

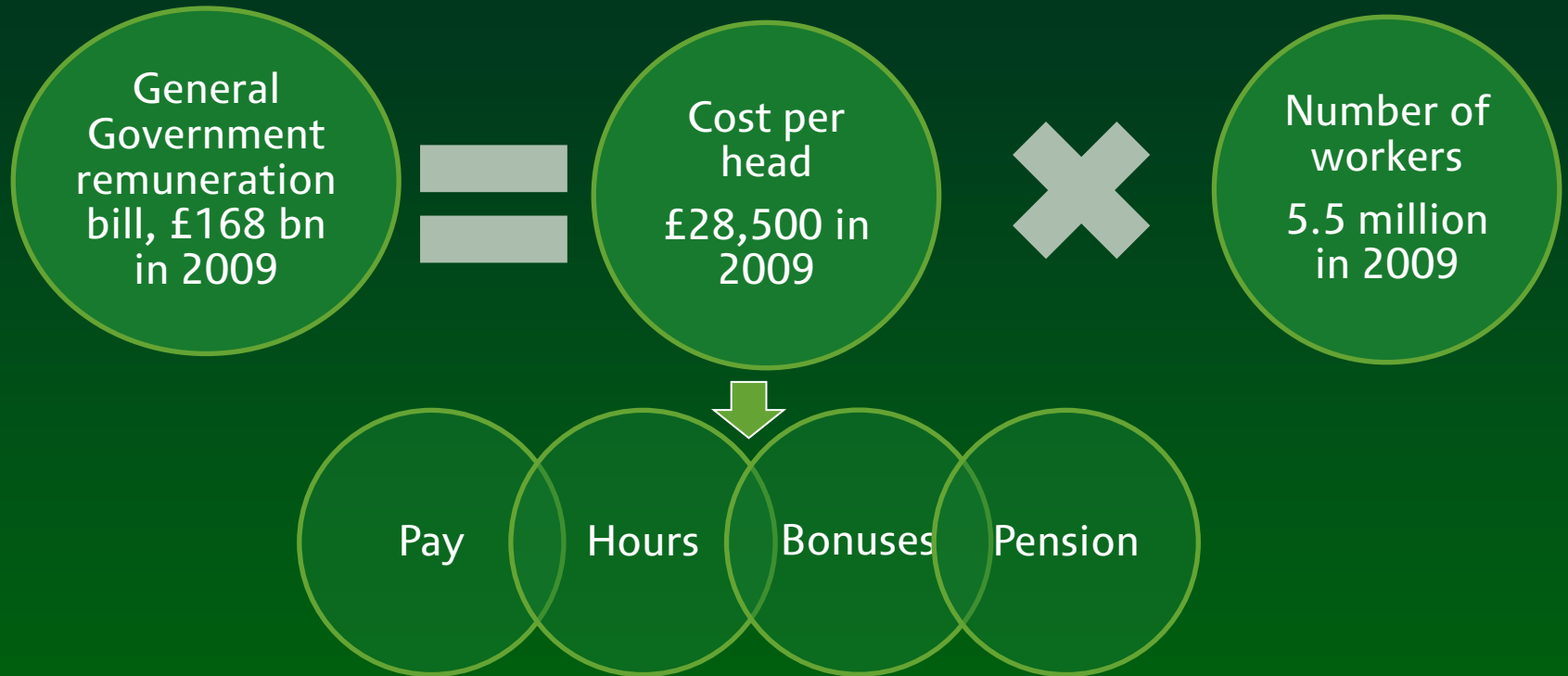


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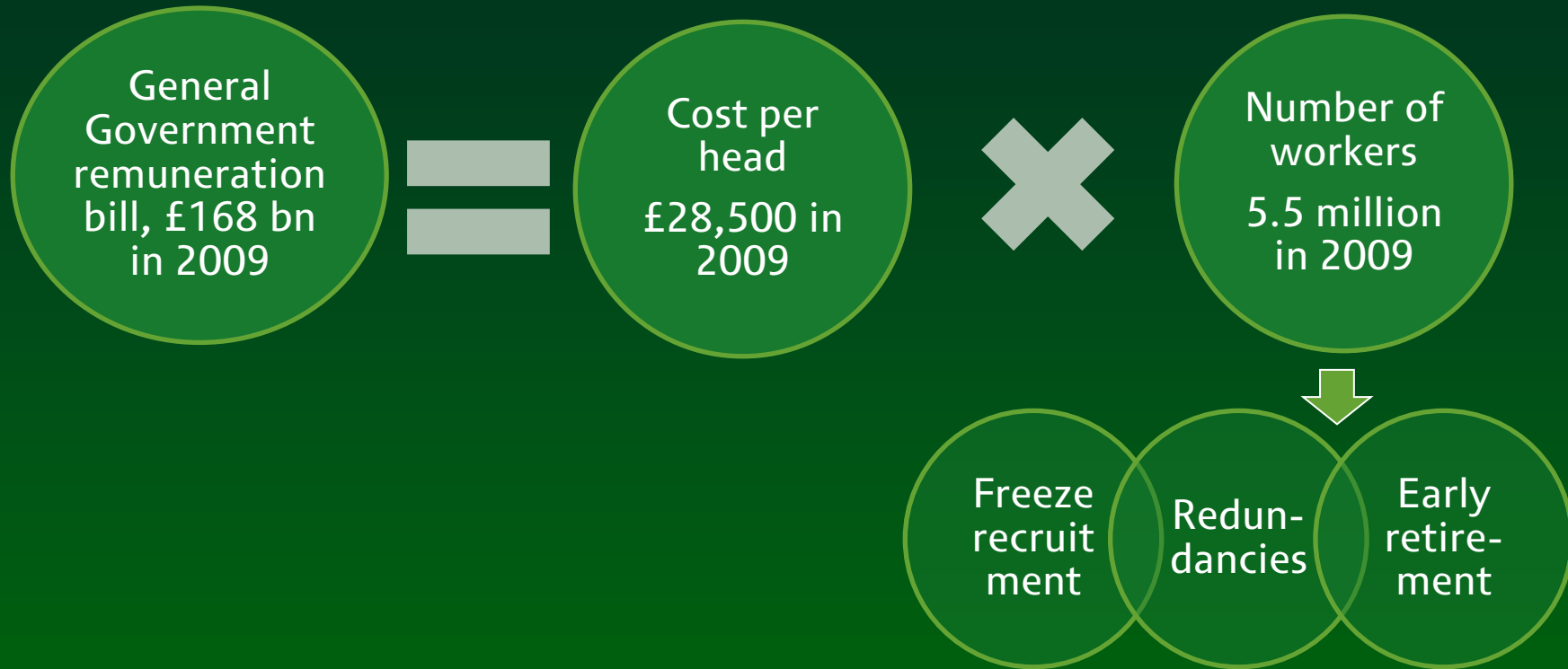
Public sector pay and pensions

