

THE GOVERNMENT CASE AGAINST NATIONAL PAY  
BARGAINING: AN ANALYSIS FOR SCOTLAND

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The Conservative Government's 1985 White Paper, *Employment: The Challenge for the Nation* stated that 'the biggest single cause of our high unemployment is the failure of the jobs market, the weak link in our economy'.<sup>(1)</sup> This document went on to highlight four required areas of reform: (i) quality, 'so that businesses can find the increasingly demanding skills they need, now and in the future'; (ii) costs and incentives, 'so that people are neither prevented from pricing themselves into jobs nor deterred from taking them up'; (iii) flexibility, 'so that employers and employees adapt quickly to new circumstances'; and (iv) freedom, 'so that employers are not so burdened by regulation that they are reluctant to offer more jobs'. One of the most highly publicised, not to say controversial, individual proposals towards such ends emerged in the months of late 1986 and early 1987 in a series of statements by senior members of the Government (the Chancellor of the Exchequer, the Environment Secretary, and the Minister of Employment) that were highly critical of the continued maintenance of national pay bargaining arrangements in Britain. And with the Conservative Government entering a third consecutive term of office it is anticipated that tangible moves to break up national bargaining arrangements, particularly in the public sector<sup>(2)</sup>, will be one of their more immediate industrial relations priorities. Indeed as this chapter was being prepared (June 1987) the industrial action by the two largest civil service unions in support of a 15 per cent pay claim entered its tenth week, with the Treasury demand for an acceptance of the principle of regional pay differentials being held to be a major factor in the continuation of the union-management deadlock.<sup>(3)</sup>

A major component of the Government's argument against national pay bargaining arrangements is that relatively high unemployment regions such as Scotland would gain in employment terms (through a resulting, increased inter-regional mobility of both labour and jobs) from the reduced existence and strength of such arrangements. For this reason it is the Government's case against national pay bargaining that is the subject of this chapter. Accordingly in what follows we initially outline the essence of the Government's argument, indicate some of the immediate reactions to and criticisms of their case, and highlight the key questions for which information is necessary in order to evaluate the likely impact of such a

proposal in Scotland. The second, and more substantial, part of the chapter then presents a variety of empirical evidence concerning the possible implications for Scotland. The latter part of the chapter contains the following empirical material: (i) some evidence on the extent (and nature) of average *money* and *real* earnings levels in Scotland compared to that in some other regions of the country in recent years; (ii) an indication of the extent of national pay bargaining arrangements in Scotland compared to other regions, and the particular industries of Scotland most affected in this regard; (iii) an examination of the size of wage differentials for workers covered by collective bargaining arrangements in Scotland and the South of England, and their relationship to the extent of national bargaining in individual industries (and socio-economic groupings) in Scotland; and (iv) finally, we present the results of a preliminary examination of the view that national bargaining arrangements have been an important mechanism for transmitting wage increases from the South of England to Scotland through the course of time. A brief concluding section then draws together our major findings and identifies important issues for future research in the particular subject area.

#### The Government Case and its Critics

Before outlining the essential elements of the Government's case against national pay bargaining, there are one or two preliminary points that need to be made by way of introduction. The first is that this particular proposal is perfectly consistent with the Government's general philosophy of and position towards the operation of the labour market, and with other previously taken measures such as the abolition of both Schedule 11 of the Employment Protection Act 1975 and the Fair Wages Resolution of 1946 (these two measures sought to ensure the widespread adoption of industry-wide, collectively bargained wage rates) and their downgrading of the role and influence of wages councils. It is also important to make clear that when the Government is criticising national pay bargaining arrangements they are talking of *both* industry level bargaining arrangements and company level bargaining arrangements; their favoured bargaining structures would appear to be ones at the individual plant/establishment or regional levels. The sort of collective bargaining arrangements favoured by the Government are those associated with companies such as British Aerospace, Hoover and more recently Shell Oil and Brace Bros. where there are very definite regional or plant differences in wage settlement levels, based on factors such as local pay rates, local costs and plant profitability. And finally, as essential background information one needs to be aware of the major trends and changes in contemporary bargaining structures in Britain. These are essentially as follows.<sup>(4)</sup>

- (i) The 1970s and '80s have seen a strong and sustained movement away from multi-employer, industry level bargaining structures to single employer arrangements at the plant and company level. The former

only remain important in the public sector and in certain private sector industries such as footwear manufacturing and construction.

- (ii) The early to mid-'80s witnessed a movement towards company level, as opposed to establishment level, bargaining, particularly for non-manual workers in the manufacturing sector.
- (iii) Although they constituted the original basis of the collective bargaining system in Britain, regional and district level bargaining arrangements are currently few in number (see Table 1) and where they do exist, as in the road haulage industry, appear to be somewhat 'unstable' in nature. (For example, early in 1984, 7 of the 21 road haulage association regions failed to reach a pay agreement, while in an eighth region the employers' side negotiators all resigned.)

The essence of the Government's argument against national pay bargaining, as presented in Mr Kenneth Clarke's (the Employment Minister's) speech at the City University Business School on 17th February 1987 was that:<sup>(5)</sup>

We must move away from the belief that national pay bargaining is the right way to determine wages. It is remote and destroys jobs. It takes insufficient account of the different circumstances of individual enterprises, or of variations in the demand for workers and the cost of living in different parts of the country.

In support of a similar, earlier statement by the Chancellor of the Exchequer, the NEDC prepared a brief paper which made the following basic points:<sup>(6)</sup>

- (i) Some 60 per cent of non-manual and 70 per cent of manual workers' pay rates are determined by collective bargaining. In the case of manual employees over half of this total have their pay rates determined through national agreements (and over 80 per cent have some element of national agreement influence), with the relevant figures for non-manuals being 75 (and 85) per cent respectively. The influence of national and company-wide bargaining has been growing in recent years.
- (ii) Almost all public service workers, the majority of workers in the public trading sector, and many workers in the private sector have pay rates which are uniform throughout the country, except for London weighting.
- (iii) Regional variation in earnings outside London is relatively small and much smaller than regional variations in labour market pressure, as measured by relative unemployment rates. Some of the regional

variation that does occur will reflect differences in the occupational and industrial structures of the regions. This implies that differences due to variations in pay rates are probably even smaller.

