TOUCH STONE EXTRAS

All in this Together?

An audit of the impact of the downturn on the workforce

by Stewart Lansley

Contents

About the author 4

Acknowledgements 4

Introduction: Sharing the burden 5

1 *The impact on jobs* 7
- *Who has lost out?* 8
- *Was this a middle-class recession?* 9

2 *The impact on pay and conditions* 12
- *The pay squeeze* 13
- *The extent of pay freezes* 15
- *Cuts in pay and conditions* 19

3 *High pay* 26

4 *Conclusions* 29

Notes 32

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The present situation on jobs, pay and conditions at a number of organisations is highly fluid. Because some proposals on pay are in the process of being implemented and others are still the subject of negotiation, some of the information provided in this report – while up-to-date at the point of writing – may have been overtaken by developments by the time of publication.

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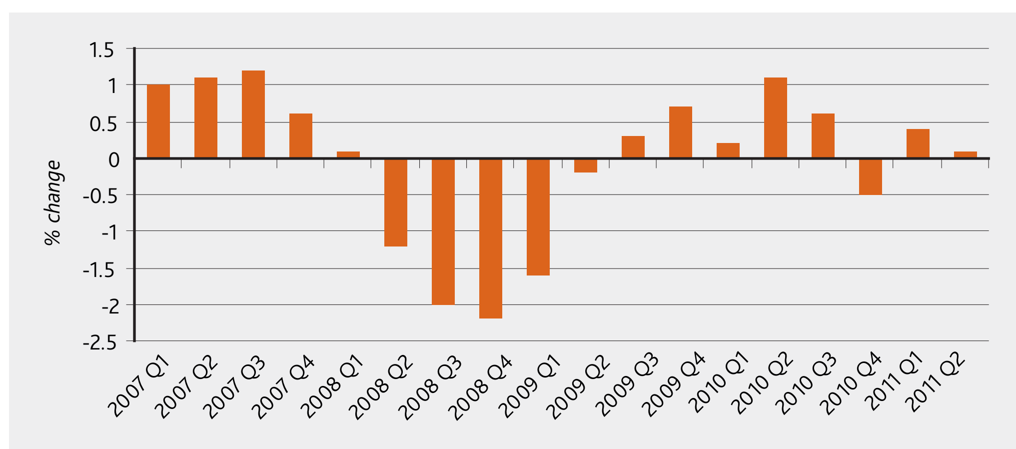
Introduction: Sharing the burden

The 2008–9 recession – which lasted five quarters – was the longest and deepest since the 1930s. The latest official estimates show that the downturn was also much sharper than previously thought, with GDP contracting from peak to trough by 7.1 per cent rather than the initial estimate of 6.4 per cent. The recessions of 1980–1 and 1990–1, in contrast, were much shallower and shorter, while those of the 1950s and 1960s were weaker still. Moreover, after some optimism in 2010 when growth seemed to be gathering pace, recovery has slowed and is proving to be much more fragile than initially predicted.

As shown in Figure 1 below, growth began to pick up from the end of the second quarter of 2009 when the UK officially moved out of recession, but has slowed sharply over the last nine months. As a result, the economy is still 4.4 per cent below its peak level before the recession – with only a third of lost output restored – while the future looks increasingly bleak. The Office of Budget Responsibility (OBR) has been forced into repeated downgrades of its growth forecast since it was established after the 2010 general election. Growth has been close to zero over the last nine months, while most economic forecasters, including the OECD, are predicting growth of less than 1 per cent in 2011. The National Institute of Economic and Social Research is predicting a 70 per cent chance of a double-dip recession (two consecutive quarters of negative growth) in 2012. That has not happened since the mid-1970s.

Figure 1: Quarterly output growth in the UK economy, 2007 to 2011



Source: ONS

It has become clear that the UK is facing the weakest recovery from any of the post-war recessions, with the speed of recovery slower even than in the aftermath of the 1930s' depression. Then the economy returned to its previous peak after 16 quarters. The current slump is predicted to last at least 19 quarters before doing so, and could be even longer lasting; 2015 is the earliest at which output is likely to return to its pre-recession level. "The UK is in the midst of what is set to be the longest – and among the most costly – of its depressions in over a century," according to the *Financial Times'* Martin Wolf. "The characteristic of this depression, compared with its predecessors, is the frightening weakness of the recovery phase."[1] The Governor of the Bank of England, Mervyn King, is on record as stating that it could be even worse than the 1930s.

All recessions bring widespread pain. One that cut the size of the national cake by over seven per cent was always going to have severe consequences for living standards and livelihoods. In the past, the fall-out from recessions has always been very unevenly shared, usually borne most heavily by the most economically vulnerable. This time, although the pain could not be avoided, there was talk at a high political level of the need for it to be more fairly distributed.

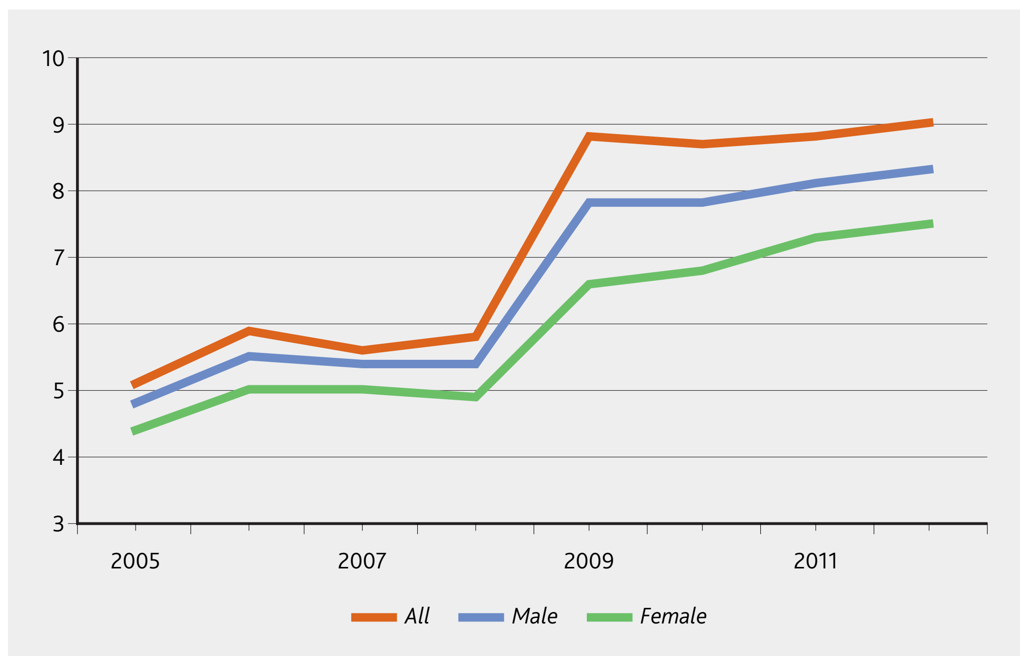
In October 2009, the then Shadow Chancellor George Osborne told the Conservative Party conference that in sorting out the nation's finances he would ensure that "we're all in this together". It was a promise repeated by David Cameron in June 2010, shortly after he became Prime Minister. "I want to make sure we go about the urgent task of cutting our deficit in a way that is open, responsible and fair… that strengthens and unites the country. I have said before that as we deal with the debt crisis we must take the whole country with us – and I mean it."

Although the government was talking specifically about the way in which it was setting out to cut the growing budget deficit, it is a key principle that could have been applied more widely. This report looks at how the inevitable economic burden of the downturn has been shared. It examines the impact of the slump and its aftermath on those of working age, concentrating on three key areas: jobs; pay; and terms and conditions of work. It does not look at the impact of the cuts in public spending arising from the 2010 Comprehensive Spending Review, which has been tackled by other studies.[2] It attempts to identify the key winners and losers from the recession and subsequent slow recovery. Have those with the broadest shoulders shared in the pain along with those on low and middle incomes?

1 The impact on jobs

One of the principal effects of the crisis has been on jobs. The level of unemployment has jumped from 5.4 per cent during the second quarter of 2007 and now stands at 8.3 per cent, its highest level for 17 years (Figure 2 below). Yet although the jobless rate has risen, it has increased more slowly than in the recessions of the early 1980s and 1990s, even though these were shallower and shorter. Thus, while output fell by over 7 per cent over the duration of the downturn in 2008–9, employment fell by around 2.6 per cent.

Figure 2: Percentage unemployment rate, 2000 to 2011



Source: ONS, Labour Force Survey (MGSX, MGSY, MGSZ)[3]

On average, employers have been more reluctant than in the past to shed labour, especially skilled labour. This has led to greater staff retention than in past recessions, with companies hoping to avoid the loss of key skills during the upturn. This, however, has come at a price.