Antoine Bozio and Richard Disney

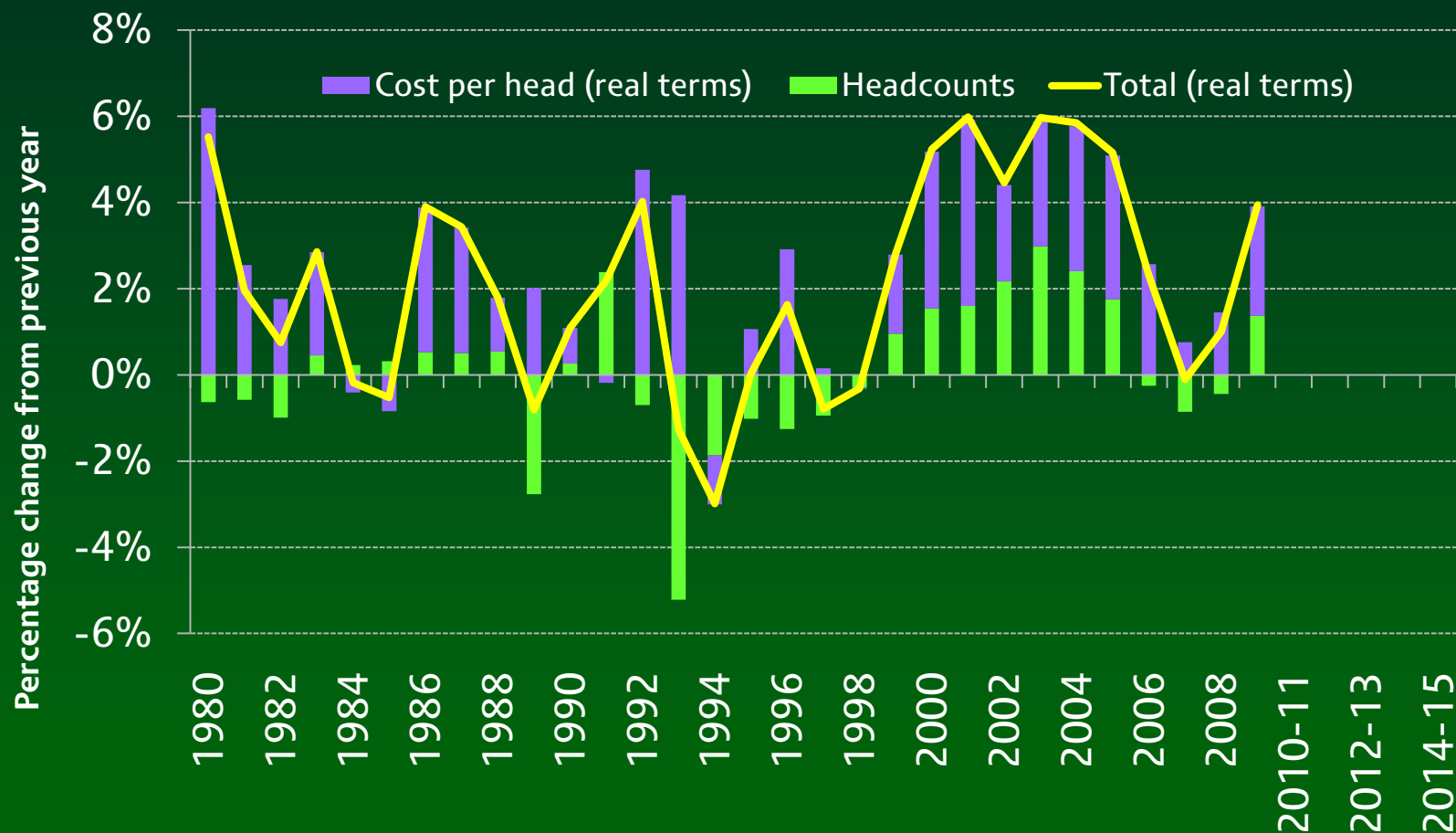
Reducing the public sector pay bill



Reducing the public sector pay bill

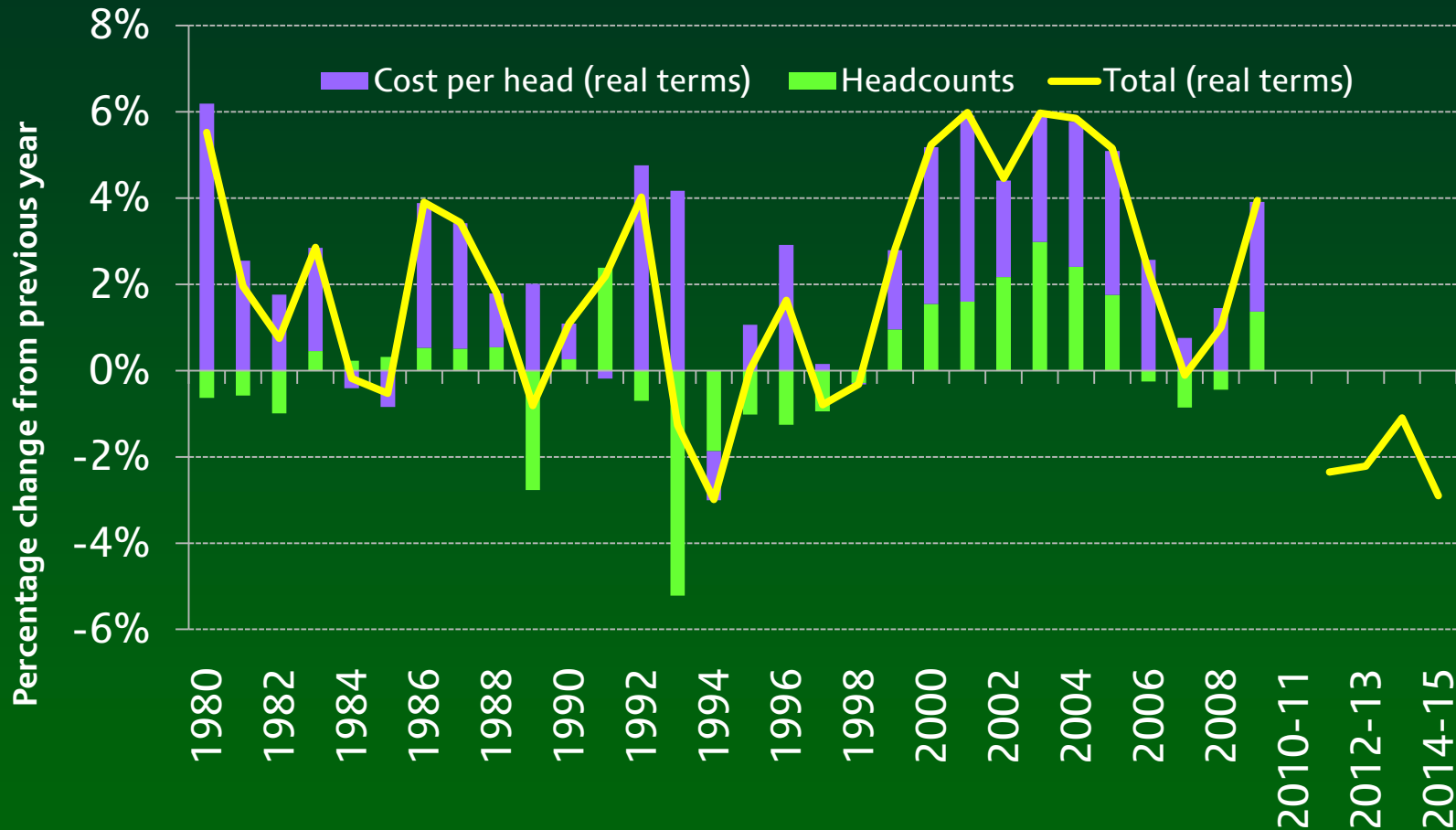


