

Chapter 8

The Outlook for Wages

by

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1. In this chapter the proposals under Phase 3 for wages and salaries are outlined and some attempt is made to evaluate the effects of these on the rate of increase in hourly earnings. The second section considers the problems implicit in the proposals and produces more pessimistic forecasts. No estimates of the wage increases from threshold agreements are attempted in this chapter. Detailed estimates of the likely effect of the "cost of living safeguard" clause in Phase 3 are given in Chapter 9.

The Arithmetic of Phase 3

(i) Basic wage increase

2. The Government's Phase 3 pay code limits basic pay increases for any group by one of two possible alternatives.

(a) to seven per cent of the total wage bill of any group - the division between members of any group to be settled by negotiations;

(b) £2.25 per head.

In addition an upper limit of £350 annual increase per head is proposed.

The group, for the purpose of Phase 3 limits, will normally be that used for determining pay in the preceding 12 months although it remains open to those concerned to vary its composition. The nature of such groups varies widely. They may, for example, consist of all manual workers in an industry or, at the other extreme, only a small part of the labour force of a single establishment. Furthermore, where wage settlements are made at more than one level, e.g. at industry and plant levels, workers will belong to two negotiating groups. In such cases the total of all pay increases for local groups must conform to one or other of the pay limits.

3. No group may receive an increase in pay less than 12 months after last receiving an increase except:

(a) where an earlier date was specified in a previous settlement made before 6 November 1972;

(b) where the last increase was deferred as a result of the Phase 1 standstill, in which case the 12 months can count from the originally agreed date of implementation of the last increase;

(c) where the increase does not count against the pay limit.

(ii) Exceptions to the pay limit

4. Flexibility Margin The wage bill of any group can be increased by 1 per cent (or by one-seventh of £2.25 per head as the case may be), in addition to the pay limit. This is to allow a greater degree of trade union and managerial initiative in collective bargaining to cover:

- (a) changes in the pay and grading structures and in methods of wage determination to increase efficiency and remove anomalies.
- (b) increases in holiday entitlement and the introduction or improvements of holiday pay.
- (c) the introduction or improvement of sick pay schemes.

Unsocial Hours To enable a negotiated increase in premium payments for hours worked between 8 p.m. and 6 a.m. to a limit of 20 per cent extra on basic rates.

5. Anomalies resulting from the working of Phase 1 The Government has accepted the Pay Board's report on the anomalies in the working of Phase 1. The Pay Board has carefully defined what these anomalies are and has, in addition, estimated the cost of rectifying them to be 0.4 per cent of the national wage and salary bill.

6. Productivity Bargaining The resumption of productivity bargaining is to be allowed subject to stringent rules:

- (a) they must be carefully costed and well documented;
- (b) any net saving must be sufficient to reduce the total cost per unit of output and the labour costs per unit of output below the level they would have been but for the introduction of the scheme and at least equal to the cost of the pay increases under the scheme;
- (c) the Pay Board must be informed before the scheme is introduced;
- (d) no payments under the scheme to be made before the net savings have been made and not until after the results of the first three months have been submitted to the Pay Board for checking and approval;
- (e) additional payments under the scheme must not exceed 50 per cent of the increase which is allowable within the pay limit.

7. Threshold agreements Threshold agreements are allowed outside the basic pay limit up to a limit of 40p. per week (or approximately 1 per cent of average male manual worker weekly earnings) when the Retail Price Index reaches 7 per cent over its October 1973 level, with a further increase of up to 40p. per week for each additional 1 per cent rise in the index. It is open to any group to negotiate such agreements and threshold pay increases can be made outside the £350 individual pay limit.

8. Because they do not count against the pay limits threshold agreements can be negotiated less than 12 months after the last principal increase and can, therefore, be agreed before, after, or at the same time as the main Phase 3 settlements. This means that, as prices approach the threshold level, groups not covered by such cost of living safeguards can be expected to press their employers to negotiate them. But, even if some groups fail to secure a threshold agreement before this critical date, the pay code's specification that "payments are made with effect from the first full pay period after the date of the publication of the RPI figure which is 7 per cent above the base figure (i.e. that for October 1973)" clearly establishes the case for back-dating pay increases to the date prices crossed the 7 per cent threshold. Thus it is to be expected that, when retail prices reach 7 per cent higher than October 1973, average earnings will automatically rise by 40p. either immediately or staggered over a period as back-dating takes effect.

