I. INTRODUCTION

The 1980s were a decade of upheaval in the UK labour market. Some of the upheaval was the consequence of government policy. Some was the product of the particular macroeconomic circumstances prevailing at the beginning of the decade. Some reflected longer-term changes in, for example, the composition of the labour force and in management thinking. A common perception is that the labour market has become significantly more competitive, decentralized, and responsive to the needs of individual employers, and thus more efficient. This issue of the *Oxford Review of Economic Policy* evaluates to what extent, and in what senses, this is a correct perception. David Metcalf considers the position of trade unions, whilst John Purcell describes how management thinking and strategy have altered. William Brown and Janet Walsh are concerned with how collective bargaining is conducted and more specifically with the extent and significance of the supposed ‘decentralization’ of bargaining. Roy Lewis evaluates how legislation has affected both collective and individual employment relationships. Stan Siebert and John Addison describe an important feature of the modern economy, namely internal labour markets. These are to some extent insulated from external competitive forces. Siebert and Addison consider under what circumstances their existence implies an efficient or inefficient use of resources. Finally Peter Ingram analyses the pattern of wage outcomes reported by the CBI Databank, in particular considering whether the ‘going rate’ became a less pervasive phenomenon.

This assessment sets these specific contributions in a more general context. Section II considers the aims of Government policy. Section III describes other forces inducing change. Section IV attempts to isolate the most significant consequences for labour market behaviour and outcomes.

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II. GOVERNMENT POLICY

The supply-side strategy towards the labour market is often described as an attempt to make it 'more competitive'. In itself, this is crude both as a description of official intent and in what it assumes about the nature of the labour market. It has fundamental characteristics which mean that it could never approximate the textbooks' perfectly competitive paradigm. Informational deficiencies and transactions costs abound. Among their other consequences, these limit mobility and thus the supply responses necessary to make external labour markets function 'perfectly'. They also make it optimal in certain circumstances for employers to attempt to tie workers into the firm and to adopt strategies to internalize the enterprise's labour market. Thus no policy could or should take as its yardstick a perfectly competitive labour market in the simple textbook sense. That is not to say that steps should not be taken to improve competitiveness at the margins, and successive governments have attempted to do just this. However, it is important to remember the theorem of the second-best, which warns us that in the presence of 'imperfections' elsewhere in the system, a single first-best move does not necessarily make the economy more efficient and could have perverse effects.

(i) Trade Unions and Collective Bargaining

Government policy towards trade unions is perhaps the most obvious example of the attempt to introduce greater competition. Lewis documents successive pieces of legislation whose approach was gradualist rather than 'big bang'. Brown and Wadhwani (1990) have argued that in the late 1970s there was a general view that legislation had only a limited role to play in the reform of industrial relations. In part this view was a consequence of the reluctance of employers to use the steps available to them under the 1971 Industrial Relations Act. On returning to power in 1979, many Conservatives shared these doubts about the legislative approach to reform, and therefore approached the issue with extreme caution. But the underlying philosophy was clear. Unions were regarded as a monopoly group whose power to distort the workings of the market had to be controlled. Thus legislation was designed to make it harder to recruit and retain members via arrangements such as the closed shop, and to change the balance of power in negotiations by, for example, reducing a union's ability to call and sustain a strike. It also rested on the belief that the more extreme actions of unions would be restrained if the members had greater control of their officials. In this spirit the legislation has concentrated on restricting the legal immunities of unions, effectively outlawing the closed shop, and introducing a range of balloting requirements.

(ii) Deregulation

At the same time official intervention in the setting of wages has been eliminated or reduced. The Fair Wages Resolution and Schedule 11 of the 1975 Employment Protection Act, both of which provided some scope for establishing minimum wage floors, were repealed, whilst the range and powers of wages councils were much reduced. It was not only wage protection which was diminished. So was employment protection—unfair dismissals and redundancy and maternity provisions were weakened, whilst regulation of the conditions of work specifically applying to young people and women was abandoned. Thus the forces of demand and supply were left freer to operate. Measures to facilitate mobility, including steps to make pension rights more transferable between jobs, were meant to lubricate these forces; but the housing market remained a severe inhibitor.

(iii) The Individual versus the Collective

But the Government's strategy did not stop here. Thedictum that firms should set their pay to 'recruit, retain, and motivate' is an old one. However, it was more frequently and widely used in the 1980s and represents an ethos which demanded a reduction of the role of unions going far beyond legislative measures. The Government emphasized the need to deal with the individual rather than the collective. Use of the phrase 'recruit, retain, and motivate' implies a concentration on the marginal worker. Concentration on the collective is concerned with the average worker. Two often-cited examples of the alleged inefficiency of the latter are the following. First, imagine that an employer is finding it difficult to recruit a particular type of labour—skilled electricians, for instance. One obvious response would be to raise the pay of that group. There are many reasons why this might have
knock-on effects to the pay of all workers at that establishment, but the likelihood is greater the stronger the tradition of the collective. Thus the original response to the difficulty becomes expensive and is probably precluded. Second, imagine that a university finds it relatively easy to maintain a high quality stock of academics in most of the subjects it offers, but that it is finding it almost impossible to hire and keep good calibre staff in more 'market-orientated' subjects such as (say) law. Then again one possible solution is to raise the pay of these particular subject groups. However the tradition of the collective may make this impossible. In other words, by giving weight to the collective rather than the individual, there may be a blunting of efficient response to changing economic signals.

The Government set a lead both by its own actions as an employer and by the use of exhortation. Individual merit-related pay, based on annual assessment, was introduced in much of the public sector, including the Civil Service—for further details, see IDS (1989). In addition, payment systems linked to company performance were encouraged. Thus, for example, tax incentives were given both for profit-related pay schemes and for employee share ownership schemes.

