

The impact of economic recession on pay increases and the low paid

*A research report by
Incomes Data Services
for the Low Pay Commission*

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Key findings

1. Between 1990 and 1993 the UK experienced a period of sharp economic decline, where output declined and claimant unemployment increased to nearly 3 million. However, employment in the lower-paying sectors remained relatively stable and the recession had less than average impact in areas such as food retailing, fast food, restaurants, pubs and hairdressing and cleaning and catering
2. While manufacturing lost many jobs and some parts of private services lost jobs, the two sectors identifiably employing many low-paid people held up fairly well. Both retail distribution and hotels and catering had employment levels that remained fairly stable through the recession
3. Pay settlements were closely related to the level of inflation during the period 1990 to 1993; although there was great volatility in both measures. Inflation rose to a high of over 10 per cent at the end of 1990, then fell to a low 1.2 per cent in the middle of 1993. For most of the period pay settlements were running at about 1 percentage point ahead of inflation and reached a peak of over 10 per cent in the first quarter of 1991.
4. Pay increases did not show great variation by broad sector. Increases in low-paying sectors, such as retail, kept pace with settlements more generally. Wage Council increases were also in line with settlements generally.
5. Pay freezes were only a small proportion of all settlements and affected specific industries. Industries with pay freezes included computer manufacture, consumer electronics, aerospace, road haulage and printing/publishing. Those without included car manufacture, food, drink & tobacco, chemicals and supermarkets.
6. We can interpret from this that although pay increases in the lower-paying sectors matched inflation or were slightly more than inflation through the recession, jobs in these sectors were not affected on anything like the scale seen in manufacturing or construction..

1. Introduction

This report was commissioned by the Low Pay Commission because it wished to examine the operation of the National Minimum Wage in an economic downturn and the likely effects on the employment of low-paid workers and the kind of pay decisions firms might make. It wanted to examine some of the key variables in a recessionary climate in order to provide guidance on the setting of the NMW in such circumstances.

This research project by Incomes Data Services looks at the economic recession in the UK from 1990 to 1993. It looks at what happened to pay changes during that period. It seeks to outline how pay increases moved in relation to the prevailing RPI inflation rate over the period. It aims to look at any differences in pay increases by sector. It looks at which sectors of the economy were particularly prone to pay freezes or job losses.

We examine how the annual increases set by the Wages Councils moved during the recession and look at how their increases moved in relation to other pay increases. The Wages Council system was abolished in 1993, but their existence through the period 1990 to 1993 gives us a proxy for minimum wage movements over the period, particularly the larger Wages Councils covering retail food, retail non-food, pubs and restaurants and hotels.

IDS has an invaluable archive of pay and labour market data covering this period and we have used it extensively for this report. We are also aware that there was a vigorous debate at the time about the likely impact of a National Minimum Wage. It was widely assumed that an NMW would be introduced if Labour won the 1992 general election. The shadow minister for employment in 1991 was Mr Tony Blair who was a keen advocate of an NMW. At the time, even in the midst of recession, IDS identified a range of organisations that started to lift their lowest rates of pay in anticipation of an NMW coming into effect after 1992. This project will look at those organisations that gave underpinning increases as part of their annual pay reviews, despite the prevailing economic climate.

The project

We shall try to answer the following questions:

1. What were the characteristics of the economic recession in the UK from 1990 to 1993?
2. What happened to employment and unemployment over the period?
3. What happened to the employment of men and women through the recession, and what changes were there in the pattern of full-time and part-time work?
4. What happened to employment in the lower-paying sectors?
5. How did pay increases across the UK economy move in relation to RPI inflation over the period January 1990 to December 1993?
6. What happened to pay increases in the manufacturing industries?

IDS – The impact of an economic recession

7. What happened to pay increases in the private services sector?
8. What happened to pay increases in the public sector?
9. What happened to pay increases in the lower-paying sectors?
10. In particular, what happened to annual increases set by the Wages Councils and the Agricultural Wages Boards over the recession? Did they match inflation? Were they higher or lower than the general level of pay increases across the economy? Were most Wages Council increases the same or were there sectoral differences?
11. Which sectors of the economy were particularly recession prone? Which sectors resorted to pay freezes or pay pauses. Where were the jobs lost? Which job roles were worst hit: manual, white-collar, managers, the low paid?
12. What examples of underpinning increases can be found from this period that gave higher percentage rises to the lowest paid?

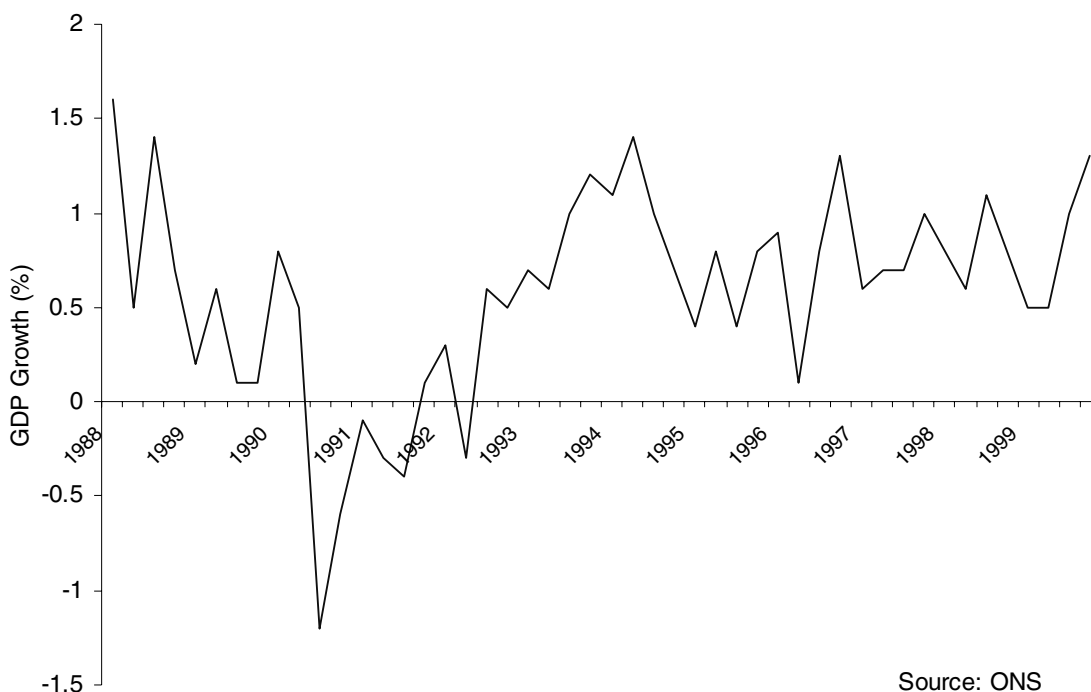
2. The characteristics of the economic recession in the UK from 1990 to 1993

Between 1990 and 1993 the UK experienced a period of sharp economic decline, where output declined and claimant unemployment increased to nearly 3 million. The UK fell into a sharp slump in the second half of 1990, using the technical definition of recession, this involved two successive quarters of negative growth.