Growth in the general government pay bill



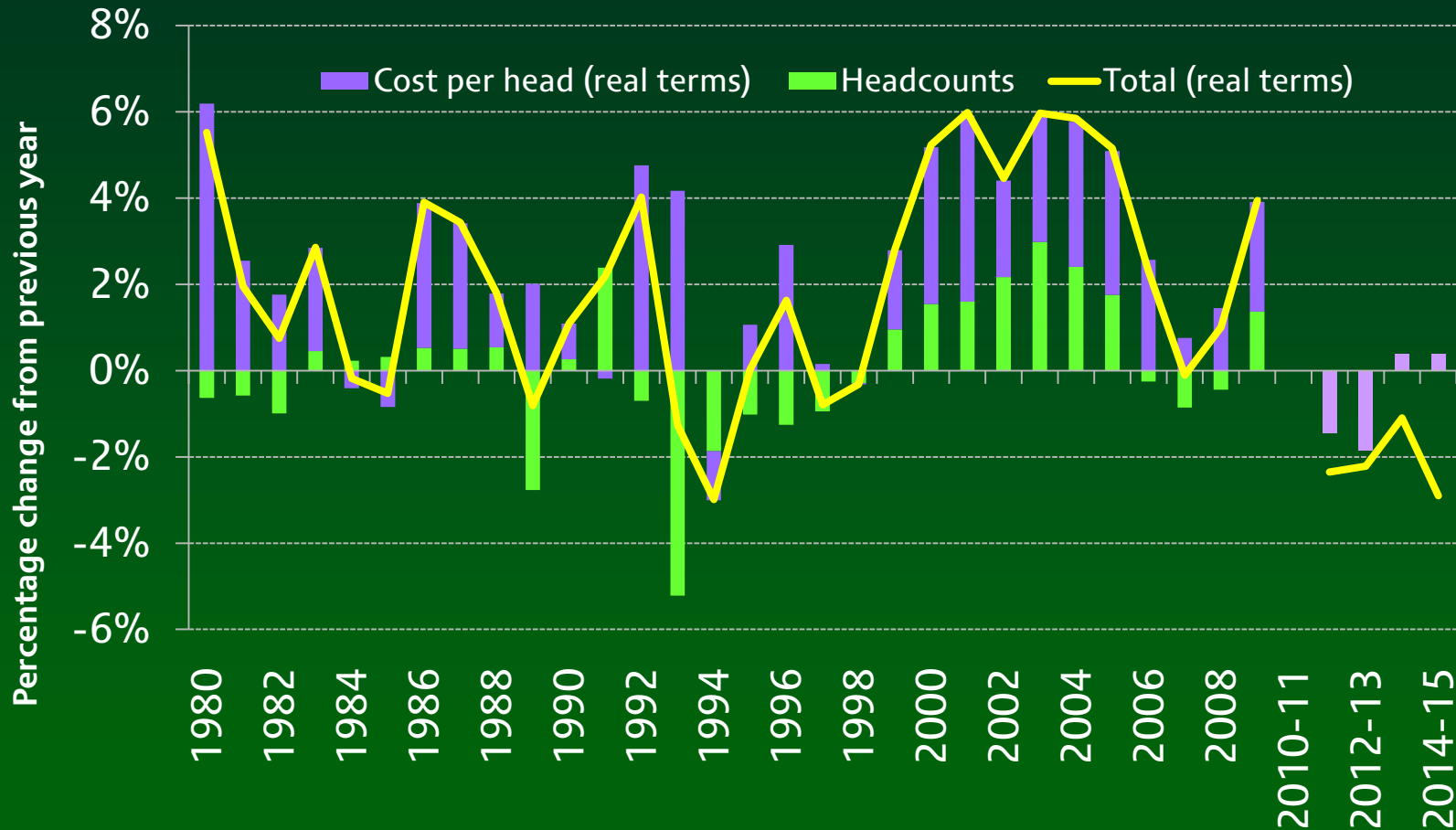
Sources: ONS, Blue Book 2009; OBR fiscal forecasts, Nov 2010; authors' computation.

