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Policy Brief

Business case for a New Deal for Workers:

What is good for Workers is good for the Economy

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Abstract

If the collective bargaining coverage in the UK increases from where it is in 2023 (30%) by 8%-points to 38% (where it was in 1996 when comparable data started), by fully implementing a New Deal for Workers, private investment as a ratio to GDP would increase by 0.3%-points. To put it differently, increasing collective bargaining coverage by 1%-point means 285 thousand more workers will benefit from the outcome of the collective bargaining agreement between the trade union and the employer. This will lead to a £9.2bn increase in the UK GDP (in 2023 prices). Increasing collective bargaining coverage by 1 million workers (3.5%-point increase) will lead to a £32bn increase in the UK GDP (in 2023 prices).

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Business case for a New Deal for Workers:

What is good for Workers is good for the Economy

Labour's bargaining power has declined substantially along with the neoliberal restructuring of the economy since the 1980s. Union density has fallen from 52% in 1982 to 22% and collective bargaining coverage has declined from a peak of 85% in 1975 to 30% as of 2023 (last data available based on ONS LFS, Figure 1). This erosion in labour's power and collective voice is one of the most important drivers of the decline in the labour share in national income (wage share including labour income of self-employed and social security contributions of employers), which has fallen substantially from a peak of 70% in 1975 to 64% as of 2023 (Figure 2). An increase in labour's power and collective voice can be achieved by fully implementing a New Deal for Workers, including reversing the erosion in the collective bargaining coverage, as well as re-regulating the labour market by ending zero-hours contracts, reversing the anti-strike laws that were adopted since the 1980s, enforcing equal pay for equal value of work, implementing rights at work for all workers from day one, ending abuses around self-employment, and stricter regulation for hiring and firing practices. These would not only increase labour's collective voice and reverse inequalities, but also benefit the economy and businesses by stimulating national income, business investment, and productivity (Onaran, Oyvat, Fotopoulou, 2023, 2022; Obst, Onaran, Nikolaidi, 2020).

If the collective bargaining coverage in the UK recovers from the current 30% by 8%-points to 38% (where it was in 1996 when comparable data started), the labour share would increase by 3.2%-points (based on estimates by Guschanski and Onaran, 2018).

This increase in the labour share would lead to a rise in GDP by 2.8%, based on the estimated impact of labour's share on aggregate demand, including private investment, household consumption, government spending and net exports (based on estimates by Obst, Onaran, Nikolaidi, 2020). Private investment increases by 0.3%-point as a ratio to GDP in this scenario. The rise in aggregate demand overall is a substantial stimulus to business investment, despite the small negative partial effect due to the rise in the labour share, which in turn means an equivalent fall in the profit share (Obst, Onaran, Nikolaidi, 2020; Onaran, Oyvat, Fotopoulou, 2023, 2022).

To put it differently, increasing collective bargaining coverage by 1%-point means 285 thousand more workers will benefit from the outcome of the collective bargaining agreement between the trade union and the employer. This will lead to a £9.2bn increase in the UK GDP (in 2023 prices). Increasing collective bargaining coverage by 1 million workers (3.5%-point increase) will lead to a £32bn increase in the UK GDP (in 2023 prices).

Crucially, the effect of an increase in labour power on private investment is positive. However, expectedly, it is a small stimulus compared to the stimulus that can be achieved by public investment in infrastructure and public services and industrial policy (Onaran, Oyvat, Fotopoulou, 2023, 2022). For example, an increase in public investment (gross fixed capital formation) by 1%-point as a ratio to GDP, will also stimulate an increase in private investment by 0.6%-point as ratio to GDP, and an increase in public spending in health and education (including social care and childcare) by 1%-point as a ratio to GDP stimulates private investment by 1%-point as ratio to GDP per year (Onaran, Oyvat, Fotopoulou, 2023, 2022). In summary, stronger unions and higher labour power complement and further the very strong effects of public investment in infrastructure and public services on private investment.

Increasing wages also stimulates labour productivity. Onaran, Oyvat, and Fotopoulou (2023, 2022) estimate a 0.6% increase in output per hour of work in response to a 1% rise in the real wage rate per hour. An increase in wages is expected to encourage workers to work more efficiently and firms to invest more to increase productivity. The estimates above should be seen as a lower bound of the positive impact of improved labour power on investment.

Policy advice informed by mainstream economists treats wages just as a cost for firms. In that context, trade unions are seen as a rigidity in the labour market who push for "excess wages". This mainstream policy stance ignores two crucial macroeconomic facts: 1. wages are not just a cost but an important source of demand; 2. business investment reacts not only to profitability but also to sales prospects. Supressing wages suppresses demand in the economy, and in turn discourages investment both due to demand deficiency and reliance on cheap labour. The reliance on cheap labour is also one of the reasons for low productivity growth in the UK. Low productivity offsets any positive effects of low wage rates per worker on the cost of labour per unit of output (which is wage rate per worker divided by output per worker). We face a choice: We can continue at the self-defeating path of trying to increase UK competitiveness by lowering labour costs and in doing so reduce aggregate demand and investment. Or we can commit to a high road labour market policy, based on higher wages, higher collective voice, increased demand, and an economic environment that encourages firms to increase productivity through new investment. We appreciate that higher wages also increase costs for firms. In some sectors, this is precisely what is needed to increase investment in productive technology. In other sectors, especially those that are crucial for the green transition, it may have to be cushioned through subsidies and governmental support. Importantly, given the rock bottom starting point in terms of labour share and collective voice of labour, it is a fair assumption to expect that the positive effects of higher wages on the macroeconomy will dominate until the losses of the last four decades are corrected. This makes the case for more sectorial and nationally coordinated collective bargaining, where strong unions can be part of national policy making and contribute to balancing improvements in wages, working conditions, employment, wellbeing, and sustainability.