9. Equal Pay Orderly progress towards achievement of the requirement of the Equal Pay Act 1970 can be made outside the pay limit to the extent that by the end of 1974 it reduces by up to one half:

- (a) any differential between men's and women's rates at 31st December 1973 for work of the same or broadly similar nature;
- (b) any differential between women's rates at 31 December 1973 and the rate for a grade in which they have been placed by job evaluation for equal pay purposes;
- (c) increases which remove specified discriminations from pay structures, collective agreements, and wage regulation orders.

10. Other Exceptions

- (i) Reduction in hours of work to not less than 40 per week net of meal breaks.
- (ii) The cost of an additional holiday on 1 January and improvements in holidays providing that the total annual holiday of the group does not exceed three weeks a year excluding public holidays and rest days.
- (iii) Increases of the London allowance.

Rate of pay increase under Phase 3

11. Whether the "basic" rate of pay increase - i.e. that generated by the Phase 3 limits of 7 per cent or £2.25 - is kept down to 7 per cent depends on how many relatively low paid workers opt for the flat rate alternative. The break-even point between a 7 per cent and a £2.25 increase is at approximately £32 per week. Estimates based on the 1973 New Earnings Survey suggest that approximately 50 per cent of full-time adult employees earn £32 or less before overtime. (38 per cent of men and 85 per cent of women). If wage increases within the £2.25 limit but in excess of 7 per cent are negotiated for a high percentage of these, the overall average increase will be higher than 7 per cent.

Table 1 Possible increases in average weekly earnings⁽¹⁾ under Phase 3
basic pay increase limits

	percentages			
	a	b	c	d
<u>Men</u>				
Manual	6.3	7	7.0	7.8
Non-Manual	5.1	7	5.4	7.3
All Men	5.8	7	6.4	7.6
<u>Women</u>				
Manual	7.0	7	11.9	11.9
Non-Manual	6.7	7	9.8	10.2
All Women	6.8	7	10.5	10.7
All Workers	6.1	7	7.6	8.5

<u>Key</u>	Increases for weekly earnings	
	under £32 per week	over £32 per week
a	7%	£2.25
b	7%	7%
c	£2.25	£2.25
d	£2.25	7%

(1) Based on the distribution of weekly earnings excluding overtime of full-time adult men and women at April 1973. p. 965, Department of Employment Gazette, October 1973.

12. Table 1 shows possible average "basic" rates of pay increases on different assumptions about the application of the Phase 3 limits. It shows a range of percentage increases in average earnings for all workers of from 6.1 per cent - if all workers with earnings of less than £32 per week receive 7% increases and all those with over £32 per week received £2.25 - to 8.5 per cent - if workers with earnings of less than £32 get £2.25 and those with over £32 get 7 per cent. However, alternative (a) in Table 1 can be considered non-feasible as it is highly unlikely that unions will accept the pay limit which gives the smallest money increase for workers earning above and for workers earning below £32 per week. It is, therefore, to be expected that "basic" pay increases will be in excess of 7% by a margin determined by the "mix" of the two alternative limits.

13. If high and low paid workers were all in separate groups for wage determining purposes the rate of increase in pay within Phase 3 "basic" restrictions would probably be near the upper limit as shown in Table 1. But, in fact, many groups are mixed and as each group must choose between the pay increase limits - i.e. no group can use one limit for the relatively high paid and the other for the relatively low paid - the one chosen will depend on whether the interests of the high or low paid prevail.⁽¹⁾ Such a choice will sometimes be between the interests of high and low paid men, sometimes between the interests of men and women and other times between both.

14. There are, however, strong reasons for believing that a fairly high percentage of the relatively low paid workers will receive £2.25. Such workers are fairly heavily concentrated in certain sectors, particularly in government and local government employment, and in industries subject to wage board and council orders. From the Department of Employment's April 1973 New Earning Survey it can be shown that 20 per cent of full time men affected by major collective agreements had earnings, including overtime, of less than £30. Amongst local and national government employees this percentage was over 40 per cent, amongst national health manual workers more than 50 per cent, and in wage board and wage council industries more than 40 per cent of manual and non-manual workers earned less than £30 including overtime. As these sectors are characterised by high levels of overtime working, the