(iv) Responding to the Individual Needs of Companies

The above is one example of the emphasis placed on meeting the individual needs of companies. Linked to this are official statements on the appropriate 'levels' for the determination of pay and other conditions of employment. For the public sector there was an attempt to downgrade the importance of national agreements, since by definition they fail to capture local employment conditions. The process has gone further for local government than for central government employees, but the intent has been clearly stated. As well as acting as an employer in its own right, the Government made clear its views about private sector bargaining. The multi-employer national agreement—where a federation of employers bargained with unions to set national rates and conditions—was particular anathema. But for conglomerates and multi-plant companies even the single company bargain, which again implies setting pay and other matters at the national level, thus ignoring local conditions, was an object of official suspicion.

There was particular emphasis on the need to diminish the importance of comparability as an influence in pay setting. However, the crude distinction between market-forces and comparability is misleading. Paying according to market forces involves setting just the appropriate package of rewards to recruit, retain, and motivate people of the right quality and skills. Yet how can these forces be discerned? Very often it would be absurdly inefficient and costly to wait until recruitment difficulties or problems of retention occur. Rather it is sensible to predict possible difficulties and take action to prevent them occurring. Pay comparisons are one way of doing this. In other words comparability is one method of discerning what market forces are.

Thus the approach was to stress the appropriate rate of pay for each individual. Where collective bargaining continued to play a role, it should be as responsive as possible to the specific needs of the individual company and as attuned as possible to the particular local labour market conditions pertaining.

The elements of Government thinking briefly described above are discussed at length by the contributors to this issue. In the next two sections work incentives and training are considered in rather more detail.

(v) Individuals—Information and Incentives

The efficient functioning of markets depends, amongst other things, on the decision takers having reliable information upon which to base their decisions and on transactions costs being as low as possible. The Government took action on both these fronts. For example, improvements in the Employment Service were designed to help, as were elements of the Restart programmes and the Jobclub scheme.

The Government was further concerned that work incentives were not unduly distorted by official policy. Thus there was considerable concern with effective tax rates at both the upper and lower ends of the labour market. At the upper end it was felt that
incentives were severely diminished by high marginal rates of taxation. In early 1979 the highest marginal rate of income tax was 83 per cent, or 98 per cent in the case of the last slice of income being unearned. By early 1991 the top rate was 40 per cent.

At the bottom end, the existence of a whole variety of ‘traps’ was said to diminish work incentives. The two most discussed of these were the poverty trap and the unemployment/supplementary benefit trap. The poverty trap concerned those in work. A low-paid worker could receive Family Income Supplement (FIS) and a variety of means-tested benefits to supplement his income from employment. Their receipt depended on individual circumstance, and was an increasing function of the dependence of the spouse and of the number of children. As the worker increased his earnings from work there could be a very high effective tax rate. For example, FIS made up 50 per cent of the gap between actual income and what he would have been entitled to had he been out of work. Thus for every extra £1.00 earned there was an automatic withdrawal of 50p of FIS. Combined with income tax starting to bite at comparatively low levels of earned income and with the withdrawal of means-tested, direct ‘passport’ benefits such as free school meals, prescriptions, and dental treatment, the effective marginal tax rate could be very high indeed and in some cases exceeded 100 per cent. The problem was exacerbated by the change in arrangements for National Insurance contributions introduced in 1975. This involved the introduction of a lower earnings limit below which there was no liability, but above which contributions were payable on all gross earnings. Some of the worst problems were removed by the 1986 Social Security Act, which came into force in 1988. The new system had the effect of eliminating effective marginal tax rates in excess of 100 per cent, but at the cost of pushing more people into milder poverty traps. Changes in 1985 and 1989 to the way in which low-end national insurance contributions were calculated also improved matters. Estimates of how many people are still affected by high marginal rates are various, but a significant minority of tax units (possibly one million) face rates of 60 per cent or more.

In a similar way the unemployed could face very high effective tax rates if they obtained jobs. These were often expressed in terms of replacement ratios—the ratio of income whilst out of work to income whilst in work. Again this ratio was partly a function of the level of unemployment benefit relative to pay at the low end of the labour market, partly a function of the rate of withdrawal of a variety of passport benefits, and partly a function of low thresholds for the payment of income tax. After a year of unemployment, an individual went on to supplementary benefit. But long-term replacement ratios were never so much of a problem.

Replacement ratios are notoriously difficult to calculate, but it is safe to say that during the 1980s they fell for most groups. This is for a number of reasons: unemployment benefit increased by less than average earnings; the earnings-related supplement to unemployment benefit was abolished in 1982; unemployment benefit was made taxable; the 1986 reforms brought benefits whilst in work and whilst out of work more closely into line; earnings disregards were increased; the national insurance contribution system has been altered; basic rates of income tax have fallen. Further details of changes in the tax/benefit system can be found in Bowen and Mayhew (1990).

Thus much has been done to alleviate the worst of these two traps, but potential disincentive problems remain. These especially affect particular groups: men with large families; part-time workers; single parents; the wives of unemployed men; the disabled. These are groups who for a variety of reasons stand to suffer an especially heavy marginal tax rate. In many instances they are also groups who experience particularly high costs of working—for example, childcare costs for single parents. The higher the level of benefits for not being at work at all, the less likely such people will be to undertake work. A high effective tax rate on earned income—whether through the withdrawal of benefits, the imposition of income tax, or the existence of work related costs—will work in the same direction, via the substitution effect. That potential disincentive effects exist is not in doubt. How big they actually are is an empirical question. Virtually all the econometric evidence suggests that in general the effects are weak. However, two points need to be stressed. First, there is a suggestion that they are somewhat stronger for at least some of the marginal groups we have mentioned.
Second, even if income and substitution effects are low, if certain groups face very high marginal tax rates, the effects of a major reduction in these rates could still be significant. That significant disincentives to work remain is clear. Nevertheless it is fair to conclude that the Conservative governments of the 1980s showed an increased awareness of the problem, and took some steps to correct some of the worst anomalies. To the general reform of the social security system can be added specific measures such as the abolition of the earnings rule for pensioners and the abolition of tax on the imputed value of child-care facilities. At the same time a tighter administration of benefit payments pushed some of the unemployed back into work more rapidly than otherwise.

