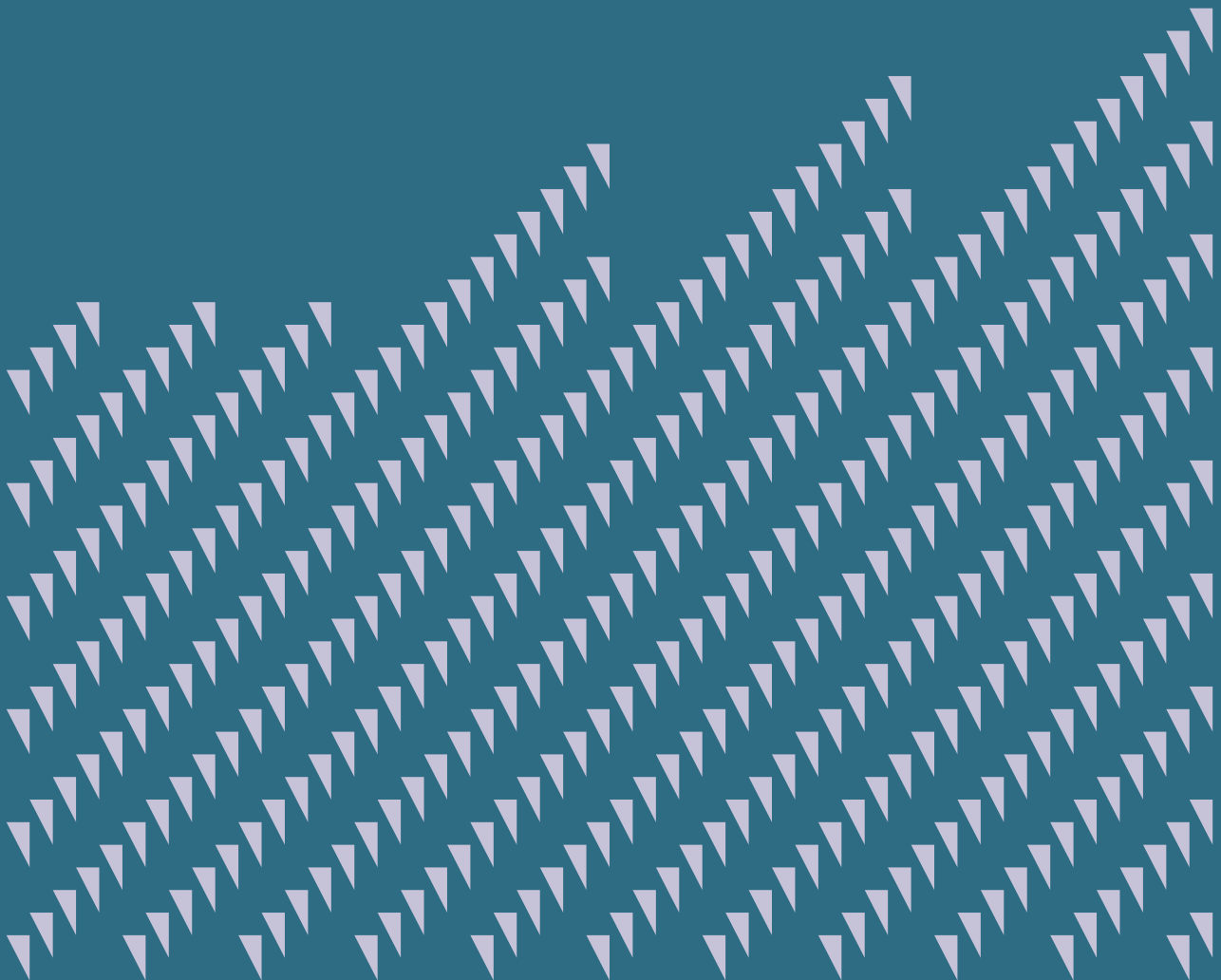


# More than we bargain for

Learning from new debates on how  
institutions can improve worker pay and  
security in Anglo-Saxon economies

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## Summary

The UK's tight labour market is delivering improvements for many workers. Real pay growth has returned towards pre-crisis norms, increases in insecure work have slowed to a stop and underemployment is lower than at any point so far this century. This is welcome, and highlights the great importance of low unemployment and economic stability in bringing about improved labour market outcomes – particularly for those on lower earnings.

However, although a tight labour market is an essential prerequisite for improvements in job quality, it is clear that structural labour market challenges remain even at this late stage in the cycle. Real pay growth has been weak for many employees earning above the minimum wage and low-paying sectors continue to be a big feature of our labour market; atypical employment remains persistently high; training rates in the UK have been falling; workplace stress for low-earners has increased substantially and work intensity has risen too.

Recent policy changes following the Taylor Review of Modern Working Practices should help improve the quality of work for some. For example, reforms to guarantee pay parity for agency workers will come into force in April 2020. But, for now at least, further – and wider-reaching – reforms to our labour market that could improve job quality across the board are not being widely discussed.

When it comes to labour market issues our policy discussion has instead concentrated heavily on increases to the minimum wage; a focus which has continued into the general election campaign. A higher wage floor provides a pay boost to those on the very lowest hourly wages and an ambitious yet evidence-led approach towards future rises in the National Living Wage (NLW) is welcome. However, the pay of those earning above the minimum is little affected by this policy and nor are wider issues relating to job quality – whether a lack of hours, inadequacy of training or limited progression routes.