Growth in the general government pay bill



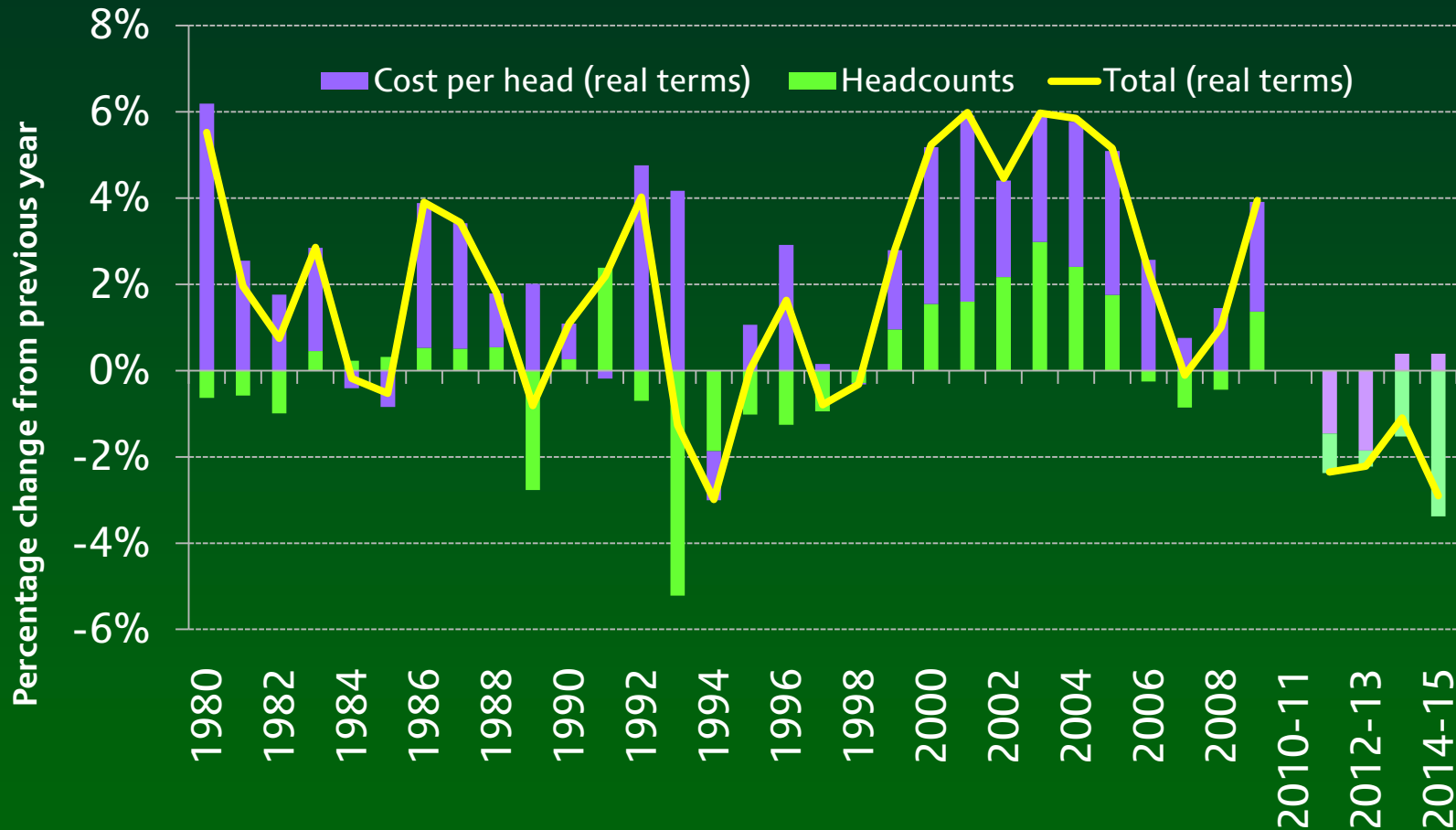
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Growth in the general government pay bill



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Impact of public sector pay freeze

- Fall in public sector wages relative to private sector wages
 - 2-year pay freeze: 6.6 ppt
 - 3-year pay freeze: 9.1 ppt