(vi) Vocational Education and Training

A major thrust of Government policy was to place massive stress on improving the quality of the labour force. A recent issue of the *Oxford Review of Economic Policy* (Vol. 4, No. 3) was devoted to the subject of education and training, and so little space is given to it in the present issue. This is in no sense meant to downgrade its importance. Indeed it is arguably the most critical single aspect of labour market policy. There is general agreement on the nature of the problem, which is that the UK compares unfavourably with our major competitors at most levels of the vocational education and training process. The elite of our school students more than stands comparison with the elite of foreign schooling systems. At the bottom end, however, a large proportion of our school-leavers are barely literate or numerate. Too few go on into further and higher education after the compulsory school-leaving age of 16. Too many of those who go into jobs receive inadequate training, whilst the provision of training and retraining for adults is pathetically inadequate.

There is more disagreement on developments during the last decade. Some believe that matters have got worse, and others that there have been significant improvements. The disagreement revolves around conflicting interpretations of events and statistics. The pessimists stress the massive decline of apprenticeships in manufacturing, and question the training content of new training schemes especially YTS. The optimistic point to an increase in the number of people receiving training of some sort. They also believe that there has been a fundamental change in employer attitudes towards the role and importance of training. This point is countered by the pessimists who argue that although these days one encounters heartfelt statements at almost every management conference about the need to improve the UK's VET performance, this does not by itself constitute the dramatic change in attitudes which is required. They point to the fact that few employers systematically calculate the costs of training, that even fewer calculate the benefits, and that fewer still put the cost and benefit calculations together to make a proper investment appraisal of training activities. Not only is there a failure to treat training as an investment in human capital in the same manner as investment in physical capital; training decisions are often taken at the wrong management level and at the wrong stage in a company's decision-taking process. Only if they are taken simultaneously with strategic decisions about which products to produce and about the techniques with which to produce these products, will training expenditures be efficiently made. It is considerations such as these which have caused some authors to speculate on whether the UK might be trapped in a 'low skills/low quality equilibrium' (Finegold and Soskice, 1988; Mackay and Stevens, 1991).

The new Training and Enterprise Councils (TECs) have a vital role to play; but for the pessimists, the TECs' success will depend critically on their ability to encourage and stimulate companies to incorporate training decisions into strategic decision taking generally. It will also depend on whether the TECs and official training programmes are adequately funded. The crux of the argument here revolves around the standard externality problem. Even if the individual employer is making sufficient investment for his own purposes—and the argument above casts some doubt on that proposition—then that may still not be enough for society. Much training has a 'general' element—that is, the skills which are acquired can be used by employers other than the one who provides the training. Thus the expected returns for that employer will be less than the returns for the aggregate of employers or for society generally. This means that if funding is left to the individual employer, there will be an under-investment in training from the viewpoint of society at large. One possible solution is for individuals...
to pay. But this is an unlikely solution, since individual workers will find it difficult to acquire the levels of information to make rational decisions and, even more importantly, to find the finance to turn those decisions into action. In addition most individuals are risk averse, and the risks of making training investments are considerable. These risks are not just the usual ones attached to any investment; there is also evidence that employers are often suspicious of their workers taking steps to improve their marketability in the ‘outside world’. Fear of this sort of reaction often inhibits individuals from making training investments even if they can acquire the wherewithal.

In the absence of individual funding, how can society make up the gap? There are two general solutions. The first is to form ‘clubs’. The second is some sort of government subsidy/tax package. The idea of ‘clubs’ is to extend the decision-taking unit from one employer to a group of them. If a well-defined ‘club’ existed, then, on the ‘swings-and-roundabouts’ principle, one employer might be relatively unconcerned about losing a worker for whose training he has paid. He may feel that he is just as likely to pick up someone else’s ready-trained worker. At first sight, it is difficult to see how effective clubs could be formed in the British context. However, this may be a little short-sighted. The current fashion for improving supply-chain relationships may help the process. A contrast used to be drawn between the Japanese and the Anglo-American approaches to supply-chains. The latter was described basically as a ‘distancing’ relationship where the buying firm took little interest in the internal workings and organization of the selling firm. The concern was simply to screw down purchasing costs as far as possible. By contrast the Japanese approach was described as taking an active interest in assisting and improving the operations of suppliers. Many UK management experts advocate that British supply-chain relationships should move closer towards the Japanese model, and indeed they suggest that some progress in this direction has already been made. Supply-chain relationships of this type might constitute a club of sorts. Further it is possible that the TECs might induce a spirit of co-operation in the pursuit of enlightened self-interest among employers. However the locally based nature of TECs might militate against this, whilst the fact that the skill requirements of different companies at different points on a supply chain are likely to be different means that clubs formed in this manner could at best only partially address the externality problem.

One is therefore driven to the conclusion that it can be tackled only by a tax/subsidy approach. The main issue is whether the present level of government funding is high enough. But it is not just a matter of the amount of cash, it is also a matter of the ways the cash is raised and of precisely how it is used. For example, if it is accepted that in the social interest firms ought to be doing more training, one policy response would be to declare certain norms with which a firm ought to comply. Those firms which fail to do so would be taxed, and the revenues thus raised could then be devoted to public expenditure on training. The French have a version of this system in operation. Such a scheme might reduce the amount of public subsidy that has to be devoted to training by altering the perceptions of individual firms. The final critical point is that simply spending the money may not be enough. If the wrong training decisions are taken it would simply amount to throwing good money after bad.