- First, pay has been frozen or cut among a large majority of the workforce (which is discussed in more detail on the next section on pay).
- Second, there has been a sharp rise in short-time working and in part-time work. Indeed, average hours worked have decreased more sharply than employment: total hours worked fell by just over 4 per cent between the start of the recession and the end of 2010.[4] There has also been a sharp rise in the proportion of the workforce working part-time; the number of people ending up unwillingly working part time because they could not find a full-time job had risen to 1.26 million in June 2011. This is a rise of 83,000 from the previous quarter, and 50 per cent higher than the previous post-recession peak of 846,000 in 1994.[5]

Moreover, the latest unemployment figures, issued in December 2011, show that the employment fall-out has continued far beyond the official end of the recession. After falling through much of 2011, the unemployment rate started rising again in the summer of 2011 and now stands at 2.64 million, the highest level since the recession began.[6] In July 2011 the UK had 172,000 fewer people in employment than in December 2007, the eve of the recession and unemployment was over 1 million. With the rate of job creation slowing down, most economists take a gloomy view of future job prospects. The OBR forecasts that unemployment will rise by another 200,000 during 2012.

Who has lost out?

So, which groups have been most likely to lose their jobs?

First, the rise since 2007 has been sharper among men than among women but women's jobs are increasingly at risk. Thus the unemployment rate for men rose by 61 per cent between the second quarter of 2007 and the third quarter of 2011, while for women the rise was 50 per cent for the same period. As shown in Figure 2 above, most of this disparity took place between 2008 and 2009, and since then, female unemployment has started to rise more steeply. The claimant count for women stood at 1.09 million in December 2011, its highest level in 23 years. The main factor driving the increase in female unemployment has been the impact of cuts in public sector jobs, where women make up 65 per cent of the workforce.

Second, young workers has been the most vulnerable group of all. Thus while the overall employment rate between 2007 and 2010 fell by 1.6 percentage points – from 61.0 to 59.4 – the rate for males under 25 fell by 6.6 percentage points and for females under 25 by 4.9 points. The number of unemployed under-25s now stands at 1.027 million, double the figure at the beginning of 2007. It is a figure swollen by the number of graduates and school leavers who have failed to get work after leaving full-time education in the summer. It now stands at 22 per cent, more than two and a half times the average rate, and its highest rate since records began in 1992.

Third, public sector jobs are now being lost much more quickly than those in the private sector. The public sector is now bearing the brunt of current job losses – at roughly twice the rate originally predicted – without, as yet, the growth in private sector jobs promised by the coalition government to fill the gap. In the three months to June, public sector employment fell by 111,000 while private sector jobs grew by only 41,000.

In December, the OBR raised its its estimate of public sector job losses as a result of cuts in public spending from 400,000 to over 700,000. Even this may understate the real scale of the losses. According to John Philpot of the Chartered Institute of Personnel and Development (CIPD), this "estimated cut of 710,000 excludes the effect of austerity measures introduced in 2010–11, particularly the freeze in public sector recruitment announced immediately after the 2010 general election by the Chancellor… According to the Office for National Statistics the level of public sector employment fell by almost 140,000 in that period. Assuming the OBR projection proves correct, the total cull of public sector jobs by 2017 will thus be 850,000, almost 15 per cent of the public sector workforce at the start of 2010."[7]

Was this a middle-class recession?

It was widely claimed in early 2008 that this was going to be a largely middle-class recession, with professionals bearing the brunt of rising dole queues. Each of Britain's last three major recessions – in the mid-1970s, the early 1980s and the early 1990s – have been predominantly manufacturing recessions, with factories and mines bearing the brunt, and each leaving the UK with a shrunken manufacturing base. They also disproportionately affected lower-skilled occupations, especially in the case of the last two recessions.

In contrast, it was predicted that, because it was triggered in financial services and because of the growth of professional and managerial jobs over recent decades, the 2008–9 downturn would be a largely white-collar recession, with the principal victims being professionals in areas like the City, accountancy, marketing and the law.

In October 2008, seven months into the recession, the Labour peer and LSE economist Lord Desai claimed that: "It is a middle-class recession…. and it will be very different from others we have experienced in the past. It is a dramatic change from the days when workers who lost their jobs were more likely to be 'semi-skilled or manual manufacturing workers'." He added that those most likely to lose their jobs would be "graduates, educated and IT savvy".[8]

Six months later the *Financial Times* reported that: "Joblessness is mounting more quickly among professionals than the less-skilled as the recession drives hundreds of thousands of middle-class workers on to the dole."[9] Then, in June 2009, *Management Today* argued that it was "white-collar workers who were being hit hardest by recession".[10]

It is certainly true that sectors of the economy that have previously been relatively immune from downturns – such as financial services – have been significantly affected, with high street banks and the City seeing some of the earliest of the mass lay-offs that were to follow in a number of other sectors of the economy.

Despite this, Table 1 shows that it has been blue-collar workers – skilled and unskilled – and those in low-paid white-collar jobs that have borne the brunt of the rise in unemployment.

- Between March 2008 (just before the downturn began) and June 2011, the largest rise in unemployment (of 8.76 percentage points) was incurred by those working in sales and customer service (for example call centre agents, market and street traders, shop assistants, merchandisers and window dressers). This was also the group with the lowest median wage.

Table 1: Claimant unemployment rate by occupation, March 2008 to June 2011

	Claimant unemployment rate March 2008 (percentage)	*Claimant unemployment rate June 2011 (percentage)*	*Claimant unemployment increase 2008–11 (percentage point)*	*Median gross weekly wage (£)*
Managers and senior officials	0.68	1.20	0.52	690
Professional occupations	0.54	1.10	0.56	664
Associate professionals and occupations	1.07	2.00	0.93	516
Administrative and secretarial	2.44	4.30	1.86	321
Skilled trades occupations	3.48	5.80	2.32	440
Personal service occupations	1.75	4.00	2.25	248
Sales and customer service	6.34	15.10	8.76	190
Process, plant and machine operatives	4.32	6.30	1.98	405
Elementary occupations	8.79	12.80	4.01	222
Total	**2.90**	**5.20**	**2.30**	**404**

Source: ONS, Claimant Count Data; ASHE

- The next largest increases were in elementary jobs (those with the next lowest median wages – for example farm workers, building labourers, factory packers and bottlers, hotel porters, kitchen and catering assistants, shelf-fillers and cleaners), skilled trades (metal fitting and machining, motor mechanics, electrical and electronic trades, building, printing, vehicle production, food preparation), personal services occupations (such as care assistants, child carers, assistant auxiliary nurses, travel agents, hairdressers, domestic staff and undertakers); and process, plant and machinery operatives (bus, truck and locomotive drivers; excavator, forklift and tractor drivers; boiler, chemical plant, crane and furnace operators; packers and machinists).
- The lowest increase in unemployment rates were found in the highest-paid professions, including managers and senior officials (such as chief executives, senior officials in national and local government, financial managers, advertising and PR managers, senior officials in the police and NHS – with a rise of only 0.52 percentage points) and other professional occupations (such as chemists, physicists, biological scientists, electrical and electronic engineers, quality control engineers, IT strategists, school inspectors, medics, dentists, solicitors, architects and probation officers).

  The lower rise in these more highly paid jobs is down to two main factors: first, skilled managers and professionals have had a better chance of making an early return to work when they have lost their jobs; and second, employment in professional occupations actually grew through the recession.

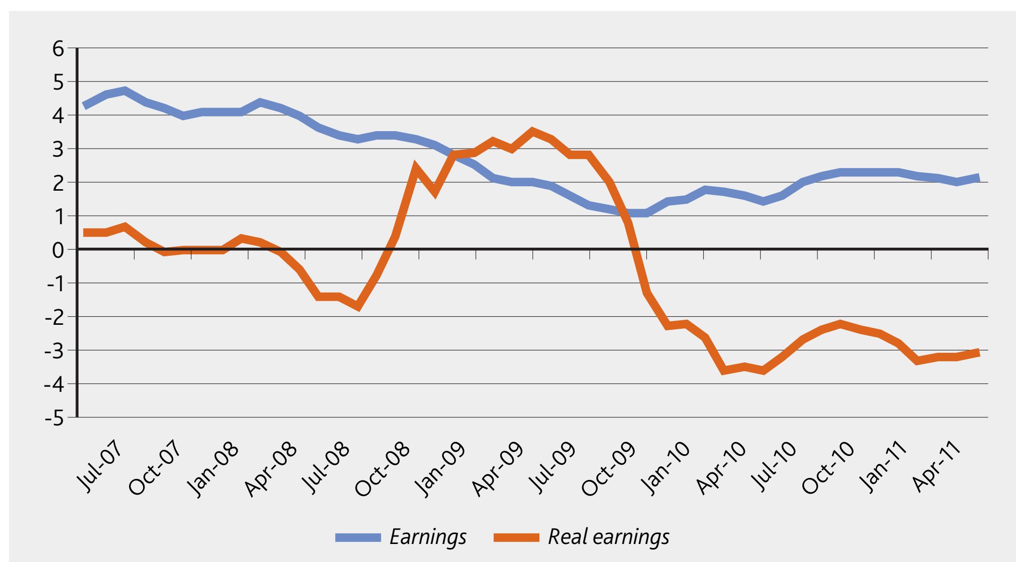
In summary, the areas of the economy that have been most severely affected by the recession have been areas such as manufacturing, construction and retail, while the largest rises in unemployment have been borne by the least skilled, the lowest paid and the under-25s. Moreover, recent research by the TUC shows that, if they become unemployed, it is low-paid workers such as cleaners, catering assistants and machine operators that are most likely to be on the dole for more than six months.[11]

