Daily Themes

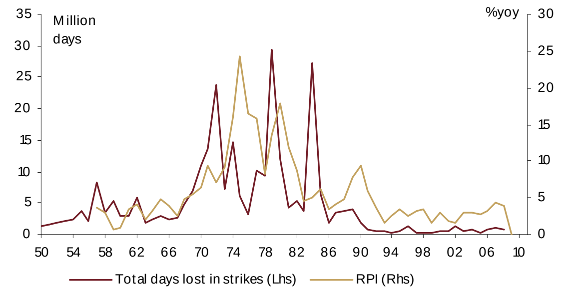
1 April 2010

The spring of discontent? Probably not

Looming strikes at British Airways and National Rail have brought back memories of the 'winter of discontent,' with some even predicting a 'spring of discontent' this year. However, on closer inspection of the available evidence, another season of discontent seems unlikely at the moment.

The pattern of days lost to industrial action is unusual. There are three huge spikes between 1970 and 1980. The 1979-80 winter of discontent, when about 30 million days were lost to strikes, was triggered by a government attempt to fight high inflation. Examining various macroeconomic variables, we find that inflation bears the greatest resemblance to the pattern of strikes. Interestingly, unemployment, another measure of discomfort, appears to have no power in predicting strikes.

Days lost in strikes and inflation

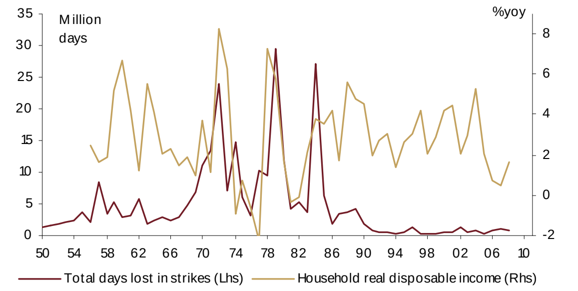


Source: ONS, Bloomberg

Since the 1980s striking has not paid…

The relationship between strikes and inflation breaks down in 1983-84. The difference was a government more resistant to strikers' demands. Real income growth, adjusted for inflation, supports this idea. Disposable real income increased almost coincidentally with labour action in 72 and in 79, but at a much lower pace in the last big incident of strikes in 1984.

Days lost in strikes and real income growth

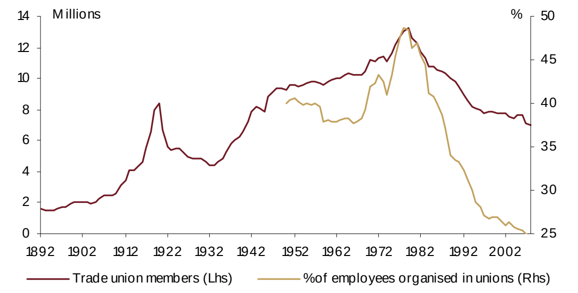


Source: ONS, Datastream

…and union membership has dwindled

Another interesting development is a dramatic decrease in industrial action since 1984. Over the past decade days lost to strikes have been 90% lower than in the 1970s. Along with tamer inflation and a tougher government response to strikers, declining membership in labour unions played a major role in reducing strikes. Union membership reached its peak a little bit before the winter of discontent and has been in decline ever since. With the workforce steadily increasing over the same period, labour force participation in trade unions is now at the lowest on record. In absolute terms, union membership is the same as it was in 1940.

Trade union participation



Source: ONS, Datastream

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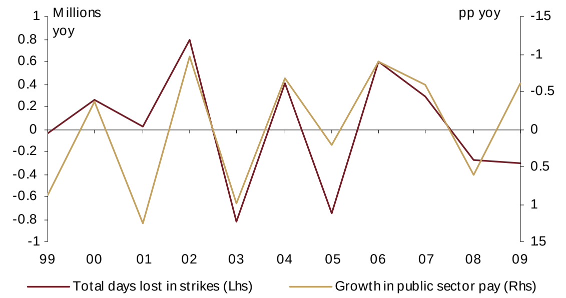
Slower wage growth will increase strikes

Although it is very unlikely that strikes will rise from the 2009 level of 456,000 back to the levels seen in the winter of discontent, it is worth examining what has been driving strikes in the last decade. Unsurprisingly, employees seem to be very sensitive to their pay.

Public-sector wage growth was consistently above 3% over the past decade. When growth in total pay was slower than the year before, employees resorted to industrial action. Our data suggest that over half of days lost to strikes in the past ten years can be explained by changes in the growth rate of total public-sector pay. For every 1% decline in the rate of growth in salaries and benefits for the public sector, there was an increase of around 500,000 days lost.

Strikes and growth in public-sector pay



Source: ONS, Coutts

Days lost may increase five-fold…

The pre-budget report announced intentions to reduce overall public-sector salaries, benefits and bonuses by 1%, a decline of 4 percentage points from a 3% increase in 2009. If the recent relationship holds, and assuming there are no other factors affecting strikes, we should expect to see a surge in days lost to strikes from 456,000 in 2009 to around 2.5 million. This would be a significant rise, but still less than 10% of the days of lost work in the winter of discontent. If total hours worked remain at the 2009 level, around 0.03% of the total hours worked would be lost.

…but with a relatively small impact on GDP

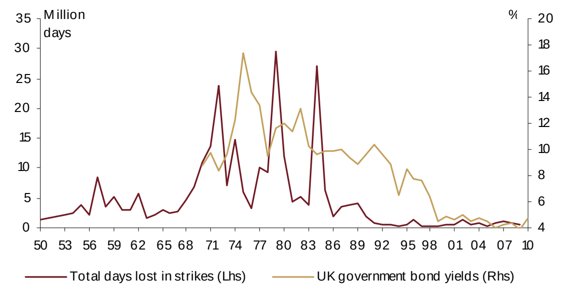
The impact on GDP would be a multiple of this number, as strikes disrupt other parts of the economy (e.g. by obstructing transportation). Assuming a typical multiplier of three times the percentage of days lost to work, the above example would reduce GDP growth by an insignificant 0.1%.

This is probably an underestimate in a recovery, as our analysis shows a positive relationship between GDP growth and days lost to strikes. In other words, employees tend to strike more when the economy is growing and their jobs are more secure, and vice-versa. But even if you were to double the impact on GDP, it would still be a negligible 0.2%.

Public pay would need to half to bring 70s-style discontent

It would require something extraordinary to go back to the intensity of industrial disputes seen in the 70s. Assuming that the relationship between public pay and strikes has remained constant over the past 40 years and there are no other triggers for strikes, public-sector pay would have to be slashed by about half to set off another season of discontent equivalent to the winter of 1979-80. This would take the total public pay back to 1990 levels.

Strikes and bond yields



Source: ONS, Datastream

Equities and bonds would suffer

If the number of days of lost work were to return to the dire levels of the late 70s, this would be the equivalent of about 0.43% of total hours worked at 2009 levels. Using the same multipliers as above to take into account the knock-on effects of strikes and a higher tendency to strike during recoveries, the loss to GDP growth would be about 2.5 %. If it were to happen, equity holders would take a hit from lower corporate earnings and bond holders would also suffer if the strikes were successful in raising wages, pushing up inflation and derailing the process of fiscal consolidation.

Inflation and pay cuts too modest to bother?

Given the lack of inflationary pressures and relatively modest cuts to public-sector pay currently envisaged, another season of discontent looks very unlikely.

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