III. OTHER FORCES CAUSING CHANGE

Government policy and exhortation were not the only force for change. Other influences were important. These include: the macroeconomic environment; worldwide forces; the changing practices of management; and the changing composition of the labour force.

(i) The Macroeconomic Environment

Figure 1 charts the course of unemployment. In 1979 it averaged 1.1 million. By 1981 it had doubled to an annual average of 2.2 million. After this dramatic shock, unemployment continued to rise until the summer of 1986. For that year as a whole it averaged 3.1 million. These were levels unheard of since the 1930s. After falling for nearly four years, unemployment hit a low of 1.6 million in the spring of last year, only to start rising again. The 1980s represent an era where we learned to live with significantly higher unemployment than would have been regarded as acceptable in most of the post Second World War period. Our record compares
favourably with many EC countries, but less with some other major OECD economies.

The sharp rise in unemployment at the beginning of the decade accompanied a decline in national output and a catastrophic slump in manufacturing. Alongside this went a large incidence of company liquidations and bankruptcies. From this trough, total output had a long period of sustained growth, as did manufacturing. However, the structure of output had become very different, as is attested by the fact that it was only in 1987 that manufacturing recovered to the levels of activity prevailing in the early 1970s. Both price and earnings inflation fell rapidly in the early 1980s and thereafter remained relatively stable—especially earnings inflation. But two comparative points need to be made. First, UK inflation rates remained higher than those of competitor countries. Second, they were not dissimilar to those prevailing in the 1960s.

What did these developments imply for trade unionism? The literature on union growth suggests that the higher is unemployment and the lower is inflation the worse the implications for union membership. As Metcalf indicates, such a conclusion should be approached with caution. First, the significance of the historical correlations can be exaggerated. Second, their theoretical underpinnings are shaky. Indeed plausible theories can be concocted which would be consistent with positive or negative correlations on either variable. Third, whatever historical patterns of behaviour are identified, to project these into the future is dangerous. To make the point concrete, unions offer a product or package of services to members and potential members. It may be that historical observations are a reflection of the union movement offering one particular package. If the nature of that package is changed, then the influence of macroeconomic circumstances on union membership could alter. Finally it should be noted that with the important exception of unemployment, the macro variables above represent not so much something novel, but more a return to the 1960s, when unionism could hardly be described as weak.

These macro variables also had an influence on the attitudes of management and individuals. The extent of the 1979–82 recession was a deep shock to
managers. After years of inadequate profitability, this latest and deepest trauma may have finally convinced many of them of the need for fundamental improvements in efficiency, a conviction which outlasted the recession itself. In manufacturing at least there was a major reduction in over-manning, whilst across industry as a whole there was a renewed emphasis on more efficient practices at the workplace, greater functional flexibility, and greater numerical flexibility. By functional flexibility is meant the ability to use an individual across a wide range of tasks and in a wide range of circumstances. The breaking down of union restrictive practices, the greater use of multi-skilling and the fashion for collective agreements based on skills progression are all examples of steps in this direction. Numerical flexibility is concerned with making the size of the labour force more responsive to fluctuations in economic circumstance. Amongst the devices used were subcontracting and the greater use of temporary workers and of short-term employment contracts, though Purcell rightly voices some doubts about the extensiveness of these developments. At the same time management was more concerned to concentrate on the individual rather than the collective. There were few employers who actively de-recognized unions, but the range of issues over which bargaining took place was reduced whilst there was an increase in the incidence of individual assessment systems and in performance-related and merit-related pay.

The macro environment of the early 1980s may also have altered the attitudes of individual workers. As Metcalf shows, at the end of the decade unions were still popular. But there is a suggestion that workers were more ‘tolerant’ of the types of management practice described above; that they were more prepared for change and flexibility; that they were more appreciative of the need to match corporate performance and pay increases; that they were more acquiescent about pay systems which systematically differentiated between different workers.

These new attitudes were sustained not only by the experience of the recession itself, but also by the government rhetoric which accompanied it and which continued into the better times of the mid-1980s. The commitment to full employment had been abandoned by a Labour Chancellor of the Exchequer (Dennis Healey) as early as 1976. But few expected the unemployment figure to top 3 million. There is reason to believe that this was at least in part an accident, as Government restrictive policy coincided with an unexpectedly severe world recession which added to deflation in the UK. But the Government’s stress on the primacy of the need to squeeze inflation out of the system had a profound impact on both sides of industry. This is epitomized by a new awareness, and perhaps over-awareness, of the real costs of inflation. There had never been any doubts in people’s minds that high inflation imposed great costs on the economy, but there had been a very general view that the adjustment costs involved in reducing inflation from (say) 10 per cent per annum to 7 per cent per annum almost certainly outweighed the gain. The Government steadfastly set its face against any such presumption, and Geoffrey Howe’s tough budgetary stance of 1981 bore testimony to this. At the same time the Government stressed that only fundamental supply-side reform would reduce the real costs of a tight and responsible demand management policy. Whatever the ‘academic’ merits or otherwise of such an approach, there is no doubt that it had a profound impact on the thinking of worker and manager alike. No longer would the threat of severe job loss or a wave of bankruptcy panic the authorities into reflationary policy. People had to bear the consequences of their own actions.

An official stance such as this ultimately depends upon credibility. Credibility can be maintained only if the prime policy goal is achieved; but the Government persistently failed to meet its declared inflation target. At the same time it is now clear that the Government’s monetary and fiscal policies in 1987 and early 1988 were too lax. The result was an over-expansion of demand with the consequential re-emergence of both inflationary and balance-of-trade pressures. A vital current question is whether the Government can restore credibility.