Estimating public sector wage differential in the UK, 2009 and 2010

	Men	Women	All
Mean difference in wages	+21%	+28%	+25%

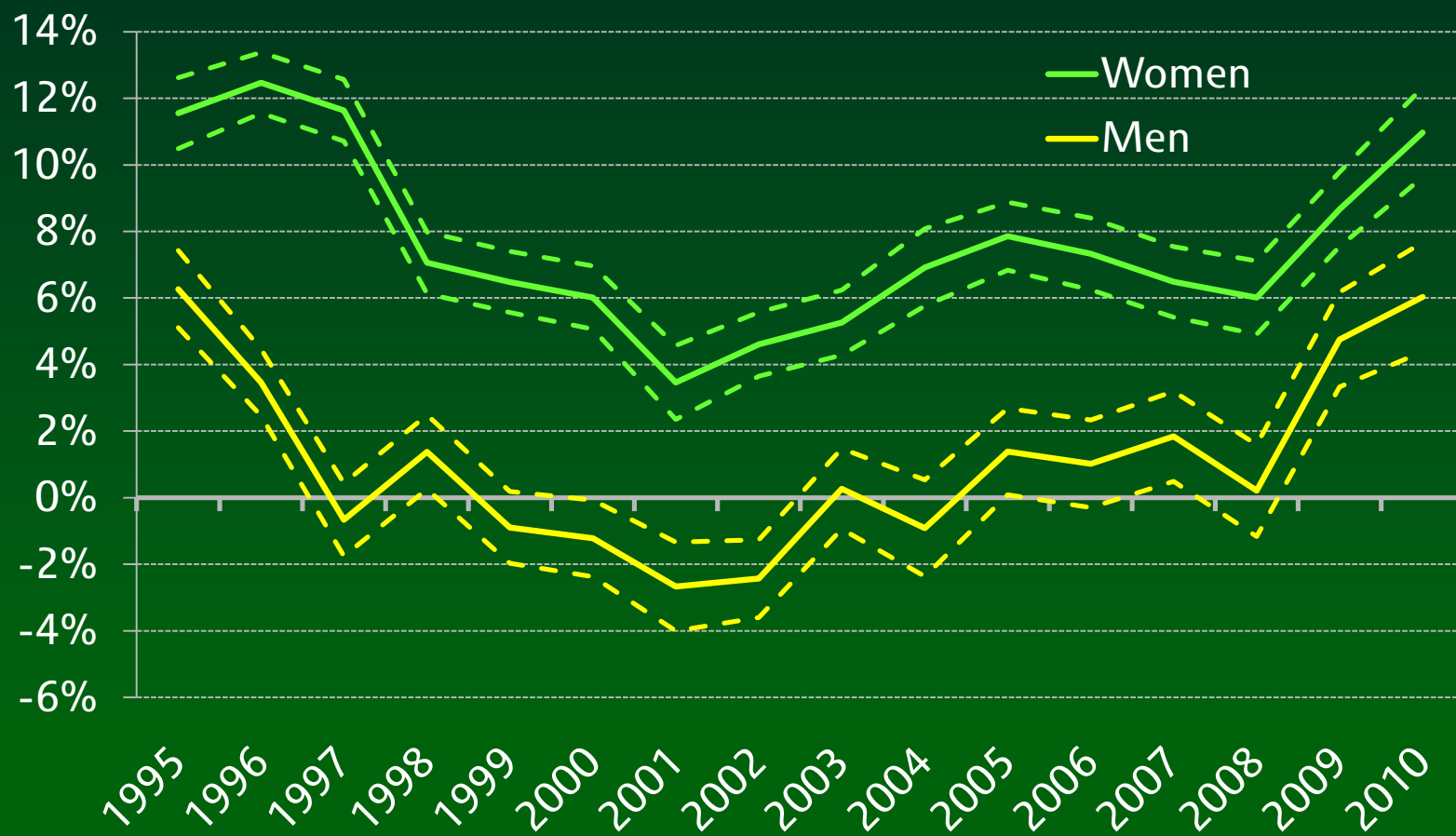
Source: Authors' calculations using data from the Labour Force Survey, 2009–2010