(1) In important Phase 3 settlements, for example, Retail Grocery Trade and the Post Office Workers, the groups have, in fact, been divided with the lowest paid getting £2.25 and the highest paid getting 7 per cent.

overwhelming majority of workers in them have basic pay levels below the £32 per week level. In other industries relatively low paid workers are often in separate groups for pay negotiating purposes. Wage bargaining groups are frequently based on works, and even on departments within works, and wide inter-plant and inter-departmental wage differentials are a common feature of wage structures. The division between national and local bargaining is also important in this respect. Increases to base rates are negotiated at national level and, as base rates are a much larger proportion of the earnings of the lowest paid groups, it is likely that in industries with two tier bargaining, flat rate increases will be negotiated at national level. It will be then possible for shop stewards in the highest paid firms and establishments to negotiate increases of 7 per cent and deduct the £2.25 per head national increase from these in line with Phase 3 policy. Amongst manual males, therefore, there seems to be at least a strong possibility that the rate of increase in earnings will be higher than 7 per cent.

15. But manual males are only one section of the labour force and so there remains the question of what is likely to happen to the earnings of non-manual males and females. As non-manual males have, on average, relatively high earnings whilst females, in general, receive low levels of pay, the higher the proportion of non-manual male workers receiving 7 per cent increases and the higher the proportion of women receiving £2.25 increases, the higher will be the average rate of wage increase. Very little can be said about the position of non-manual males except that these have become increasingly well organised into trade unions in recent years and are therefore probably better placed to exploit the limits of Phase 3 than previously. Furthermore, non-manual males - particularly the highest paid - are in separate negotiation groups and can be expected to aim for 7 per cent increases. Females are generally low paid with almost 90 per cent of manual and non-manual together earning less than the £30 before overtime in April 1973. There seems strong possibilities that a high proportion of these will receive flat rate increases from national and other negotiations at least as large as those of male workers because of the anti-discriminating element in the Equal Pay Act 1970.

16. Providing that Phase 3 limits become the norm, the "basic" increase in average pay - i.e. before taking account of exceptions - is therefore likely to be in excess of 7%. There is, of course, the possibility that settlements will be made below the limit. This seems unlikely to happen to any large extent if one considers the tightness of the labour market and the pressure of rising prices on living costs. Any attempt at an estimate of the percentage increase is highly speculative but, given that a large proportion of the low paid can be expected to get flat rate pay increases up to the limit, an 8 per cent increase does not seem too unrealistic.

17. The extent to which the exceptions to the pay limits will affect the overall rate of wage increase is also open to speculation. We can divide the exceptions into four groups for this purpose. First, the flexibility margin and threshold agreements will have fairly general application. The government has offered the trade unions the opportunity to negotiate an additional increase of 1 per cent (or 1/7th of £2.25) under one pretext or another and to link wage increases to prices. There is no doubt in my mind that the trade unions will make the most of the offer. If we assume that the flexibility margin is proportional to the basic pay increase it will add an additional 1.1 per cent to the national wage and salaries bill.

18. Second, the anomalies exception seems not to have very wide application. The Pay Board has clearly and narrowly defined what constitutes an anomaly and there seems little reason to doubt its ability to confine exceptional wage increases under this heading within its estimated cost of 0.4 per cent of the national wages and salaries bill. So far, the Civil Service unions have an established case for an exceptional increase - of 9½ per cent - based on the anomalies argument.

19. Third, the unsocial hours exception is in a category of its own because this was originally thought to have a very narrow application. It was put in mainly to help the miners (or to help the government with the miners) and if its effect had been so confined only 0.1 per cent would have been added to the national wage bill. Since then, however, unsocial hours exception had been used to avert the spread of the Glasgow firemen's dispute. In addition, the recent Retail Grocery Trade settlement included a premium for Saturday working over the £2.25 increase which contributed to an overall 19 per cent increase in pay and the municipal busmen - who set the pattern for provincial and London busmen - have received a £3 per week increase made of up £2.25 plus unsocial hours payments. It now seems likely that as many as 1 million workers will qualify for unsocial hours increases including miners, firemen, policemen, nurses, hospital ancillary workers, London and other busmen, electricity supply workers, hotel staff workers and night cleaners. Even this estimate may be too optimistic because the scope for inclusion in this exception was extended by changes made to the relevant clause in the final draft of the pay code. Existing premiums for a 2 p.m. - 10 p.m. shift can now be divided by 8 (the total number of hours in the shift) for estimating existing premium time for the "unsocial hours" of 8 p.m. to 10 p.m., instead of being divided by 2 as in the draft code of the Consultative Document. This means that more workers will now qualify for inclusion in this exception than previously

expected. Nevertheless, despite the extension in its coverage, the unsocial hours exception is for a clearly defined purpose and is therefore one that the Pay Board can easily police. A reasonable estimate of the effect of increases in "unsocial hours" premium is possibly 0.5 per cent of the total wages and salaries bill.