(ii) World-wide Forces

Added to these domestic forces was a variety of external ones, amongst which was an increased openness of international trade. In the ten years from 1979 to 1989 UK exports of goods and services as a proportion of GDP increased from
42.7 per cent to 46.4 per cent (at factor cost), and imports from 42.9 per cent to 50.8 per cent. There was a consequentially greater need to keep production costs in line with those of our major competitors. Nor was it just a matter of controlling unit labour costs, it was also essential to compete on quality. The MIT Commission on Industrial Productivity was well aware of the importance of this for American manufacturing, and its reasoning applies pari passu to the UK. The Commission writes:

Many of the emerging economies will offer labour costs even lower than those of Taiwan and Korea, and far lower than those of the United States, Japan and Europe. The obvious implication of this trend is that American firms will not be able to compete on the basis of cost alone.

Partly because of internationalization and partly because of rising incomes around the world, markets for consumer goods and intermediate goods are becoming more sophisticated. In many countries, consumers and commercial buyers are becoming more knowledgeable and quality-conscious. Markets are also becoming more segmented and specialized; not everyone is prepared to accept the same designs and specifications. As this process continues, consumers will expect products progressively more customized to individual taste. (p. 130)

Our membership of the EC so far has had relatively little direct influence on labour market developments. As Lewis indicates, in the 1970s there were several important directives concerning fundamental rights—on equal pay, equal treatment, collective redundancies, and employee rights on the transfer of businesses. But Lewis argues that progress in the 1980s was slowed, largely because of the UK veto. The UK has also blocked the Draft Fifth Directive on company law and the Draft Vredeling Directive on informing and consulting employees. Conversely the TUC has become enthusiastically European as it has realized that EC developments could provide more protection for unions, for collective bargaining, and for individual workers than was likely to be achievable by British unions acting on their own. So far there has been little operational impact, but things may change rapidly in the 1990s.

A second important influence from Europe is the European Monetary System and the Exchange Rate Mechanism. The UK's entry into the ERM imposes a potentially severe constraint on economic policy.

If British unit labour costs continue to rise at a more rapid rate than those abroad, then unless there are frequent downward realignments of sterling, the UK will suffer a shrinking share of world trade. In this sense the Government's entry firmly commits it not so much to conquering inflation but to bringing it down to European levels. Perhaps it is in this way that the Government will restore its credibility. Certainly entry into ERM puts greater pressures on the actors in the labour market.

Finally international capital flows were becoming freer. One possible consequence of this was an increased influence of foreign management practices via direct investment in the UK.

(iii) Changing Practices of Management

Certainly whatever its genesis, the importation of new perspectives started to have a widespread impact. From Japan came the concept of gearing for 'total quality', 'just-in-time' production methods, the use of quality circles, and Kalzan—the philosophy of encouraging and expecting individual workers to contribute many small improvements to the jobs they do (Wickens, 1991). The practice of payment according to individual merit owes much to American influence. Japanese-owned companies figured heavily in the so-called new-style deals with unions which had some or all of the following components: representation by a single union; an agreement to allow flexibility to management in the organization and use of workers; a commitment from the union not to countenance restrictive practice; in return a commitment from management that none of those employed at the time the original deal was struck would be made compulsorily redundant. Often there was also a no-strike clause, but this amounted to little more than a declaration from both sides that it was not expected that a strike would be necessary during the currency of an agreement.

(iv) Changing Composition of the Labour Force

Finally we discuss a very different set of forces affecting labour market behaviour—the changing composition of the labour force. This has many dimensions to it. The following lists some of the main ones:
The changes are said to be in directions unfavourable to unionization. Historically unions have been less able to acquire members amongst those who are female, non-manual, and/or part-time workers in small non-manufacturing establishments. In this sense most of the compositional changes experienced by the British labour market work against unions. But Metcalf raises the legitimate question as to whether there is anything about these groups which make them necessarily inimical to unionization.

Potentially, however, these compositional changes have a more profound implication. They represent a break from traditional types of workers in traditional types of jobs. Many of the workers belong to groups whose presence in the labour market used to be much less. Thus there was and is scope for breaking away from entrenched attitudes towards the employment relationship. Many of the activities in which they are engaged are also new in the sense that they involve rapid expansion from small original production bases. There has been little or no opportunity for attitudes and habits to become fixed.

(iv) The Nature of Labour Market Change

Thus there were major changes in the labour market. The individual authors in this issue assess their significance. Rather than attempt to summarize their findings, here we pull out some of the more important points.

(i) Decentralization of Wage-Setting

The significance of multi-employer bargaining had been declining for some time and the move towards individual company bargaining continued. Within companies there has also been decentralization—usually not a geographical one but towards product centres and operating units. As Brown and Walsh put it, such developments have been dictated more by changes in corporate structures than by labour market circumstances. They detect a sustained attempt to ‘tie’ industrial relations to the ‘business performance of divisions or operating units’. However there is a danger of exaggerating the significance of the strategy. Brown and Walsh distinguish between control and bargaining, arguing that while the latter may have been decentralized, it is very often within strict control parameters set by Head Office. Companies, therefore, are unlikely to be capturing the peculiarities of local labour market conditions much more effectively than they used to, but they might be catering better for their own specific operating needs. One can see this as a de-emphasis of external labour market forces in pay determination and a greater emphasis on the particular circumstances of the firm. Addison and Siebert show under what circumstances an internalization of this sort can be an efficient response to the presence of specific training and to the costs of monitoring performance.