There is also some evidence that the recession has intensified a significant long-term economic trend: the increasing polarisation of the labour market between high- and low-quality jobs, with the steady loss of middle-skill and middle-wage jobs. This has led to what some have described as an 'hour-glass` economy, with more jobs at the top and the bottom and fewer in the middle. This trend may have been exacerbated by the recession and its aftermath, with the growth of jobs at the top end and some lower-paid jobs. As a study by the Work Foundation has shown: "The number of professional jobs continued to increase right through the recession. Instead, the story has been largely one of accelerated structural decline in some middle-wage occupations and the loss of manual jobs."[12]

2 The impact on pay and conditions

The recession and its aftermath are also having a significant effect on the pay and conditions of those keeping their jobs and on those entering or re-entering the labour market. Figure 3 below shows that since the middle of 2008 the rate of increase of average earnings has slowed sharply, from an annual average of 4.2 per cent in 2007, 3.9 per cent in 2008, 1.7 per cent in 2009 and 1.8 per cent during 2010. Moreover, since the beginning of 2010 earnings growth has been falling behind rises in prices (as measured by the retail prices index – RPI) and at an accelerating pace. In the year to June 2011, real earnings fell by almost 3.8 per cent on average. This follows a fall of 3.4 per cent in the previous 12 months.

Figure 3: Average weekly earnings, percentage change on year, to June 2011



Notes: ONS, Average weekly earnings (three-monthly average), whole economy, regular pay, excluding bonuses; real earnings have been adjusted by the index of retail prices

The effect of the recession has to some extent been to deepen a trend that was already underway. Median household incomes grew at 2.4 per cent a year in real terms during Labour's first term from 1997 to 2001. But this was a party that did not last long. The 'feast' years of the late 1990s gave way first to the 'lean' years of Labour's second term and then the 'famine' years of its third. Real income growth slowed slightly to 2.0 per cent between 2001 and 2004 and to only 0.6 per cent per year in the period 2004–5 to 2008–9.[13]

The initial impact of the recession on real incomes was positive. This is partly because the inflation rate fell during 2009, partly because there was a delay in the imposition of pay restraint and partly because of the positive effect of the tax and benefit system on lower incomes. But, as the Institute for Fiscal Studies (IFS) put it, "the pain was most definitely delayed rather than avoided", with the impact on living standards not being felt by most until after the economy had stopped contracting in late 2009.[14]

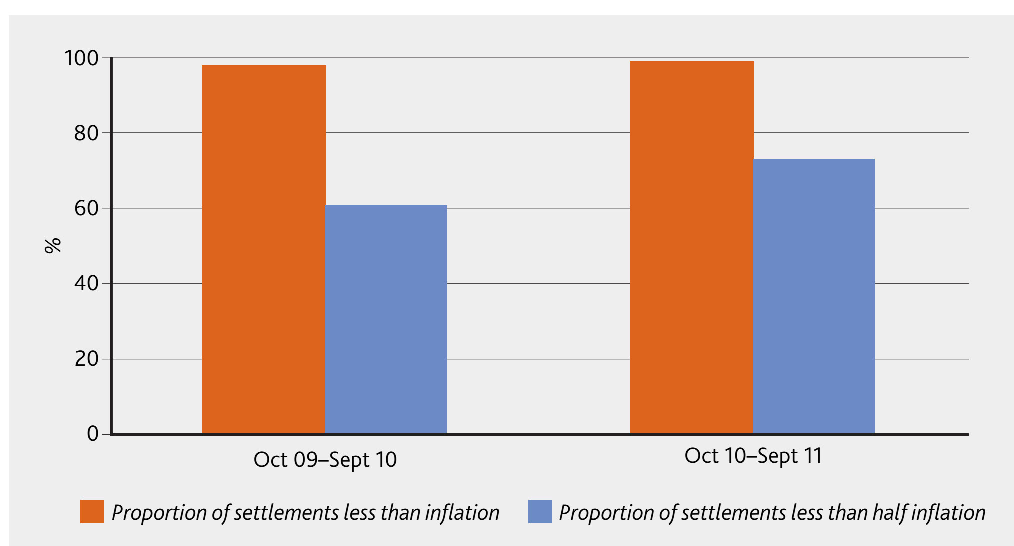
Since then, the squeeze has intensified. According to the IFS, it is set to continue for at least the next two or three years. As it describes it, the crisis "looks set to cast a very long shadow". Britain is on the brink of a sustained 10-year decline in living standards for most of the population, making it, according to the IFS, "one of the worst decades for changes in living standards since the Second World War".[15]

The pay squeeze

The downward pressure on living standards comes from five main sources: a continuing squeeze on pay rates; a worsening of working conditions; high inflation; cuts in state spending and benefits; and a 25 per cent reduction in overtime hours from the pre-recession peak.[16] Here we examine the impact of the first two.[17]

As argued above, part of the squeeze on pay (and working conditions) can be seen as a price paid to limit the rise in unemployment. Some pay moderation (and sometimes short-time working) has been an important factor in explaining the lower rise in unemployment compared with earlier recessions, with some sections of the workforce taking pay restraint – sometimes voluntarily and with the support of their union negotiators – in return for keeping their jobs. As a report by the British Chamber of Commerce has put it: "Management often have commented that they were surprised by the workforce's understanding and general acceptance of the necessary measures to help steer companies through the recession."[18]

Figure 4: Pay settlements and inflation, October 2009 to September 2011



Source: Income Data Services Pay Reports: see IDSpay.co.uk

Nevertheless, although some downward pressure on pay was unavoidable – and has helped to mitigate the rise in unemployment – at least for large firms, the ongoing squeeze could have been less severe. This is because this recession is different in another important way. As a whole, according to the Treasury, the corporate sector was running a financial surplus worth 4.5 per cent of GDP during 2010.[19] This is much higher than during the aftermath of the 1990s recession and even in the post-Millennium boom years. According to one recent study, the UK's top 100 companies had added a combined £20 billion in cash (or cash equivalent) in 2011, a 20 per cent rise over 2010, largely as a buffer against global economic uncertainty.[20]

While this aggregate position masks the serious difficulties that many small and medium-sized firms have continued to experience, it means that in some parts of the private sector more generous pay settlements could have been possible without a risk to jobs or to profitability. At least among a number of larger firms, the squeeze on pay cannot be justified on grounds of competitiveness or sustainability. It seems that the corporate sector as a whole has chosen to use the crisis to boost its cash surpluses by keeping pay below affordable levels, action which is depressing consumer demand and also affecting the viability of smaller firms who depend on consumer spending of those employed in larger businesses.

As we have seen, on average pay has risen by significantly less than the rate of inflation over the last two years. Moreover, according to the regular statistics on pay settlements collected by Income Data Services (IDS), virtually no pay deals over the two years have matched inflation. As shown in Figure 4 (see page 13), in the year to September 2011 only six out of the 482 pay settlements recorded by IDS were equal to or in excess of the annual rate of inflation (RPI) of 5.6 per cent over the period.[21] Among those enjoying real pay rises were North Sea divers and on-board and station staff at Virgin Trains. **This meant that 98.8 per cent of pay settlements in that year were running at less than the RPI while 98 per cent were less than the CPI (of 5.2 per cent). As many as 63 per cent of settlements were less than half the RPI inflation rate.**

It is a similar story in the year to October 2010. Only 2 per cent of settlements (17 out of 748 recorded) in that year were for sums in excess of 4.5 per cent, the increase in the RPI index over the year, while 73 per cent were less than half the rate of RPI inflation. **Pay has thus been lagging behind inflation for virtually all the workforce for two years in succession, whichever measure of inflation is used.**

Since the start of the recession, significant sections of the workforce have also experienced either a pay freeze or, as we will see, a nominal pay cut. In the emergency budget of June 2010, the coalition government imposed a two-year freeze on pay in the public sector (covering civil servants, the military and local government staff), roughly a fifth of the workforce. In the Autumn Statement on 30 November 2011, it was announced that public sector pay rises were to be capped at 1 per cent for a further two years.

