CHAPTER 3
THE OUTLOOK FOR WAGES IN THE SHORT RUN

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Wage rates and earnings last year

The increase in wages during the rest of 1975 cannot be forecast with any confidence but an analysis of what has recently been going on provides some clues.

In December 1974 the index of weekly wage rates was 28.5% higher than a year earlier about a third of this being the direct consequence of threshold awards.

Although locally agreed threshold arrangements were widespread in engineering(1) and the resulting pay increases were recorded in the earnings index no *national* engineering threshold agreement was concluded and so their effects were not recorded in the wage rate index(2). But for this accident the index in December would probably have been 33% higher than a year earlier; this is the increase for all industries and services excluding metals. This enormous increase greatly exaggerates the movement of labour costs because threshold payments were flat rate weekly sums of money not enhanced by overtime or other premiums and consequently the percentage effect on earnings was much smaller than on rates. Earnings drift is normally positive, but between November 1973 and November 1974 (the latest date for which figures are available) average earnings (for all workers excluding metals) rose 5% less than rates – 25% compared with 31%. The increase in earnings recorded in November may indeed overestimate the underlying increase because the figures for that month include substantial sums for back pay related to a London weighting agreement while, at the same time, there is no evidence that earnings were reduced by a fall in hours worked. The fact that the engineers had no threshold agreement negotiated nationally apparently had no adverse effect on their earnings which rose a little more than average earnings in manufacturing (in November average pay in manufacturing as a whole was 24% up on a year earlier).

Pay has increased rather less in manufacturing industry than outside it. While wage rates in manufacturing (excluding metals) were 31 per cent higher in December than a year earlier, those in all non-manufacturing industries and services were almost 35 per cent higher. This difference is largely the result of "special case" and "catching up" settlements concluded in the public sector.

Thresholds and "new money"

As the threshold awards so confuse the statistical picture, forty six post Phase 3 settlements covering over 3 million workers have been analysed individually in an attempt to disentangle the effect of threshold awards from "new money", and see whether any patterns can be detected. For each settlement, the addition to wage rates compared with the previous main settlement for the group in question was divided into a threshold component (whether consolidated or not) and "new money". The threshold payments were then expressed as a percentage of the wage rate after the previous main settlement. The new money increase was also expressed as a percentage of the old wage rate but in this case the percentages were adjusted to an annual basis by dividing by the number of months between main settlements and multiplying by twelve. In several cases the bargainers had made it clear that the Phase 3 settlement was an interim arrangement and provisions were made for further wage increases when statutory controls were ended. Where this happened the main settlements for the purposes of calculating wage increases were taken as the total of Phase 3 and post-Phase 3 settlements. The information from this exercise is summarised in Table 3.1 below.

The table shows a wide dispersion both of new money and of threshold increases each month. Particularly large increases were negotiated by Ford Motors, Rolls Royce and Hull lorry drivers (after industrial action) and by public sector groups after special pay review – e.g. post office workers. But the majority of new money increases are below, and many well below, 20 per cent.

The spread of threshold increases in each month reflects mainly their flat rate nature and variations in the levels of basic pay, whilst the month by month increases in the average size of thresholds reflect the growing number of triggers. These increases range from more than 20 per cent for Woolworth shop girls to less than 10 per cent for the highly paid Hull dockers.

The most interesting thing to emerge from the analysis is that the rate of new money settlements has on average been running at 14–17% with no clear tendency to rise or fall. The new money settlements were on average lower than the increase in retail prices, but clearly imply that the total increase in wage rates (i.e. including thresholds) for those obtaining them have been far higher.

Analysis of aggregate statistics for wage rates broadly confirms this picture so far as it relates to the index of wage rates in manufacturing, if, for obvious reasons, metal workers are excluded. As the figures show, between December 1973 and December 1974 wage rates excluding thresholds rose 16–17%; and there was a virtually identical rate of increase between April (just before the first threshold award) and December.

The tentative conclusion is that a pattern is emerging which we expect, with no great confidence, to continue(1).

(1) There is little reliable information about the coverage of threshold agreements in engineering but the general impression is that they are as widespread in that industry as in the rest of industry and services.

(2) As a result the all metals combined wage rate index increased by only 16.5 per cent December 1973 to December 1974 compared with the 31.4 per cent increase for all manufacturing excluding metals.

(1) One may be tempted to suppose, prima facie, that the new money settlement rate "should" fall through time as the threshold amounts grew larger. But this is not so; those who settled in say June for 16% new money will, because they generally continued to get thresholds, have been in about the same position at the end of the year as those who settled later for the same amount of new money.