In summary, the Government's case against national pay bargaining views such institutional arrangements as a wage transmission mechanism between regions which (i) limits the extent of inter-regional variation in earnings levels, (ii) makes such earnings levels relatively unresponsive to regional (and local) labour market pressures, and (iii) involves a loss of jobs in high unemployment regions as their wage levels are set artificially high due to reflecting the pressures of low unemployment regions such as the south-east of England. Accordingly any study such as ours will ideally need to be concerned to demonstrate the numerical extent of national pay bargaining, the extent of pay variation associated with such arrangements and the impact of such arrangements as a source of inter-regional earnings differentials. These particular questions and issues are pursued in the subsequent empirical work of this chapter which is, at least to our knowledge, the first, direct examination of the Government case against national pay bargaining.

The Government's particular criticism of national pay bargaining involves two *larger* issues or beliefs, namely that (i) wage increases in local labour markets are not responsive to local demand conditions and (ii) jobs are lost because pay levels are set too high. These two questions are not pursued here because they would take us well beyond the details of the particular case against national pay bargaining. It is, however, important to be aware of the extensive debate and criticism surrounding the latter point,<sup>(7)</sup> while a recent paper by a leading US labour economist concluded that wages are in fact more responsive to unemployment in the UK (by county areas) than is the case in the US (by states);<sup>(8)</sup> this latter finding would certainly appear to raise some questions about the strength of the former belief mentioned above.

The Government have claimed that their case against national pay bargaining has been distorted and over-simplified due to being caught up in emotive discussions about the North-South divide in the economic performance of Britain.<sup>(9)</sup> The theory of bargaining structures certainly supports the logic of the Government's case to the extent that it is generally held that centralised bargaining arrangements are less sensitive to demand conditions (and hence facilitate the exercise of union power in terms of the size of wage settlements), particularly in poor financial times and situations of weak labour markets.<sup>(10)</sup> This relationship is well documented in a recent study of the wage impact of a change in the level of bargaining in the coalmining industry in Britain,<sup>(11)</sup> while a number of studies in the early 1970s pointed to the role of national bargaining as a possible factor in the similarity of wage changes across regions.<sup>(12)</sup> However, the immediate reactions to this particular proposal of the Government have

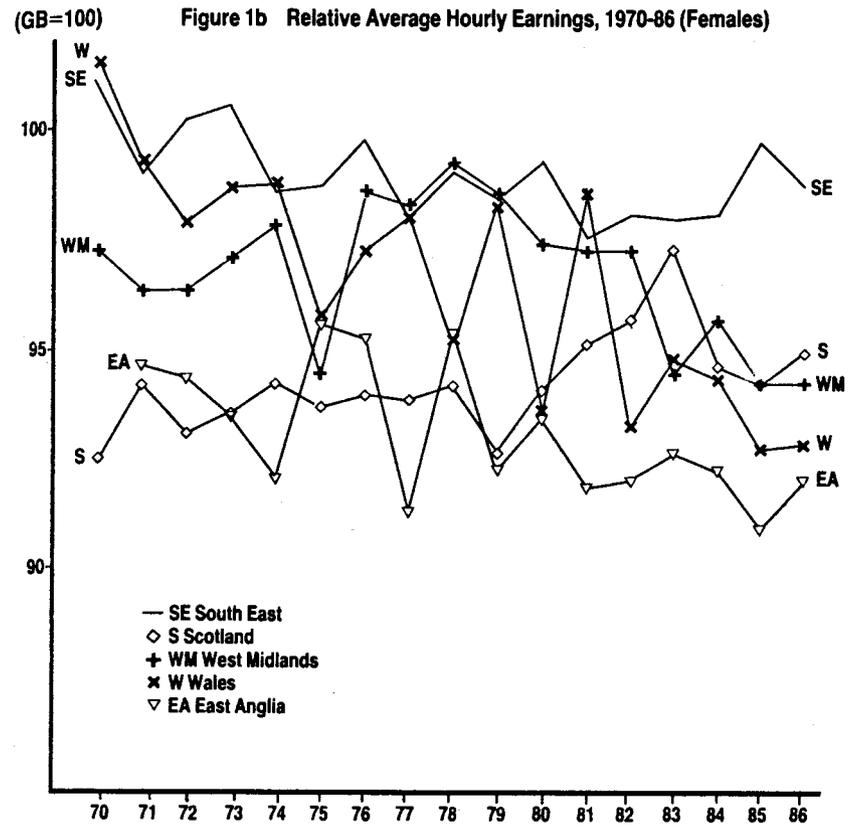
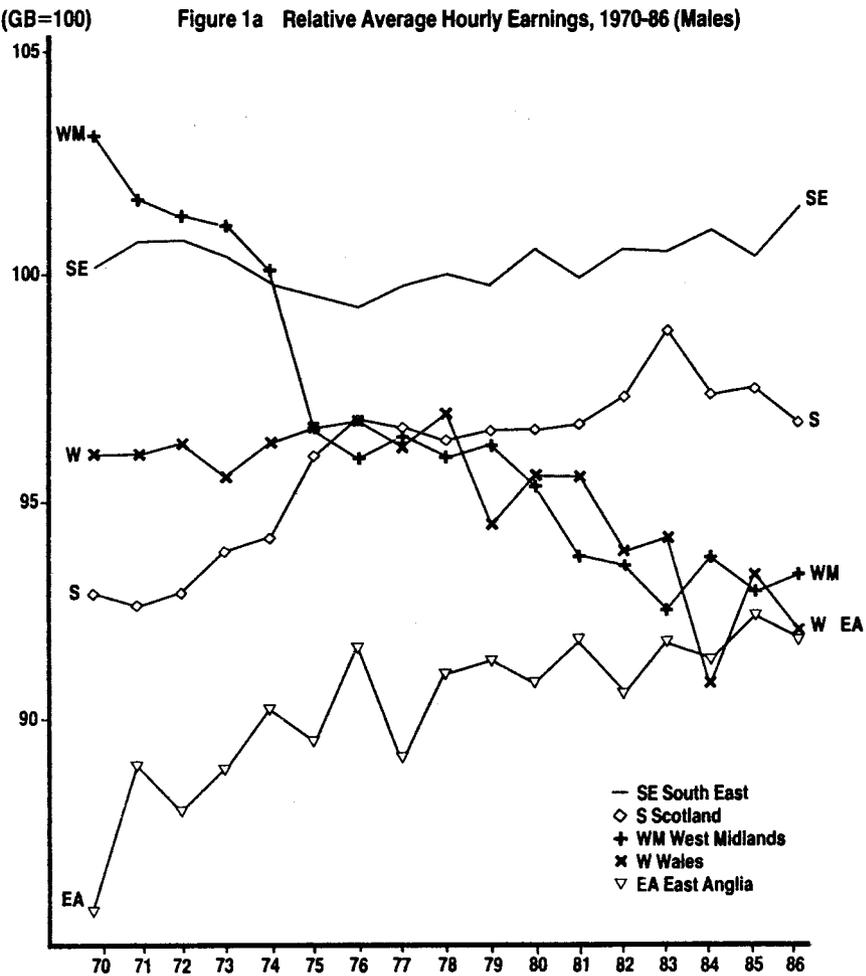
overwhelmingly ranged from indifference and scepticism through to outright criticism and hostility. For example, the Confederation of British Industry's major review of pay in the 1980s makes virtually no mention of the subject,<sup>(13)</sup> while the TUC have argued that the Government's case exaggerates both the extent of national pay bargaining arrangements and their role in determining actual pay rates.<sup>(14)</sup>