In previous decades, collective agreements between trade unions and employers shaped job quality to a much greater extent than they do today. Whereas over 60 per cent of UK employees were covered by collective agreements between employers and trade unions in the mid-1980s, a little over one-in-four workers are today. Coverage is still 60 per cent in the public sector but plummets in lower-paying private sector industries. Just 15 per cent of those in retail are covered, falling to four per cent in hospitality.

To date at least, the UK's political debate on labour market issues hasn't adequately reflected this large shift. The Labour party may have proposed to "roll out" sectoral collective bargaining, but it has put little flesh on these proposals and so detailed discussion of the form that sectoral bargaining might take has not been forthcoming.

We are yet to see this change in the election campaign or if the Conservatives (or other parties) will come forward with other new proposals for improving job quality over and above raising the NLW.

In the meantime, the key point remains: the combination of a tight labour market and our current policy mix has achieved some real gains but has not dealt with many concerns relating to job quality. A more wide-ranging policy debate is needed about why this is the case and what could be done about it. Yet all too often our discussion is either highly parochial or focused on countries like Germany with very different labour market institutions and traditions.

This note, therefore, provides insights from other Anglo-Saxon economies with relatively flexible labour markets. In these economies – where collective bargaining coverage has also fallen substantially – a broader set of policy responses to persistent labour market ills have been, or are being, discussed.

Australia, for example, has a hybrid system in which a wage board sets 122 detailed industry level “Modern Awards” covering 20 per cent of employees. These awards are then supplemented by firm-level bargaining covering a further 40 per cent of employees, meaning that in total six-in-ten Australian employees have their pay shaped by collective institutions of some sort. Modern Awards detail minimum rates of pay and also specify rules around many other features of employment contracts including breaks, hours of work, shift patterns and overtime rates – and not just for the lowest-paid workers but also at different pay bands within each industry. This institutional framework is likely to be a factor in Australia’s relatively compressed wage distribution.

In New Zealand, a new system of sectoral collective bargaining is currently being considered by the government. An independent commission has proposed that so called Fair Pay Agreements (FPAs) would be bargained for in industries in which at least 1,000 or 10 per cent of workers are in favour of bargaining being initiated. FPAs would cover similar ground to Australia’s Modern Awards, with the addition of minimum standards on skills and training. The New Zealand government has not made clear precisely how it will proceed with FPAs, though the indications are that their initial focus will be targeted at a few key low-paying industries.

In the US, sectoral collective bargaining has been prohibited under federal law since 1935. However, this has not stopped a vibrant and detailed discussion of the different ways through which it might be implemented emerging over recent years. A number of politicians vying for the Democratic presidential nomination, such as Elizabeth Warren, have set out their support for sectoral collective bargaining. Alongside this prominent economists have started to interrogate the practicalities of rolling out such policies,

as well as the potential impact of the introduction of systems such as industrial wage boards.

These debates in other Anglo-Saxon economies could help inform a UK discussion about the pros and cons of different forms of institutional innovation in our labour market. We don't just have to look to the past for ideas as to how to reform our labour market so that it can tackle the problems of today.

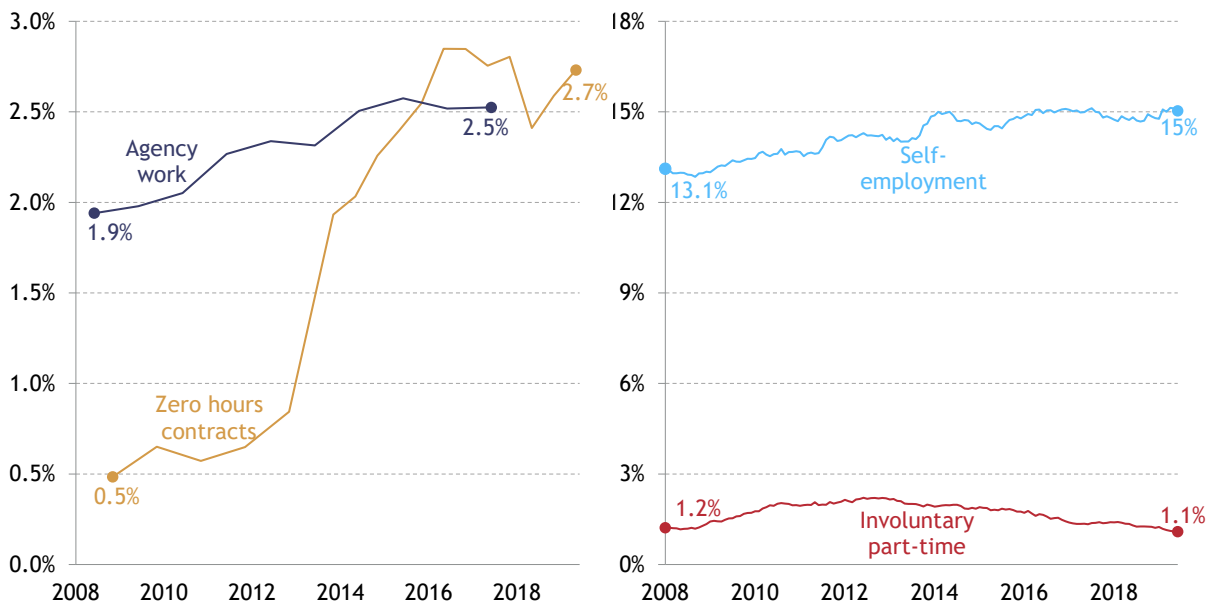
## Tight labour markets: necessary but not sufficient?