The Lawson boom

The 1990-93 recession followed on from the Lawson boom of the late 1980s which saw rapidly rising house prices and a rapid fall in unemployment. Parts of the South East of England reached full employment in the late 1980s and there was a certain amount of over-heating in the labour market. Employers were warned by the Government that there was a demographic time-bomb involving a sharp decline in the number of young people entering the labour market. Over 1989 and 1990 leading firms recruited extra school leavers and also improved their pay levels for young people. For example, Sainsbury's introduced a new 'under 18' rate, to replace 16 and 17-year old rates. This meant increases of as much as 37 per cent for some employees, when the basic pay rise for other staff was 6.2 per cent, effective from 18 March 1989 (*IDS Report 578*, October 1990).

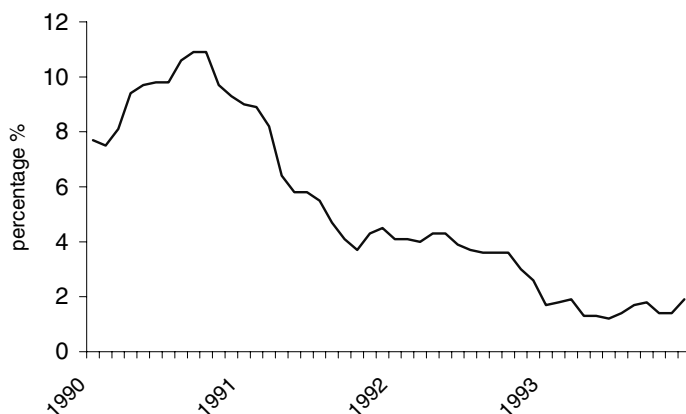
Chart 1: GDP growth (at constant prices)



1990 sea-change

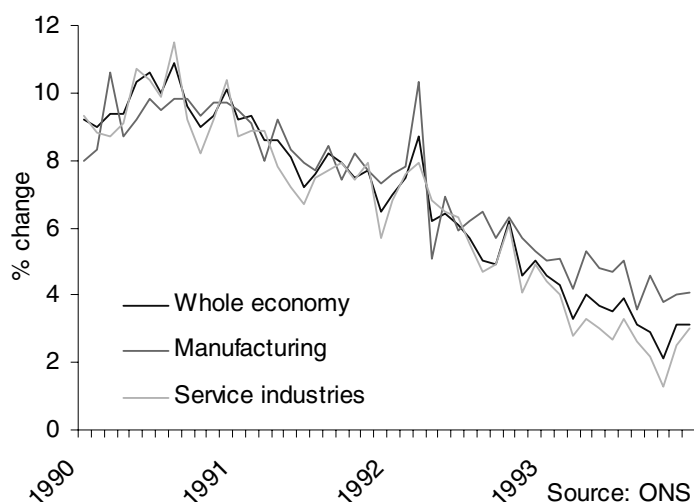
RPI inflation rose from 7.5 per cent in January 1989 to 10.6 per cent by August 1990. Over the same period average earnings growth rose from 9 per cent to 10 per cent. Figures from the Department of Employment showed that overtime working by operatives in manufacturing began to slow down in 1990 from a peak in 1989. Hours of overtime were at 13.83 million in January 1989 and slipped back to 12.66 million by July 1990.

Chart 2: Retail price inflation, January 1990 to December 1993



Source: ONS

Chart 3: Average earnings growth, January 1990 to December 1993



Source: ONS

Negative growth

ONS data on quarterly GDP growth indicates that the recession started in the second half of 1990, although a slow down was evident earlier. In 1990, GDP growth was -1.2

per cent in the third quarter and -0.6 per cent in the fourth quarter. GDP growth remained negative until the fourth quarter of 1991 and then remained below 1 per cent until the third quarter of 1993.

On 16 September 1992, the UK was suspended from the Exchange Rate Mechanism, which facilitated a drop in the value of sterling and the domestic rate of interest. This aided the UK's economic recovery and output began to pick up. GDP growth increased to 2.3 per cent in 1993 and to 4.4 per cent in 1994.

The labour market

After 15 quarters of successive falls in the claimant count, unemployment started to rise in the third quarter of 1990, to 1,640,900 (equivalent to 5.4 per cent) people unemployed. Claimant unemployment peaked in 1993 with over 2.9 million people (9.9 per cent) claiming benefits. The recession's effects on employment continued for longer than its effects on GDP. The employment rate fell from 75 per cent in 1990 to around 70 per cent in 1992 and 1993, and failed to return to the 1989 level until 2001. The claimant count started to drop after 1993, and returned to the 1989 level in 1997.

In October 1992 the Department of Employment reported that unemployment among men had hit a post-war high in the previous month. It said that in September 1992 the number of people out of work and claiming benefit rose by 32,200 to stand at 2,843,300. There were 2,175,200 men out of work (13.4 per cent), the highest of any month since 1945. Also in that month, all regions saw a rise in the seasonal measure of unemployment except Northern Ireland, with the once-booming South suffering the biggest relative increases.

In the autumn of 1992 unemployment was widely expected to pass 3 million in the coming winter, with 'tens of thousands' of redundancies in the pipeline, according to the Daily Telegraph (16 October 1992). Firms such as Ford, Rolls-Royce, Jaguar, British Aerospace, Cadbury, ITN, the BBC, Cammell Laird, Swan Hunter, Sears and Lucas Industries were all among those shedding labour.