For nearly half those affected, the pay freeze began in 2010 with many having previously experienced several years of below inflation pay rises.[22] In the original budget announcement, Chancellor George Osborne committed the government to protecting low-paid public sector workers from the freeze and undertook to award them a flat-rate pay rise of £250 per year for two years. It now seems that only a proportion of the public sector workforce on low pay will benefit; those guaranteed the rise will include only the civil service and workforces with pay review bodies, including NHS staff, teachers, the armed

forces and prison staff. Treasury minister David Gauke told MPs in July 2011 that no such guarantees would apply to local government workers where pay decisions were a matter for local councils. "The fact is that these are decisions that are made by local authorities. We gave them the opportunity to pursue the policy that we are doing at a national level but it is ultimately the decision of local authorities how they pay their employees."[23]

In addition, many low-paid part-time workers are excluded as entitlement to the pay rise is based upon full-time equivalent earnings.

The evidence is that the great majority of local councils (which employ 45 per cent of all public sector staff) have not honoured the pledge given by the Chancellor but have chosen to apply the pay freeze across the board. As we show below, some local authorities have gone further and have actually cut pay for some of those earning less than £21,000. It seems that the 'guarantee' has been at best partial.

Since 2010, most local councils have faced difficult negotiations with staff on how to implement severe and heavily front-loaded budget cuts. In most councils these have involved a mix of a two-year pay freeze and attempts to weaken existing employee terms and conditions, from leave entitlements and essential user car allowance rates to sickness entitlement and premium payments. The majority of employees will have faced reductions in one, or in some cases all, of these terms. Although, despite the pay freeze, many public sector workers will still have received a small pay increase because of the widespread availability of annual increments, some councils have imposed a freeze on such increments while others have attempted to remove any right to automatic annual increments. Such increments currently add around 1.25 per cent to the annual pay bill.

In some councils the changes have been secured through collective agreement with trade unions. In most cases there has been a strong element of compromise on both sides, achieved through local negotiation (with, for example, a number of councils such as Waltham Forest eventually withdrawing initial proposals for pay cuts). Nevertheless, there have also been a number of disputes and in some cases widespread industrial action. In some cases where agreement has not been reached, councils have imposed new terms by a process of dismissal and re-engagement.

The extent of pay freezes

Moreover, pay freezes have not been confined to the public sector; they have also been widespread across the private and voluntary sectors, with some of them being imposed from as early as 2008. Table 2 (see page 16) lists examples of those outside the public sector experiencing a pay freeze in each of the three years, October 2008–September 2009, October 2009–September 2010 and October 2010–September 2011.*

Each year contains a number of high-profile charities – from Guide Dogs for the Blind to the RNIB – and high street retail outlets such as Waterstones, House of Fraser and Argos. Several organisations have imposed a freeze lasting more than a year, including Harsco, Homebase, Guide Dogs for the Blind, bmi and a number of other airlines. At Thomas Cook Airlines, a freeze has been in force since 2009. While engineers at Thomas

*Derived from the regular pay settlement data compiled by IDS (IDSpay.co.uk). While extensive, this data is not fully comprehensive and thus provides examples only of organisations where staff have faced a freeze. For example, companies that have asked for anonymity and organisations with less than 1,000 employees have been excluded. Nevertheless, they provide an indication of the number and range of medium and large companies where freezes have occurred.

Cook have been granted a pay increase of half the rate of inflation from November 2011, the company's 680 pilots are continuing to have their pay frozen until April next year (a three-year freeze), while the 2,350 cabin crew have yet to reach a deal.

In the year to September 2009, 29 per cent of documented settlements involved a pay freeze (29 per cent of company agreements, not employees). The median settlement was 2.05 per cent. The following year, 24 per cent of all settlements involved a freeze, while the median rise was 2.0 per cent. Then, from October 2010 to September 2011, 13 per cent of all settlements involved a freeze, while the median settlement was 2.5 per cent. Although a range of professional and managerial staff have been affected, most of those facing a freeze – such as voluntary sector support workers, haulage drivers, warehouse and distribution workers, retail and manual production staff – will be in the middle and bottom end of the earnings range.

Table 2: Examples of private and voluntary sector organisations imposing a pay freeze, October 2008–October 2011

Oct 2008–Sept 2009	*Number of staff*
Operational grades at First for Foodservice (transport and distribution)	5,200
Manual, white collar and retail staff at AGA Rangemaster	1,200
All staff at Action for Children	6,000
All staff at Alcatel-Lucent Telecom	1,600
Store managers at Argos	2,329
Distribution workers and operatives at Arla Foods	1,700
All staff at Avenues Trust	1,103
All staff at Avon Cosmetics	1,800
All PPP employees at Axa UK	1,800
Admin and retail staff at BAA	7,000
Drivers, industrial and admin staff at BOC Gases	2,100
Clerical, operating and engineering grades at BT	60,000
Manual and craft workers at British Gypsum (chemicals, pharmaceuticals)	1,300
Manual grades at British Printing Industries Federation (media)	40,000
Manual and craft workers at Building & Allied Trades JIC and at Building Brick & Allied Industries NJC	100,000 5,000
All staff at Canon UK	1,600
Brewery workers, drivers and management at Carlsberg UK	2,100
All staff at Channel 4	1,032
Manual grades at Construction Industry JC	600,000
Manual grades and middle management at Corus	29,500
Manual and staff grades at Crown Paints	1,480
Retail staff at Early Learning Centre	1,696
All staff at FedEx Express	1,600
Manual staff at Felt Roofing Contracting Industry NJC	3,500
All staff at GE Healthcare	2,884
Non-management staff at Grattan	3,250

All staff at Harsco Corporation	4,000
Retail staff at Homebase	18,000
All staff at Honda UK	4,000
All staff at Ibstock Brick	1,400
Production, engineering and clerical staff at Imerys	1,100
All staff (bar management) at Ineos ChlorVinyls	1,070
Manual and white-collar grades at JCB	4,000
White-collar staff at Kuehne + Nagel	2,500
All staff at Logica	5,500
Retail and wholesale staff at Makro Self-Service Wholesalers	5,800
All staff at Mercer	3,000
Non-manuals at Messier-Dowty	1,100
All staff at Metropolitan Housing	2,000
All grades at Monsoon Accessorize	5,000
Retail staff and managers at Mothercare	5,304
Contact centre and HO staff at N Brown Group	2,000
All staff at NSPCC	2,300
Staff and managers at Newcastle Building Society	1,200
Drivers and warehouse workers at Norbert Dentressangle Transport	1,600
All staff at Norfolkline	1,800
All staff at Norwich & Peterborough Building Society	1,040
All staff at OKI (UK)	1,100
All staff at Ocado	4,170
Engineering workers at Offshore Contractors Association	10,000
CWU grades at Parcelforce	4,000
Manual and craft workers at Rolls Royce	3,200
All staff at Schneider Electric	1,800
Manuals and staff at Seven Trent Water	5,500
All staff at Shaw Healthcare	3,800
All staff at T Mobile	7,200
All staff Toyota Motor Manufacturing (UK)	4,500
All staff at Tyco Electronics	2,200
Manual grades at Vehicle Building Wages Board	8,000
Staff at Virgin Atlantic	9,500
All staff at Vodafone	9,700
Monthly paid staff at Whitbread restaurants	3,600
Retail and white-collar staff at World Duty Free	2,800
All staff at Yell	3,500
Cabin crew, customer service, pilots, engineering and head office staff at bmi	4,600

October 2009–September 2010	*Number of staff*
Manual and white-collar staff at Air Products	1,500
Drivers and warehouse staff at Alliance Healthcare	3,000
All at Arco	1,500

Retail staff and store managers at Argos	22,400
Non-negotiated staff at Avia Foods	1,000
All at Avenues Trust	1,203
All apart from PPP staff at Axa UK	8,700
All employees at BMW Plant Hams Hall and non-management staff at BMW Oxford	3,300
Manual and other staff at Bentley Motors	2,680
Manual staff at British Furniture Trade JIC	30,000
Salaried staff and management at Caterpillar UK	8,461
All staff at Choice Support	1,791
Manual staff at Construction Industry JC	600,000
Technical and allied staff at Environmental Engineees	10,000
All at Expro North Sea	1,000
All staff at Extracare Trust	1,136
Hourly paid workers and white-collar staff at FG Wilson Engineering	2,100
Manual workers at Flat Glass Industry NJC	6,000
Manuals and staff at GE Aviation	2,900
All staff at Getronics	1,135
All at Guide Dogs for the Blind	1,100
All at Harsco Corporation	4,000
Operatives, craftsmen and foremen at Heating, Ventilating and Domestic Engineering JCC	35,000
Staff at Home Group	1,500
Retail staff and managers at Homebase	17,000
All staff at Hutchinson 3G UK	3,000
All at Hyde Group	1,700
Admin, office, engineering staff at INEOS Manufacturing Scotland	1,400
Staff at ITV	4,000
All staff at Ibstock Brick	1,268
Hourly-paid staff at Jaguar Cars	3,938
White-collar staff at Jaguar Halewood	3,000
All staff at Jewish Care	1,030
Process, craft, white-collar staff and lorry drivers at Lafarge Cement	1,200
Manual and white-collar staff at Land Rover	7,946
All groups at MCCH Society	1,442
Manual workers at Mastic Asphalt Council	2,000
All staff at May Gurney	4,500
All staff at Midland Heart	1,516
HO staff and retail managers at Mitchells and Butlers	5,300
Staff at Oxfam	1,800
Manual staff at Perkins Engines	1,009
Staff at Places for People Group	2,500
Manual staff at Plumbing JIB, Scotland and NI	10,000
Manual workers at Plumbing Mechanical Engineering Services JIB	50,000
All at RNIB	2,197

