Policy Brief

The working people of the UK are stronger in Europe

Özlem Onaran, University of Greenwich
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GREENWICH POLITICAL ECONOMY RESEARCH CENTRE (GPERC)

Abstract:

The working people in the UK have good reasons to vote to stay in the European Union, but not for the same reasons as the government or the reports from the financial sector and neoliberal thinktanks suggest. The UK should stay in the EU and work to expand the high road policies to the rest of labour. The effects of the pro-labour policies would be a lot stronger if implemented at the European level. A 1%-point increase in the wage share in the EU as a whole increases the GDP in the UK by 0.2%; this is almost double the increase that could be achieved if the UK were to implement these policies alone (Onaran and Obst, 2015). In the context of high road labour market policies, private investment also increases along with wage increases thanks to positive demand effects. The negative impact on trade balance is also more negligible when our trade partners allow their wages and demand increase. Therefore the UK should see the EU membership as an opportunity to increase our area of manoeuvre, use every chance to improve cooperation among pro-labour forces, and lead high road labour market policies in the EU as opposed to its current position of promoting low road policies.

Keywords: UK Referendum, Europe, wages, growth

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Corresponding author:
Özlem Onaran: Greenwich Political Economy Research Centre, University of Greenwich, Park Row, Greenwich, London, SE10 9LS, UK, e-mail: o.onaran@gre.ac.uk, phone: +44 20 8331 8519.

The working people of the UK are stronger in Europe

The working people in the UK have good reasons to vote to stay in the European Union, but not for the same reasons as the government or the reports from the financial sector and neoliberal think tanks suggest. Business reports, even when they endorse a "yes" vote, claim that Britain is better off without the EU directives, which protect workers' rights such as the Working Time Directive or directives for paid leave, equal pay, and paternity leave. When they say "Britain is better off" without these regulations, they mean that the employers are better off and the workers are worse off. TUC has demonstrated clearly the risks of Brexit for the rights of working women and men.

It is, however, also true that despite these rights secured by the European trade union movement in the last decades, the labour market policies in the EU Member States (MS) has been far from a rosy picture. Why should working people nevertheless vote to stay in? Because we have more chances of achieving a change towards high road labour market policies if we work together with the other progressive movements in the EU rather than in isolation in the UK. There is a rigorous macroeconomic rationale behind this argument, which we explain in the rest of this piece.

Individual EU MS and the European Commission (EC) have long encouraged wage moderation, explicitly recommending real wage growth below productivity growth to increase the international competitiveness of the countries. This policy has resulted in three decades of increasing inequality, declining share of wages in national income, and the emergence of a new class of super rich without generating a sustainable growth model for Europe. However, let us be clear: these policies have not been imposed on the UK by the EC; the UK has been the leader of anti-labour low road labour market policies; and used globalisation as a pre-text to implement them and to claim that there is no alternative.

Our research shows that this rise in inequalities and the decline in the wage share have been associated with a weaker and more volatile growth performance (Onaran and Obst, 2015). In the UK and the vast majority of the EU MS a fall in the wage share leads to lower growth; this is what we call a wage-led growth economy.

In the UK, households increased their debt to maintain consumption levels in the absence of decent wage increases. The crisis of 2007-9, and the subsequent Great Recession have proven the fragility of this model. The recovery in Britain is built once again on the shaky ground of household debt instead of a healthy wage growth.

Stimulating wages would not only improve economic performance and employment but would also help tackle unsustainable growth that is driven by debt. Higher wage and pro-labour policies can be implemented unilaterally in a large country with a substantial domestic market such as the UK, even if the rest of Europe or the world does not reverse their low road policies, because the UK is a wage-led economy. Would that not increase the trade deficit problem further? Not significantly; the effect of a rise in the wage share on the trade deficit is minor; we estimate that a 1%-point increase in the wage share increases the trade deficit as a ratio to GDP by only 0.19%-point. Furthermore trade imbalance is a structural problem, and it has to be tackled accordingly through industrial policy rather than being posed as a barrier to egalitarian policies. Finally, what if our trade partners continue their aggressive wage competition policies via further decreases in the wage share, while they free ride on the rise in the wage share and growth in the UK? The answer is that there would be still an area of manoeuvre left in a wage-led economy like the UK, even in the presence of 'beggar thy neighbour' policies elsewhere; however this area of manoeuvre will be significantly narrower in the case of a continued race to the bottom, and if good pro-labour policies cannot be extended to the rest of Europe. This is why the UK should stay in the EU and work to expand the high road policies to the rest of labour. On a positive note, the effects of the pro-labour policies would be a lot stronger if implemented at the European level. A 1%-point increase in the wage share in the EU as a whole increases the GDP in the UK by 0.2%; this is almost double the increase that could be achieved if the UK were to implement these policies alone (Onaran and Obst, 2015). Private investment also increases along with wage increases thanks to positive demand effects. The negative impact on trade balance is also more negligible when our trade partners allow their wages and demand increase.

Therefore we should see ***the EU membership as an opportunity to increase our area of manoeuvre, use every chance to improve cooperation among pro-labour forces, and lead high road labour market policies in the EU as opposed to its current position of promoting low road policies.*** The UK is a large country with substantial capacity to influence Europe, and in 2008 after the global financial crisis it has used its influence to steer Europe and G20 to act together to prevent the repeat of a global Great Depression. However, since 2010 the UK has been the leader of damaging austerity, low wage and precarious employment in the name of flexibility. It is now time to remember that a progressive change in the UK can make a big difference for Europe and the world.

We have strong empirical evidence to reject the myth that we cannot have pro-labour policies in Europe in the age of globalisation. The EU as a whole is strong enough to pursue an egalitarian growth strategy and would benefit from a coordinated boost to the wage share. As such, the UK and Europe could, and should, take a step forward in terms of radically reversing the fall in the wage share globally.

The fall in the wage share has been a deliberate outcome of policies that led to the fall in the bargaining power of labour, welfare state retrenchment, and financialisation. The combination of these policies in the UK and Europe have led to the vicious circle of rising inequality, financialization, chronically low demand, slow down in accumulation and productivity, and low growth and fewer or bad quality jobs (Tori and Onaran, 2015; Onaran and Obst, 2015). The empirical evidence shows that to break this vicious circle we need alternative economic policies based on a coordinated policy mix of equality-led development and public investment.

The strategy of wage-led development requires labour market policies aiming at pre-distribution as well as redistribution (Onaran and Stockhammer, 2016). These include strengthening the bargaining power of labour, ensuring higher collective bargaining coverage, increasing statutory minimum wage to the level of a living wage, enforcing gender equality, introducing and enforcing pay ratios to moderate wage inequality, restoring the progressivity of the tax system, and ending public sector pay freezes. Furthermore, income distribution policies need to be embedded into a broader macroeconomic and industrial policy mix targeting equality, full employment, and ecological sustainability. This requires regulating finance and implementing a public investment programme centred on substantial public investment in green physical infrastructure in renewable energy, public transport and housing and social infrastructure in care, education, and health.

Labour market policy is not the only issue where working people in the UK are better off in the EU then outside the EU. As part of the EU we can work for financial regulation, tax coordination, ecological sustainability and implement a coordinated public investment policy far better than we could on our own.

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