Characteristics of the labour market in recession

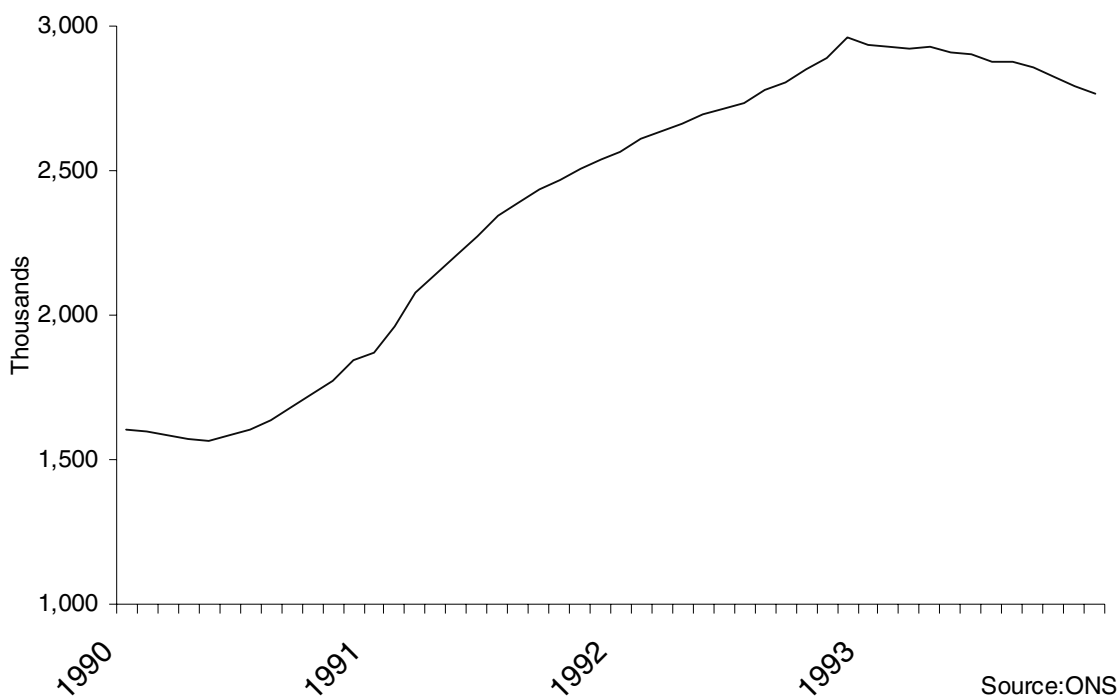
- While the 1980-83 recession mainly hit manual workers in manufacturing, the 1990-93 recession also hit many white-collar employees and managers in both manufacturing and financial and business services, although the worst job losses were in manufacturing.
- This recession was characterised by the term 'de-layering' of management and supervisor roles higher up the structures of organisations.
- All regions were affected and the South and South East were particularly badly hit. The property boom collapsed and many young professional people found they were in negative equity.
- Women's employment was not as badly hit as men's.
- Employment in the lower-paying sectors remained relatively stable and the recession had less than average impact in areas such as food retailing, fast food,

restaurants, pubs and hairdressing and cleaning and catering (all sectors with predominantly female employment).

3. Employment and unemployment over the recession

An analysis of the unemployment figures for the period January 1990 to December 1993 shows the claimant count rose by over 1 million over the recession, from 1.6 million to a peak of 2.9 million in December 1992 and declining to 2.7 million by the end of 1993. In January 1990 unemployment stood at 1,605,900 and the claimant count level was comparatively steady over the first half of the year and only began to rise significantly from June 1990. Over the following year the claimant count rose steadily by 664,800 and then by a further 373,100 over 1992. By December 1993 unemployment stood at 2,764,800, a rise of 1,158,900 over the three years. The unemployment figures reached a peak in December 1992 of 2,960,300 and then slowly started to decline through 1993.

Chart 4: Claimant unemployment, January 1990 to December 1993, seasonally adjusted



3(i) The employment of men and women through the recession

The 1990 to 1993 recession affected the overall level of labour market participation of men and women in different ways. The employment rate for men dropped from 82.4 per cent at the beginning of 1990 to 75.2 per cent in the last quarter of 1993. The drop in

women’s employment rate was less, from 66.9 per cent in the first quarter of 1990 to 65.2 per cent in the last quarter of 1993.

Table 1: Employment and unemployment, 1990 and 1993

	1990 ('000s)	1993 ('000s)	Percentage change (%)
Women			
All	16,228	16,317	1
Economically active	11,595	11,552	0
Economic activity rate	71	71	
In employment	10,835	10,672	-1
Full time	6,200	5,896	-5
Part time	4,475	4,676	4
ILO unemployed	760	879	16
ILO unemployment rate	7	8	
Economically inactive	4,633	4,765	3
Men			
All	17,694	17,793	1
Economically active	15,650	15,236	0
Economic activity rate	88	86	
In employment	14,576	13,344	-8
Full time	13,701	12,433	-9
Part time	580	733	26
ILO unemployed	1,075	1,892	76
ILO unemployment rate	7	12	0
Economically inactive	2,044	2,558	25

Source: Labour Force Survey

The proportion of economically active men had been relatively unchanged between 1984 and 1990, and then fell back by two percentage points over the three years to spring 1993. Women fared very differently with economic activity increasing by 5 percentage points between 1984 and 1990 and then remaining constant up to 1993.

The ILO unemployment rate for women of working age in spring 1993 was 8 per cent, up from 7 per cent in spring 1990, compared with the unemployment rate for men increasing from 7 to 12 per cent over the three years.

3(ii) Employment in the lower-paying sectors

An examination of the employment figures shows that while manufacturing and construction lost many jobs and some parts of private services lost jobs, the two sectors identifiably employing many low-paid people held up fairly well. Both retail distribution and hotels and catering had employment levels that remained fairly stable through the recession, as shown in the table below.

