



Institute for
Fiscal Studies



Should public sector pay awards vary locally?

Carl Emmerson and Wenchao Jin

Presentation at “Local Pay Seminar”, 11 Downing Street, London, 15 February 2012

Conclusions

- Large variation in estimated public sector pay premium provides a strong case for locally varying pay
 - if higher relative pay leads to better public service quality than arguably unfair, if it doesn't then potentially inefficient
- Any variation in public sector pay awards would need to be carefully designed
 - pattern of estimated public sector pay premium across regions different for men than for women
 - tentative evidence suggests the premium across regions varies by occupation
- Low average nominal pay rises means that gains would take time to materialise

Average hourly pay, by region

Men working full-time



Note: Ranked by the percentage difference.
Source: Annual Survey of Hours and Earnings 2011.



Average hourly pay, by region

Women working full-time



Note: Ranked by the percentage difference.
Source: Annual Survey of Hours and Earnings 2011.



Estimated public sector pay premium

Estimated average public–private hourly wage differentials (2009Q2–2011Q1)

	Male	Female	All
Raw differential	+20.2	+27.5	+24.3

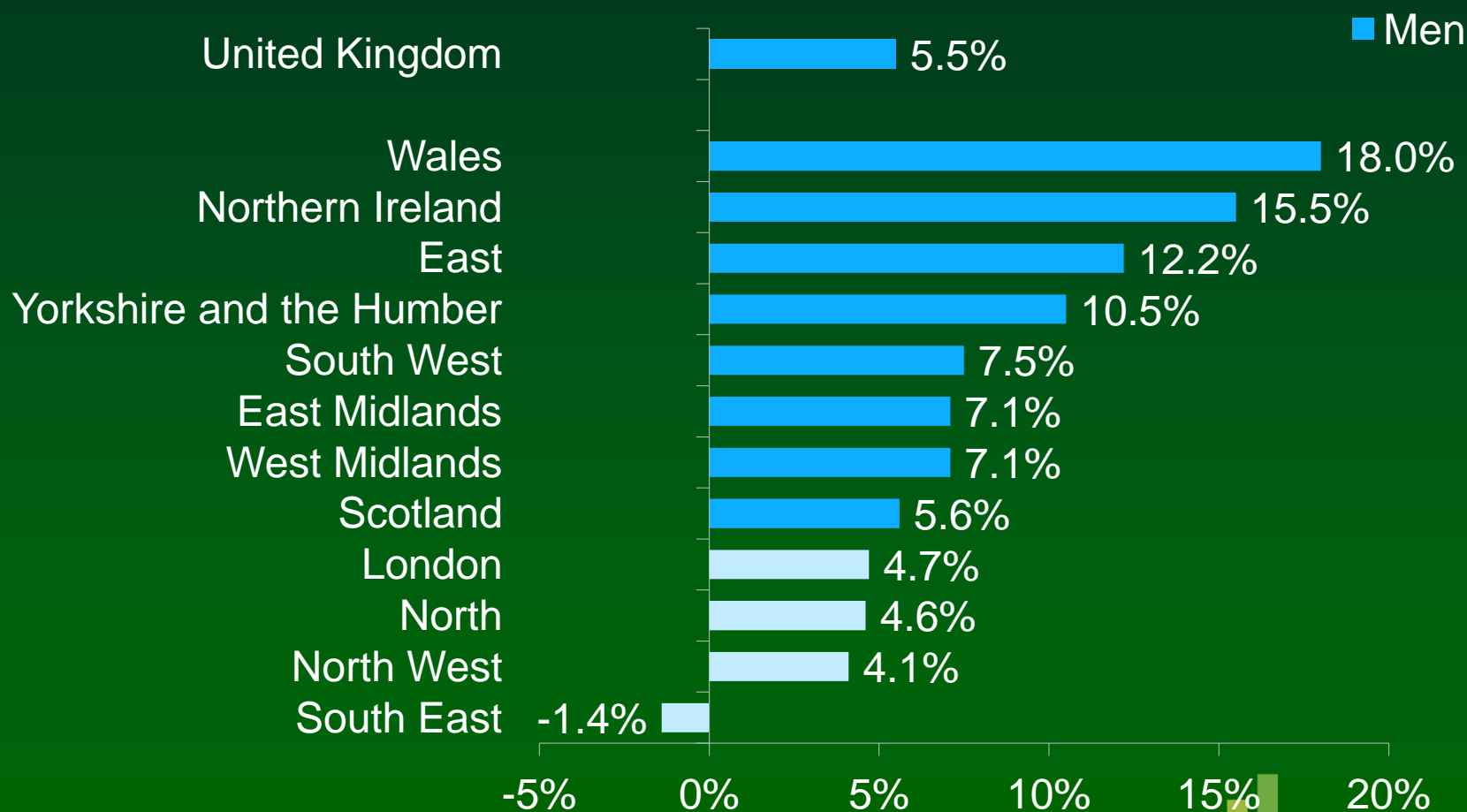
Estimated public sector pay premium

Estimated average public–private hourly wage differentials (2009Q2–2011Q1)

	Male	Female	All
Raw differential	+20.2	+27.5	+24.3
Controlling for education, age and qualifications and region	+5.5	+11.3	+8.3

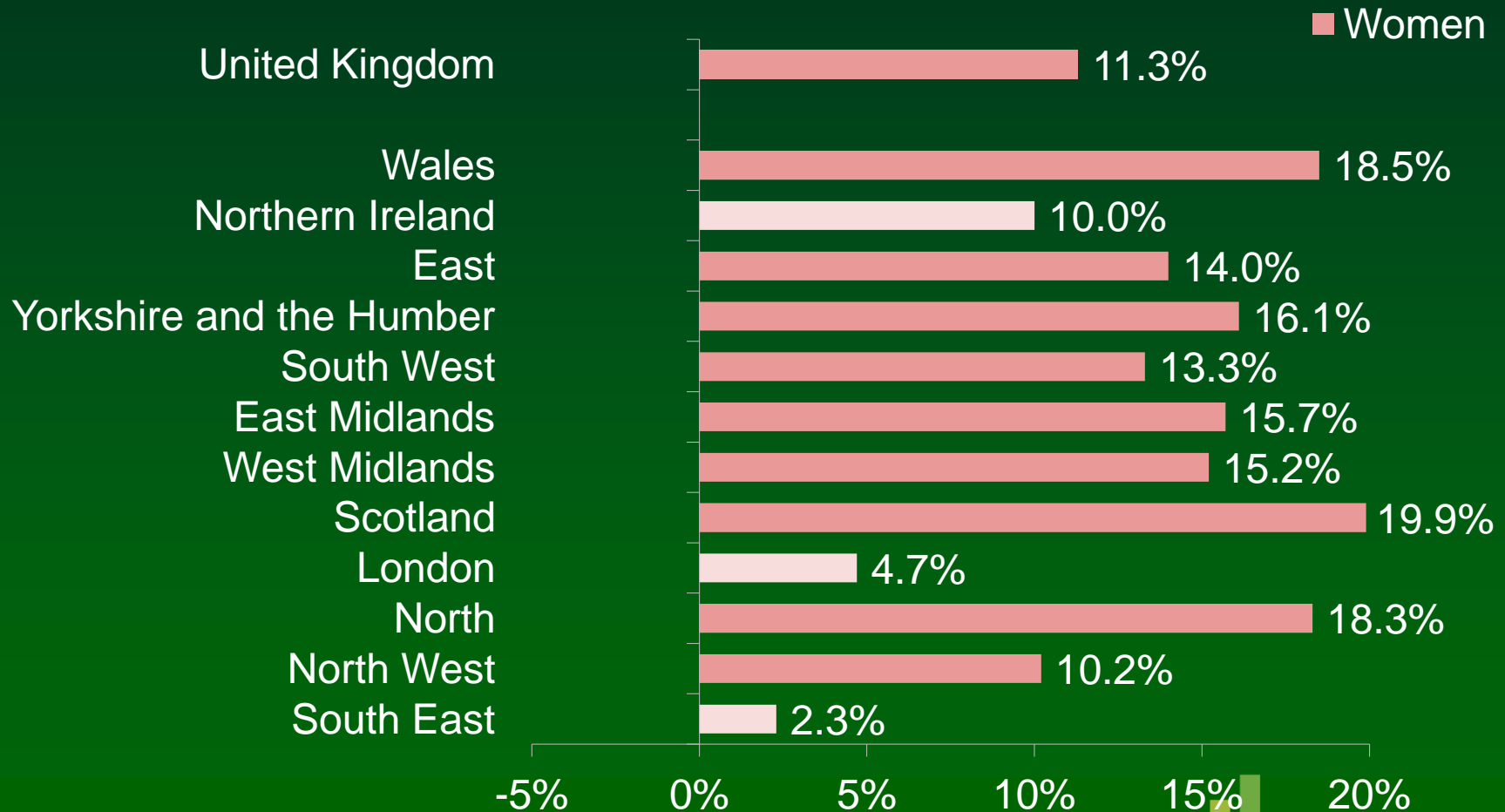
Estimated public sector pay premium varies considerably across the country