20. The possible effect of the third group of exceptions - productivity bargains, equal pay etc. - on the rate of wage increase movements is much more difficult to estimate. The pay code lays down strict rules for productivity bargaining but the Pay Board's ability to enforce adherence to the rules depends upon, amongst other things, how hawkish it is prepared to be, the number of such bargains and their complexity relative to the size of the Pay Board's staff, and how successful unions and management are at presenting bargains that successfully evade the rules. A recent speech by Derek Robinson, Deputy Chairman of the Pay Board, suggests the Pay Board will take a hard line on productivity bargains. But to do this it will probably require a much larger staff. During Phase 2 it dealt with, on average, 100 pay settlements per week. However, the criteria for wage increases in Phase 2 were simple to apply. If, during Phase 3, a large proportion of wage settlements include productivity bargaining elements - as well as exceptional increases under other heads - the job of vetting will be significantly increased.

21. Allowing productivity bargaining as a basis for exceptional wage increases raises the difficulty of separating, and measuring, the productivity increases resulting directly from the bargain from those caused by other factors. The inclusion of this exception is an open invitation to unions, management, or both, to exploit any productivity improvement to negotiate increases in earnings over the limits.⁽¹⁾ Most commentators have suggested that productivity bargaining was a major weakness in the later stages of the Labour Government's incomes policy because many of the expected cost savings had not materialised or they resulted from factors other than increased labour effort, and because the high rates of earnings increases achieved under such schemes set standards which were emulated in normal wage bargaining. The overall effect of productivity bargaining is subject to much controversy, but there seems little doubt that without close supervision it could raise the rate of wage increases in some areas, particularly where workers are well organised. In other sectors, however, where workers are weakly organised or where

(1) A recent speech by Mr. Heath indicated that he regarded such changes as an important way by which the low paid will improve their relative position.

it is impossible to measure productivity - for example, in teaching - such increases will be negligible and this will increase the discriminatory impact of the incomes policy. In general, the degree of collusion between unions and management to evade Phase 3's pay code will depend on such factors as trade union and labour market pressures, and, in the context of full employment, it can be expected that these will be considerable.

22. Estimates of the possible increase in earnings from productivity bargaining are extremely speculative. The evidence from the relaxation period of the Labour Government's incomes policy suggests that an upsurge in such agreements may take place. Between January 1967 and December 1969, 4091 productivity agreements were concluded covering 36 per cent of the country's labour force. Over 50 per cent of these agreements were struck between July 1968 and June 1969.⁽¹⁾ If productivity bargaining reaches this intensity during Phase 3, and it may well do so because of pressures from both the labour market and inflation, it is possible that 20 per cent or thereabouts of the labour force will be affected. The extra payments under such schemes are limited to 50 per cent of the increase within pay limits (8 per cent on earnings by my calculation). Therefore the increase in average earnings from productivity bargaining may be around 0.8 per cent (i.e. 20 per cent of 4 per cent).

23. Estimates of the effect of the equal pay exception on the rate of increase of earnings are equally speculative. The Department of Employment's New Earnings Survey shows that, on average, hourly earnings, excluding overtime, of women have increased 1.74 per cent more per year than those of men since 1970. Assuming this is the effect of the Equal Pay Act it is reasonable to suppose that until 1975, when under the terms of the 1970 Act equal pay is to be achieved, the relative improvement in women's earnings will continue at the same annual rate. Using this increase as a basis for calculations and weighting it by the women's share in the total wages and salaries bill (estimated at 22 per cent in April 1973⁽²⁾) it seems probable that the equal pay exception will add 0.4 per cent to the national wages and salaries bill.

(1) R.M. McKensie and L.C. Hunter, "Pay, Productivity and Collective Bargaining", Macmillan, 1973, pp. 64-7.