A tight labour market – one in which employment is high while unemployment rates and other measures of labour market slack are low – is a force for good. When unemployment is low, employers have to look further afield for new recruits, which pulls workers who otherwise wouldn't have worked into the labour force. Employers also find that they need to offer higher pay in order to retain and recruit staff, pushing up pay growth. We are seeing this in action today: the UK's tight labour market has contributed to nominal pay growth recently returning to pre-crisis levels of around 4 per cent. Involuntary part-time working is now also less common than in the late-2000s. These are big gains.

Despite these positives, and the benefits of more widely shared economic growth from employment increases, a tight labour market cannot be reasonably expected to bring about perfect labour market outcomes. Yes, year after year of low unemployment granting workers more negotiating power in the jobs market would be expected to lead to even greater gains for workers; with employers taking steps not just to raise pay, but also to improve the quality of jobs – from increasing training, to mapping out clear progression routes and offering sufficient hours of work.

But, not to disregard the gains that a tight labour market has already brought, we can still observe large sections of the labour market in which issues relating to job quality remain. A tight labour market is essential but, it seems, it is not sufficient to eliminate some of the flaws in the UK's labour market. As the left-hand panel of Figure 1 shows, although no longer rising at a pace, zero hours contracts' share of employment remains elevated at almost three per cent of employment – equivalent to 900,000 workers. Similarly, agency work and self-employment are both a larger part of the UK's labour market than a decade ago.

FIGURE 1: **Atypical work has risen as a share of employment in the past decade**  
Share of employment accounted for by various forms of atypical work: 2008-2019, UK



SOURCE: RF analysis of ONS, *Labour Force Survey*

The rise in zero-hours contracts and other forms of atypical work was in part a cyclical phenomenon although their persistence suggests that these forms of working have become a structural feature of our labour market. There are other long-standing problems with work quality in the UK that are worthy of remedy. Training is a prime example of this; the proportion of 18-64 year olds who recently received any work-related training has fallen from 28 to 24 per cent since the turn of the century, at the same time as the length of that training has dropped off considerably. In 2000, 68 per cent of recently-trained 18-64 year-olds had training that lasted a week or longer; in 2018 only 53 per cent did. A tightening labour market has coincided with a deterioration in training opportunities.

In other areas the evidence also points towards declines in the quality of work for some. The British Social Attitudes survey reports that the share of workers who experience stress “always” or “often” in work has risen from 28 per cent in 1989 to 37 per cent in 2015 – with the largest increases in workplace stress being report among those in lower-paying semi-routine and routine occupations.<sup>1</sup> Further, work intensity in British workplaces has continued to increase steadily in recent years with over 45 per cent of workers reporting that they worked “very hard” in 2017, compared to just over 30 per cent reporting this same level of intensity in 1992.<sup>2</sup> And, of course, although pay growth may have returned

<sup>1</sup> S McKay & I Simpson, *Work: Attitudes and experiences of work in a changing labour market*, British Social Attitudes 33, NatCen Social Research, 2016

<sup>2</sup> F Green et al., *Work Intensity in Britain: First Findings from the Skills and Employment Survey 2017*, Centre for Learning and Life Chances in Knowledge Economies and Societies, UCL Institute of Education, 2018

recently, workers in the UK have suffered the most prolonged squeeze on their real pay since the early 1800s. The evidence also suggests that not enough low-paid workers progress onto higher pay, with just one-in-six of those who were low-paid in 2006 having escaped low pay in the following decade.<sup>3</sup> Our labour market may have delivered an abundance of jobs of late, but the effects of the crisis – and the impact of structural changes in work in the UK - are still with us.

## Our current policy framework isn't geared towards maintaining high levels of job quality across the board

The current mix of labour market policies and institutions in the UK has brought significant benefits over recent years. Our flexible labour market has contributed to current record employment highs and unemployment lows. At the same time, the state plays a large role in the UK in setting and enforcing minimum standards and individual rights. These rights go a long way to reducing the most egregious forms of labour market practice.

The number, and strength, of individual employment rights in the UK has ballooned over recent decades. For example, there was no legally enforced minimum wage in the mid-1990s and the UK is now on track to have one of the highest minimum wages in the world by the mid-2020s. Similarly, statutory leave entitlement was only introduced in 1998, before which time employees had no right to a minimum number of paid days leave. This entitlement was initially introduced at 20 days a year, and has since been increased to 28 days.

There are certainly significant issues relating to enforcement of these rights, for example it is estimated that as many as one-in-five workers are paid less than the appropriate minimum wage for their age, and as many as one-in-twenty workers report having no paid holiday.<sup>4</sup> But in general, the UK's labour market institutions facilitate high levels of employment in the context of a relatively comprehensive suite of individual employment rights that should provide a minimum standard of work for all employees.