(ii) The Individual versus the Union

Purcell describes how this went hand-in-hand with an apparent strategy to marginalize unions at the workplace, and with a ‘reduced dependency on collective bargaining as the main medium for change’. This contrasts markedly with how Batstone and others characterized the 1970s. Batstone describes the managerial experiment of that decade as giving up control in order to regain control. By this he meant the following. Shop stewards were powerful, and in an attempt to harness that power for positive ends, employers tried to make them almost part of management by relinquishing managerial prerogative of decision taking over a whole range of issues which now became, if not the objects of bargaining, at least the objects of consultation. It was hoped that giving shop stewards influence over corporate decision taking would induce a greater sense of responsibility in the conduct of the wage-effort bar-
gain. By the end of the 1970s this experiment was regarded as a failure, and there was resort to direct management devices to enhance efficiency. We entered an era when, as Purcell puts it, 'business strategies' drove the enterprise; when diversification and the 'devotion of profit centres' made the performance of operating units the focus of attention; when 'human resource management' became the catchphrase for stress on the individual rather than the collective; when experimentation with personal assessment and with rewards being linked to individual, group, or company performance was the order of the day. Purcell also describes a new emphasis on 'flexibility', but firmly distinguishes between intention and implementation, arguing that although it is clear that intentions are there, it is less clear how extensively the intentions have been implemented.

Few employers, however, de-recognized unions. Nevertheless, as Metcalf shows, the union movement lost a third of its members between 1979 and 1989. In the private sector under a third of employees are now unionized. Metcalf discusses the various forces contributing to this loss of membership, and concludes that, since de-recognition was not a major feature, then the cause has to be the failure of unions to gain recognition by employers in the expanding parts of the economy. Partly because of lack of members and partly because of low subscription dues, union finances are in a relatively parlous state. Union mergers, which have been a feature of the last decade, may help by sometimes allowing unions to benefit from economies of scale, but by themselves they are unlikely to be a major force in stimulating a resurgence of membership.

For the foreseeable future the macroeconomy, government and public attitudes towards corporatism, and the composition of the labour force are unlikely to be propitious for union growth. Unless, that is, the unions can make themselves more attractive to both employers and potential members. Metcalf documents some of the major strides which the union movement has already made. And yet it is hard to resist the feeling that more could be done. In terms of relationships with employers this implies attempting to exploit more fully the potential of the collective voice. For example, there are many features of life at the workplace where employers are ill-informed about steps which might be taken to enhance the efficiency of particular rou-

tines or to improve morale, and where it is simply not worth the while of single workers to take action because the personal benefits accruing from that action fall short of the costs (real or imagined) of taking it. For the collective of these workers, however, this calculus may be reversed. In other words, not all collective action need be against the interests of employers. For the potential member it is a matter of the unions providing the right 'product'. Given the developments we have described this is probably a different one from that traditionally offered. It will include bargaining about individually based pay systems and, more important, about how employees are prepared for rapid technological change. There are important services that unions can provide and there is no necessary reason why these cannot appeal to many of those groups of workers who are not traditionally union-minded. In this sense the future of the union movement is very much in its own hands. But, as Metcalf stresses, it does also depend on the willingness of employers to recognize unions. In this context, the TUC's recent proposals for new recognition rights are revealing.

(iii) Unions and the Law

The impact of the law on the union movement and on employment relations was considerable, but not always as intended. One development is almost certainly irreversible. As Lewis points out, whatever the political complexion of a future government, the law is likely to remain far more interventionist than traditionally it has been in the UK. The particular British 'abstentionist' tradition meant that rather than defining the rights and obligations of the union movement, a range of immunities was given to unions when engaged in or in contemplation of a trade dispute. From the 1960s there was an increased concern to reform our industrial relations system, and the law began to take a more active role. In that sense the developments of the 1980s were a continuation of earlier developments. However, as Lewis shows, there can be various philosophies underlying a more interventionist stance. He uses the terms 'free market' and 'reformist' to distinguish between the present Government's approach and an alternative espoused by the Labour Party amongst others. The free market approach he characterizes as one dominated by a concern to reduce union power. The reformist approach, by contrast, is concerned with the responsible exercise of power
by both employers and unions, but is also based on the explicit recognition of the legitimacy and importance of collective bargaining. But whichever view predominates in the future, a more interventionist legal framework is here to stay.

Lewis also believes that Europe may start to have a more profound influence on labour legislation than it has had in the past. In particular, he mentions the European Company Statute and the Community Charter of the Fundamental Social Rights of Workers. The former would make one of three possible forms of worker participation legally binding, whilst the latter would make various individual rights a matter of Community law. The rights would be likely to be in the following areas: minimum standards for different aspects of working time (including night-work, overtime, and holidays); health and safety; vocational training. Lewis speculates on whether the principle of qualified majority voting might extend to these items, and thus deprive future British Governments of the ability to block. His conclusion is that the answer is uncertain. At the same time such proposals generally do not affect national independence of action on fair pay or on collective, as opposed to individual, rights. Nevertheless there is a possibility that the presence of alternative modes of labour legislation in a more integrated Europe will have an increasing influence in the UK.

Meanwhile what have been the specific effects of the legislation of the 1980s? Lewis outlines four types of legal measures:

(a) the reduction of the statutory rights of individual employees;

(b) 'legislative attacks on the closed shop and in certain respects on the very principles of collective bargaining';

(c) 'a move to create a strike free environment', in particular by reducing statutory immunities of unions;

(d) increasing the legal rights of members against their unions, including rights to be consulted by way of a ballot'.

He argues that the law now plays a more pervasive role in regulating the employment relationship. Ironically, therefore, what he calls 'juridification' has accompanied de-regulation. The legislation has formalized the procedure for calling a strike and has possibly reduced the ability of a union to undertake one successfully. And indeed Britain's strike record has improved. Yet it is doubtful whether this is a consequence of the legislation per se. The fall in strike activity during the 1980s was a phenomenon common to many other countries. Though the risk of sequestration of funds inhibited secondary strike action and induced what Brown and Wadhwani call greater procedural caution, the new procedures required by the law have provided a useful bargaining weapon for some unions. A successful strike ballot has sometimes been a potent persuader of employers at a late stage in negotiations. Similarly the need to comply with the range of balloting requirements—on, for example political funds and membership of national executives—has caused many unions to improve their own administration, to tighten up their own record keeping and organizational practices, and to communicate more effectively with their members. The requirement to give greater control to the membership allowed many unions to regain control of what had become a fragmented organization, where shop stewards or local officials had acquired considerable power and effective autonomy.