All at Royal Masonic Benevolent Institute	1,400
Manual staff at Scottish Bakers JIC	5,000
All at Smith and Williamson	1,500
Senior management at Tarmac	3,200
All at Toyota UK	4,015
Manual and craft workers at Vauxhall Motors	2,000
Bookstore and HO staff at Waterstones	5,045
Cabin crew, customer service, pilots, engineering and HO staff at BMI	4,780
October 2010–September 2011	***Number of staff***
All staff at Alcatel & Lucent Telecom	1,250
All at Allied Irish Bank	2,440
All at Aston Martin Lagonda	1,150
All at Barnardo's	7,500
Hourly paid production and salaried staff at Bernard Matthews	1,770
Staff at Bield Housing Association	1,294
Manual workers at electrical contracting JIB	48,000
All staff at Guide Dogs for the Blind	1,100
Sales and support staff at House of Fraser	6,880
All at Ladbrokes	16,000
All groups at MCCH Society	1,442
Retail and warehouse staff at Makro Self-Service Wholesaler	5,800
All at Scottish Waste	3,050
All at Wild Ward Family Trust	1,165

Source: IDSPay.co.uk

So what proportion of the workforce (as opposed to organisations) has been affected by a pay freeze? According to a survey by the CIPD conducted in the summer of 2011, **as many as 58 per cent of employees received a pay freeze (that is, a real pay cut) between January and June 2011** (see Table 3 below). **A further 6 per cent had a pay cut and only 28 per cent a pay rise.** Those hit hardest on pay during 2011 have been public sector workers, with four out of five suffering a pay freeze or cut though, as this survey shows, many workers in the private sector have also been affected.

Table 3: What has been happening to pay, January–June 2011

	Pay freeze	*Pay cut*	*Pay freeze or pay cut*	*Pay rise*
Public sector	77%	4%	81%	13%
Voluntary sector	55%	8%	63%	30%
Private sector	52%	7%	59%	32%
All	**58%**	**6%**	**64%**	**28%**

Source: CIPD, Employee Outlook Survey, August 2011

Note: The figures do not total 100 per cent because of 'don't knows'.

Cuts in pay and conditions

Although over the last two years the great majority of the workforce has faced either a pay freeze or a pay increase below the rate of inflation, a minority of employees has faced cuts in *nominal* pay, in some cases alongside a worsening of terms and conditions of work. This is clear from a TUC survey of some parts of the public, voluntary and private sectors facing pay cuts.

Pay cuts in local authorities

Although the typical pattern in the public sector has been one of a two-year freeze, some parts of the public sector are also facing nominal pay cuts, the product of the reduced funding to local councils.

Four local authorities (Southampton, Shropshire, Neath Port Talbot and Doncaster) have imposed pay cuts on the majority of their staff. In each case the cuts have been attributed to central government grant reductions. Neath Port Talbot was one of the first councils to agree changes with trade unions and implemented reductions in overtime and unsocial hours premiums in April 2011. The unions also agreed to a temporary cut in pay of up to 2 per cent.

In Southampton and Shropshire, in contrast, the contract changes were accompanied by extensive and protracted industrial action, with in each case the local unions eventually winning a number of concessions over original proposals.

In April 2011 Southampton was the first council to announce a process of dismissal and re-engagement on new contracts. The council imposed a pay cut from July 2011 of between 2 and 5.5 per cent on all staff earning over £17,500 – some 4,300 people. The package of changes also included a two-year freeze on annual increments and a reduction in mileage allowances. Despite a rolling programme of industrial action from summer 2011 – involving toll collectors, parking officers, refuse collectors, library staff, social workers and street cleaners – 97 per cent of the council's workforce signed the new contracts on 11 July.

Industrial action continued from July, with, for example, a strike by care workers on 6 October. Following extended negotiations with local UNISON and Unite officials, the council eventually agreed to a number of concessions, including raising the limit for pay cuts to a full-time equivalent salary of £22,000 and lowering the maximum cut from 5.5 to 5 per cent.

In Shropshire, all 6,000 employees of the county council received a letter (dated 27 June) of dismissal and re-engagement from 1 October on new terms and conditions. These included a pay cut of 2.7 per from October 2011 and a further pay cut of 2.7 per cent from October 2012, reduced entitlement to sick pay and reduced shift and overtime payments. These were to apply to all staff earning over £14,733. Those earning below £12,787 were given a pay freeze, those from £12,787 to £13,588 a 1 per cent cut in each period, and those earning from £13,589 to £13,874 a 2 per cent cut. Following further negotiations with UNISON, Unite and the GMB, and some industrial action, the council made some concessions, including an additional two days' holiday per year to be taken on 29 and 30 December, increases in mileage allowances for essential car users and an agreement to try to find other savings to lower the second pay cut to 1.9 per cent.

Both Southampton and Shropshire are examples of councils where the Chancellor's declaration that staff earning less than £21,000 should not just be protected from a freeze but should be awarded a £250 increase has not occurred. Indeed, in Shropshire, staff on pay over £12,787 are facing nominal pay cuts.

Plymouth Council originally proposed a package including cuts in pay, but eventually agreed to a more modest set of proposals. A new contract of employment was implemented from 14 September 2011 after the council managed to obtain collective agreement from all three unions involved in negotiations. Annual pay increments are now to be linked to satisfactory performance, overtime rates have been simplified and cut, and maternity, paternity and redundancy pay have been cut to statutory entitlements. This agreement came after extended negotiations with the unions, which at one point involved the council derecognising UNISON.

In the first week of January 2012, Doncaster Council voted for a pay cut of 4 per cent affecting 7,000 staff and saving £6.2 million a year. The cut was opposed by local unions including UNISON and there had been earlier strike action over the plans. The council said that some lower paid workers would be exempt from the cut.

Pay cuts in the voluntary sector

Although nominal pay cuts are occurring in only a small number of councils, they have been more widespread in voluntary organisations and charities, which increasingly run services on behalf of councils. This is especially the case in organisations working in a range of supportive and hostel care where pay is concentrated in the bottom half of the distribution and is already mostly low compared with the public and private sectors. Indeed, the evidence is that it is in parts of the voluntary and charitable sector where the heaviest cuts in pay and conditions are being imposed.

There are three main reasons for this. First, many local authorities have imposed a disproportionate share of centrally imposed cuts on organisations contracted to run local services. Second, many voluntary organisations have very low reserves and low margins as a result of a long period of financial squeeze, in some cases going back to before the start of the recession. In these cases, organisations will have had limited options in meeting enforced cuts in their budgets, which are mostly dominated by wages. Third, there is anecdotal evidence that a small number of charities have grasped the opportunity of wider austerity to restructure their organisations to the detriment of staff, even when they are in good financial health.

It also appears that in some cases cuts in pay and conditions have been motivated by an awareness that the cheapest service providers will pick up more business in an increasingly competitive market by outbidding rivals on price. As one support worker facing cuts in pay and conditions put it, "they aren't merely passing on cuts but positioning themselves to pick up business by slashing terms and conditions so that they are cheaper than competitors".

Where local organisations have faced cuts in their budgets, it is staff pay and conditions that have borne the brunt of the impact. Some voluntary groups have attempted to spread unavoidable cuts in pay relatively equitably across the organisation, while protecting pay among the lowest paid and maintaining consultation with staff.

However, the management response in many charities and voluntary organisations facing funding pressure has been less consultative. Although organisations have often been

faced with very limited choices, many have allowed minimal consultation. Sometimes relationships with staff have deteriorated sharply, leading to industrial action.