Estimating public sector wage differential in the UK, 2009 and 2010

	Men	Women	All
Mean difference in wages	+21%	+28%	+25%
Controlling for education, age and qualification	+5%	+10%	+7.5%

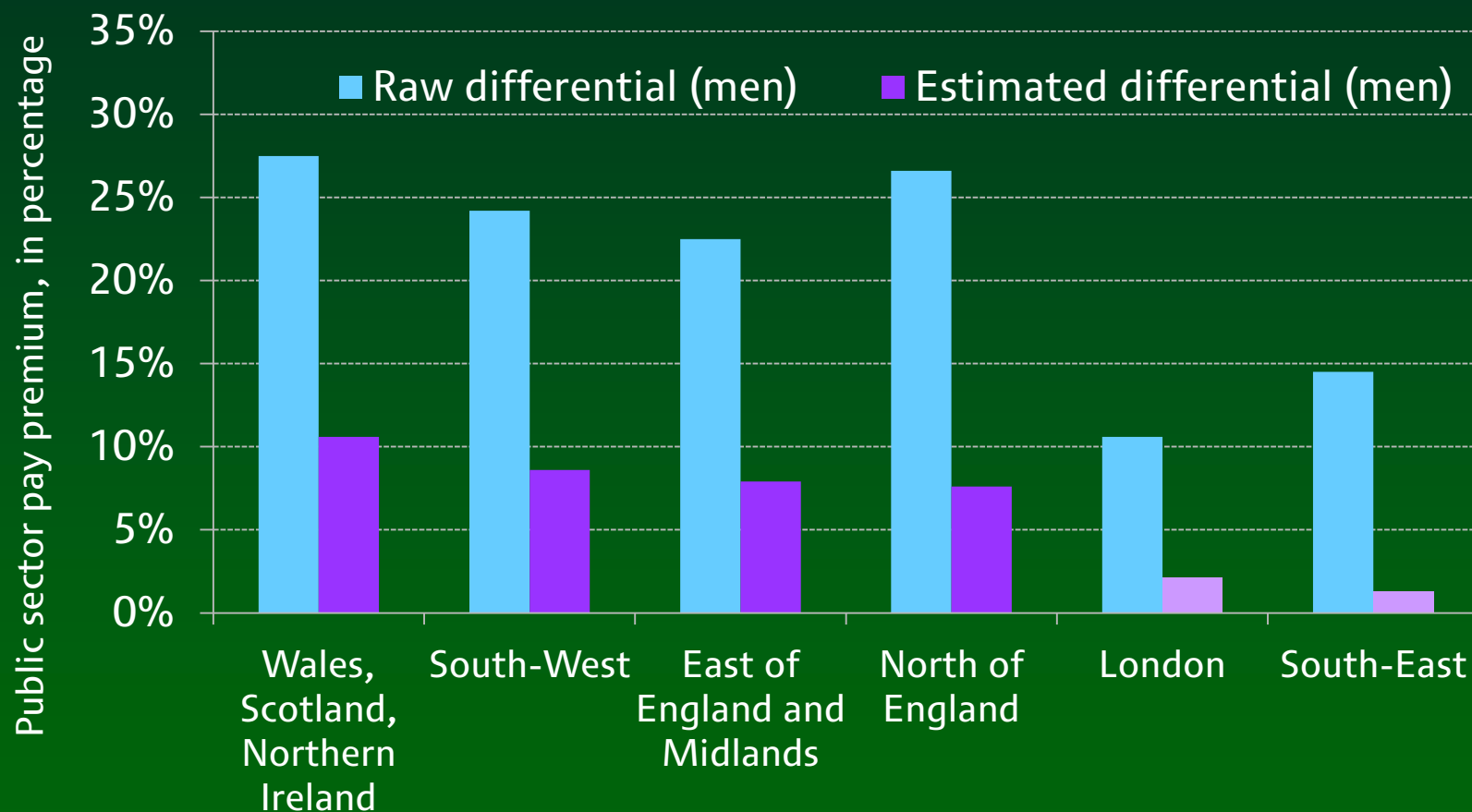
Source: Authors' calculations using data from the Labour Force Survey, 2009–2010

