

# Are labour rights essential for reducing income inequality?

Frances O'Grady, General Secretary, Trades Unions Congress  
with a response from Sheila Lawlor, Director, Politeia

It is no surprise that for Frances O'Grady, the first woman to lead the Trade Union Congress (TUC) – and the third speaker in Murray Edwards' two year lecture series Capitalism on the Edge – the answer to the title question is a resounding “yes”.

While the idea that labour rights are a factor in reducing income inequality is not new, what has emerged in recent years, says O'Grady, is the evidence to back it.

“There is now a shedload of evidence from the UK and around the world produced by organisations as diverse as the Resolution Foundation and the IMF (International Monetary Fund) that shows a clear correlation between the strength of union membership and collective bargaining coverage on the one hand, and the degree of pay solidarity and fairness on the other.”

## Income and power go hand in hand

Given that evidence base, says O'Grady, the more interesting question to ask is: “Why are those in power so reluctant to draw the obvious conclusion that the best way to reduce income inequality would be to see union membership and influence grow?”

Part of the answer, she says, lies in the fact that inequality of income goes hand in hand with inequality of power.

O'Grady suggests that an embodiment of the alliance between income and power is the annual World Economic Forum; the backdrop against which Oxfam chose to launch its annual report on inequality. Citing this year's report (2016), O'Grady points out that a tiny elite – small enough in number to fit into a double decker bus – now own as much wealth as the poorer half of the world population.

However, the trouble with this statistic is that it can blur the distinctions between inequality and poverty. “Tackling poverty and tackling inequality are not the same thing.” insists O'Grady. Her focus is on the latter.

## Reframing the crisis

Today's challenge is framed by the events of recent years. The collapse of the financial services firm, Lehman Brothers, in 2008 was a dramatic shock to those who thought the good times were set to roll. Others, on the left, thought the crisis could mark the start of a new era; the end of neo-liberal ideology that had held sway since the 1970s.

Eight years on, and it doesn't feel like a new era, says O'Grady. On the contrary: “What began as a crisis in the private sector has been reframed, quite deliberately, into a crisis of the public sector.”

“Never mind the tens of billions of taxpayers' money that propped up the banks, or the hundreds of billions provided in various liquidity schemes from the Bank of England, the problem was redefined as too much government spending on public services and welfare.”

O'Grady is adamant that as real wages and tax receipts fell, the consequent deficit became an excuse to shrink the state and catapult us into a decade of austerity where ordinary people – notably the young and women – are suffering the consequences.

“The resilience of neoliberalism, the political cult of austerity, the rapid growth of temporary jobs; all add fuel to the inequality fire.” She says.

### **More unequal than ever**

And the result? “Britain is more unequal than any time in modern history.” There has also been a radical shift in the capital system itself; with manufacturing in decline and the “hedge fund boys” calling the shots.

So, why is inequality becoming entrenched? The TUC leader says you only need to peer inside the jobs market and workplaces to find out. Top pay, she says, has risen 40% since the Lehman crash; the average pay of a FTSE chief executive is now 183 times the average salary.

The familiar argument that top level pay reflects merit and performance is wearing thin for O'Grady: “How can performance of those at the top have so outstripped those they are supposed to lead by so much?” She asks.

What about those at the other end of the spectrum? According to the Living Wage Foundation, there are now 6 million workers – a quarter of the workforce – earning less than the living wage. Indeed, in the UK, the tail of low skilled unproductive work is the longest among OECD countries. For those in the middle, O'Grady claims that since the crash they are £44 per week worse off.

### **The case for change**

It's not all bad news since 2008. O'Grady is pleased that the gender pay gap is closing – “albeit too slowly.” And, as the government is always ready to point out, there are more people in work now in the UK than ever.

However, such news masks the real picture. The question that concerns the TUC leader is a sober one: “Is mass unemployment being replaced by mass insecurity and low pay?”

Frances O'Grady believes this is what is happening, and she has a resolute response: “We need to change,” she says, “Inequality is not inevitable.”

The challenge O'Grady lays down is that collectively we can do things differently to achieve decent jobs, investment in affordable homes, higher productivity, decent public services and a greener economy.

