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Wages, inflation & inequality

UNISON Scotland

BARGAINING BRIEFING

Impact of Wage Freezes

For most public service workers in Scotland recent years have seen pay frozen or increased by miniscule amounts (see figure 1). Whilst wages have stayed still prices have not - leading to a considerable drop in living standards.

Median gross weekly pay in Scotland in 2007 was £360.20. This had risen to £396.10 by 2012. However if median pay had increased in line with inflation it would have stood at £423.22 by 2012. A worker earning median pay (exactly halfway along the income distribution – half earning more, half earning less), is therefore 6.4% or £27.12 a week and £1410.24 a year worse off.[1] This has certainly been the case for most workers in public services (see figure 1).

The significant exception to this trend has been the achievement of a Living Wage across many public services. This has been of help to the lowest paid It has also had the effect of boosting local economies as lower paid workers spend more of their wages locally[2].

Figure 1. Earnings Growth 2011-2013

	Health *	Local Government**	Scottish Government ***	Sunday Times Rich List[3]
2011	0%	0%	0%	18%
2012	0%	0%	0%	4.8%
2013	1%	1% (offered)	1%	8.7%

*Staff earning under £21 000 received £250 uplifts (£420 in 2010 for staff under £18 000)
** Lowest paid staff have been brought up to Living Wage Level
*** £250 uplifts for lowest paid staff

Inflation

Headline inflation figures do not show the full impact on living standards on the lower paid. Inflation headline rates are averages of many factors - but price rises in essentials such as food, electricity and gas have consistently exceeded the headline rate (see figure 2). The annual Daycare Trust survey on the cost of childcare recently estimated a 6% increase. The average full-time nursery place for a child under two now stands at £11,000 a year, while average childminder costs are now in the region of £97 a week[4].

KEY POINTS:

- **Wage freezes for public service workers have depressed living standards**
- **Inflation impacts disproportionately on lower paid workers**
- **Tax and benefit changes will make people worse off**
- **The richest in the UK are becoming wealthier**
- **Melting the pay freeze is fair, necessary and makes economic sense**

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Fig 2: Inflation 2011-13

	Headline inflation rate(CPI) *	Food	Electricity, Gas and Fuel	Transport
2011	3.4%	4.5%	3.4%	8.0%
2012	3.5%	4.6%	6.2%	3.3%
2013	2.8%	3.7%	4.5%	1.7%

*Annual March - March, Source (ONS)[5]

Obviously all these take a greater share of lower than higher incomes. A 2011 study by the Institute for Fiscal Studies concluded that "on average, lower income households have experienced higher inflation rates than higher-income households over the last decade."

Impact of Tax and Benefit changes

Changes to the tax and benefit system are also impacting on the income of many public service workers. There have been a wide variety of changes including the decisions to up rate all benefits and tax credits with CPI (rather than RPI) from April 2011, Increasing the Working Tax Credit working hours requirement for couples with children from 16 to 24 hours in April 2012. Reducing the proportion of costs covered by the childcare element of Working Tax Credit from 80% to 70% in April 2011.

The net effect of these and other changes will mean a 1% drop in income for the bottom 30% of households. Households with one earner and two children will see a 2% drop.[7]

Austerity at the bottom – Advances at the top

The trend in the UK has been for wages to fall as a share of GDP, which has disproportionately affected low and middle earners whilst those at the top have continued to see their incomes rise.[8] FTSE 100 directors' pay rose by 12% in 2011 to an average remuneration package for worth £4.8m.[9] The estimated wealth of the UK's 1000 richest people has increased to its highest level ever.[10]

Profits have not been directed from wages into investment, which might have raised the path of economic growth in the long-term. Rather, investment has fallen along with wages and it is profits and dividends that have grown. The TUC has calculated that each one per cent of national output moved into the wage share means £13bn of real income going to Britain's hard-pressed households. Even a three per cent rise in the wage share, which would still leave it lower than it was in the three post-war decades, would mean around £50 billion of additional spending power for Britain's consumers, allowing a stronger domestic economy without the recourse to borrowing.[11]

Conclusion

It is beyond doubt that current pay settlements are not enough to maintain current standards of living. Any serious economic recovery will involve boosting demand - in part by providing fair pay settlements for workers in public services. Higher pay settlements are not only needed and fair, but melting the pay freeze will also help economic recovery.

Sources

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