There have also been questions raised about the relevance of regional earnings and unemployment figures as the means of making a case against national pay bargaining,<sup>(15)</sup> while a number of employers associations have, perhaps not surprisingly, pointed to some of the advantages of continuing to maintain industry level bargaining arrangements;<sup>(16)</sup> it has, for example, been suggested that such arrangements have helped to hold down the level of pay settlements by ensuring that highly profitable companies cannot be 'targetted' by unions to settle high and set precedents for the rest of industry. And finally, most industrial relations researchers would be highly sceptical of any view or argument to the effect that there is one best (or least desirable) type of bargaining structure for the system of industrial relations as a whole. The point here is that the type of bargaining structure that is suitable for a highly competitive industry with a large number of small sized firms, for instance, will be very different to that which is suitable for an industry without such environmental and organisational characteristics. In short, the choice of an appropriate bargaining structure for a particular union-management relationship very much depends on the particular organisational characteristics of the parties concerned and the nature of their larger operating environment.<sup>(17)</sup> Moreover the very fact that the Government have exclusively couched their criticism of national bargaining arrangements in terms of the wage impact of such arrangements can be criticised for ignoring the *multiple* effects (e.g. on the various aspects of strike activity) of any change in bargaining structures.

This completes our initial discussion of the nature of the Government case against national pay bargaining, together with an indication of some of the criticisms that have been made of it. The remainder of the chapter presents our available empirical evidence for Scotland, along the lines indicated in the introductory section. Accordingly, the first matter we turn to consider now is the relative wage position of Scotland in recent years.

### The Relative Wage Position of Scotland

The first set of evidence presented is that in Figure 1A below. This shows relative average male (full time, adults only) hourly earnings (GB = 100) for five regions for the period 1970-86.



In essence this graph indicates that Scotland started in a relatively low position (i.e. 92.9 per cent of the GB average), but experienced a steady improvement throughout most of the period, with the result that average male hourly earnings stood at some 96.7 per cent of the GB average in 1986. This relative improvement in Scotland contrasts strongly with the position in the West Midlands, for example, where a substantial relative wage loss occurred over these years. It is also worth noting here that East Anglia is the region with the lowest male earnings for any GB region; this fact is something that often appears to be missed in general discussions of the 'high wage south and low wage north'. To round off the overall picture here, Figure 1B presents exactly the same wage information for women workers for the same regions over the same period of time. And here we find that the average hourly earnings of women workers displayed less divergence from the GB average, although much greater variance from year to year. Again Scotland tended to show steady improvement over the period, although 1984 witnessed a quite substantial fall.

One of the standard contentions or explanations of the relative wage position of regions such as Scotland concerns the nature of their industrial structure, the argument frequently advanced being that a region like Scotland is a relatively low wage one because of its 'overdependence' on (i.e. a relatively high proportion of overall employment in) older, declining ('sunset') industries which are individually low paying industries. In order to investigate this possible explanation we constructed an *adjusted* relative earnings series by weighting national average hourly earnings by the Scottish employment structure across industries and occupations (the 10 Divisions of the 1980 Standard Industrial Classification were used, with the data split into manual and non-manual workers); this weighting procedure to measure the influence of structure is the basis of 'shift-share' analysis that has been so extensively used by urban and regional scholars.<sup>(18)</sup> The resulting series, which indicates what regional earnings would have been if workers had been paid national rates of pay (given the region's employment structure) are set out in Figures 2A and 2B, for men and women workers respectively.

The basic findings of these two figures are, firstly, that for Scottish males, the effect of structure is to depress earnings by some 2 per cent, and, secondly, for women (Figure 2B) the importance of structure is much less at around 1 per cent on average, although practically disappearing by 1981. In short, the influence of industrial structure in accounting for the relative wage position of Scotland is relatively limited. Finally we need to consider the relative *costs of living* in each region before we can fully talk about the extent and nature of the regional earnings gap. Figures 3A and 3B replicate Figures 1A and 1B respectively, but with earnings deflated by the regional cost of living (available from the Reward Regional Surveys from 1973).