Table 2: Employees in employment (GB) (000s)

	June 1989	June 1990	June 1991	June 1992	Sept 1993	% change 6/90 to 9/93
Retail distribution	2,234	2,301	2,294	2,287	2,250	-2.2
Hotels and catering	1,198	1,257	1,232	1,205	1,223	-2.7
Banking and finance	2,594	2,701	2,633	2,583	2,612	-3.3
Transport	902	924	899	892	887	-4.0
Public admin	1,870	1,942	1,960	1,809	1,812	-6.7
Manufacturing	5,080	4,994	4,599	4,396	4,218	-15.5
Construction	1,056	1,060	965	886	797	-24.8

Source: Department of Employment, Employment Gazette December 1993

NB. We have taken the change from June 1990 as this was closer to the peak of employment in each sector before the recession hit

4. Pay increases during the recession

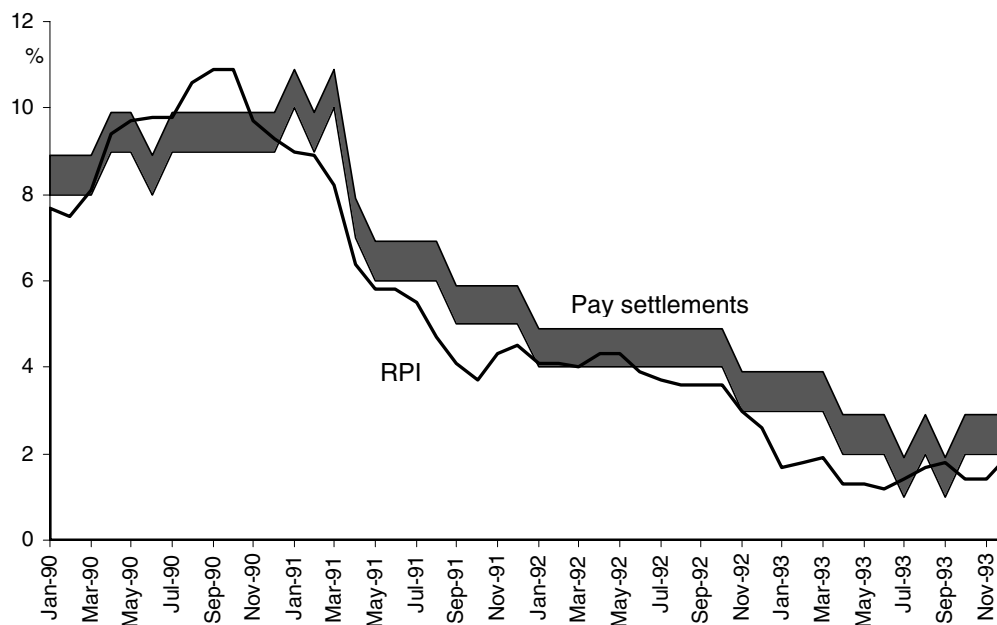
Pay settlements chart

Chart 5 shows the trend in the level of pay settlements over the four-year period from January 1990 to December 1993 (shown by the broad shaded line). Also shown, by the narrow line, is the trend in the annual percentage measure of retail price inflation (RPI).

The measure of pay settlements is taken from the IDS Pay Report pay databank. This records approximately 1,000 separate pay settlements each year, covering around 8 million employees altogether. It covers both the public and private sectors, with bargaining groups ranging in size from small companies with less than 100 employees to large bargaining groups covering 100,000 plus employees.

The settlement figure recorded for each organisation or bargaining group was the percentage increase to basic pay, or where there was a range, the average increase. To create the graph we have looked at the distribution of settlement levels in each month by percentage intervals (0 to 0.9 per cent, 1 to 1.9 per cent, 2 to 2.9 per cent, etc) and taken the range within which the largest number of settlements fell (the modal range). The broad shaded line on the graph shows the modal range for pay settlements in any given month. For example, for the settlements effective in January 1990 the modal range was 8 to 8.9 per cent.

Chart 5: Modal range of pay settlements and RPI, 1990 to 1993



What does the graph show?

The graph demonstrates how closely pay settlements were related to the level of inflation during the period 1990 to 1993. There was great volatility in both measures. Inflation rose from 7.7 per cent in January 1990 to a peak of 10.9 per cent in October of

that year. Inflation fell rapidly over the next two years, reaching a low point of 1.2 per cent in June 1993, and remaining below 2 per cent for the whole of 1993. The trend in pay settlements followed a very similar path.

Table 3: Key range of pay settlements %

	1990	1991	1992	1993
Whole economy	8-9	7-8	4-5	2-3
Manufacturing	9-10	6-9	4-6	2-3
Private services	8-9	7-9	3-4	2-4
Public services	9-10	9-10	4-6	1.5

Note: These figures are based on the settlements for large organisations or bargaining groups in each of the sectors

Although the trend lines are closely related, for most of the period pay settlements were running at about 1 percentage point ahead of inflation, largely due to the lag between inflation being reported and feeding through to settlement decisions. The exception is the period during 1990 when inflation hit its peak and for a few months settlements were below inflation. Settlement levels did rise to similar levels, but there was a lag of a few months, so settlements reached a peak of over 10 per cent in the first quarter of 1991.

4(i) Pay increases in manufacturing

For the most part pay increases in the manufacturing industries followed the inflation rate downwards over the recession and most increases were within the going range for the whole economy. In some parts of manufacturing increases were ahead of inflation, especially when inflation dipped below 4 per cent in 1992/93.

Table 4: Pay increases in manufacturing

Company	1990 % inc	1991 % inc	1992 % inc
Ford	13.4	5.0	5.0
Jaguar	12.5	7.0	4.0
Nissan	10.5	7.0	4.0
McVities UK	9.75	10.0	5.0
Glaxo	9.8	6.5	6.0
ICI	9.8	6.6	5.1
Ferranti International	7 to 10	6-mth freeze then 4.5%	6-mth freeze then 4%
Sony	10.5	6.7	4.1
Rolls-Royce (Derby)	9.0	nil	4.25

The electronics sector was the exception here and pay freezes became quite common during 1991 and 1992, mostly of six months duration. Electronics firms were affected by the general economic downturn, depressed consumer spending and Government defence cutbacks. Computer manufacturers were badly hit and there were freezes at IBM and ICL. The table gives examples of increases over the period.

4(ii) Pay increases in private services

The two parts of the private services sector that we have strong pay data on are the banking and finance sector and the retail sector. We look at the retail sector in some depth in the sections below. Here we look at banking and finance. This was the sector that grew very fast in the Lawson boom and therefore some fall-out might be expected in the recession. There were some voluntary and compulsory redundancies as companies cut back on staff numbers and restructured their branch networks. However, settlement levels held up and matched inflation, although profit-sharing payments fell right back. There had been big increases in London and South East allowances in the Lawson boom and these higher levels were then frozen during the recession.

In 1992/93 many finance companies froze their pay scales but gave individuals their salary increases within the existing scale structures. Only one company, Cheltenham and Gloucester Building Society, implemented a total freeze on pay.