In July 2011, care home staff working for the Margaret Blackwood Housing Association, which runs nearly a hundred care homes across Scotland, were informed that their jobs would be downgraded from support worker to support assistant on lower pay. Faced with sharp reductions in grants from Scottish councils, the Association gave staff 90 days' notice to accept the new conditions or face dismissal. Following negotiations, existing support staff are now to have their pay protected for between six and 18 months if they sign the new contract and will then be regraded downwards on less pay. The new contracts will come into force for most staff during 2012. At the top of the scale this will mean a reduction of more than £3,000. Employees will face a pay freeze until the new lower scales are implemented and there will also be a reduction in sickness entitlement and annual leave.

The Glasgow-based 140-year-old social care charity Quarriers, which works mainly with troubled children across Scotland, is also imposing pay cuts on all its staff – over 2,000. Staff are being asked to sign up to new contracts that involve pay cuts of between 3 and 17 per cent. These are to take effect between November 2011 and January 2012. While managers are taking the minimum cut of 3 per cent, frontline staff are taking the largest cuts, with support workers on £20,300 taking a cut of 17 per cent – a reduction in pay of £3,400. As in the case of Margaret Blackwood, the cuts are the result of reduced funding from local councils in Scotland.

In response to budget cuts, one London-wide homeless charity, Broadway, cut pay from October 2011 for all its existing housing support workers. Staff are facing cuts in earnings of around 16 per cent. One member of staff, who has worked for Broadway for 10 years, has had her pay cut by over £4,000, taking it to below £25,000. This comes on top of a 7 per cent increase in hours from 35 to 37.5 in 2010 and a weakening of working conditions – including an erosion of maternity and paternity rights and changes in working patterns that involve more weekend and evening work.

While the pay of support staff is being lowered, that of several senior managers has been increased. The decision to raise management and cut staff pay is based on a pay comparison report in 2009. This claimed that the managers were relatively underpaid compared with comparable jobs, while the support workers were overpaid – a finding disputed by union representatives.

The pay cuts have come in two phases. First, pay was reduced in 2010 for all new staff being hired on a new lower rate, around a fifth below existing levels. New staff are also facing even poorer terms and conditions, with, for example, reduced holiday entitlement. Around fifty existing staff, most of whom are long-standing employees, were given 12 months' notice that their pay would be cut. A number of these have chosen to leave rather than take a pay cut.

As one support worker who has worked for the organisation for 11 years explained: "There is a domino effect, one which is driving down wages and conditions. In the voluntary sector it is a race to the bottom. For me the clock has been turned back to where I was 15 years ago. I never thought I would be facing such financial difficulties."

Other voluntary organisations in London where pay is being cut include Centrepoint, the young people's homeless charity, which lost a number of contracts in the year to April

2011. It is imposing pay cuts of up to 10 per cent on 100 of its 121 staff and 28 staff are to be made redundant. Management salaries, in contrast, are being ringfenced.

Notting Hill Housing Association, which provides social housing and support services for homeless people, care-leavers and those with mental health problems, has imposed a number of changes. It has increased hours from 35 to 37.5 per week and frozen pay for around 300 support workers this financial year. Pay is to be cut by up to 10 per cent from April 2012. Pay levels, as in other charities providing supportive care, are to be linked to a series of benchmark salaries, based on comparable pay elsewhere. As in a number of other organisations, new staff will be hired on these new rates: existing workers will have their pay reduced towards these new, lower rates. Other housing associations in the process of a restructuring exercise on hours, pay and conditions include Amicus Horizon, Ekaya, Family Mosaic, Thames Reach and Gateway.

In Leeds, a number of publicly funded voluntary organisations have also passed funding squeezes on to staff. The mental health charity Touchstone, which provides support for those with alcohol and drug problems and has 80 employees, has cut pay for a third of its support workers by an average of £2000, taking pay down for this group from around £23,000 to £21,000. This is despite a 2010 job evaluation exercise by a panel of management and staff which concluded that pay was broadly in line with similar organisations. Two out of three of the senior managers took a pay rise.

Leeds-based Foundation employs 300 staff and works across North Yorkshire with ex-offenders and those with substance and alcohol problems. It has imposed voluntary redundancies and reductions in wages and fringe benefits to meet substantial budget cuts from local councils. Its original proposal was to downgrade around a third of existing staff (earning around £20,000–21,000) on to a lower scale and salary. After negotiation, this plan was shelved in favour of a range of other measures. These include: an increase in hours for all staff from 37 to 40; the cutting of the annual car allowance from 2012 (cars are an essential requirement of the job for support workers), equivalent to a loss of £1,000 a year; and the freezing of wages. As elsewhere, Foundation has also set up a new 'support assistant' post, on a lower salary of around £16,500 and most new staff will be hired on this new grade. Some staff – those transferred from local authorities in recent years – will also face the gradual loss of the extra 'protected' salary they carried with them. Under pressure from the local branch of UNISON, the management has now agreed to review these revised pay and hours conditions in 2013.

The Leeds-based branch of the national charity, Community Links, which provides mental health and resettlement support, depends on winning tenders and has suffered substantial budget cuts. It has also undertaken a job evaluation exercise using a pay consultancy. Although the results of this evaluation – dismissed by one support worker as a "phony evaluation exercise" – have not been made available to the staff affected, a group of around twenty support workers was told that they would have to sign a new contract by July 2011. This would protect their salary for a year, but from August 2012 their pay will fall by 10 per cent. Those few who have refused to sign the new contract will lose their protection and take an immediate pay cut.

In Redcar, staff working for the local branch of the mental health charity Mind – which has already faced substantial cuts in its 2010/11 budget and is waiting to find out the scale of the cuts for 2011/12 – are facing considerable uncertainty over their future. In a restructuring exercise, all support staff (with pay averaging £19,000) are having to re-

apply for their jobs, while current pay is to be cut from April 2012. Some part-time staff are being told that they will have to take a reduction in hours next financial year. As one local support worker said: "There is so much uncertainty, everyone is very demoralised. What's bugging everybody is month after month of not knowing what's going to happen. We're all unhappy about having to re-apply for a job we've been doing for years, even if it's slightly respecified. They are asking me to take a pay cut and a cut in hours from April 2012. I'll be more than £2,000 worse off on my current part-time salary. A lot of people are looking to find work elsewhere, but there are so few jobs around."

Cuts in the private sector

The picture is more mixed in the private sector. As shown in Table 2 above, pay freezes have been commonplace and there has been growing downward pressure on wages in a number of sectors including haulage, distribution and parts of manufacturing and most especially in low-paid areas like fast food, pubs, restaurants, hotels, travel and construction. Many smaller firms, which account for a significant share of employment, have been struggling during the downturn.

In some sectors attempts to impose pay cuts and freezes, such as in the passenger transport companies, have been thwarted only by union intervention. A number of bus companies, for example, eventually agreed (under pressure) to lower-than-inflation pay rises rather than a nominal cut. In London, several bus companies have asked drivers to work two extra hours on their standard 38-hour week. A number of companies have also introduced new, lower starter rates for new drivers. Where these new starter rates are imposed, such as in some London companies, they are up to £2 per hour less than the full rate – around a 15 per cent cut – and it can take 5 years to reach the full higher rate.

While pay freezes have been commonplace across the aviation industry, some staff have also been affected by pay cuts. Pilots at BA, Monarch and Thompson have agreed to a series of pay cuts. Monarch's 400 pilots, for example, accepted a two-year pay freeze from 2009, followed by a cut in gross pay for the period April to September 2010. Pay lost over this period is due to be repaid when the airline reaches agreed financial targets.

Since 2009, the Wyndham group of commercial printing companies, employing around 1,200 staff and taken over by private equity firm Walstead Investments in 2008, has imposed a range of pay cuts and poorer working conditions over the last two years. Two of the companies have been closed down, and others have faced a large number of redundancies. Some employees have faced a pay freeze and others pay cuts of between 7 and 10 per cent. At one of the sites, employing 300 people, a pay cut was accompanied in 2010 by an increase in the working week of 6 hours, from 36 to 42. Following negotiations with Unite, this was later reduced to 39 hours. At one of the companies in St Austell, Cornwall, attempts to impose heavy cuts in pay on 280 print workers has led to a sustained period of industrial action.

Elsewhere there have been attempts to weaken existing national agreements on pay. An important example is the construction industry, where a group of major employers, supported by the Heating and Ventilating Contractors' Association (HVCA), is attempting to impose a new agreement – the Building Engineering Services National Agreement (BESNA) – from March 2012. Unite, which represents a large number of those affected, has shown that the new agreement, which has been imposed by the employers and not negotiated with the union, will cut pay for a range of trades notably electricians

and plumbing, heating and ventilation engineers. The union has demonstrated that the proposal is a way of deskilling contractor workers on to lower hourly pay rates and poorer conditions. This is denied by employers, who argue that they are merely bringing the agreement into line with modern working methods.

