UK pay gap widens, millions in dire straits

Julie Hyland
31 May 2011

The wages of "lower to middle income" workers are set to collapse, according to a report published last week, with wage rates in 2015 expected to be no higher than they were in 2001.

This comes after a long period in which the wages of such workers were stagnant or fell, even before the economic collapse of 2008.

The report, "Growth without Gain", published by the Resolution Trust, evaluates the living standards of the 11 million people on low to middle incomes - households without children earning £12,000-£30,000 a year, to households with three children earning £19,200-£48,500 - over a 30-year timeframe.

From 1970 to 1977 there was moderate overall wage growth, with "little, if any, increase in inequality," it states.

Between 1977 to 2003 wages rose overall, particularly for women workers. However, this was accompanied by "soaring" wage inequality. Whereas pay for those in the middle of the earnings distribution rose by 1.8 percent each year during this period, those in the 90th percentile of earners saw annual growth of 2.7 percent.

The top earners saw even more spectacular growth. The highest 0.1 percent trebled their share of national income, from 1.3 percent to 4.4 percent. Those in the lowest 10th percentile of earners, however, saw their wages rise by just 1 percent.

If this period was characterised by a "fanning out" of wages, with middle earners pulling ahead of those lower down, and those in top leaping ahead, wages stagnated for the bottom half of the population. In fact, disposable income per head fell in every English region outside London.

This was not only the case in the UK. The path was blazed by the United States, where the wages of a middle-income earner in 2009 was no more than that of his or her equivalent in 1975, the report states. This again is despite US GDP more than doubling over the same period.

"In 2008, the top one percent of earners received 11.4 percent of all US wages while the top five percent received 24.3 percent and the top ten percent 34.9 percent," it finds.

The average salary of a Chief Executive Officer was 24 times that of the average production workers in 1965, but 277 times greater in 2008.

This development has been described as the "great decoupling" - where wages have become entirely separate from economic growth.

Germany is given as another example of this phenomenon. Between 2003 and 2008, the median weekly wage in Germany fell by 9 percent in real terms, despite a 9 percent growth in GDP over the same period.

Similarly, while GDP grew by 11 percent in the UK during this time, median wages stagnated.

The report makes no political account of how such a change was possible. But the reasons are not hard to establish.

The years from 1968 to 1975 saw convulsive struggles internationally, and huge militant strike battles in the UK. This is the period essentially identified in the report during which the working class made small gains and its living standards held steady.

With the help of the still influential Labour and trade union bureaucracy, however, these movements were betrayed and thrown back - opening the way for the ruling elite internationally to carry out a counteroffensive.

Led by Margaret Thatcher in Britain and Ronald Reagan in the United States, the 1980s saw major strike-breaking operations, the dismantling of key industries, privatisation and the deregulation of the stock markets in the interests of the financial oligarchy.

As the report notes, this period was marked by growing inequalities in wage distribution, as the super-rich sought to grab a greater share of national income for themselves. The study finds that from the mid-1970s to 2008, "the share of national income going to labour in the form of wages has declined significantly across the world's advanced economies, whilst the share going to capital, largely in the form of profits, has risen."

In the UK, wages as a proportion of GDP fell from 64.5 percent to 53.2 percent during this period.

The timeframe referred to in the report coincides with the disavowal of any oppositional stance by the Labour and trade union officialdom and their transformation into direct instruments of big business.

In the UK this was made explicit by the fashioning of Tony Blair's "New Labour," and the repudiation of social reformism by the trade unions.

A similar process was played out internationally. Those countries identified in the report as examples of "decoupling" were, for a long period of time, administered by nominally social democratic or "liberal" administrations. Labour came to power in Britain in 1997, and the Social Democratic Party and Green Party coalition took office in Germany the following year. In the US, Democrat Bill Clinton became president in January 1993.

That is why "The earnings of those at the top have continued to move away from those in the middle, while the wage-characteristics of the bottom half have coalesced."

The report refers obliquely to the political consequences of this social shift - noting that these trends have "transformed government's relationship with people on low-to-middle incomes."

In 1977 the 40 percent of households between the 10th and 50th percentiles of income accounted for 30 percent of national original income in 1977. It had fallen to 22 percent by 2009.

The impact on housing, for example, is stark. In 1988, 58 percent of young people in this group of earners had a mortgage on a home, while 14 percent rented privately. By 2008, with homes increasingly unaffordable, the figures were 29 percent and 41 percent respectively.

The report notes with concern that, in 1992-93, when interest rates were high, 17 percent of households on moderate incomes spent between a quarter and a half of their income on mortgage payments. An additional 7 percent spent more than half. Despite low interest rates over the last period, in late 2008 the percentage spending more than 50 percent of their income on mortgages had risen to 26 percent.

The report warns of the impact of an interest rate rise, combined with declining property values. But even as it was published, the Organisation for Economic Co-operation and Development (OECD) called for a hike in interest rates.

The OECD praised the government's "needed fiscal consolidation" measures for striking "the right balance", but downgraded its forecast for UK economic growth this year from 1.5 to 1.4 per cent and 2 to 1.8 per cent in 2012. Despite the government austerity cuts, government spending in April was at an all-time high. This was primarily due to interest repayments, which now accounts for 7.5 percent of all annual government spending.

Figures released by the Office for National Statistics revealed that household spending fell by 0.6 percent in the first three months of the year. Business investment collapsed by 7.1 percent in the same period.

Danny Gabay of Fathom Consulting said, "Were it not for the sharp decline in imports, due to some erratic items, the UK would now officially be back in recession. And indeed, as far as the domestic economy is concerned, it is already there."