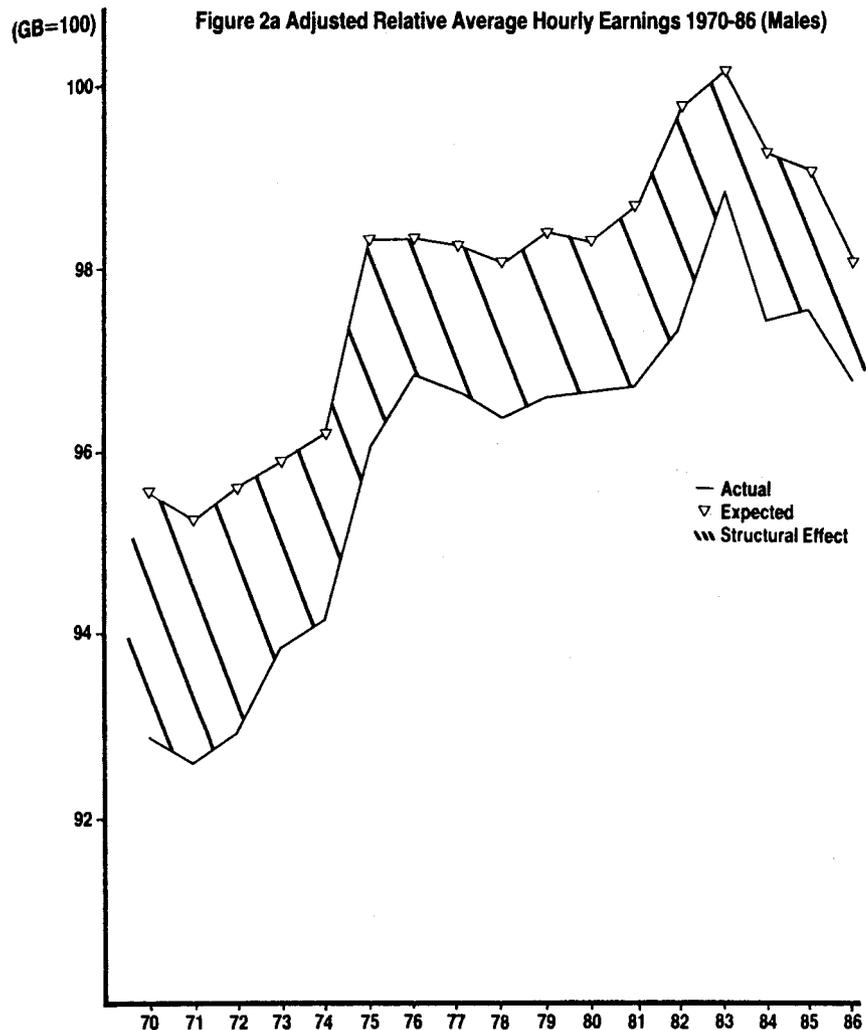
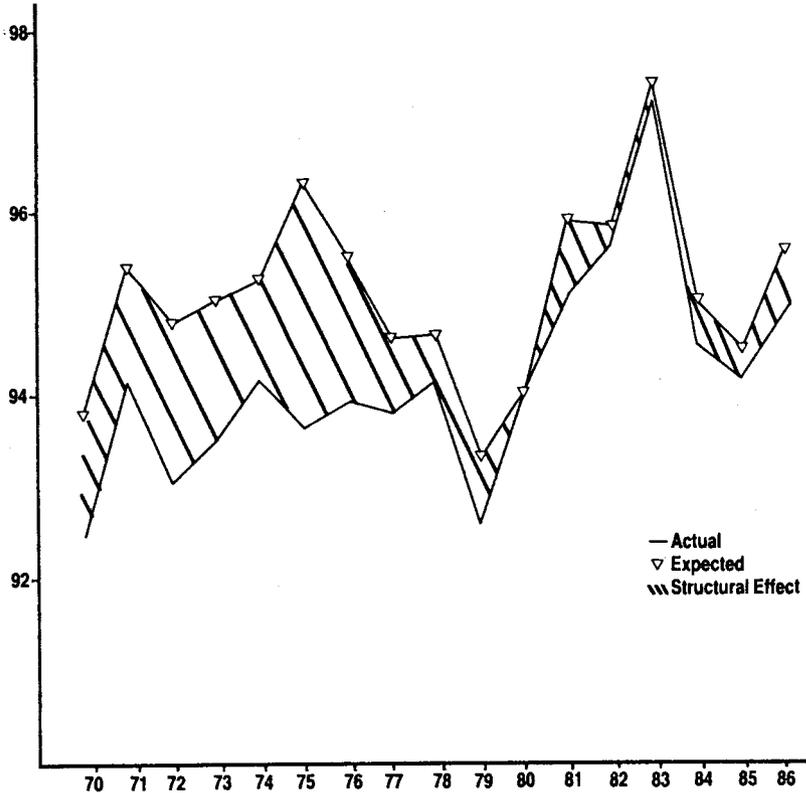
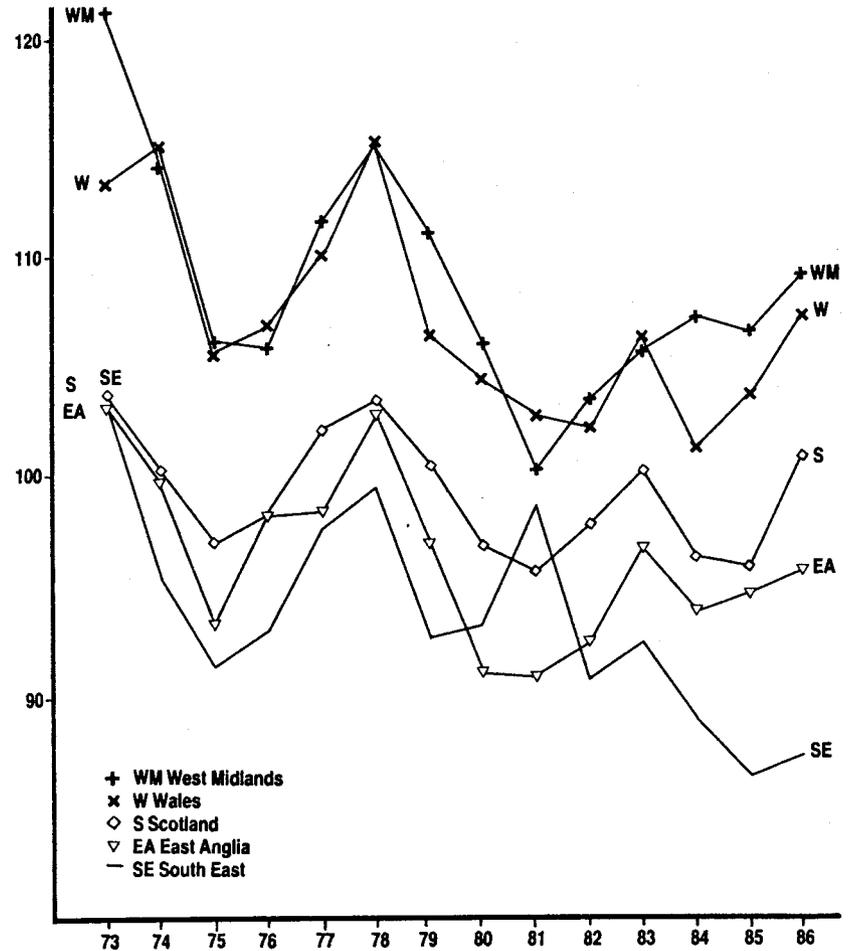
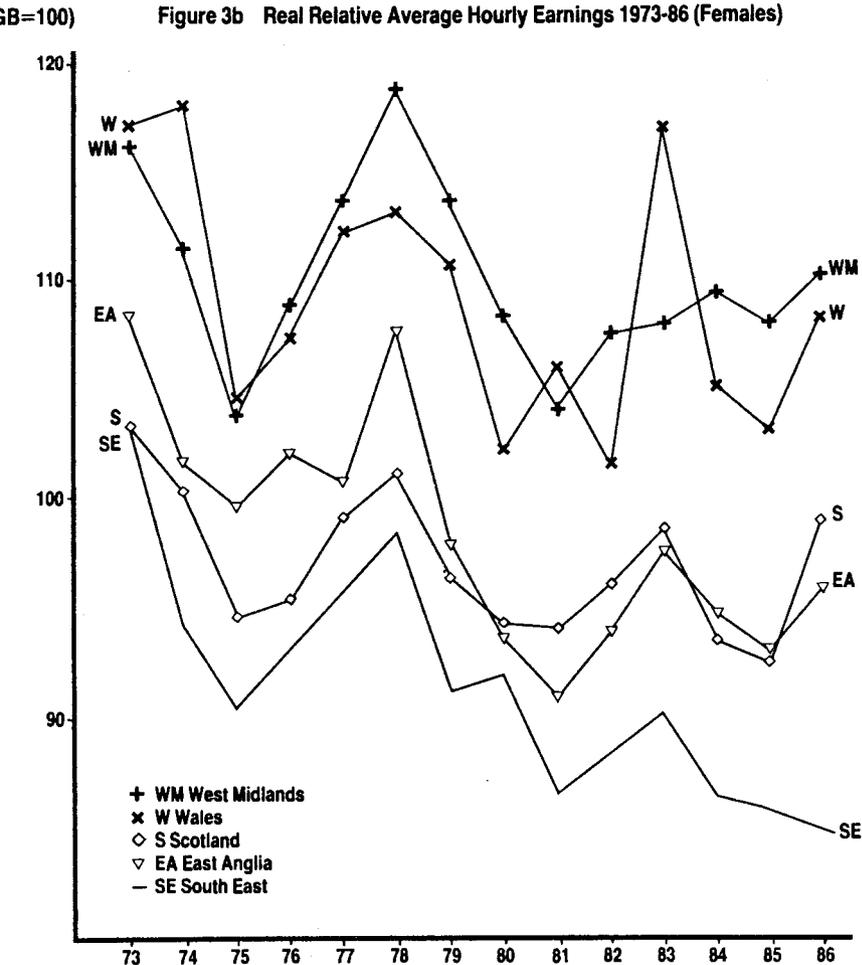