Five out the seven employers behind the new agreement asked their employees to sign up to new contracts (inferior ones according to Unite) by December 2012 or face dismissal, a proposal that has already sparked a sequence of protests by construction workers outside sites up and down the country. These include Sellafield, Grangemouth and Ratcliffe power stations, Blackfriars and Kings Cross stations and the Lindsey oil refinery. In response to the refusal of the employers to negotiate the new agreement, Unite agreed on 18 October to a strike ballot of 1,000 members at the construction firm Balfour Beatty Engineering Services, which it believes is acting as the 'ringleader' of the breakaway employers.

Because this survey provides only a partial picture of what is happening in the private sector, the extent of nominal pay cuts is likely to be more widespread, especially in smaller companies.

3 High pay

While the great majority of the workforce is facing falling real earnings, with most households on a near decade-long decline in living standards, there is little sign of an equivalent level of austerity for those on the highest pay. The political call for all to be prepared to share the pain has, apparently, fallen on deaf ears among those running Britain's largest companies. Some executives have taken pay cuts, sometimes voluntarily and sometimes recommended by remuneration boards. But these are a small minority. The typical pattern is very different.

Figure 5 below shows the course of median total earnings (basic pay, bonuses, performance-related pay and benefits) for the lead executive (in nearly all cases the chief executive) in FTSE 100 companies from 2000 to 2011 and compares this with median earnings for all full-time employees. The graph shows an index of median and top pay, which starts in 2000 when median earnings were £18,848 and median executive pay was £884,445. Over the next 11 years median earnings rose to £26,526, while top pay rocketed to £2,711,238 (a two-and-a-half-fold increase), rising five times more quickly than those of the average employee.

Figure 5: Index of top executive vs median employee pay, 2000–2011

Source: Income Data Services

Note: The figures are nominal, unadjusted for inflation

Since 2007 the gap between executive and employee pay has continued to widen, albeit at a slower pace. Between 2007 and 2011, top executive earnings rose by 23.6 per cent, just over double the rise in median earnings for all employees. Initially there was a dip in median pay among top FTSE 100 executives in response to the meltdown. But this fall

was sufficiently modest that, even during the deepest point of the downturn, median pay among the top 100 executives in the UK was still 137 per cent higher than in 2000. Moreover this dip proved to be temporary: since 2009 top executives as a group have more than bounced back. Median pay rose by 10 per cent in 2010 and a further 17 per cent in 2011.

Top executives in the UK have been awarding themselves an ever-larger share of the economic cake since the depth of the downturn, even though the cake has been shrinking in size. As a result, the pay gap between executives and their staff has continued to widen, despite the persistence of the economic crisis. In 2000, the ratio of FTSE 100 top executive to typical employee pay stood at 47:1. By 2007 this had nearly doubled to 92:1. By 2011 it has risen again to 102:1.

Top executive pay is made up of a mix of basic earnings, bonus and performance-related pay and the value of fringe benefits. In 2011, the median value of these fringe benefits (from car and housing allowance to health insurance) stood at £29,470; this alone is close to a fifth more than median earnings among all employees.

Nor can these upward trends in pay be justified by business performance. A report by the High Pay Commission shows that pay has outperformed on all measures of business success. Thus, between 2000 and 2010 the average total earnings of all FTSE 350 directors grew by 108 per cent. This compares with a fall in the year-end share price of 71 per cent; a rise in pre-tax profits of 51 per cent; an increase in earnings per share of 73 per cent; and an increase in average market capitalisation of 8 per cent.[24] Moreover, this is despite a sharp rise in the share of total earnings accounted for by performance-related pay including bonuses, a move meant to bring the two more closely into line. The report concludes:

> *With the recovery still in its infancy, it is too early to gauge whether the post-crisis remuneration landscape will look any different when the dust has settled. But if the trend in the most recent period is any guide, it has not taken long for directors' earnings to resume 'business as usual'. In particular, the post-crisis recovery in earnings has matched or outpaced most indicators of corporate recovery.*[25]

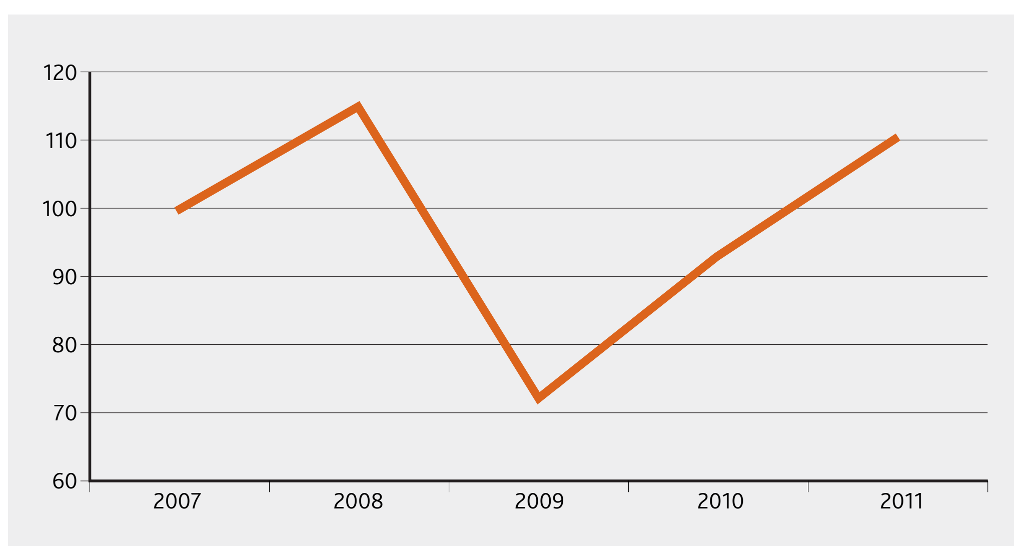
Thus pre-tax profits fell by 10 per cent between 2007 and 2010, earnings per share fell by 7 per cent and market capitalisation rose by 4 per cent. In contrast, total average earnings by directors rose by 19 per cent over the same period. As research by Thomson Reuters Datastream has shown, one in five FTSE 100 companies paid its chief executive more than they paid in UK corporation tax in 2010/11.[26] "It seems the days of earnings restraint by FTSE 350 directors were short-lived," commented Steve Tatton, editor of the IDS Directors' Pay Report. "It is as though the recession never happened."[27]

Throughout 2010 and 2011, there was a series of high-profile examples of hikes in executive pay in weakly performing companies. John Pluthero, former boss of Cable & Wireless, pocketed £18 million in 2011, while the firm's shares dropped from 90p to 20p. The Royal Bank of Scotland (84 per cent owned by the taxpayer) handed out bonuses of nearly £1 billion in 2010 despite losses of £1.1 billion. During 2011 there were shareholder pay revolts at 14 FTSE 100 companies, where rebellion is defined as at least a fifth of votes against the remuneration report. That's up from seven in 2010. The companies include some of the FTSE's biggest: BP, HSBC, Rio Tinto, Standard Chartered and National Grid.

It is a similar story in the finance sector. According to a study by Astbury Marsden, a leading financial services recruitment agency, average pay in the City jumped by 12 per cent in the year to September 2011, with the biggest rises in the first half of the year. Base pay for managing directors saw the biggest jump – up 21 per cent over the year.[28]

This pattern is confirmed by the annual list of the UK's richest 1,000 compiled by the *Sunday Times*. This shows that, while the combined wealth of the top 1,000 fell sharply – by some 38 per cent in 2009, largely because of the slump in share prices and business values – it has since recovered most of the lost ground. As shown in Figure 6 below, the total wealth enjoyed by the richest 1,000 of £395.8 billion rose by 53 per cent between 2009 and 2011. The 2011 figure was a tenth higher than in 2007 and close to the record level of £413 billion in 2008.

Figure 6: Combined wealth of the UK richest 1,000, £ billion, index, 2007 = 100



Source: *Sunday Times* Rich Lists

Moreover, the rapid recovery of personal fortunes after the initial dent has been a worldwide phenomenon, even greater across the rest of the globe than in the UK. The annual count of the number of global billionaires by the American business magazine *Forbes* counted a record number of 1,210 billionaires in 2011, up by 28 per cent from 2007. Their combined wealth rose from $3.5 to $4.5 trillion over the period. Despite the crisis, little more than a thousand individuals now command a sum equivalent to a third of the output of the American economy.[29] According to a study by corporate governance group GMI Ratings, US chief executives enjoyed pay rises of between 27 and 40 per cent in 2011.[30]

4 Conclusions

To date, the impact of the recession on jobs has been notably less severe than might have been expected given a fall in output of 7.1 per cent. It now seems, however, that the final response will be greater than the initial impact. Unemployment started to rise again from the summer of 2011 and is likely to continue to do so until at least the end of 2012.