Public-private wage differential controlling for observed characteristics



Source: Authors' calculations using data from the Labour Force Survey, 1995–2010

Estimating public sector wage premium by region

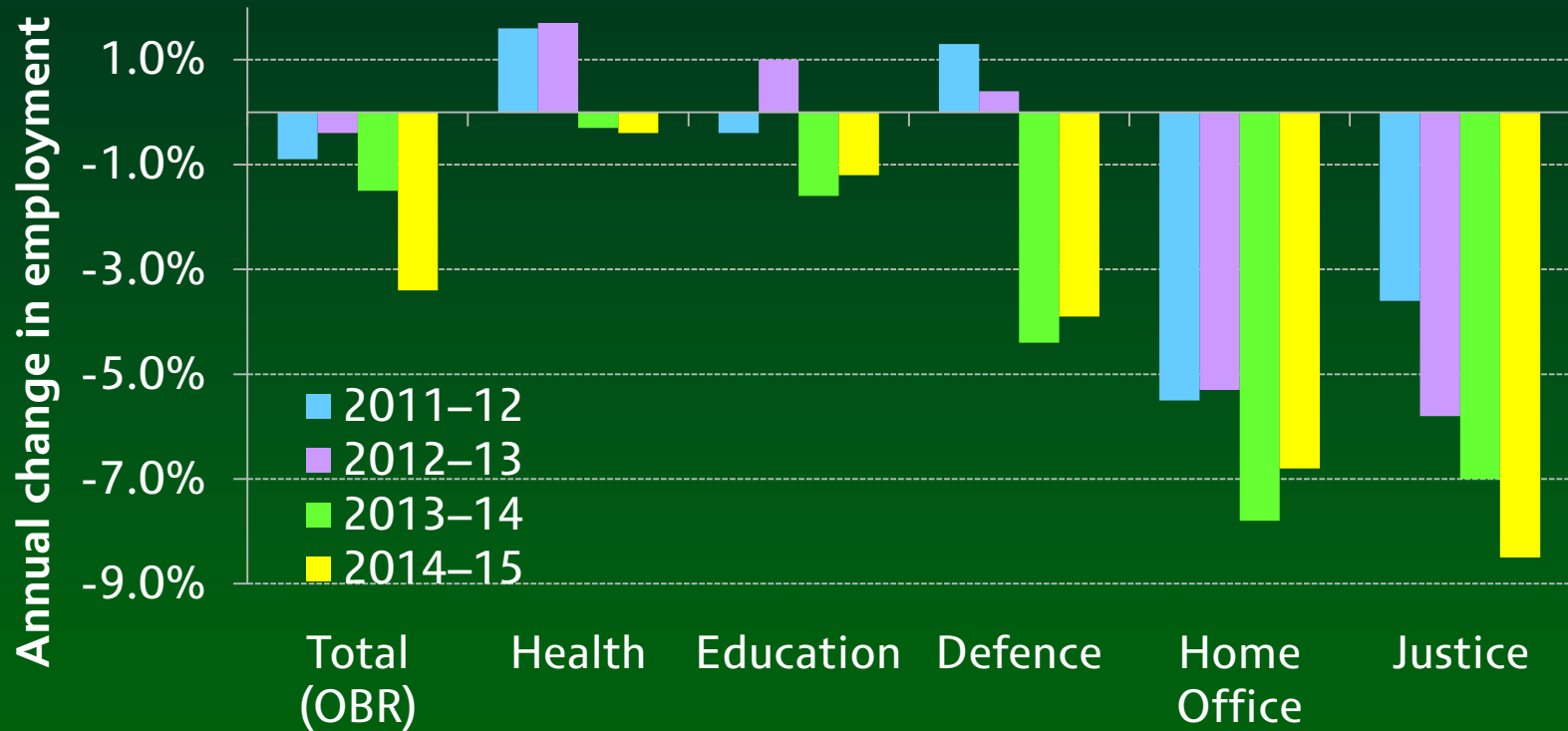


Source: Authors' calculations using data from the Labour Force Survey, 2009–2010

Pay policy

- At the macro level 2-year pay freeze seems reasonable
- But issues at the regional level
 - No significant public pay premium in London and the South East
- Issues with partial pay freeze
 - Pay-freeze only for workers earning more than £21,000
- Top-down approach of pay freeze is problematic
 - Still high vacancy rates for some occupations
 - Scrapping bonuses?
- Pay drift
 - Pay freeze will save less than expected when recruitment is frozen

Potential job losses in some departments



Notes: We use the projection of the departmental RDEL from the Spending Review and assume the same pay bill growth per head for each department as the OBR does for the general government sector as a whole. Departments wishing to cut employment by less than these numbers suggest would need to cut other budgets by more than the pay budget. Negative numbers indicate job losses.

Freezing recruitment and using natural exit



Cutting non pay spending in the police?

Cutting capital expenditure?

- Not allowed

Cutting non-pay current spending?

- Reducing petrol use?

Cutting non-pay earnings?

- Reduce over-time?
- Cut bonuses?



Redundancies and early retirement

You are fired!