Figure 2b Adjusted Relative Average Hourly Earnings, 1970-86 (Females)



(GB=100) Figure 3a Real Relative Average Hourly Earnings, 1973-86 (Males)





For Scotland, the regional cost of living was 99 per cent of the GB average in 1986 (e.g. in comparison to 133 per cent for the GLC and 88 per cent for Yorkshire and Humberside), and *real* relative earnings were generally at or fluctuating around the GB average in Scotland for male workers throughout the period 1973-86; if anything there is a very slight downward trend, with a similar picture also apparent for women workers. The major effect of deflating each relative earnings series would appear to be the effect on the *South-East* region (a similar pattern would also emerge for the GLC if we included it in the various diagrams, namely its ranking would drop from highest to lowest paid region). It is also interesting to note that while relative earnings in the West Midlands fell for male workers throughout the period (see Figure 1A), the effect on real earnings was lessened because prices increased at a somewhat slower rate (hence the region's position in Figure 3A). To investigate fully the substantial and important subject area of the extent (and nature) of the interaction between wages and prices would obviously take us well beyond the scope of this chapter, although it would seem to be the case that inter-regional wage differentials reflect, at least to some extent, the differing costs of living to be found in different areas of the country.

The aggregate information we have presented to date on relative earnings levels (in both monetary and real terms) for individual regions is, hopefully, of some interest in its own right. However, our basic purpose in presenting it was essentially to provide some relevant background for a more detailed examination of the possible implications for Scotland of the Government's position towards national pay bargaining arrangements. Our logical first step now is to consider the extent of such arrangements in Scotland, which is the concern of the following section.

**The Extent of National Pay Bargaining in Scotland**

In Table 1 below we utilise the largest and most representative set of survey data on workplace industrial relations structures in Britain to indicate the extent of national pay bargaining arrangements in Scotland compared to that in other parts of the country. This information is for the year 1980, and although there has been a similar, follow up survey in 1984, the latter data file is not yet readily available to researchers.

There are a number of interesting findings apparent in the Table, such as the generally limited extent of regional/district level bargaining arrangements in all areas of the country (as was commented on in an earlier section) and the fact that collective bargaining coverage is considerably higher in Scotland than is the case in the southern regions of Britain.<sup>(19)</sup> For present purposes, however, particular attention should be paid to the figures in columns (i) and (iii), which are the categories of bargaining that have been singled out for criticism by the Government. And here we find a somewhat mixed position for Scotland in that it has something of an *above*

**Table 1: Coverage by collective agreement (manual workers) in Scotland and selected other areas, 1980**

Areas <sup>1</sup>	Percentage Covered by: <sup>2</sup>						
	(i) National/ Industry-wide	(ii) Regional/ District	(iii) Company: All Plants	(iv) Company: Some Plants	(v) Single Plant	(vi) Other Miscellaneous	(vii) No Agreement
Scotland	42.5	4.4	12.3	3.6	22.1	1.5	13.5
Development regions	40.9	1.4	14.9	4.2	24.7	2.3	11.7
Southern regions	30.4	2.9	13.8	5.0	22.9	0.9	24.2
Other regions	31.9	1.8	15.7	4.9	33.0	1.3	11.4

<sup>1</sup> Development Regions = North, North West and Wales;  
Southern regions = South East, East Anglia and the South West;  
Other regions = Yorks-Humberside, East and West Midlands.

<sup>2</sup> Respondents were asked to choose the most important type of bargaining agreement. Hence, other (different types of agreement might also feature for some groups of workers.

**Table 2: Coverage by collective agreement (manual workers) in Scotland by industry, 1980**

Industry	(i) National/ Industry-wide	(ii) Regional/ District	(iii) Company: All Plants	(iv) Company: Some Plants	(v) Single Plant	(vi) Other	(vii) No Agreement
Agriculture	-	-	-	-	-	-	-
Energy and water	45.0	-	-	-	-	-	55.0
Metal and chemicals	10.0	10.4	30.1	-	34.1	-	15.4
Engineering and vehicles	15.4	-	-	13.3	66.2	-	5.1
Other manufacturing	38.9	8.9	18.9	4.0	25.0	-	4.4
Construction	83.1	8.6	4.8	-	-	-	3.6
Distribution	16.4	-	21.7	-	2.9	-	59.0
Transport and communication	51.7	-	14.4	-	11.3	11.5	11.1
Business services	6.5	2.0	-	-	-	-	91.5
Other services	73.5	-	7.8	0.8	-	5.2	12.7

average level of national/industry-wide bargaining, but a *below* average level of company (all plants) level bargaining arrangements. There is certainly a considerable difference between Scotland and southern regions in the extent of national/industry-wide bargaining coverage, although the difference in the extent of company level arrangements between Scotland and the south does not seem to be of the order of magnitude that some commentators have claimed to be the case.<sup>(20)</sup> In order to see which individual industries in Scotland are most (least) affected by these particular collective bargaining arrangements of which the present Government is so critical, Table 2 uses the same data source to present an industry level breakdown of the extent of these different levels of bargaining in Scotland.