(iv) Pay Determination

The thrust of much of the change we have described is to attempt to free the employer to pay as appropriate for his own individual circumstances as opposed to being the prisoner of anti-competitive forces. At the same time the worker's employment choices were to be freed from distortions caused by the tax and benefit system. The efficacy of such a policy should be evident in a widening of earnings dispersion. The figures presented by Brown and Walsh exhibit this widening. For both males and females, the ratios of the lowest decile and lower quartile points to median earnings fell in the 1980s, and correspondingly the ratios of the upper quartile and top deciles to the median increased. It has been argued that some of this apparent increase in earnings dispersion is illusory. This is because many of the jobs which 'disappeared' in that decade were ones in the middle of the earnings hierarchy. Thus it is not that particular jobs have become worse or better paid, but rather that the distribution of jobs
has altered. Some weak support for this view is given by the fact that the co-efficient of variation of the earnings of eight broad occupational groups changed hardly at all between 1979 and 1989; though at a more disaggregated level there is more evidence of widening. Nor did the dispersion of regional earnings widen to reflect disparities in demand conditions, as the Government would have wished. Brown and Walsh demonstrate that, if London and the South East are taken out of the picture, regional pay dispersion was very similar at the end of the 1980s to what it had been at the beginning. As they go on to argue, it would also be difficult to support the view that pay-fixing in the public sector had made major strides towards meeting market forces. Relative pay for the public services as a whole fell from the early 1980s, but within this aggregate different groups had very different experiences. But which groups have done well and which have done badly seems to have little to do with the imperatives of the labour market.

Thus pay relativities have not always altered in ways which the advocates of greater labour market efficiency would have wished. These doubts are also reflected in Ingram’s results. He is concerned with wage settlements in manufacturing as reported to the CBI. Measuring the dispersion of settlements by the co-efficient of variation, he found no obvious pattern, except for a temporary increase in dispersion in the early 1980s. This suggests that the recession of that time led to a temporary increase in the spread of settlements, only for that to be reversed as the labour market became less slack.

(v) The Influence of Unions

What of the impact of unions on labour market outcomes? Metcalf writes that ‘during the 1980s unionized workplaces experienced higher pay, lower profits, and slower employment growth/faster decline than corresponding non-union workplaces’. This is a picture familiar to commentators in earlier decades. Metcalf makes the fair point that correlation does not necessarily imply causation, but more importantly detects some evidence to suggest that the impact of unions has become more benign. Unionized firms experienced greater improvements in productivity in the first half of the decade, and a more substantial enhancement of

Figure 2

Average Earnings in Great Britain, Percentage Changes over Previous Year

Source: CSO.
investment performance. However, neither the unfavourable features of unionized workplaces nor these improvements can necessarily be attributed to the specific actions of unions. Both are likely to be closely connected with the fact that it was unionized firms which faced the biggest shocks in the recession. The impact of new style unionism is an unresolved question.

(vi) The Macroeconomic Consequences

Finally we turn to the impact of labour market change on the key macro variables—earnings growth, productivity, and unemployment. As Figure 2 shows, average earnings growth declined steeply from 1980 until 1984, after which it remained remarkably stable, at an underlying rate of around 8 per cent, until recently. By the end of 1990 it was just under 10 per cent. Initially commentators puzzled over why earnings growth did not slacken more in the face of high and rising unemployment. Later they puzzled as to why earnings did not take off as labour markets tightened—though unemployment continued to rise until 1986, employment was rising from 1983, and skill shortages became an increasing problem. Those who believed that labour market change had been beneficial took comfort from this. However, against this had to be set the fact that the reduction in inflation had been a general phenomenon throughout OECD countries, and Britain remained near the top of the earnings league table.

By contrast, our manufacturing productivity growth outstripped that of our competitors after having lagged behind in the 1960s and 1970s. The bad news was that in terms of our unit labour cost competitiveness, this did no more than compensate for our relatively high earnings inflation. Worse still, as Figure 3 illustrates, the growth in manufacturing productivity started to slow in 1988, and is currently negligible or even negative. Besides, manufacturing now accounts for only 20 per cent of the labour force and our productivity growth in services (at least as measured by the official statistics) was never so impressive, and has been virtually zero for the past three years. It is generally agreed that the improved productivity performance in manufacturing was the result of a more effective use of resources rather than of a significantly greater investment in physical or human capital. The im-

![Figure 3](https://academic.oup.com/oxrep/article-abstract/7/1/1/346144/10)

**Figure 3**

Output per Person Employed in the UK, Percentage Changes over Previous Year

Note: The self-employed are included.

Source: CSO, NI Office.
proved efficiency stems from better working practices and a more flexible use of labour. The fact that the growth in productivity was sustained for a longish period of time suggests that there may be a source of dynamic gain which can continue to be exploited once the current recession is over. The situation outside manufacturing is more problematic, not least because of the inadequacy of official statistics.

Macroeconomic policy can achieve various mixes of unemployment, trade balance, and inflation. However, the trade-offs on which macro policy operates depend on the supply-side structure of the economy. In an analysis of this structure, Nickell defines an equilibrium rate of unemployment, which is that consistent with constant inflation and balanced trade. He contends that it was higher for the 1980–7 period than for the 1974–80 period. In particular the impact of the union ‘militancy’ variable remains strong, whilst the impact of mismatch between the sort of labour demanded and the sort of labour available is very substantial, reflecting, he conjectures, the UK’s continuing training problem. However, he does acknowledge the possibility that lags in his system of equations might be responsible for the result on union militancy. But, as they stand, his findings are not encouraging.