Also in 1992/93, IDS saw some differentiation between the banks and the insurance companies. Some of the banks gave increases in the spring of 1993 of less than 2 per cent while the building societies gave 2 to 3.5 per cent and the insurance companies paid 2.5 to 4.5 per cent. The Midland Bank paid 1.6 per cent in June 1993 with an underpinning minimum increase of £130 (inflation was 1.2 per cent in June 1993). The table gives examples of pay increases from the banking and finance sector.

Table 5: Pay increases in banking and finance

Company	1990 % inc	1991 % inc	1992 % inc	1993 %inc
Abbey National	7.5	8.25	4.25	2.0 to 3.25
Guardian Royal Exchange	9.5	3.5	3.6	4.0
Midland Bank	8.4 to 10.9	5.5	3.5	1.6
NatWest Bank	8.3	7.5	2.5	3.0
Norwich Union	9.5	7.5	3.5	3.5
Halifax	8.75	7.25	5.5	3.0

4(iii) pay increases in the public sector

Over the period 1991 and 1992 pay settlements in the public sector moved broadly in line with those in the private sector, but that changed dramatically in 1993.

In 1990 public sector pay increases were largely around the 8 to 10 per cent level. Local authorities agreed 9.38 per cent from July 1990 while most NHS groups got 7.9 per cent from April. The police received 9.75 per cent from September.

In 1991 RPI inflation fell from 9 per cent in January to 5.5 per cent in July. Both private and public sector increases reflected this decline. In the public sector a lot of increases were between 6.5 to 8.5 per cent reflecting the inflation rate in the earlier part of the year. The pay review bodies recommended increases of around 10 per cent but these were staged, with 7.5 per cent from April 1991 and the rest (2 to 3 per cent) paid from December 1991.

Table 6: Pay increases in the public sector

Group	1990 % inc	1991 % inc	1992 % inc	1993 %inc
Nurses and midwives	9 staged	9.7 staged	5.8	1.5
Local government	9.38	6.4	4.4	1.5
Teachers (E&W)	8.3 staged	9.5 staged	7.8	1.5
Civil service	8 to 8.7	7.5	4 to 4.75	1.5

In 1992 public sector groups received increases of around 4 to 5 per cent. In the NHS a number of agreements had underpinning pay rises to give more to the lower paid. There was also a ‘clamour’, as IDS put it, for a clampdown on public sector pay. The CBI called for a pay freeze on the public sector paybill in 1993.

The Government set a public sector pay policy for 1993 limiting all increases to between 0 and 1.5 per cent. In the event this meant almost all increases came in at 1.5 per cent. All paybills were to be frozen and any increases had to be financed from within existing budgets, through efficiency savings, job cuts or cuts in services.

5. Pay increases in lower-paying sectors

Retail pay in 1992

An analysis of 60 pay settlements in the retail sector in June 1992 showed a mixed experience of the recession. In the first four months of 1992 RPI inflation was running at an average of 4.1 per cent, setting the scene for pay increases that spring. We found that the large food retailers remained profitable and paid increases 4.5 or 5 per cent. However, some companies in the clothing and furniture parts of retailing had a harder time and looked for pay freezes. An analysis of the 60 pay settlements showed:

- 13 companies had pay freezes in 1992
- 28 retailers increases rates between 4 and 4.9 per cent
- 17 companies increased basic rates by 5 per cent or more.

Trading difficulties meant that Allied Maples, Foster Menswear and Asda had pay freezes. Habitat, House of Fraser and Robert Dyas had six-month pay pauses. Habitat increased rates by 5 per cent after its six-month pause.

The increases in the statutory minimum rates set by the two retail Wages Councils, 4.2 per cent in retail food and 3.7 per cent in retail non-food, meant that many of the retailers who had announced pay freezes had to increase rates at the bottom of their pay scales in order to conform with the WC rates.

There were a number of higher deals: WH Smith paid increases of 5 per cent from February 1992, while Boots the Chemist paid 7 per cent from April 1992 and brought in a new grading structure. Woolworth paid staged increases of 8 per cent with 4 per cent from April and 4 per cent from November 1992. Sainsbury's paid 4.5 per cent from March 1992. Safeway paid 4.5 per cent from April.

The Retail Multiple Footwear Industry agreement agreed a six-month pause from April and this was adopted by Shoefayre.

Retail pay in 1993

RPI inflation dropped to 1.3 per cent by April 1993, having fallen to 1.7 per cent in January 1993 from 3.6 per cent in September 1992. Most pay settlements in the retail sector in 1993 took their lead from the increases proposed by the two Wages Councils at the end of 1992 when inflation was close to 3 per cent (3.0 per cent in November 1992). The Wages Council orders, which took effect from April 1993, increased the statutory minimum rates by 3.1 per cent for retail food employees and by 2.9 per cent for retail non-food employees. The IDS analysis of pay increases at company level showed the majority were between 2.5 and 3.5 per cent.

Many firms paid basic increases of exactly 3 per cent. These included B&Q, Foster Menswear, Next, J Sainsbury, Selfridges, Harrods, Morrisons, Safeway and Victoria Wine.

Boots the Chemist paid 3.75 per cent plus merit increases from April, and Marks & Spencer paid 4.5 per cent in July. Tesco paid 2.6 per cent from July. There were pay freezes at Owen Owen, Booker Cash and Carry and MFI.

A number of retailers at this time adopted the Government's new (1991) 'tax free' Profit-Related Pay scheme and were therefore eligible for higher take-home pay from the same earnings as the tax-free element came into effect.

Part-time working

A notable feature of this time was the extension of part-time working in the retail sector as a number of companies move to 'key time working' and zero hour contracts. IDS said: 'There has been considerable focus recently on the spread of part-time employment and the implications this has concerning pay and conditions. While most major retail companies have always employed large numbers of part-time workers, more of them are now shifting the balance of the staff profile towards an even greater proportion of part-timers. The motivations behind this are reduced labour costs and the attainment of a more flexible workforce that can be adapted to suit changing business needs.' (IDS Report 643, June 1993)

In 1992, Foster Menswear moved 120 of its full-time staff to 15-hour contracts and reduced hours from 15 to 12 for some part-timers. Sears, the parent group of Foster Menswear, Selfridges, Olympus and Freemans Mail Order, announced in January 1993 that some 64 per cent of its staff were employed on a part-time basis, compared to 60 per cent a year earlier. The group also owned the British Shoe Corporation, which included Freeman Hardy Willis, Dolcis, Saxone and Curtess.