Again concentrating on columns (i) and (iii) we find that national/industry-wide collective bargaining in Scotland is most important in construction, other services, transport and communication and energy and water, while company (all plants) bargaining is most important in chemicals and metals, distribution and other manufacturing. Interestingly, the same industries do not have the same rankings in terms of the numerical importance of these different types of bargaining arrangements in the south, suggesting that the *overall* extent of different types of bargaining arrangements in individual regions is not simply a function of their particular industrial structure.

#### Wage Differentials and National Bargaining Arrangements

The question which we now pose is whether there is any evidence of a consistent, systematic relationship between the extent of national pay bargaining arrangements for individual industries (and different socio-economic groupings) in Scotland and the size of the wage differentials between Scotland and the South of England. In other words, do the particular industries (and socio-economic groupings) in Scotland which have relatively high levels of national bargaining coverage also have the least sizeable wage differentials when a comparison is made with the South of England? The wage information for different levels of bargaining that we present here does *not* come from the particular data source that was utilised in Tables 1 and 2. Instead we draw on information that comes from the annually conducted (in April) New Earnings Survey, which is the most important and detailed source of wage information in Britain (indeed it is one of the highest quality such data sets collected in the advanced, industrialised world). The particular figures that we present here come from specially prepared, *unpublished*, material contained in the 1973 and 1978 surveys which both contained a special question about various levels at which collective bargaining was conducted; the same question was repeated in the 1985 survey, although this information is not yet available to researchers in the same form as that for the years 1973 and 1978. The particular question included in these surveys distinguished between

workers not covered by collective bargaining arrangements and those who were covered by such arrangements, with the latter being subdivided into (i) national agreement only, (ii) national plus supplementary agreement and (iii) local agreement only.

There has in fact been considerable academic interest in this particular set of wage and collective bargaining coverage information. The existing studies based on this particular data source have generally tended to compare the level of collectively bargained wages with those for workers not covered by collective bargaining arrangements, across industries and for particular industries and socio-economic groupings, with the results tending to show (i) a positive wage return to collective bargaining coverage although the magnitude of this effect tends to vary quite considerably between individual studies, and (ii) something of a gradient of returns to the different types of bargaining arrangements, with the most (least) sizeable return being associated with local (national only) bargaining.<sup>(21)</sup> The approach adopted here is rather different to that of these existing studies in that we are interested in comparing the *collectively bargained* wage in Scotland with that in the South of England. Accordingly in Table 3 below we set out the average hourly earnings of male workers covered by collective bargaining arrangements for the different industries in Scotland and the South for both 1973 and 1978.

The contents of Table 3 indicate that for all industries the average hourly earnings of workers covered by collective bargaining arrangements in Scotland were some 9 and 7 per cent below that in the South of England in 1973 and 1978 respectively (the relevant figures in the case of workers *not* covered by collective bargaining arrangements were 15 and 10 per cent respectively). The largest sized negative differentials for Scotland were in transport and communications, and business services, while the most sizeable, positive differential was in the metals and chemicals industry. Table 4 presents the results of a similar exercise undertaken on the basis of socio-economic groupings, as opposed to individual industries.

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The key question raised by the figures in Tables 3 and 4 is whether there is any consistency when one ranks industries (and socio-economic

**Table 3: Average hourly earnings, male workers covered by collective bargaining, by industry: Scotland and the South, 1973 and 1978.**

Industry	1973			1978		
	Scotland	The South	Percentage Differential	Scotland	The South	Percentage Differential
Agriculture	0.64	0.59	+108.47	1.40	1.37	+102.19
Energy and water	1.00	1.03	- 97.08	2.29	2.31	- 99.13
Metals and chemicals	0.89	0.86	+103.48	2.11	1.93	+109.33
Engineering and vehicles	0.94	0.95	- 98.94	1.96	2.02	- 97.03
Other manufacturing	0.81	0.95	- 85.26	1.80	1.94	- 92.78
Construction	0.83	0.86	- 96.51	1.82	1.80	+101.11
Distribution	0.71	0.78	- 91.03	1.58	1.67	- 94.61
Transport and communication	0.82	0.96	- 85.42	1.81	2.05	- 88.29
Business services	0.99	1.21	- 81.81	2.35	2.66	- 80.34
Other services	1.07	1.14	- 93.86	2.30	2.48	- 92.74
All industries	0.90	0.98	- 91.84	2.00	2.13	- 93.90

**Table 4: Average hourly earnings, male workers covered by collective bargaining, by socio-economic group, Scotland and the South, 1973 and 1978.**

Socio-economic Group	1973			1978		
	Scotland	The South	Percentage Differential	Scotland	The South	Percentage Differential
Managers	1.37	1.59	-86.16	3.15	3.25	- 96.92
Professionals	1.44	1.52	-94.74	3.02	3.23	- 93.50
Intermediate non-manual	1.19	1.27	-93.70	2.50	2.65	- 94.34
Junior non-manual	0.83	0.91	-91.20	1.77	1.99	- 88.94
Foremen	0.97	0.99	-97.98	2.07	2.06	+100.49
Skilled manual	0.86	0.88	-97.73	1.87	1.83	+102.19
Semi-skilled manual	0.75	0.79	-94.94	1.66	1.70	- 97.65
Unskilled manual	0.70	0.72	-97.22	1.51	1.55	- 97.42

groupings) in Scotland by the extent of national bargaining coverage and the size of their wage differentials with the South of England. In other words, do industries (socio-economic groupings) with relatively high levels of national pay bargaining have the least sized wage differentials, *which is the relationship that should emerge if there is substantial validity in the Government's argument*. (In view of the possible interest in the full data set that has been used to undertake this particular exercise we set it out in the Tables that constitute the Appendix to this chapter.) The basic statistical results pertaining to this 'hypothesised' relationship are those set out below in Table 5.