(2) Based on New Earnings Survey, 1973, Table 8. Department of Employment Gazette, October 1973, p. 962.

24. An additional source of earnings increase is drift. The average rate of wage drift, using the Department of Employment series, was 1.5 per cent 1961-71. In certain years the rate of increase was much higher than this average and in other years drift was negative. In 1964-65 for example and again in 1969-71 drift was, on average, over 2 per cent (in 1970 it was 3.8 per cent). The high level of drift between 1969 and 1971 can be, at least, partly explained by changes in collective bargaining away from national towards company level and, particularly, the effect of productivity bargaining. With the current labour market situation, a high level of wage drift might be expected - i.e., say 2.5 per cent - but, on the other hand, the Pay Board has tightened control on local bargaining to an unprecedented degree. Nevertheless not all elements of drift can be controlled (e.g. increases in bonus earnings from existing rates, up-grading, changes in shift systems etc.). Furthermore it is also possible to overestimate the degree of Pay Board control, and a recent study has shown that out of a sample of 177 companies 14 per cent successfully evaded the Phase 2 limits⁽¹⁾ (which were more severe and clearly defined than those in the Phase 3 code). Therefore evasion of the Phase 3 code can be expected and this will add to wage drift. A realistic estimate of wage drift, taking all these factors into account, but excluding the effect of increased overtime working, might be 2 per cent.

25. It seems, then, that even the most optimistic estimates (or more precisely guesstimates) of the rate of increase in hourly earnings in Phase 3 are:

Basic Pay Increase	8.0
Flexibility Margin	1.1
Anomalies	0.4
Unsocial Hours	0.5
Productivity Bargaining	0.8
Equal Pay	0.4
Other Exceptions	<u>0.3</u>
	<u>11.5</u>
Wage Drift	<u>2.0</u>
Estimated increase in average hourly earnings, November 1973 to November 1974	<u>13.5</u>

(1) Industrial Relations Review and Report, November 7, 1973.

26. With such an increase in average hourly earnings there seems little chance of the government holding price increases below the critical 7 per cent level where threshold agreements are activated.

Some less optimistic comments

27. Whether the rate of wage and salary increase is kept within the above "optimistic" forecast depends upon: the Pay Board's ability to police the policy; whether important wage bargaining groups breach the code; whether new loopholes are discovered in the code; whether new exceptions are introduced; and, whether the threshold level of price increases is crossed.

28. The Pay Board's success in vetting the wage claims depends partly on the political resolve of the government and partly on the relationship between the number of wage settlements, their complexity and the Board's resources. There is every evidence of the Pay Board's success in Phase 2 when the criteria for pay increases were simple to apply. But the increased complexity of the Phase 3 code and the possibility of a spate of productivity bargains very much increases the policing problems of this stage.

29. Whether particular bargaining groups make serious attempts to breach the code will probably depend on how rapidly their earnings have increased in the immediate past. It seems likely that serious attempts to defy a statutory incomes policy are backed more by a deep sense of injustice than by evil design (despite the high level of propaganda aimed at convincing the public that the opposite is true). Incomes policies have broken down in the past mainly because they have more effectively held down the incomes of some groups rather than others thereby threatening, or actually reducing, their living standards. During the early periods of policy disintegration attempts have been made by such groups to redress the balance and when they have succeeded this has meant extraordinary levels of wage increases which have set new standards for others. As most groups have been, or think they have been, adversely affected by the incomes policy, they all attempt to emulate these early successes and the average rate of increase in pay rises sharply; a rise that is almost impossible to stem. Therefore any attempt to evaluate the likely impact of an incomes policy must be concerned with its discriminatory, as well as its overall, effect.

30. The present government has been operating some attempted curbs on the rate of wage increase throughout its period of office: first, the informal n - 1 policy, then the statutory incomes policy Phases 1, 2, 3. In attempting to assess the effect of government's policy, 1970 is the obvious starting point. Table 2 shows estimates of the rates of increase of gross money incomes and net real incomes of the average manual worker between 1970 and 1974.