Further, there have been welcome moves recently to enhance specific aspects of this system. For example, following the recommendations of the Taylor Review of Modern Working Practices, from April 2020 it will no longer be legal to pay agency workers less than equivalent permanently employed staff due to the abolition of the "Swedish Derogation" clause in agency workers' employment contracts.<sup>5</sup>

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<sup>3</sup> C D'Arcy & D Finch, *The Great Escape? Low pay and progression in the UK's labour market*, Resolution Foundation, October 2017

<sup>4</sup> L Judge & N Cominetti, *From rights to reality: Enforcing labour market laws in the UK*, Resolution Foundation, September 2019

<sup>5</sup> Legislation.gov.uk, *The Agency Workers (Amendment) Regulations 2019*, March 2019

However, despite its benefits, the current framework cannot solve all of the job quality challenges highlighted above. Matters like training, progression, work intensity and stress, and pay for those earning more than the minimum are not easily tackled by the formation of new individual employment rights. These create the floor below which employers cannot go, but they are not sufficient to improve the quality of work across the board. This is not to lessen the importance of rights and minimum standards, only to make plain that their reach is limited.

## Our political debate isn't focusing on the sorts of changes that could lead to a broad-based increase in job quality

The debate around further reforms to the UK's labour market has not sufficiently grappled with the challenge of improving the quality of work across the board. Our debate is somewhat unbalanced being overly focused on one aspect in particular: the level of the minimum wage.

The main political parties are currently in competition with one another on how fast they plan on raising the wage floor, and which age groups will benefit from it. Sajid Javid recently announced that the National Living Wage will rise to two-thirds of typical hourly pay by 2024, equal to £10.50 an hour, and that the age threshold above which this higher minimum wage will apply will be lowered from 25 to 21. Labour meanwhile are proposing a £10 an hour real Living Wage in 2020, for all workers aged 16 and over.<sup>6</sup>

This focus on how to boost the wage floor by both political parties is, however, symptomatic of a lack of discussion of what could be done to reform the UK's current suite of labour market policies and institutions – for example enhancements to collective rights, or other new institutions aimed at raising working conditions in particular sectors. Organisations such as the OECD and the Trades Union Congress have provided important contributions to the academic and policy debate in recent years, setting out the evidence relating to collective bargaining and its impact on pay and job quality.<sup>78</sup> But the main content of debate between our major political parties has not engaged with the substance of wider labour market reforms nor how they might boost job quality and pay across the board.

Although the Labour party proposed to “roll out sectoral collective bargaining” in its 2017 election manifesto, there has been little debate of this proposal's merits or details either in the 2017 election campaign or in the years since. This may be about to change over the course of the general election campaign if Labour fleshes out its proposals or the

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<sup>6</sup> T Bell, *A rare political consensus has broken out over a higher minimum wage – but achieving it is far from straightforward*, Resolution Foundation, October 2019

<sup>7</sup> See: OECD, *Employment Outlook*, 2017, 2018 & 2019

<sup>8</sup> Trades Union Congress, *A stronger voice for workers: How collective bargaining can deliver a better deal at work*, September 2019

Conservatives (or other parties) come forward with a package of job quality enhancing reforms. Unless this happens however, it seems likely that any substantial debate around what can be done to improve aspects of work in the UK - from low-pay (beyond the minimum wage) to progression, hours and job intensity - may be lacking during the campaign.

A more substantial policy and political debate is needed not least because the institutions that did once have a powerful role in shaping labour market outcomes across the board – trade unions - are weaker than they have been for decades.

## One route to higher quality jobs – collective bargaining – has declined in the UK

The mid-20th century response to issues relating to poor job quality was much more heavily determined by the decisions of trade unions – both through their involvement with Wage Councils and the bargains they struck with employers – than it is today. Wage Councils were an established and powerful part of the wage setting machinery in the UK but were all but abolished in the early 1990s. Less dramatic, but as significant, has been the continued decline in collective bargaining coverage in the UK.

In the mid-1980s trade unions were involved in setting the pay and conditions of over two-thirds of employees through collective bargaining but the latest data shows that just 26 per cent of workers are covered by collective bargaining agreements.<sup>9</sup> Coverage is at almost 60 per cent in the public sector but has fallen to less than 15 per cent in the private sector.<sup>10</sup> The parts of the private sector with the highest collective bargaining coverage are the former nationalised industries; electricity and gas (where coverage is around 50 per cent) and water (where coverage is at 40 per cent).

Collective bargaining coverage has fallen by a similar amount across all age groups and has fallen in almost all industries.<sup>11</sup> As shown in Figure 2, the overall share of working-age employees covered by collective bargaining has declined by a quarter (from 35 per cent to 26 per cent) between 2005-06 and 2017-18. It's worth highlighting that Figure 2 shows trends in employee coverage – with rates lower still (at 21 per cent) if the self-employed are included in these statistics.

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<sup>9</sup> OECD, *Employment Outlook 2017*, June 2017