Table 7: Examples of pay rates in the retail sector in 1993

	Hourly rates £ph	Full-time weekly hours	Weekly rates £pw
Food			
Retail food Wages Council minimum	3.175	39	123.83
Gateway Foodmarkets	3.318	38	126.08
Safeway	3.44	39	134.16
Sainsbury	3.68	39	143.52
Tesco Stores	3.75	36½	136.75
Non-food			
Retail non-food Wages Council min	3.155	39	123.05
B & Q	3.3758	39	131.66
Bhs	3.2435	39	126.50
Boots the Chemist	3.50	37½	131.25
Burton Group	3.60	36½	131.40
Woolworths	3.25	39	125.92

Following its restructuring in March 1993, the Burton Group had a workforce comprising 70 per cent part-time and 30 per cent full-time. The proportion of full-timers before the exercise was 36 per cent. When the group's new 'key-time' contracts were announced, a large number of employees opted for redundancy rather than reduced hours, resulting in the group's need to recruit a further 7,000 'key-timers'. Once the recruitment process was completed, the total Burton retail workforce was expected to be around 34,000, compared with 30,000 before the restructuring exercise.

6. Increases set by the Wages Councils

During the 1990 to 1993 recession, Wages Councils set statutory minimum hourly rates for around 2.5 million employees. The Wages Councils which covered the largest groups of employees were Licensed Non-Residential, covering about 492,000 employees, Licensed Residential & Licensed Restaurants, covering 379,000 employees, Retail Food & Allied Trades, covering 465,000 and Retail Trades Non-Food, with 745,000 employees.

In 1990 inflation was running at its highest level over the length of the recession, reaching a peak of 10.9 per cent in September 1990. In this year, the percentage increases added to hourly rates by the largest Wages Councils were set mostly below the level of inflation, ranging from 1.4 per cent to 1 per cent below the RPI. The exception was the Licensed Non-Residential Wages Council which in January 1990 set an increase of 9.9 per cent against an inflation rate of 9.7 per cent.

In the following years the largest Wages Councils set increases either above or around the level of inflation, but each year the Wages Councils mostly set lower percentage increases than in the previous year. In 1991 both the Retail Food and Retail Non-Food Wages Councils set increases 3.6 per cent above the RPI figure in April 1991 (see table 8). Licensed Residential and Licensed Restaurants set an increase 5.3 per cent higher than inflation in the same year.

Table 8: Key Wages Council pay increases, 1990-1993

		1990	1991	1992	1993
Licensed Non-Residential Wages Council (January)	% increase	9.9	Total 9.4 (2-stage deal) 1st stage, 1 Nov '91, 3.9%	2nd stage, 1 May '92, 5.5%	Abolished August '93
	<i>RPI</i>	7.7	4.3	4.3	1.7
Retail Food Wages Council (April)	% increase	8.3	10.0	4.2	3.1
	<i>RPI</i>	9.4	6.4	4.3	1.3
Retail Non-Food Wages Council (April)	% increase	8.0	10.0	3.7	2.9
	<i>RPI</i>	9.4	6.4	4.3	1.3
Licensed Residential & Licensed Restaurants Wages Council (November)	% increase	8.7	9.6	6.2	3.4
	<i>RPI</i>	9.7	4.3	3.0	1.4

The Licensed Non-Residential Wages Council agreed a two-stage deal in 1991, increasing rates by a total of 9.4 per cent. The first-stage increase paid in November 1991 was below inflation at 3.9 per cent against an RPI of 4.3 per cent, but the second stage paid in May 1992 was above the RPI by 1.2 per cent.

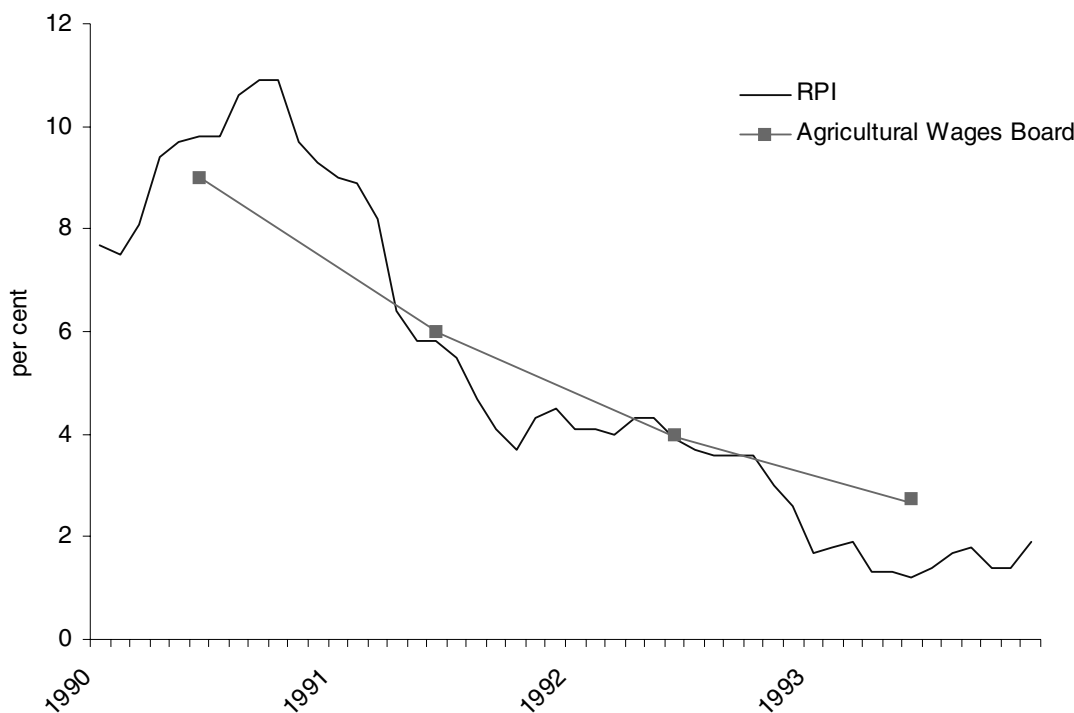
In 1992 both Retail Food and Non-Food Wages Councils set increases just below inflation, while Licensed Residential and Licensed Restaurants set a high increase of 6.2 per cent, against an RPI of 3 per cent. In 1993, the largest three Wages Councils set increases of on average 1.8 per cent above the level of inflation. A full list of Wages Council increases and rates of pay in 1992 is given in appendix 1.