So, how to get there? O'Grady wants to see more tax justice as a prerequisite for getting the balance of tax and spend right. Along with Oxfam and many others, the TUC believes there is a strong case for a “Robin Hood” tax on financial transactions which would raise money for the public purse and put the brakes on excessive speculation.

### **A different kind of economy**

She urges a rethink of the role of the state; “...one that can build a very different kind of economy to deliver good jobs, skills and opportunities to the regions and communities that need them most.” “An Intelligent industrial strategy,” she says “would nurture the industries and success stories of the future, such as the creative sector, aerospace, biotechnology and green manufacturing, while standing up for key foundation industries like steel.”

O'Grady also wants more investment in higher education and high quality apprenticeships. And she calls for financial reform, and the creation of "a proper state investment bank" to help kick start industries of the future.

### **To redistribute wealth, we need to redistribute power**

Turning to companies, Frances O'Grady welcomes the growing number of employers signing up to the living wage. However, she stresses there is a difference between the living wage and a *fair* wage, which she defines as: "Where workers get a say and get to collectively bargain with employers over the price of their own labour."

O'Grady wants to see a seat for workers on top pay committees, which would mean "that the boss has to look a rep of their own workforce in the eye and explain and justify their rewards." Going further, she would like Britain to follow other EU member states where workers have a place on the board.

Something that puzzles the TUC chief are the recurrent calls to remove the burdens on business in our country. "Britain has the most flexible, the most de-regulated labour market in the OECD," she says. To raise productivity, rather than stripping rights we need more investment and fair treatment of staff. What that calls for, O'Grady spells out, is stronger employment rights – and their enforcement – and free access to justice.

In the workplace, nowhere is the case for action stronger than when it comes to the challenges facing women. Occupational segregation sees most high paid work done by men, and most low paid work done by women. For the TUC with O'Grady at the helm, this is unacceptable: "We must address the causes and consequences of gender inequality." She says.

### **The case for strong unions**

O'Grady believes passionately that promoting stronger unions will help to turn the tide of rising inequality; that more TU membership and collective bargaining coverage would mean less income inequality.

She cites a recent report by Dr Ewan McGaughey of King's College, London which shows how close the historical correlation between greater unionisation and greater income equality really is. Even the IMF and the OECD are now urging policy makers to boost the bargaining powers of ordinary workers.

And yet, the Trades Union Bill currently making its way through Parliament aims to do the opposite, for example, by threatening the basic right to strike by allowing employers to bring in agency workers to cover for strikers.

O'Grady calls it; "the biggest attack on trades unions for 30 years." Strike action is always a last resort but without the right to do so, workers would be powerless. Success for the bill, she says, will make it much harder for trade unions to protect jobs, services and pay - resulting in even more inequality.

So, the state needs to change and so do companies in order to win greater income equality. But O'Grady also acknowledges that unions need to change too.

For a start, there is need to adapt to the new digital economy, where practices such as crowd-sourcing mean that many workers don't even know who their employer is, let alone work for one that is ready to recognise a trade union.

More generally, O'Grady feels that we *all* need to change; in political values and mindset. She calls for a clean break from the free market orthodoxy of the past three and a half decades, and the

need for a new economic model in line with a new sense of moral mission where inequality is neither seen as inevitable nor desirable.

There are welcome signs of political shifts in Europe and beyond which suggest that people are prepared to vote for change. "There is a concern that we can't carry on as we are. The measure of success is not just how much wealth we produce, but how people share in it." She says.

The challenge is one that O'Grady, with her passion for fairness, her optimism and her pragmatism, is fully committed to, and well placed to lead. As she says: "Trades unions are still the biggest independent democratic membership organisation in Britain and around the globe, and must be at the heart of a post-crash new deal for equality."

## Other perspectives

In a brief response to Frances O'Grady's talk, Sheila Lawlor, Director of the centre-right think tank, Politeia, was invited to offer an alternative perspective.