The more unfavourable the supply-side structure, the harsher the choices any government has to face when setting its demand management strategy. Britain’s entry into ERM has further restricted demand management options. Assuming there is no realignment of sterling, either inflation falls quickly towards European levels or there is a loss of competitiveness and consequential unemployment. The reduction of inflation, therefore, has become an even greater priority. Barrell has investigated the ways that France and Italy coped with ERM entry. He concluded that Italy achieved inflation reduction at less unemployment cost than France precisely because there was a structural change in Italian wage determination in the 1980s. Interestingly, he found that Britain resembled France in achieving no such change.

Renewed concern about inflation has led to particular interest in the Calmfors–Driffill model. Calmfors and Driffill argue that there is a hump-shaped relationship between the degree of centralization of wage setting and the relative ability of countries to achieve a low inflation rate. Thus countries with highly centralized systems do well, as do those with highly decentralized ones. Countries, like the UK, with mixed systems do worse. High co-ordination avoids a prisoner’s dilemma among wage bargainers. Each bargaining group would prefer low inflation, and sees that the way to achieve this is for everyone to obtain modest wage increases. But the worst possible solution for a group is to settle low whilst others settle high. Since no single group can be certain that others will not settle high, then every group settles high. Effective co-ordination would allow the first-best outcome, which is every group settling low. At the other extreme, the argument runs, decentralization can also produce efficient outcomes. It delivers the merits of competition, flexibility in relative wages, and firms paying according to their own needs. Most importantly, the advocates of decentralization stress the fact that product market elasticities are higher for individual companies than for the industry those companies comprise. In a recent issue of the *Oxford Review of Economic Policy*, Soskice persuasively reformulated the Calmfors–Driffill approach (Soskice, 1990). He argues that it is not centralization as such which is important, but rather co-ordination. For example, Japan does not have formal multi-employer bargaining structures, yet employer co-ordination is impressive. Pursuing this distinction, Soskice offers a more subtle classification of countries by degree of co-ordination. This produces a more substantial empirical case for the virtues of co-ordination as against decentralization. Soskice supports these empirical findings with some theoretical considerations. In a decentralized system a highly productive/highly profitable company is likely to concede large pay increases. But other companies will then be under severe pressure to concede similar increases which they can less well afford. The costs of decentralization, he goes on to contend, will be higher the greater the ability of plant unions to press for high wage claims and the greater the incentive they have to do so. He argues, for example, that Germany suffers less than Britain in this respect because plant unionism is less powerful there and because greater job security and better training and therefore career prospects give German workers a longer-term view.
V. CONCLUSIONS

The 1980s were a period of considerable labour market change. Collective bargaining became more decentralized. Industry-wide agreements diminished in importance, and in many cases disappeared altogether. Within companies there was a devolution of responsibility from headquarters to the operating level. The proportion of the workforce in trade unions fell, and less than one-third of private sector employees now belong to them. The law played a much more interventionist role. Employers are more free from official regulation to offer the terms and conditions they believe best suit their purposes. Many individuals suffer less from major work disincentives caused by the tax-benefit system, whilst that system is more severely administered with the aim of getting the unemployed back into jobs. Management strategies place more emphasis on dealing with the individual than with the collective. Though there have been few instances of employers de-recognizing unions, managerial prerogative in decision-taking has been increased, whilst employment has continued to grow disproportionately in non-unionized areas of work. At the workplace there was greater flexibility in the utilization of labour and a greater awareness of the need for continual improvements in efficiency.

Much of this change was sudden, but much also reflects events in earlier years—not least the decentralization of bargaining. At the same time it is possible to exaggerate the significance of some of the changes; for instance, though the day-to-day responsibilities for industrial relations and human resource management may have been devolved, head office usually keeps tight overall control. There is also uncertainty about future developments—for example, concerning the role and strength of trade unions and concerning the influence of Europe.

The evidence of the economic impact of this change is mixed, possibly in part because it is taking time for the effects to work through the system. The dispersion of individual earnings has widened, but certain differentials that one might have expected to alter in a freer labour market have remained remarkably stable. This is notably true of regional differentials. Nor at the more aggregate level has the going rate disappeared. Decentralization will not necessarily lead to this if the forces of comparability remain strong, which they appear to have done. Indeed it may give greater leverage to high settlements in a few profitable companies. Nor are strong comparability forces always a symptom of an uncompetitive labour market; they may be a mechanism through which competition is expressed.

The story at the macro level is also mixed. Those who believe that government policies have been beneficial would point in particular to the stability of earnings inflation against a background of an increasingly tight labour market from 1983. They would also cite the significantly improved productivity performance of manufacturing. Those who are less convinced stress that UK inflation rates have remained stubbornly higher than those of our major continental competitors. They would argue that our productivity performance is still inferior, that the picture outside manufacturing has not been so pleasing, and the recent productivity record gives grounds for serious concern. Recognizing that in part this is a cyclical phenomenon, they would emphasize two things. First, the improvements came from a more efficient use of existing resources, and that, although further such gains might be possible after the recession, these are likely to be limited in the absence of an injection of new resources. In this context the continued need to improve the UK's training record is paramount. Second, whatever the future holds for productivity, it will be some time before the economy can expect major relief from that source. Meanwhile we face the immediate problem of earnings inflation which is too high. Membership of ERM concentrates the mind on the sharp trade-offs here. If sterling is to be held constant, then the critical question is how much unemployment it will take to get earnings growth down. Nickell's evidence on the equilibrium rate of unemployment does not provide reassurance.

So far decentralization is not having enough impact on this critical matter, and there are cries from a number of quarters for increased co-ordination of wage setting. Perhaps the response to such cries is that more of the same is needed. If not, then the developments of the last decade have made effective co-ordination all the more difficult to achieve.
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