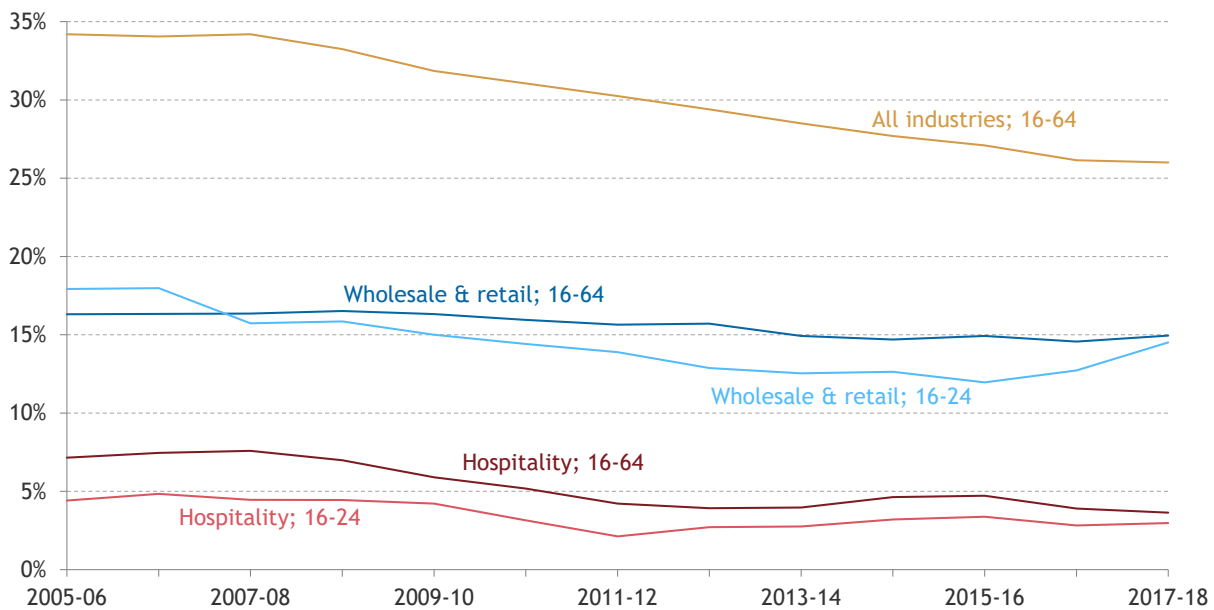
<sup>10</sup> Department for Business, Energy and Industrial Strategy, *Trade Union Statistics 2018*, May 2019

<sup>11</sup> Detailed analysis of the share of workers by age and industry is only possible in the Labour Force Survey for years since 2005.



## FIGURE 2: Workers in low-paying industries have very low collective bargaining coverage rates

Proportion of employees whose pay and conditions are agreed in negotiations between the employer and a trade union, by age and industry: UK



NOTES: Two-year rolling averages of Q4 data, e.g. 2005-06 is average over 2005 Q4 & 2006 Q4

SOURCE: RF analysis of ONS, *Labour Force Survey*

It isn't so much the decline in coverage that stands out when the focus is placed on trends in the lowest paying industries, rather it's the low level of coverage. In hospitality, just four per cent – that's 1-in-25 – employees benefit from collective bargaining. And this falls to just three per cent of those aged 16-24 in this sector.

Retail also has lower than average collective bargaining coverage, although between 2015-16 and 2017-18 there are signs that the share of young employees in this industry benefitting from collective bargaining has increased slightly – from 12 per cent to 15 per cent. This reflects the trends in trade union membership in retail; it is one of the few parts of the economy in which trade union density has risen since the 1990s. The work of the Usdaw union, which is successfully growing its membership and brokering agreements with big retailers such as Tesco, is worth highlighting.

However, it's the general picture of falling collective bargaining coverage and lower trade union density – which is on track to fall to as low as 16 per cent by 2030 – that provides the backdrop for the lack of substantial debate in the UK as to how support for workers might be revived in 21st century Britain.<sup>12</sup>

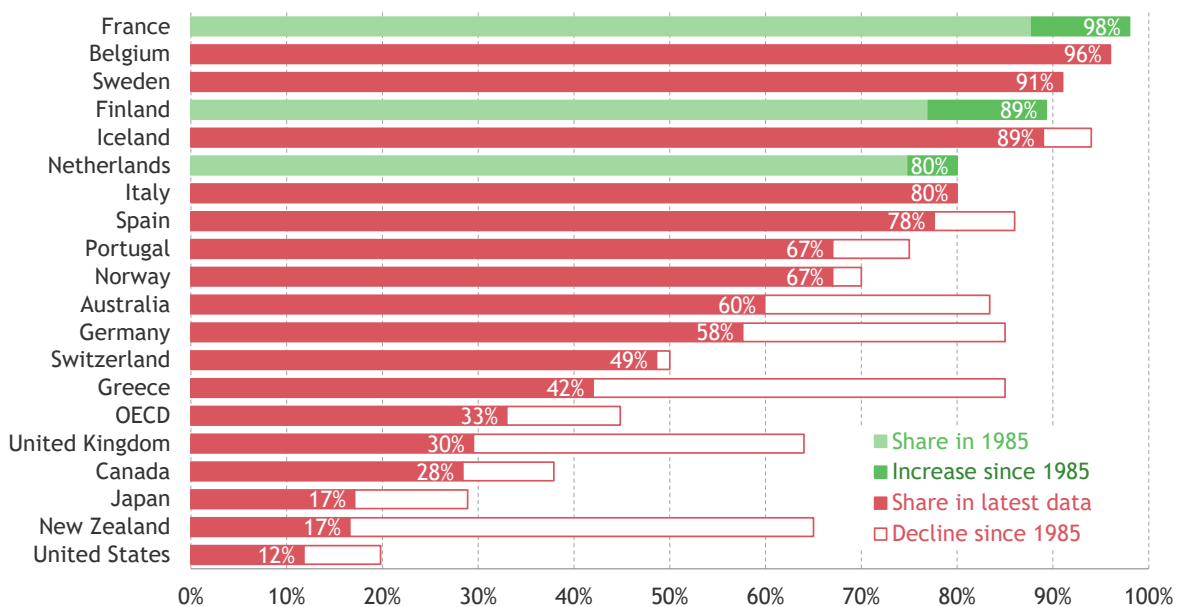
<sup>12</sup> D Tomlinson, *Union membership is rising again – but will it last?*, Resolution Foundation, May 2019

## Similar declines in collective bargaining have taken place overseas

The UK is by no means alone in having undergone a shift away from collective bargaining. In fact, in almost all advanced economies collective bargaining coverage has fallen during the past 30 years. There are some exceptions to this decline, as shown in Figure 3 below, however in most other Anglo-Saxon economies collective bargaining coverage has either fallen substantially – or was very low to begin with.