Table 2 Rate of increase of gross money and net real income of average wage earner - married with two children

Annual rate of Growth	Gross money income	Net Real Income (1970 prices)
1970-71	10.0	1.7
1971-72	15.3	7.6
1972-73	11.7	-0.6
1973-74	13.2	-1.4
Annual Compound Rate of Growth		
1970-74	12.5	1.8

31. Our estimates show that average real income net of tax increased almost 2.0 per cent per year during the 4 year period. But the increase was confined to the two first years when there was only an "informal" incomes policy, and, particularly, between 1971 and 1972 when wages increased sharply relative to prices and when income tax was reduced. Since the introduction of a statutory income policy, however, net real income of our representative family has fallen and is expected to fall further in Phase 3.

32. Table 3 shows forecasts of increases in the gross money and net real income of a sample of "winners" and "losers" from the present government's various attempts at pay restraint policy. These estimates are based on wage and salary increases from 1970 including actual, or estimated, Phase 3 increases for a relatively low paid, and a relatively high paid, grade from each group. In general, the relatively low paid in each group have done better than the higher grades and this clearly reflects the emphasis placed by government on flat rate increases. But Table 3 shows that in almost every case where the low paid have received an appreciable

Table 3 Rates of growth of gross money and net real income of
selected groups 1970-74

<u>Annual Compound</u> <u>Rates of Growth</u>	<u>Gross money</u> <u>Income</u>	<u>Net real Income</u> <u>(1970 prices)</u>
<u>Coal Mining (1)</u>		
Surface workers	16.4 (15.3)	3.5 (2.7)
Power loaders (2)	10.4 (9.4)	0.1 (-0.6)
<u>Post Office Engineers</u>		
Labourers	13.3	3.7
Technical Officers	11.4	0.7
<u>Agriculture</u>		
General Labourer	12.7	2.4
Stockmen	14.5	3.0
<u>Ford Motors</u>		
Grade A	12.6	1.6
Grade E	10.5	0.2
<u>Police (3)</u>		
Constables	11.4	0.9
Sergeants	11.3	0.9
<u>Civil Service (3)</u>		
Clerical Assistant	12.8	1.5
Senior Principal	8.7	-0.8
<u>Electricity Supply Manual</u>		
Group A	10.4	0.2
Group B	9.2	-0.8
<u>Post Office (3) (4)</u>		
Postmen	8.9	-1.2
Postal Officers	9.7	-1.0
<u>University Lecturers</u>		
Assistant Lecturer (3)	7.9	-1.9
Professors	6.2	-3.0
<u>National Health Service</u> <u>Hospital: Doctors (3)</u>		
House Officers	6.0	-2.9
Senior Registrars	7.1	-2.2

Notes See next page.

Notes to Table 3

- (1) The increase for miners includes the Government figure of 16½% for the Phase 3 offer. But this includes an unsocial hours payment which will only be paid to a relatively small proportion of the labour force. The majority of miners will receive 11½ per cent - made up of 7% basic increase, 1% flexibility margin and a 3½% (conditional) productivity payment. Estimates based on the 11½ per cent increase are in brackets.
- (2) Power loaders in the Kent and Nottinghamshire areas. As these were the highest paid areas in 1970 and power loading rates have since been equalised the increase in other areas is higher than that in the table.
- (3) Employees in these groups are on incremental scales. The figures in the table are based on the increase of wages and salaries at particular points in the scales - usually the average of the top and bottom. Employees below the top of the scale have regular increments as well as any general wage increase. Therefore the wages and salaries of those individuals increase more than the amounts shown in the table. However, the figures in the table are an indication of what has happened to prospective career earnings of individuals below the top of the scales, and to the actual earnings of those at the top of the scales, over the 4 year period.
- (4) Based on the maximum earnings of these grades. Restructuring makes it impossible to obtain comparable data for the 4 year period at other points in the scale. The changes in the wage structure have generally benefitted younger postmen and therefore earnings below the maximum have increased by more than those in the table.

increase in real disposable income the high paid grade's net real income has increased only very slightly or has even fallen. In three out of the ten groups in Table 3 the net real income of both the high and low paid group fell on average by over 1 per cent per year. The five "losing" groups in our sample are all in the public sector.