Estimated average public–private hourly wage differentials, controlling for age and education, by region

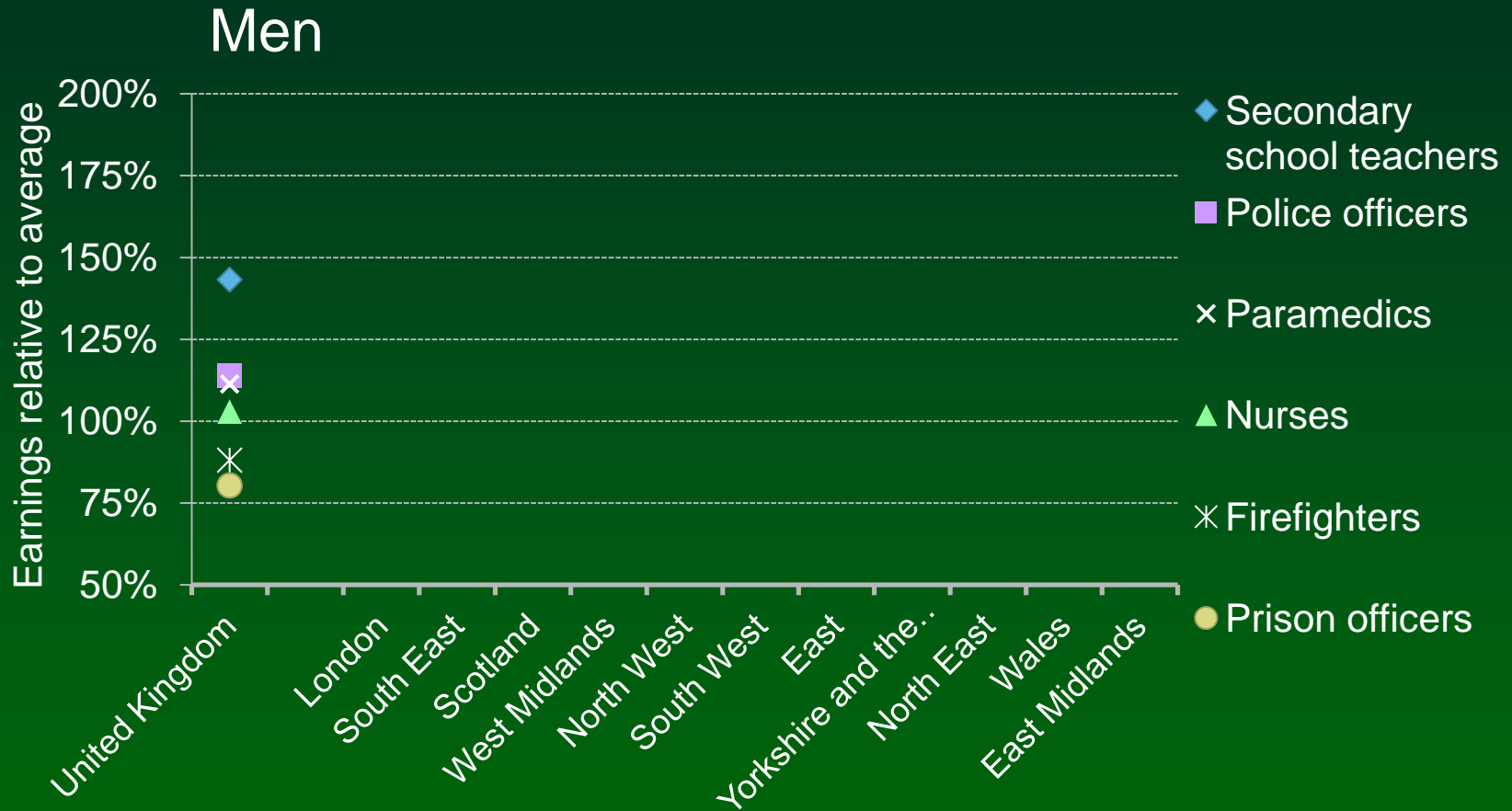


Estimated public sector pay premium varies considerably across the country