Far from being the white-collar recession predicted by many commentators, those most likely to have lost their jobs have been skilled and unskilled workers, and those in the bottom half of the pay distribution. The sharpest increase in unemployment has fallen on those under-25, where the number out of work is now above the one million mark. Young people now account for more than a third of the unemployed.

One of the most marked effects of the recession has been on pay and conditions for those in work. While average real pay rose in the first year of the recession, it has been on a downward slide since the autumn of 2009. In the year to June 2010, average real pay fell by 3.6 per cent, and then by a further 3.8 per cent in the year to June 2011. Fewer than 2 out of every 100 employees enjoyed a pay settlement above the rate of inflation in the year to October 2011. It was a similar story in 2010: while 28 per cent of the workforce enjoyed a nominal pay rise in the first half of 2011, close to three in five had their pay frozen and around 6 per cent took a nominal pay cut.

A significant minority of the workforce has suffered a mix of pay cuts and worsening conditions of work, including longer hours, cuts in fringe benefits such as car allowances, and reductions in holiday entitlement and maternity and paternity leave. This is particularly the case in parts of the voluntary sector where budget cuts have been especially severe. Many local councils have passed on Whitehall budget cuts disproportionately to their contractors, notably in areas like social care, while asking them to provide the same service on considerably less money and with greater uncertainty about the future.

While pay restraint has been an important factor in moderating the rise in unemployment and in keeping some small businesses afloat, parts of the corporate sector – especially the largest corporations – are sitting on near-record cash surpluses. These were already historically high at the start of the recession but have been boosted by two years of below-inflation pay settlements and wider cost-cutting measures. In some parts of the private sector, pay settlements could therefore have been more generous without risk to jobs or to profitability. Average falls in living standards could therefore have been more muted without detriment to the corporate sector.

The risk now is that these wider trends in pay and conditions – which are likely to continue into 2012 – will leave a permanent mark on the labour market.

- Many of those facing pay freezes and cuts will find that their earnings are unlikely to return to pre-recession (real) levels for many years, if at all, leaving them with a permanent or semi-permanent dent in their living standards.
- The reductions in terms and conditions are also unlikely to be reversed. The clock is being turned back for a significant minority of employees, with the improvements in hours and conditions of recent times being reversed. These losses are unlikely to be reinstated, leading to a near-permanent lowering in the pattern and nature of working conditions.
- In some areas of the economy, in both the private and the voluntary sectors, new staff are being recruited on poorer terms and conditions than existing staff, to do the same work. This is leading to an increasingly two-tiered workforce in some organisations.
- One of the key effects of the recession is thus to have nudged the UK further in the direction of a low-pay economy with weaker employment conditions.
- Finally, in the public sector individual councils across the country have implemented very different contractual changes in both pay and conditions, leading to what IDS has described as "diversions from the national agreement that will lead to anomalies likely to make managing pay increasingly difficult in the future".[31]

Despite the government's declarations, the ongoing impact of the recession on those of working age has been far from evenly borne. As in the decade up to the 2008–9 crash, the big winners of the past two years have been top business executives, various groups of the super-rich and some professional groups. In particular, corporate and financial executives have enjoyed the power to opt out of the pain being imposed on the rest of the workforce and society. Most of these winners will have been those already sitting at the top end of the income distribution.

The great majority, in contrast, are significantly worse off. These fall into three main groups.

The heaviest losers are those who have lost their jobs and have failed to find work. The next group is those facing nominal pay cuts and a worsening of their conditions of work and those who became unemployed but found new work on poorer pay. Together these two groups constitute a little over a tenth of the workforce. They will be concentrated among those in the lower half of the income distribution. Many will have faced severe cuts in their living standards.

The third group of losers are those who have faced a pay freeze over the last two years. These include public sector workers and a significant number of those in the private and voluntary sectors. Because of the rise in inflation, this group will have experienced a fall in their real earnings of close to 8 per cent over the last two years, with the government's proposed increases in public sector pension contributions placing these workers at risk of an even greater fall in living standards.

Among the remainder of the working population, nearly everybody will have faced a real fall in earnings – of between 1 and 7 per cent.

In many ways the impact of the recession has been to exacerbate the long-term economic trends in comparative living standards that set in from the early 1980s. For the next 25 years the British economy was characterised by a falling wage and rising profit share.

Indeed, by fuelling deflationary pressures and encouraging a surge in private debt, this increasing imbalance in the way the fruits of growth have been shared was one of the key factors driving the global economy over the cliff in 2008.[32]

Those trends are now set to continue. The Office for Budget Responsibility (OBR) has forecast that labour's share of the output of the economy will have fallen by four percentage points between 2009 and 2016.[33] On present policies and trends, it is unlikely to recover this lost ground beyond that year. As in the past, it will be those in the lower half of the pay distribution that are most likely to be bearing this fall.[34] The gains from recovery, when it comes, are likely to continue to be unevenly divided. This means a continuation of the trend of the last 30 years, with those on middle and low incomes likely to face a continued shrinking in their combined share of the nation's annual output. Indeed, TUC analysis has shown that the amount paid to employees in wages in 2011 was £60bn less than would have been the case had wages continued to rise at the same rate as in 1978. Our growing wage gap is significant.[**]

Moreover, the very forces that are driving a bigger gap in incomes are also a key explanation for the lack of recovery and the persistence of the slump. By depressing demand, a combination of falling real wages and high corporate surpluses (themselves the result of the long-term shift in the distribution of output away from the workforce) is helping to paralyse the economy. The effect of uneven distribution of the pain of the fall in output might have been mitigated if the growing cash surpluses being held by companies – amounting to more than 4.5 per cent of GDP – were being productively spent. As the Treasury has stressed, "unlike after the 1990s recession, the corporate sector is in a strong position to drive an investment-led recovery".[35]

Yet, despite government pressure on firms (particularly large corporations) to use these surpluses for investment, they are mostly standing idle, partly because of the lack of corporate confidence arising from the prolonged nature of the crisis. Britain and much of the rich world is now locked into a lethal combination of falling consumer demand and an investment slump. The very forces that helped get us into this mess are not only preventing us getting out of it, they look set to continue well into the future.

** TUC Living Standards analysis, forthcoming

Notes

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6 ONS, *Labour Market Statistics,* October 2011.

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14 IFS, 'New study reveals effects of "Great Recession" across OECD countries', press release, 12 September 2011.

15 R Joyce and L Sibieta, 'Country case study: UK', in SP Jenkins, *The Great Recession and the Distribution of Household Incomes,* LSE, 2011.

16 For falls in overtime rates, see TUC, 'Paid overtime down by a quarter from pre-recession peak', press release, 20 December 2011.

17 The impact of the tax and benefit changes being made by the coalition government is beyond the scope of this report, which concentrates on changes in the labour market. Other studies have found that these are disproportionately affecting those on the lowest incomes. See endnote 2. See footnote 16 for a study of the fall in overtime working.

18 BCC, *Manufacturing for Export,* January 2011.

19 HM Treasury, *The Path to Strong, Sustainable and Balanced Growth,* November 2010.

20 http://www.allenovery.com/AOWEB/NewsMedia/Editorial.aspx?contentTypeID=1&contentSub TypeID=7945&prefLangID=410&itemID=64806&langID=410

21 As measured by the CPI. The RPI for the year to September 2011 was higher at 5.6 per cent.

22 According to a survey of members of UNISON and the PCS conducted during 2010, 45 per cent of respondents (the great majority working in the public sector, with a small minority in voluntary organisations) reported a general pay freeze at their workplace in 2010, while 54 per cent reported a pay rise. Most of the latter were those earning less than £21,000 and receiving a pay rise of £250. The proportion facing a freeze will have risen during 2011. IDS, *Members' Income Survey: Report for PCS and UNISON,* May 2011.

23 http://www.bbc.co.uk/news/uk-politics-14011217

24 HPC, *What Are We Paying For? Exploring Executive Pay and Performance,* 2011, chapter 3.

25 *Ibid,* p 19.

26 Quoted in *Management Today,* 12 September, 2011.

27 IDS, press release, 29 October 2010

28 http://www.astburymarsden.com/about/163/Base-pay-for-City-staff-up-12-despite-Eurozone-crisis-/

29 Forbes, *The World's Billionaires,* 9 March 2011.

30 D Rushe, 'What Downturn?', *Guardian,* 15 December 2011.

31 IDS Pay Report, October 2011, p 17.

32 See S Lansley, *The Cost of Inequality: Three Decades of the Super-rich and the Economy,* Gibson Square, 2011, chapter 2.

33 Duncan Weldon, 'Government policies will further squeeze the wages of ordinary workers', *False Economy,* 3 February 2011.

34 For pay trends over the past 30 years see S Lansley, *The Cost if Inequality: Three Decades of the Super-Rich and the Economy,* Gibson Square, 2001, chapter 2.

35 HM Treasury, *op cit.*

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