**FIGURE 3: Collective bargaining coverage has fallen substantially across most advanced economies**

Proportion of employees with ‘the right to bargain’ covered by a collective agreement, by country: 1985 and latest data



NOTES: Latest data from either 2013, 2014 or 2015 with exception of Italy for which latest data is 2010, and France for which latest data is 2012. Historical data for Iceland is for 1993, not 1985.

SOURCE: RF analysis of OECD, *Employment Outlook 2017*

In New Zealand and the United Kingdom, the share of employees covered by collective bargaining has declined steeply; from 65 per cent to 17 per cent in New Zealand (a 74 per cent fall) and from 63 to 30 per cent in the UK (a 54 per cent fall).<sup>13</sup> In both countries, this has followed on from active political choices to rein in the power of organised labour. For example, a sharp decline in collective bargaining coverage in New Zealand took place in the years immediately following the 1991 Employment Contracts Act which shifted bargaining from the industry and collective level to the individual level.

<sup>13</sup> If self-employment were included in these statistics the measured decline in collective bargaining coverage would be larger still as a result of the increasing share of employment accounted for by the self-employed (which has increased from 11 per cent in 1985 to close to 15 per cent today).

In contrast, the United States had very low levels of collective bargaining coverage three decades ago (just 20 per cent) and has even lower coverage today, with just 12 per cent of employees covered.

Overall, despite different recent histories flowing from different cultural, political and economic contexts, most Anglo-Saxon economies are now in a very similar place when it comes to collective bargaining: beyond the public sector its reach is very limited. It's for this reason that it is worth examining debates in other nations relating to labour market institutions with the potential to have wide-ranging positive effect on job quality.

## Australia has long had an extensive system of industry-level employment standards

In a variety of ways, Australia's labour market appears to be roughly similar to the UK's. Employment is at record highs, with close to three-quarters of working age adults in work in both countries. National minimum wages in Australia and the UK are comparatively high, both at 54 per cent of median full-time wages in 2018.<sup>14</sup> And both countries have suffered from weak income growth and relatively low wage growth.<sup>15</sup> Although this problem has been far more acute in the UK where there have been large real wage falls in contrast to the slowdown in real terms pay growth in Australia.<sup>16</sup>

Despite some similarities in terms of labour market outcomes, the institutions through which pay and contract terms are set in the UK and Australia are strikingly different from one another. In the UK, collective agreements negotiated between employers and trade unions cover roughly 30 per cent of employees. In contrast, close to 60 per cent of Australian employees are covered by either enterprise agreements (which cover 38 per cent of employees) or a powerful wage board system, called Modern Awards (which covers a further 20 per cent of employees).<sup>17</sup>

Awards have been a feature of the Australian labour market for over a century and have undergone numerous expansionary and contractionary reforms in their history. The most recent significant reform to the system was implemented by the Labor government in 2009. This involved the abolition of 1,560 state and federal awards and the introduction of 122 standardised Modern Awards that cover almost all private sector occupations and industries in Australia.<sup>18</sup> It is worth pointing out, however, that the Awards system has been sustained over recent decades by governments of different political persuasions.

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<sup>14</sup> Source: OECD.Stat, *Minimum relative to average wages of full-time workers*

<sup>15</sup> G Hutchens & G Jericho, *Who is to blame for Australia's stalled wages?*, March 2018

<sup>16</sup> Australian Government, The Treasury, *Analysis of wage growth*, November 2017

<sup>17</sup> J Bishop & I Chan, *Is Declining Union Membership Contributing to Low Wages Growth?*, February 2019

<sup>18</sup> Australian Government, Fair Work Ombudsman, *Australia's industrial relations timeline*

Modern Awards are an extensive system of government determined minimum standards for different industries, they are not subject to bargaining. Instead, unions and employer groups submit proposals which are then considered by the Australian Fair Work Commission.

These minimum standards are prescribed in great detail, covering rates of pay, hours of work, shift patterns, breaks, allowances and overtime rates.<sup>19</sup> For example, the general retail industry award is a 39 page document setting out weekly and hourly basic pay rates as well as overtime rates for evenings, Saturdays, Sundays and public holidays. In total, it contains a remarkable 2,800 potential minimum pay rates that vary depending on individual and job characteristics such as age of employee, length of employment and full-time/part-time status.<sup>20</sup> The award also prescribes highly specific allowances such as a minimum \$18.87 meal allowance. To state the obvious, this system is very different from the current situation in the UK.