In general the percentage increases applied by the Wages Councils were in line with pay settlement levels across the rest of the economy over the recession. However, a common complaint about the Wages Councils was that the annual increases were ‘inflationary’. Critics argued the percentage increases were often higher than the prevailing rate of inflation at the time they were implemented. These discrepancies can be partly explained by the three-month delay between the proposal of the new rate and the implementation of the increase at a time of falling inflation.

Agricultural Wages Board

The Agricultural Wages Board for England and Wales set increases to minimum rates which roughly followed the level of inflation at the height of the recession. At the start of the period, the Board set an increase of 9 per cent in June 1990, below the level of inflation at 9.8 per cent. In the following two years increases roughly followed inflation. In 1991 minimum rates were increased by 6 per cent against an RPI of 5.8 per cent and in 1992 a 4 per cent increase was applied against an RPI of 3.9 per cent. As the recession reached an end, the Board increased minimum rates well above inflation, setting an increase of 2.75 per cent against an RPI of 1.2 per cent.

Chart 5: Agricultural Wages Board (E&W) increases and inflation, 1990 to 1993



The following article from the FT shows how the independent members of a Wages Council held their nerve under pressure to stage a pay award in the non-food retail sector.

‘Job Loss Fears In Non-Food Retail Sector After Wages Ruling’, Financial Times 6 Feb 1991

‘Employers in the non-food retail sector warned yesterday of further job cuts after failing to overturn a wages council ruling which would lead to pay rises well ahead of inflation for hundreds of thousands of workers.

‘Employers had wanted a previously agreed 9.85 per cent rise in the minimum wage from £2.68 an hour to £2.95 an hour to be implemented in stages to reduce the costs to around inflation or less. However, the independent members of the wages council sided with the employee representatives against phasing the award.

‘Although the council sets only the industry’s minimum wage, its decision has a knock-on effect throughout an industry which employs about 600,000 because of the need to maintain differentials. The wages council’s decision has infuriated some employers.

‘Mr Michael Wilsey, assistant director of the British Retailers’ Association, said some employers might ask full-time employees to work part time. The 30 employer representatives on the wages council had sought the backing of the three independent representatives for phased implementation on the grounds that circumstances had changes since agreement of the award in November.

‘Mr Wilsey cited the worsening recession, the rise in German interest rates, the Gulf war and the number of complaints (140) received from employers about the award. The employers’ plea was raised and rejected at an ‘objections meeting’ on Monday.’

7. The impact of the recession on different sectors

There was a widespread impression that younger professionals and mid-career managers were the worst hit in this recession. They were hit by job losses and also by negative equity in their homes, following price falls after the housing boom of the late 1980s. However the worst of the job losses came in manufacturing and there were also job losses in financial and business services.

In IDS Report 613, March 1992 we wrote:

‘Companies in particular difficulty are still resorting to short-term deferments of increases or full scale pay freezes. We gained the impression last September that there might be fewer pay pauses as inflation came down to low figures, but the collapse of markets, for example in the truck industry, has led to some drastic measures. We have found, however, that firms opting for pay pauses in early 1991 have not done so again in 1992. We have also found that pay cuts have been very rare and related to rather special circumstances – the impact of the Gulf war on Thomas Cook last spring and the eight-week suspension of guaranteed pay at AWD Trucks from this February.

‘Pay pauses/freezes are only a small proportion of all settlements and an analysis of pay bargaining sector-by-sector reveals that there are some industries where there have been no pauses or freezes at all, such as food, drink and tobacco manufacturing. The uneven impact of the recession is revealed in the table below which shows the sectors in which there have been, or have not been, pay pauses or freezes.’

Sectors with/without pay freezes (March 1992):

With	Without
Tyres	Cars
Computer manufacture	Food, drink and tobacco
Consumer electronics	Chemicals
Trucks	Supermarkets
Aerospace	Public services
Engineering	Energy supply
Road haulage	Building societies
ITV companies	Insurance companies
Printing/publishing	Oil industry

‘Manufacturing job losses announced’, *Financial Times*, 16 January 1992

‘The Amalgamated Engineering Union (AEU) said yesterday it had identified 177,153 job loss announcements in manufacturing last year, 22,306 of them between October 17 and December 31.

‘The areas worst affected were the north-west and north Wales, the west Midlands, the north-east and the Yorkshire area.’

13. Pay increases with underpinning increases for the lowest paid

During the period from 1989 to 1991, IDS was able to identify 120 separate pay agreements in which lower-paid employees gained higher awards than their higher-paid colleagues. At the beginning of this period, the introduction of higher increases for the lower paid was generally a response to recruitment and retention difficulties faced by many employers in retailing and the service sector during the period of the Lawson boom. This type of restructuring was most prevalent in the retail sector, where it was common for employers to pay 16 and 17-year old employees a percentage of the adult 'rate for the job'.

Some of these higher uplifts could also be explained by the decisions made by some employers to increase their domestic rates in line with Wages Council increases, or to avoid possible difficulties with equal pay legislation. Many retailers at the time were having to look at their pay structures when it emerged, through one high-profile case, that the payment of higher rates to the predominantly male workforce in warehousing compared with the largely female workforce on the check-outs, was in breach of the legislation.

Later, as the recession began to bite, higher increases for the lower paid tended to be more due to pressure from the trade unions, particularly in the public sector, which were at the forefront of the campaign for the establishment of a National Minimum Wage. However, pay settlements at many firms in the private sector during the period continued to introduce measures which favoured higher increases for the lower-paid – again this tended to be as a response to recruitment and retention difficulties and often to keep the employer 'ahead of the market'.

Types of underpinning

Increases of this kind fell into three main categories. They had either occurred:

- where the award was flat-rate in money terms, resulting in proportionately higher increases for the lower paid; or
- where there had been an underpinning arrangement in favour of the lowest paid; or
- through job evaluation and regrading exercises, with some improvement to young workers' pay in response to demographic changes.

Flat-rate increases and underpinning

The most common method of awarding higher increases to the lowest paid were flat-rate cash increases, or awards with a flat-rate elements. Increases of this kind were particularly common in the car industry, but also cropped up in retailing and in banking. The April 1989 pay deal at Gateway supermarkets, for example, produced increases ranging from 7.9 per cent at the bottom of the pay structure to 5.5 per cent at the top. Also in 1989, salaries at Nationwide Anglia were increased by 5 per cent plus £150, resulting in percentage of between 5.5 per cent and 8.7 per cent for the lowest paid.