**Table 5: Pearson correlation coefficients between differences in earnings of covered workers and differences in coverage by national (and all) collective agreements, across industries and socio-economic groups, and by year, 1973 and 1978.**

	National Agreements		All Agreements	
	1973	1978	1973	1978
Across industries	-0.07	0.06	-0.45*	-0.08
Across socio-economics groups	-0.24	-0.04	-0.70**	-0.18

\*\* Significant at the 5% level  
\* Significant at the 10% level

The contents of the above Table do not provide any obvious, strong support for the Government argument in that there is no statistically significant relationship apparent between the extent of national bargaining arrangements and the size of wage differentials, either across industries or across socio-economic groupings.<sup>(22)</sup> There is certainly some evidence for 1973 that relatively high levels of *overall* collective bargaining coverage (regardless of type) was correlated with the least sized earnings differentials, although even this relationship, which is a widely expected effect of collective bargaining in any system of industrial relations,<sup>(23)</sup> was not strongly present in 1978.

To take a fuller, more comprehensive look at the Government's argument one would ideally need to have the sort of information contained in Tables 3 and 4 available on a year to year basis for an extended period of time. Unfortunately, no such data set currently exists in Britain, but we nevertheless feel that it is essential to try and round off our work by considering, at least to a limited extent, the movement of wage differentials through the course of time. There were, as we mentioned in an earlier section, a number of studies in the 1970s which suggested that earnings

changes in relatively prosperous, high demand labour market areas (e.g. the South-East) were passed on, in whole or part, to other, less prosperous areas of the country over the course of time through institutional mechanisms typically associated with the system of collective bargaining.<sup>(24)</sup> The more 'sophisticated' of these wage leadership or wage transmission studies (in terms of detailed data and statistical analysis) tended to be single industry studies (e.g. engineering).<sup>(25)</sup> However, in a preliminary exercise such as this it seemed more appropriate to adopt a rather broader inter-industry perspective, albeit one that would necessarily result in the use of a relatively simple, statistical technique. In view of the latter fact our final set of findings presented below should be regarded as no more than *suggestive* in terms of some pointers provided for further, more detailed research.

In essence we examined the extent to which changes in earnings were correlated over time between the South East (GLC and the rest of the South East) and Scotland for different sub-groups of workers. The resulting findings are those set out below in Table 6.

**Table 6: Pearson correlation coefficients between changes in real average hourly earnings<sup>1</sup> in Scotland and the South East region (including the GLC), 1974-86**

Industry	Manual Workers	Non-Manual Workers
Agriculture	0.57	0.26
Energy and Water	0.19	0.67
Metals & Chemicals	0.74	0.68
Engineering & Vehicles	0.76	0.87
Other Manufacturing	0.63	0.87
Construction	0.60	0.36
Distribution	0.74	0.78
Transport & Communication	0.78	0.73
Business Services	0.12	0.49
Other Services	0.85	0.86

<sup>1</sup> Deflated by regional retail prices.

The correlation coefficients are generally high, indicating that *real* earnings moved together quite closely over time. However, what is more important for present purposes is whether this tendency was greater for those sub-groups of workers most dependent upon nationally negotiated wage agreements. This is certainly the case for 'Other Services', but there are other instances where such a relationship does not hold. For example, national only bargaining is not especially high in Engineering and Vehicles (see the first Table in the Appendix), although changes in earnings were almost as highly correlated between the two regions as for Other Services. This was also true for Other Manufacturing, and Distribution, whereas for Energy and Water the correlation coefficient was lower for manual workers, despite the high level of nationally negotiated agreements. Generally, earnings grew at similar rates in both regions for the various sub-groups, although the latter displayed quite different levels of dependence upon national only agreements, so that there is no strong, obvious evidence of the clear cut, consistent relationships that might reasonably be expected on the basis of the Government's argument; but beyond this simple statement we again caution against reading too much into the findings of Table 6.

### Conclusions

The major empirical findings to emerge in this chapter may be briefly summarised as follows:-

- (i) the earnings of both men and women workers in Scotland tended to rise relative to the average(s) for Great Britain as a whole over the years 1970-86;
- (ii) the particular industrial structure of Scotland accounted for only a relatively small proportion of the earnings differential between Scotland and Great Britain;
- (iii) once allowance is made for differences in regional costs of living, real earnings levels in Scotland approximate those of Great Britain as a whole;
- (iv) the coverage of industry level bargaining arrangements in Scotland is considerably greater than that in the southern regions of England, although the difference in the coverage of company level bargaining is much less between the two areas;
- (v) the size of the wage differentials between workers covered by collective bargaining in Scotland and the South of England are not systematically related to the extent of national bargaining in Scotland at selected points in time;

- (vi) over time, real earnings levels in Scotland and the South East have moved closely together, although the extent of this synchronisation does not appear to be particularly related to the extent of national bargaining arrangements.

As to the nature and direction of further research in this subject area, we have indicated in the text of the chapter that new relevant data sources (i.e. the 1984 Workplace Industrial Relations Survey and the 1985 New Earnings Survey) will shortly become available to researchers. This will permit the contents of Tables 1-4 to be usefully updated so as to provide a more recent perspective on the issues considered there. In addition it will be important for researchers to undertake more systematic and sophisticated analyses of the question raised by the contents of Table 6, namely the extent and nature of relative wage movements through the course of time.

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	UK, by County 1979-85		US, by State 1979-84	
	1	2	3	4
Change in unemployment rate	-.99 (.28)		-.43 (.30)	
Change in (log) labour force		-1.16 (.27)		-.14 (.30)
Change in (log) employment		1.00 (.24)		.39 (.35)
R-squared	.41	.46	.25	.39

Additional regressors: % manufacturing: % service (UK), education.

(Source: R.B. Freeman, *the Effect of Labour Market Institutions on Economic Performance*, Irish Economic Association, Kilkenny, May 1987.)