Redundancies?

- Non-voluntary redundancies illegal for some groups
- Costly severance packages

Early retirement?

- Even more costly
- Long-term impact on employment rate

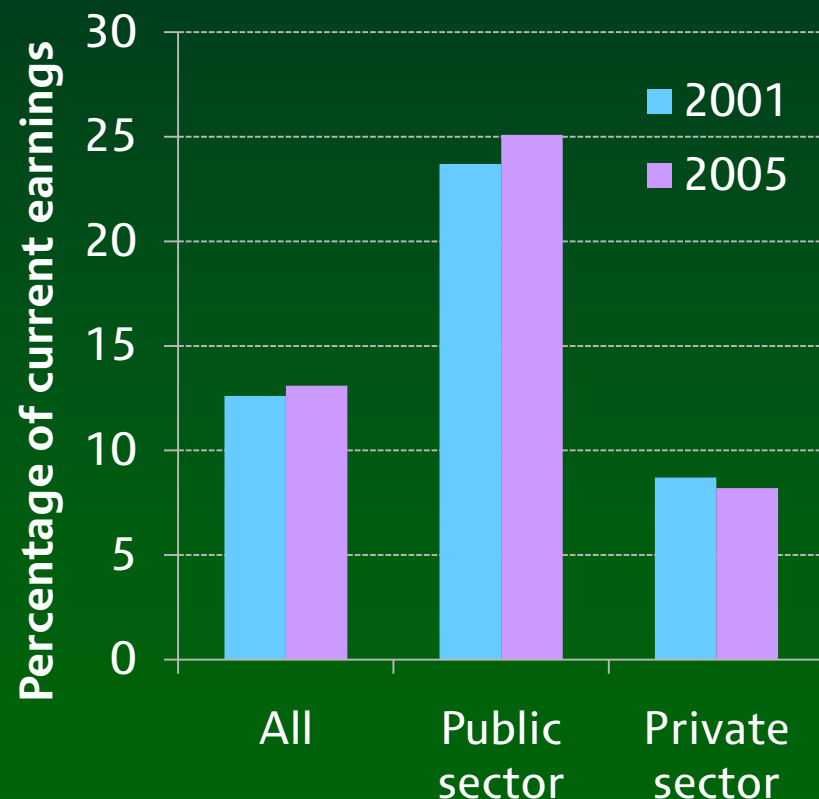
Public sector pensions

- Lord Hutton's commission
 - Interim report published in October 2010
- Public sector pensions are affordable in the long-term
 - Forecast decline from 1.8% to 1.4% of national income
 - Due to past reforms (change in indexation, change in normal pension age for new entrants)
- But, what if early retirement is used to reduce public sector workforce?

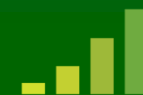
Generosity of public sector pensions

- Pensions are more generous in public sector
- Announced increase in employee contributions
 - Focus on those accruing more generous pensions?
- Final salary scheme provide unwelcome incentives

Mean value of total pension



Sources: R. Crawford, C. Emmerson and G. Tetlow (2010)



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Conclusion

- 2-year freeze of public sector pay seems justified
 - But, issue for London and the South East
- Reduction in public sector employment
 - Feasible with recruitment freeze in areas with large turnover rate and limited cut in spending
 - Very difficult for the Home Office and Justice
- Public sector pensions are more generous
 - Justifies increase in employee contributions
- Still a strong case for public sector reform
 - More regional considerations
 - Incentives in public sector pay and pensions