The Modern Award system is supplemented by firm-level enterprise agreements (often referred to as collective agreements) which are negotiated between employer and employee representatives. The latest government data, from May 2018, showed that 38 per cent of Australian employees were covered by an enterprise agreement.<sup>21</sup>

Employers can initiate the process of enterprise bargaining unilaterally or they must enter into bargaining discussions if a majority of employees are in favour of them taking place. Parties must bargain in “good faith”, but crucially if they are not able to reach agreement then the Fair Work Commission will step-in and determine the agreement itself. Australia’s relatively high use of firm-level bargaining coupled with the Modern Awards system is likely to be a factor in Australia’s relatively compressed wage distribution. The extent to which this has taken place is difficult to measure, but it is instructive that the ratio of decile five earnings to decile one earnings is lower in Australia (at 1.66) than in the UK (1.72) or the US (2.09) – it’s even lower than in Germany (1.88).<sup>22</sup>

## The New Zealand government is considering detailed proposals relating to sectoral collective bargaining

New Zealand’s labour market institutions are closer in nature to the UK’s than Australia’s. In both New Zealand and the UK the state has a role in setting some minimum standards;

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<sup>19</sup> Australian government, Fair Work Ombudsman, Modern awards

<sup>20</sup> In practice, although there are a large number of possible pay rates they are typically increased by a uniform percentage each year implying that once businesses have set rates in line with the Modern Awards, it is at least not excessively administratively burdensome to keep them at the specified level.

<sup>21</sup> Australian Government, Attorney-General’s Department, *Trends in Federal Enterprise Bargaining Report*, July 2019

<sup>22</sup> Source: OECD.Stat, Decile ratios of gross earnings

for example, the wage floor, minimum holiday and break entitlements and rates of maternity, paternity and sick pay.<sup>23</sup>

However, in large part, these minimums are where the state's role ends. The detail of pay bands, pay uprating, overtime rates or training requirements are left to individual employers to determine. There is no legal requirement to consult with trade unions, though firm-level bargaining over these sorts of dimensions of employment contracts may take place if trade unions can demonstrate they have sufficient support within the workplace.

These similarities may soon be no more. The New Zealand Labour government, elected in 2017, committed in its election manifesto to "introducing Fair Pay Agreements that set fair, basic employment conditions across an industry based on the employment standards that apply in that industry".<sup>24</sup>

In June 2018, the New Zealand Prime Minister, Jacinda Ardern, asked former National party Prime Minister, Jim Bolger, to develop proposals for Fair Pay Agreements (FPAs) in consultation with trade unions, business groups and academics. Bolger's working group reported back in late 2018 with an outline plan for how FPAs could operate.<sup>25</sup>

The proposals have attracted criticism from some quarters for the relatively low threshold that was proposed for triggering the bargaining process within a sector. Bolger proposed that "in any sector or occupation, workers should be able to initiate a FPA bargaining process if they can meet a minimum threshold of 1000 or 10 per cent of workers in the nominated sector or occupation, whichever is lower."

A threshold of just 1,000 means that a relatively small proportion of workers in large sectors would be able to trigger the process. For example, there are around 220,000 people working in retail in New Zealand and so, depending on what agreement is reached on the boundary of the retail sector, it could in theory be the case that only 1-in-200 of the workers in this industry would need to support the initiation of an FPA process for it to begin. This is the equivalent of 13,000 retail employees, out of a possible three million, in the UK being able to trigger a collective bargaining process that would cover the whole sector. For further context, Usdaw has 430,000 members in the UK.<sup>26</sup> Bolger has also proposed that government, or at least a government body, be able to apply a "public interest" test whereby collective bargaining processes would be initiated if there is evidence of "harmful labour market conditions in the nominated sector or occupation".

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<sup>23</sup> Employment New Zealand, *Leave and Holidays*, accessed: 9 October 2019

<sup>24</sup> [www.labour.org.nz/jobs](http://www.labour.org.nz/jobs), accessed: 11 October 2019

<sup>25</sup> Fair Pay Agreement Working Group, *Fair Pay Agreements: Supporting workers and firms to drive productivity growth and share the benefits*, December 2018

<sup>26</sup> Certification Officer, *Union of Shop Distributive and Allied Workers: 2018 annual return*, 2019

So far as the content of FPAs are concerned, it is recommended that employers and trade unions bargain over a large number of dimensions of employment relationships including: “wages and how pay increases will be determined...working hours, overtime and/or penal rates, leave, redundancy, and flexible working arrangements [and] skills and training”. Further, it is suggested that there be “limited flexibility” for firm-level exemptions from sector-level agreements.

These are bold proposals, which would imply that a large number of FPA bargaining processes could be initiated quite swiftly as a result of the low trigger thresholds. However, the government is yet to respond to the Bolger recommendations, let alone begin to legislate for their introduction. The signs are that the recommendations will not be immediately adopted in full as Prime Minister Jacinda Ardern has suggested that she doesn't expect any more than “one or two” nationwide FPAs to be implemented before the end of 2020.<sup>27</sup> It may well be that the government decides only to implement the “public interest” trigger in the first instance in order to retain control over the process as it is rolled out.

This is not simply a return to government-compelled sectoral collective bargaining of old. Rather, it is a new way to instigate bargaining – relying primarily on maintaining a role for voluntarism, unions will still have to organise and recruit members in order to surmount these proposed thresholds. But crucially, it does provide a potential framework through which improvements in aspects of job quality might be secured over and above the role that the state plays in setting minimum standards.