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**Appendix 1**

**Coverage by Collective Agreement (full-time males) by Industry in Scotland and the South, 1973 and 1978**

Industry (1980) Division		Average Hourly Earnings (£)						Percentage covered by:					
		Covered Workers		Not covered Workers		National plus Supplementary Agreement		National Agreement Only		Supplementary Agreement Only		No Collective Agreement	
All Industries	(0-9)	0.98 (2.00)	0.90 (2.13)	0.97 (2.13)	1.14 (2.37)	24.7 (19.1)	19.0 (17.1)	44.5 (42.1)	38.8 (36.1)	8.7 (10.9)	9.7 (10.7)	22.1 (27.9)	32.4 (36.1)
Agriculture etc	(0)	0.64 (1.40)	0.59 (1.37)	0.57 (1.38)	0.62 (1.34)	15.7 (5.9)	14.3 (8.3)	17.3 (16.2)	23.6 (25.7)	3.6 (4.5)	5.8 (2.4)	63.5 (73.4)	56.3 (63.3)
Energy and Water	(1)	1.00 (2.29)	1.03 (2.31)	1.26 (3.60)	1.30 (3.63)	12.6 (2.1)	25.5 (12.7)	81.8 (81.0)	64.6 (76.2)	2.1 (6.0)	3.3 (3.9)	3.4 (10.9)	6.7 (7.2)
Metals and Chemicals	(2)	0.89 (2.11)	0.86 (1.93)	1.14 (2.70)	1.23 (2.58)	44.2 (29.5)	18.7 (16.3)	19.7 (27.7)	18.8 (11.7)	9.3 (20.6)	13.5 (24.6)	26.8 (22.2)	48.9 (47.4)
Engineering and Vehicles	(3)	0.94 (1.96)	0.95 (2.02)	1.20 (2.45)	1.16 (2.39)	48.1 (41.6)	35.4 (28.4)	25.0 (15.0)	17.3 (11.4)	11.4 (17.9)	14.8 (21.8)	15.5 (25.5)	32.5 (38.4)
Other Manufacturing	(4)	0.81 (1.80)	0.95 (1.94)	1.02 (2.26)	1.14 (2.40)	25.1 (22.4)	23.2 (24.1)	20.7 (17.6)	23.8 (18.8)	21.0 (24.1)	15.6 (15.7)	33.2 (36.0)	37.3 (41.3)
Construction	(5)	0.83 (1.82)	0.86 (1.80)	1.19 (2.26)	1.15 (2.22)	19.7 (12.5)	20.9 (16.9)	64.6 (60.9)	51.6 (46.8)	2.3 (2.2)	2.8 (3.2)	13.5 (24.5)	24.7 (33.2)
Distribution	(6)	0.71 (1.58)	0.78 (1.67)	0.77 (1.77)	0.94 (2.00)	10.6 (9.6)	8.4 (9.7)	28.8 (19.3)	20.0 (16.3)	10.3 (10.3)	11.4 (9.2)	50.3 (60.7)	60.2 (64.7)
Transport and Communications	(7)	0.82 (1.81)	0.96 (2.05)	0.96 (1.84)	1.09 (2.26)	21.5 (18.5)	9.6 (12.1)	57.2 (54.4)	66.6 (63.0)	10.2 (10.0)	10.4 (8.7)	11.0 (17.1)	13.4 (16.2)
Business Services	(8)	0.99 (2.35)	1.21 (2.66)	1.11 (2.40)	1.45 (3.03)	17.7 (9.5)	9.8 (12.8)	18.8 (31.0)	16.1 (14.5)	10.4 (12.2)	11.0 (9.3)	25.0 (47.3)	63.1 (63.4)
Other Services	(9)	1.07 (2.30)	1.14 (2.48)	0.79 (2.06)	1.08 (2.30)	12.2 (10.9)	13.7 (14.1)	76.2 (75.9)	68.4 (66.2)	1.5 (1.7)	2.4 (3.0)	10.0 (11.5)	15.5 (16.8)

Source: New Earnings Survey

Note to Table: Figures in italics refer to the South (South East, South West and East Anglia). Figures in brackets refer to 1978.

**Appendix**

**Coverage by Collective Agreement (full-time males) by Socio-Economic Group in Scotland and the South, 1973 and 1978**

Socio-Economic Group (SEG)		Average Hourly Earnings (£)						Percentage covered by:					
		Covered Workers		Not covered Workers		National plus Supplementary Agreement		National Agreement Only		Supplementary Agreement Only		No Collective Agreement	
All Workers	(1-8)	0.90 (2.00)	0.98 (2.13)	0.97 (2.13)	1.14 (2.37)	24.7 (19.1)	19.0 (17.1)	44.5 (42.1)	38.8 (36.1)	8.7 (10.9)	9.7 (10.7)	22.1 (27.9)	32.4 (36.1)
Managers	(1)	1.37 (3.15)	1.59 (3.25)	1.50 (3.15)	1.72 (3.35)	12.1 (7.9)	7.6 (9.3)	30.9 (27.3)	25.1 (20.5)	8.5 (8.7)	9.6 (8.2)	48.5 (56.1)	57.7 (62.0)
Professionals	(2)	1.44 (3.02)	1.52 (3.23)	1.32 (2.88)	1.51 (3.13)	15.9 (9.6)	11.7 (10.0)	45.2 (50.6)	38.2 (38.3)	6.4 (4.8)	8.1 (9.1)	32.5 (35.0)	42.0 (42.6)
Intermediate Non-Manual	(3)	1.19 (2.50)	1.27 (2.65)	1.03 (2.14)	1.15 (2.37)	9.2 (7.6)	6.8 (10.3)	51.3 (52.4)	44.3 (42.6)	7.8 (7.3)	9.0 (9.9)	31.7 (32.7)	40.0 (37.1)
Junior Non-Manual	(4)	0.83 (1.77)	0.91 (1.99)	0.81 (1.69)	0.90 (1.87)	16.5 (14.0)	12.1 (11.5)	46.3 (49.6)	40.8 (44.4)	8.7 (9.2)	9.7 (8.5)	28.6 (27.1)	37.4 (35.6)
Foremen	(5)	0.97 (2.07)	0.99 (2.06)	0.91 (1.93)	0.97 (1.95)	22.7 (17.2)	19.5 (19.0)	46.2 (33.8)	38.9 (28.0)	9.8 (19.9)	11.8 (15.2)	21.3 (29.0)	29.8 (37.8)
Skilled Manual	(6)	0.86 (1.87)	0.86 (1.83)	0.78 (1.65)	0.80 (1.72)	35.6 (29.2)	29.4 (25.9)	45.2 (40.9)	41.7 (35.1)	8.8 (11.3)	10.0 (13.2)	10.3 (18.6)	18.9 (25.7)
Semi-skilled Manual	(7)	0.75 (1.66)	0.79 (1.70)	0.61 (1.42)	0.70 (1.52)	26.7 (23.6)	24.5 (23.1)	38.2 (34.0)	36.9 (36.3)	11.3 (16.2)	10.8 (11.0)	23.9 (26.2)	27.7 (29.6)
Unskilled Manual	(8)	0.70 (1.51)	0.72 (1.55)	0.60 (1.37)	0.62 (1.37)	27.0 (19.0)	26.1 (21.7)	52.5 (52.1)	41.9 (42.4)	6.4 (8.9)	9.4 (10.6)	14.1 (19.9)	22.6 (25.3)

Source: New Earnings Survey

Note to Table: Figures in italics refer to the South (South East, South West and East Anglia). Figures in brackets refer to 1978.