Figure 1

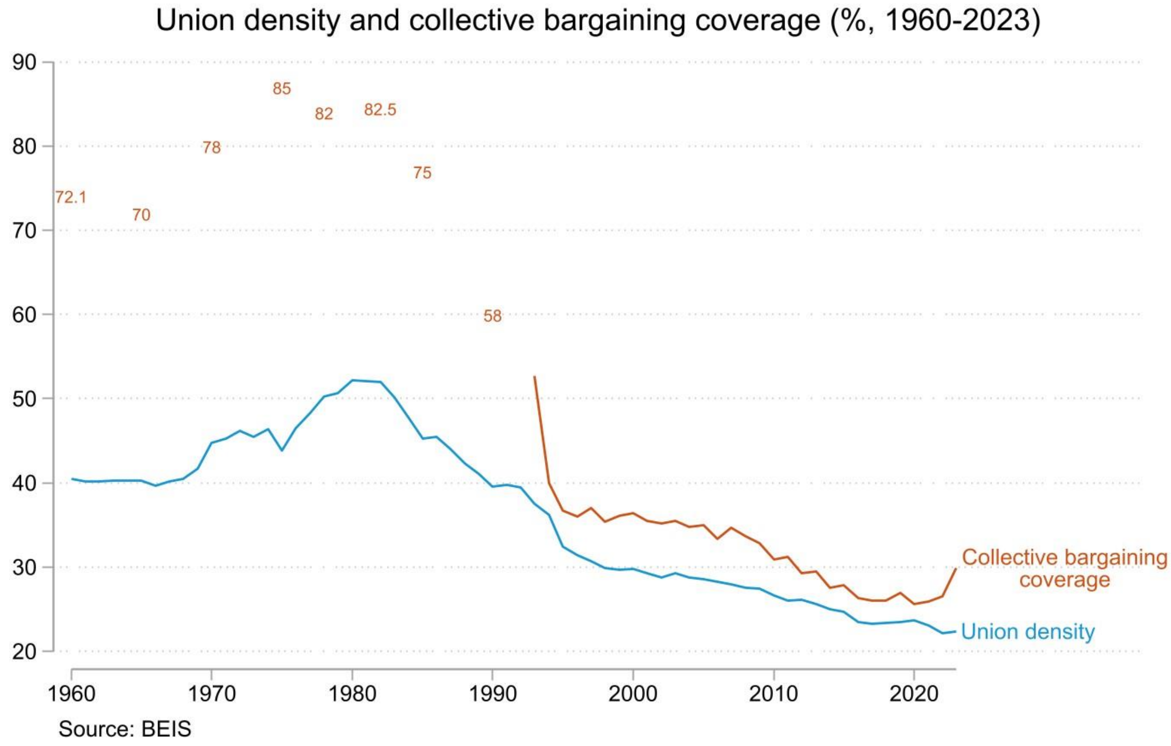
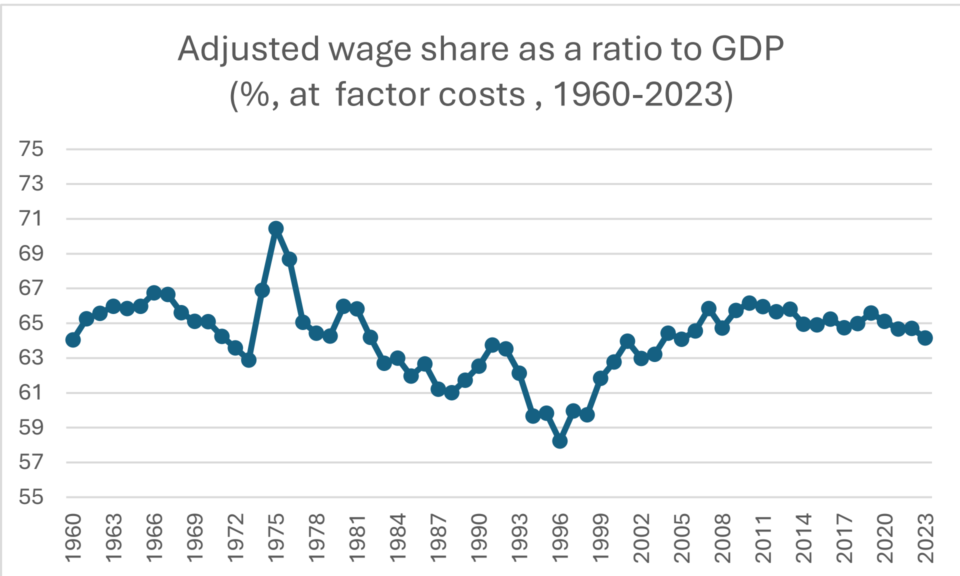


Figure 2



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