Elsewhere, higher increases for the low-paid were guaranteed through underpinning a general percentage increase with a flat-rate amount. In the 1989 pay deal at the Co-operative Bank, for example, a general increase of 7.2 per cent was underpinned by a guaranteed minimum increase of £550, which produced increases of up to 9.5 per cent for some lower-paid clerical staff.

Equal pay and regrading

Following on from the equal pay for equal work of equal value legislation of 1984, many employers were having to re-appraise their own pay and grading structure by the late 1980s. During the early 1990s, virtually all of the major retailers were being forced to review their pay scales and this often led to major uplifts on pay for part-time women workers who formed a large part of the workforce and tended to be on the lowest grades.

In 1991, for example, some of Tesco's check-out operators received increases of as much as 17.7 per cent after job evaluation, while the general pay increase was 9.3 per cent. In the same way, a job evaluation exercise at Safeway led to increases ranging from 6 to 25 per cent, with the larger increases generally applying to checkout operators and other grades dominated by female workers.

Other settlements simply set out to target higher increases for the low-paid – a good example in the hotels and catering industry was the 1991 increase at Ramada Hotels, where a general increase of 7 per cent was agreed for those earning more than £8,000 a year but those earning less than this received 8.5 per cent. In the public sector, a special case was made for NHS ancillary workers in the same year, to acknowledge the fact that they were paid particularly low rates. As part of a major restructuring package, basic rates for ancillaries increased by between 8.8 and 17.9 per cent in two stages, with a cost to the paybill of 8.8 per cent and with a promise from the union that they would not pursue knock-on increases for other grades.

Public sector developments

Moving into the recession period, agreements which included underpinning guarantees became more prevalent in the public sector. In the major NHS pay deal of 1991, for example, a general increase of 7.9 per cent was agreed but this was underpinned by a guaranteed minimum increase of £11.50 a week, producing higher percentage increases for an estimated 160,000 administrative and clerical staff. In a staged increase agreed at the Civil Aviation Authority in 1990, an increase of 7.5 plus 1.5 per cent was underpinned by a minimum increase of £820 in total, resulting in increases of up to 12.3 per cent at the bottom of the pay ladder.

In the following year, a guaranteed minimum increase was again agreed in the NHS – on this occasion, a minimum increase of either £400 or 4.75 per cent, whichever the greater. This time it covered a total of around 300,000 workers in the major bargaining groups of administrative and clerical staff, hospital ancillary workers and ambulance staff.

In an agreement for employees at the Guy's and Lewisham NHS Trust in January 1992, a new pay supplement of £6 a week was introduced for low-paid employees – estimated

at roughly a quarter of the total workforce of 6,000 employees. The maximum supplement, of £6 a week, was paid to all employees whose hourly rate of pay was £4.92 or less. Staff who received the supplement included virtually all of the ancillary grades, nursing staff on the two lowest grades and some administrative and clerical staff.

Anticipation of a minimum wage

Some of the moves for higher increases for the lowest paid were in anticipation of a minimum wage coming in after 1992. *IDS Report 596* (July 1991) said: ‘vigorous debate has developed over the Labour Party’s proposals to introduce a national minimum wage set at half the median male hourly earnings (to be around £3.40 an hour for 1991-92).’

‘Unions attack Job Loss forecast’, *Financial Times*, 27 August 1991

‘Michael Howard, employment secretary, is accused in a TUC report today of deliberately overestimating the number of jobs that would be lost following the introduction of a minimum wage by a future Labour government.

‘According to the report, for the TUC’s annual conference which begins next weekend, estimates of 2m job losses have been fabricated with the deliberate intention of scaring the electorate and taking the public’s attention away from the government’s own dismal jobs record’. Labour has pledged to introduce a minimum wage equivalent to half male median earnings, with an eventual move to two-thirds male earnings.

‘The initial level, based on current figures, would mean a minimum hourly rate of £3.40.

Appendix A: Wages Councils rates of pay in 1992

	Employees covered (estimates)	Old minimum rate £ph	New minimum rate £ph	Increase on rate %	Weekly rate £pw	Operative date
Aerated Waters	5,500	2.94	3.05	3.7	118.95	1.1.93
Boot and Shoe Repairing	5,000	2.77	2.91	5.1	113.49	10.2.92
Button Manufacturing	1,000	2.46	2.585	5.1	100.815	25.5.92
Clothing Manufacture	147,000	2.4875	2.6375	6.0	102.8625	13.3.92
Coffin Furniture and Cerement Making	200	3.05	3.20	4.9	124.80	1.12.92
Cotton Waste Reclamation	300	2.53	2.68	5.9	104.52	20.4.92
Fur	1,500	2.60	2.72	4.6	106.08	25.1.92
General Waste Materials Reclamation	13,000	2.50	2.60	4.0	101.40	20.7.92
Hairdressing Undertakings	64,000	2.66	2.78	4.5	108.42	13.4.92
Hat, Cap & Millinery	4,000	2.54	2.6667	5.0	104.00	1.4.92
Laundry	26,000	2.785	2.91	4.5	113.49	20.2.92
Licensed Non-Residential	492,000	2.91	3.01	3.4	117.39	15.1.93
Licensed Residential & Licensed Restaurant	379,000	2.80	2.92	4.3	113.88	1.11.92
Linen & Cotton Handkerchief & Household Goods etc	2,500	2.60	2.73	5.0	106.47	13.7.92
Made-Up Textiles	3,000	2.57	2.70	5.1	105.30	1.10.92
Ostrich & Fancy Feather & Artificial Flower	500	2.54	2.66	4.7	103.74	1.4.92
Pram & Invalid Carriage	2,000	2.91	3.04	4.5	118.50	13.4.92
Retail Bespoke Tailoring	4,000	2.96	3.10	4.7	120.90	31.3.92
Retail Food & Allied Trades	465,000	2.955	3.08	4.2	120.12	6.4.92
Retail Trades Non-Food	745,000	2.955	3.065	3.7	119.535	6.4.92
Rope, Twine & Net	2,500	2.565	2.67	4.1	104.13	6.7.92
Sack & Bag	1,000	2.53	2.655	4.9	103.55	25.5.92
Toy Manufacturing	11,000	2.52	2.63	4.4	102.57	15.6.92
Unlicensed place of refreshment	96,000	2.80	2.92	4.3	113.88	8.6.92

The list shows statutory minimum hourly rates, operative or proposed at 21 October 1992. The weekly rates shown apply for a 39-hour week (unless otherwise stated).