## In the US, there is a lively discussion around how changes to labour market institutions could improve pay and job quality

The US has the lowest rate of collective bargaining coverage and the lowest rate of trade union membership among advanced economies. Unions and collective action have long played a smaller part in labour market dynamics in the US than in other advanced economies. But never has union coverage been as low as it is today. In the private sector, just 7 per cent of US employees are covered by a collective agreement.<sup>28</sup>

This is something that increasing numbers of politicians, academics and commentators are discussing as a cause of the acute problems in the US labour market; namely the unequal distribution of pay and a lack of real pay growth for lower-paid US workers over recent decades. The Economic Policy Institute has argued, for example, that “that private-sector union decline since the late 1970s has contributed to substantial wage losses among workers who do not belong to a union”.<sup>29</sup>

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<sup>27</sup> Newsroom, *No room for individual contracts in Fair Pay Agreement proposals*, 24 January 2019

<sup>28</sup> Bureau of Labor Statistics, *Union Membership (Annual) News Release*, January 2019

<sup>29</sup> J Rosenfeld, P Denice & J Laird, *Union decline lowers the wages of nonunion workers*, Economic Policy Institute, August 2016

This link – between a labour market that hasn't delivered wage growth for much of "middle class" America and the declining power of workers – is something that has garnered attention from politicians. A number of Democratic presidential hopefuls including Elizabeth Warren, as well as Bernie Sanders and Cory Booker, have indicated their support for a raft of pro-worker policies. Warren has published a detailed essay arguing that the ills of the US labour market are "driven by a single underlying problem: American workers don't have enough power".<sup>30</sup>

A number of Democratic candidates agree on proposals including; ending worker "misclassification" as independent contractors, following on from a bill recently signed into law in the State of California that seeks to do the just the same;<sup>31</sup> preventing states from passing "right-to-work" laws, which prevent unions from collecting dues from non-union members covered by collectively bargained contracts; and committing to introduce a federal minimum wage of \$15 an hour, following on from the growing influence and success of the US "Fight for \$15" campaign.

Candidates have also proposed that they would "promote" and "increase opportunities" for "new models" of sectoral collective bargaining. Previous Democratic presidential candidates have supported collective bargaining, but the key difference here is that candidates are now outlining support for sectoral-level bargaining – a further reaching reform. Sectoral bargaining would overturn a long-standing feature of US labour law that has been in place since the National Labor Relations Act of 1935: that bargaining between employers and unions must take place at the individual workplace level.

Economists in the US are setting out more detail on how this might work. For example, David Madland has highlighted how contract extensions and wage boards could both be used to improve outcomes on a sector-by-sector basis.<sup>32</sup> Contract extensions, he suggests, could be introduced whereby once a union has successfully negotiated a contract with a small number of employers in a sector the contract is automatically extended to all other workplaces within sector in which a majority of workers are members of that same union.<sup>33</sup>

Cory Booker's policy platform also proposes "wage boards that set wage and other workplace benefits and standards", an idea that has also recently been championed by Arindrajit Dube. Dube, a prominent US labour market economist who was tasked by Philip Hammond (when he was Chancellor) to produce an independent review of the minimum wage for the UK government, has argued that the monopsonistic relationship

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<sup>30</sup> Elizabeth Warren, *Empowering American workers and raising wages*, October 2019

<sup>31</sup> California Legislative Information, *AB-5 Worker status: employees and independent contractors*, September 2019

<sup>32</sup> D Madland, *How to Promote Sectoral Bargaining in the United States*, Center for American Progress Action Fund, July 2019

<sup>33</sup> Madland cites the 'Baigent-Ready' model, which was first proposed in Canada in the early 1990s. Under this model once two workplaces have agreed to the same contract it would automatically be extended to all other workplaces in which a majority of workers were union members.

between workers and employers in the US suggests there is a far greater role for intervention in the labour market than is currently the case.<sup>34</sup> His work has illustrated how a US wage boards system that set rates of pay for around 100 industry-regional-occupational categories would not only significantly increase wages at the very bottom of the wage distribution, but also have large effects across the whole bottom half of the distribution.<sup>35</sup> This sort of detailed discussion of how significant labour market reform might play out has been lacking in the UK.

## Conclusion

The UK labour market has performed strongly in recent years. Employment is at record highs, and a tight labour market is finally delivering robust levels of real pay growth. But, despite being in a relatively late stage of the cycle, weaknesses in our labour market relating to job quality - including training, progression, stress and work intensity – remain. These issues are difficult to tackle just through changes to individual employment rights – which is the primary focus of policy reform and political debate in the UK today.

Focus on statutory minimums, like the speed of uprating of the National Living Wage, has meant that changes to collective rights, and the potential impact of other changes such as the introduction of new institutions in certain sectors aimed at raising labour market standards, have barely featured in our debate. This is despite the fact that in other Anglo-Saxon economies – also characterised by high levels of employment and concerns about insecure work – there has been significant innovation in policy or shifts in public debate. A fuller understanding of the experiences of these other countries – both for good and ill - would help broaden the debate in the UK and help re-orientate our discussion towards the sorts of wider institutional reforms that might help raise job quality across the board.

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<sup>34</sup> A Dube, *Using wage boards to raise pay, Economists for Inclusive Prosperity*, December 2018

<sup>35</sup> A Dube, *Using wage boards to raise pay, Economists for Inclusive Prosperity*, December 2018



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