Although she takes a different view on how to reduce inequality, Sheila Lawlor, nonetheless began with a firm endorsement of trade unions, describing the movement as; "a very important one in British political and economic history," and; "one of the founding institutions of Britain's democracy in the 20th century."

So, no opposition in principle to trade unions, but Lawlor proposes alternative solutions to some of the problems that O'Grady outlined.

Firstly, she believes in free markets as the best system for sharing prosperity: "What we have seen with the extension of capitalism across the world, provided it has gone along with democratic freedom and the rule of law and voice for voters to hold to account the politicians, is a better system than the alternatives known to the world in recent centuries."

No need, she says, to refer back to the centrally planned economies of Soviet Russia, which; "failed her people with levels of inequality and poverty not seen in the West."

As for state capitalist systems - notably in Asia - which are not built on law or democratic freedom, Lawlor calls them "blighted". When things in the economy go wrong in such countries, Lawlor says the tendency of government is to crack down - because there is no mechanism for discussion or debate.

If free market capitalism is Lawlor's preferred system, she admits it is not perfect, and agrees there are real problems to address. Her solution, however, would be different. She picks out two examples:

### **The low wage economy**

This is a key factor in income inequality, particularly for women in part time jobs, whom Lawlor describes as "professionally downwardly mobile"; not because they are less qualified, she says, "but because we have the wrong sort of laws."

One area of law she would change is for maternity leave. This currently encourages low levels of maternity pay and short periods of leave, resulting in many women opting for low paid, part time jobs as they struggle to juggle the demands at home and work. Rearrange the tax and benefit system, says Lawlor, and more women could choose to take longer periods out of work, with access to re-training on their return; a model which already exists for women doctors.

It's a view that Lawlor says she has reached by looking at the evidence. One recent study, by the Work and Pensions Department, shows that women take 15 years to get back to the level of pay

they had when they left to have their first baby. “Women rarely reach the full earning potential they could.” she says.

### **The low skills economy**

Britain has the highest level of low skilled workers in the OECD bar Spain, which makes this “a very serious problem,” and one which also accounts for low pay.

Rather than regulate to raise pay for the low skilled, Lawlor says: “I would rather we put efforts and spending into very good quality education and training for people of low skills to bring them up.”

Citing models in other European countries, such as France and Germany, Lawlor believes the underlying strength of those economies owes much to high levels of vocational education for those who don't go to university.

A final point from Lawlor: the path to a fairer society, she says, needs greater input from a broad base. “We need more involvement by people, by shareholders and by trade unions to ensure proper democratic oversight of the policies we have, but subject to the rule of law, Otherwise, I think we won't have the kind of society we want.”

### **And from the floor...**

Some of the issues uppermost in the minds of those in the audience were reflected in questions, including: what role for young people in trade unions?; just how sustainable is capitalism in the context of new business strategies, such as those of Uber?; and how does the current national electoral system impact on inequality?

A fourth year Murray Edwards student in management noted that only one in ten friends she had asked had even thought about joining a union as they started out in their professional lives. How should they get involved and inform themselves when union membership was not even mentioned during induction programmes?

“Join up and get involved!” was the response from Frances O'Grady, but she acknowledged that the traditional trade union offer was not relevant for many of the jobs young people are going into today. It's an issue that the TUC is taking seriously. “We are in the R&D phase of development of a major new project with, and for, young people, which is asking deeper and more radical questions about the role of unions in 21st century.” She said.

With respect to “Uberisation”, Frances O'Grady pointed out that such new - and rapidly spreading - business models have mobilised the union movement to fight a key legal case in the UK, challenging the idea that Uber workers are “just contractors”, and fighting the erosion of rights that ensues from re-classifying workers.

As for electoral systems, O'Grady said this issue is both controversial and highly complicated. On one level, she hinted at the irony of the government's proposed new threshold levels for union legitimacy, compared to the percentage of the electorate that voted in the government. On another level, there are concerns within the union movement about voting systems which could see extreme views gain representation. “There will be different views; we are a diverse movement” It's an area of TUC policy review.

The impact of tax and tax justice on inequality was also raised, but this is a topic to be addressed in detail in a future lecture in the series. Watch this space!