33. Thus, on average, real wages, net of tax, will increase during 1970-74. But the tightening of incomes policy by statutory means has slowed down the increase and can be expected to cut real disposable income during Phase 3. The period has also witnessed important changes in differentials, some of which were planned - those between the high and low paid grades in the same bargaining group - and some of which were unplanned but follow from the degree of direct influence the government has over incomes in the public sector. Because of the worsened relative or often absolute, pay position of certain groups there is a strong possibility that the government will be faced by large pay demands, the substance of which will be difficult to refute. The Pay Code has been at least partly designed to

meet such eventualities. The "unsocial hours" exception was drafted with the miners in mind and recently the Civil Servants were granted a large anomalies award and this - with an additional Phase 3 increase of 7% - goes some way to restoring the clerical assistants' relative position although the net real value of senior principals' salaries remains below its 1970 level (see Table 3). It is to be expected that the exception in the pay code will be exploited to the full with great ingenuity but even this may not be enough to prevent a widening and deepening of the opposition to the Government's policy, particularly from the public sector.

34. There remains the possibility that a major new exception will be introduced. There has been some speculation recently that the forthcoming report of the Pay Board on the structural effects of the Government's incomes policy will provide the basis for a new exception.⁽¹⁾ The real problem of the introduction of such a new exception will be that it must be in a much more general form than those already in the code and could open the way to a flood of claims.

35. Thus all the extreme pressures that have doomed previous attempts at relaxing incomes policy are now present in addition to the very high inflation rates. If the Government attempts to head off confrontation by offering pay increases above the limits by fully exploiting the exceptions, including perhaps the Pay Board's pay structure report, even without any emulation effect, the rate of pay increase may rise to the 14 or 15 per cent level.

(1) The speculation developed from a speech by Sir Frank Figgures to the Industrial Society Conference, November 21st. Reported in the Financial Times, November 22nd.

Appendix ASources and Methods

The method of adjusting income for direct tax is to assume a family consisting of a man, his dependent wife and two children under 11 years, add family allowance to earned income, deduct earned income, personal and children's tax allowances, calculate income tax on the remainder of income and then deduct income tax and national insurance (both flat rate and graduated) from gross money income. Money incomes are adjusted to real values using the Index of Retail Prices.

Table 2

1. Estimates based on average earnings of full time manual workers over 21 from the Department of Employment, October Enquiry. It is assumed earnings increased by 12.0 per cent October 1972 to October 1973, and will increase by 13.5 per cent between October 1973 and October 1974.

Table 3

1. The calculations are based on the basic earnings of each group from the date their 1970 settlement came into effect to the date when it is expected wages will be increased in the Phase 3 period. Where the period between these dates is more or less than 48 months the percentage increase has been adjusted to a 4 year basis by dividing it by the number of months between the two settlements and multiplying by 48.

2. It is assumed that wages and salaries will increase during Phase 3 by:

Coal Mining 16½ per cent - figures given by Government made up of: pay limit, flexibility margin, unsocial hours and 3½ per cent productivity increase.

Post Office Engineers 11½ per cent - own estimates made up of: 7 per cent pay limit, 1 per cent flexibility and 3½ per cent productivity increase.

Agriculture £2.25 for general labourers and £3.65 for stockmen agreed by Agricultural Wages Board and passed by the Pay Board.

Ford Motors 11½ per cent - own estimates made up of: 7 per cent pay limit, 1 per cent flexibility and 3½ per cent productivity increase.

Police 19 per cent - assume the police follow the firemen - whose conditions of work are similar - in getting unsocial hours increase contributing to overall average increase of 19 per cent.

Civil Service Anomalies increase already awarded and Phase 3 wage increase claim submitted by Civil Service unions:

	<u>Anomalies</u>	<u>Phase 3</u>	<u>% Increase</u>
Clerical Assistant	£2.50 p.w.	£2.25	22.5
Senior Principal	£228 p.a.	7%	11.5

Electrical Supply Manual Workers

Group A = 16.1 per cent. Group B = 13.8 per cent - own estimates based on £2.25 increase, 32p. flexibility margin and 5 per cent unsocial hours and productivity increase.

Post Office £3 increase - based on an offer just recommended by the Union of Post Office Workers for acceptance by its members - made up of £2.25 increase plus unsocial hours and productivity increases. The flexibility margin is to be used mainly to improve the relative pay position of young workers.

University Lecturers 8 per cent - own estimate made up of: 7 per cent increase and 1 per cent flexibility. The only other possible source of increase is Pay Board's expected report on wage structures.

National Health Service Doctors 8 per cent - own estimate made up as for University Lecturers.