Table 3.1 Distribution of main settlements by rates of new money increases and threshold increases at the time of the settlement

Annual % increase in wage and salary rates	July	August	September	October	November	December	January
a. **new money increase**							
40 or more				1			
37.5–39.9					1		
35.0–37.4							
32.5–34.9					1		
30.0–32.4							
27.5–29.9	1						
25.0–27.4	1						
22.5–24.9							
20.0–22.4	1				1	1	1
17.5–19.9	2	1		1		1	
15.0–17.4			3		1		2
12.5–14.9	6	1		1	3	1	1
10.0–12.4	1	1	1	2	3		1
7.5– 9.9	1		1		2		
Average	16.6	14.4	13.7	18.9	16.9	17.6	15.5
b. **threshold increases**							
22.5–24.9							
20.0–22.4					1		
17.5–19.9					2	1	2
15.0–17.4			1	1		1	2
12.5–14.9		1		2			
10.0–12.4	2	1	3	1	4		1
7.5– 9.9	6	1		2	1	1	
5.0– 7.4	2		1	1	1		
less than 5.0	3						
Average	7.5	10.5	11.0	10.6	12.8	14.5	16.4

Source: Income Data Service

Table 3.2 Weekly wage rates
Manufacturing excluding metals

November 1973=100

	Wage Rates	Thresholds	Wage Rates excluding Thresholds
1973			
November	100.0	0	100.0
December	100.6	0	100.6
1974			
April	105.5	0	105.5
November	127.5	15.4	112.1
December	132.2	15.4	116.8

Table 3.3 Wage Rates and Earnings 1973-75

Indices November 1973 = 100

	Manufacturing Industries excluding Metals		All Manufacturing Industries		All Industries and Services	
	Wage Rates	Earnings	Wage Rates	Earnings	Wage Rates	Earnings
1973						
November	100.0	100.0	100.0	100.0	100.0	100.0
December	100.6	101.2	100.2	101.2	100.7	100.7
1974						
April	105.5		102.7		105.6	
November	127.5	123.1	121.1	124.1	126.6	125.2
December	132.2	127.5 (est)	123.1	128.5 (est)	129.5	129.7 (est)
1975						
December (forecast)	152.0	153.0	151.8	154.2	154.4	155.6
% change compared with December 1974	15.0	20.0	23.3	20.0	19.2	20.0

There are a few large individual increases already negotiated which are still to come through, in particular the increase in teachers' pay next spring. But all the other public sector bargaining groups we know of (with the possible exception of electricity supply) who fell behind in 1970–73 have already had special consideration either under the anomalies provision of Phase 3, from special pay reviews or from arbitration awards. And unemployment is likely to be rising from now, producing a climate favouring moderation.

Finally, for reasons given in the next section continuation of settlements at the recent rate would be likely to cause a rise in average earnings of about 20%(1) between December 1974 and December 1975. The increase in prices would probably be distinctly less than this – around 15% if the predictions in Chapter 2 are correct. In other words there are no rises in costs in the pipeline or in prospect such as to make the prediction implausible.

Wage rates and earnings; the statistical picture in 1975

The engineering national award may consolidate thresholds already negotiated locally, making the wage rate index exceptionally misleading. Index watchers are advised to take note of this in advance. Given the forecasts made in this chapter that the wage rate index *excluding all metals combined* is likely to rise 15 per cent between December 1974 and December 1975, other key series would be likely to move in the way set out in Table 3.3.

It is to be expected, as a proportion of threshold awards get formally consolidated into basic rates so that they cease to be flat rate sums and generate higher overtime and other premiums, that wage drift will become a little more positive than is normally the case. For this reason an increase in earnings of 20% has been entered corresponding to the rise of 15% in base rates.

If the engineers negotiate a settlement essentially the same as has been forecast for other manufacturing, but thresholds are incorporated for the first time into the basic rate, this will by itself raise the index for all manufacturing by 8% and wage drift would become strongly negative in the statistics.

The advice we offer, therefore (and this holds good if the forecast is quite wrong) is that changes in earnings will probably provide a more accurate indicator of movements in labour cost than wage rates. But even the earnings figure needs treating with caution. Large blocks of back-pay occasionally enter this index, strongly influencing month by month changes. In the near future this is likely to happen to teachers' pay (primary, secondary, colleges of further education and (perhaps) university teachers) and this will produce a steep rise in one month, to be partially reversed subsequently.

(1) Earnings are defined here in cyclically corrected terms, i.e. they ignore any change because of shorter hours as demand for labour falls.

(1) However the reader is also reminded that the earnings in January and February 1975 will show a spuriously large year on year increase because of the effect of the 3-day week on earnings in January and February 1974.