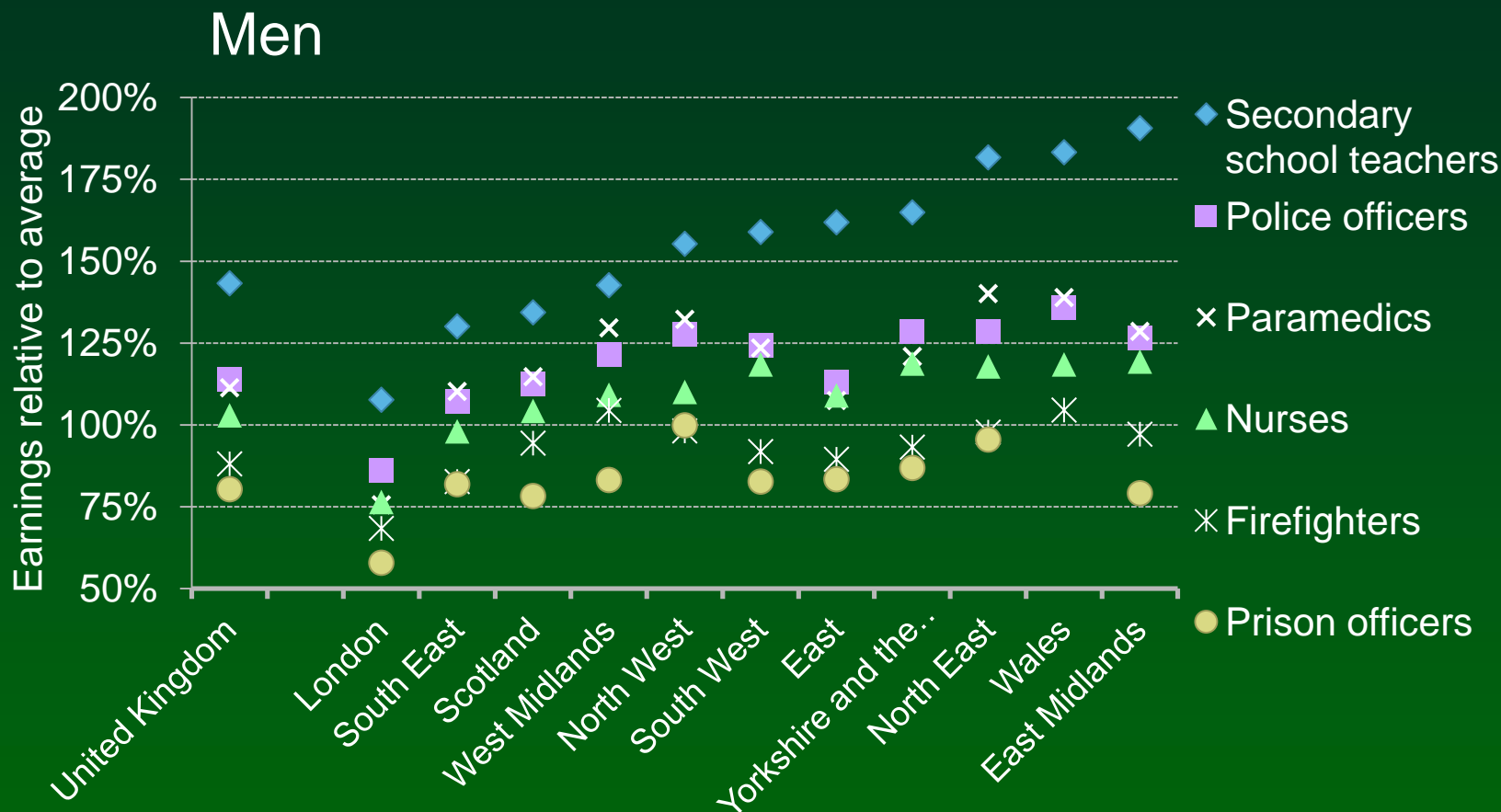
Estimated average public–private hourly wage differentials, controlling for age and education, by region



Relative pay across regions, selected occupations



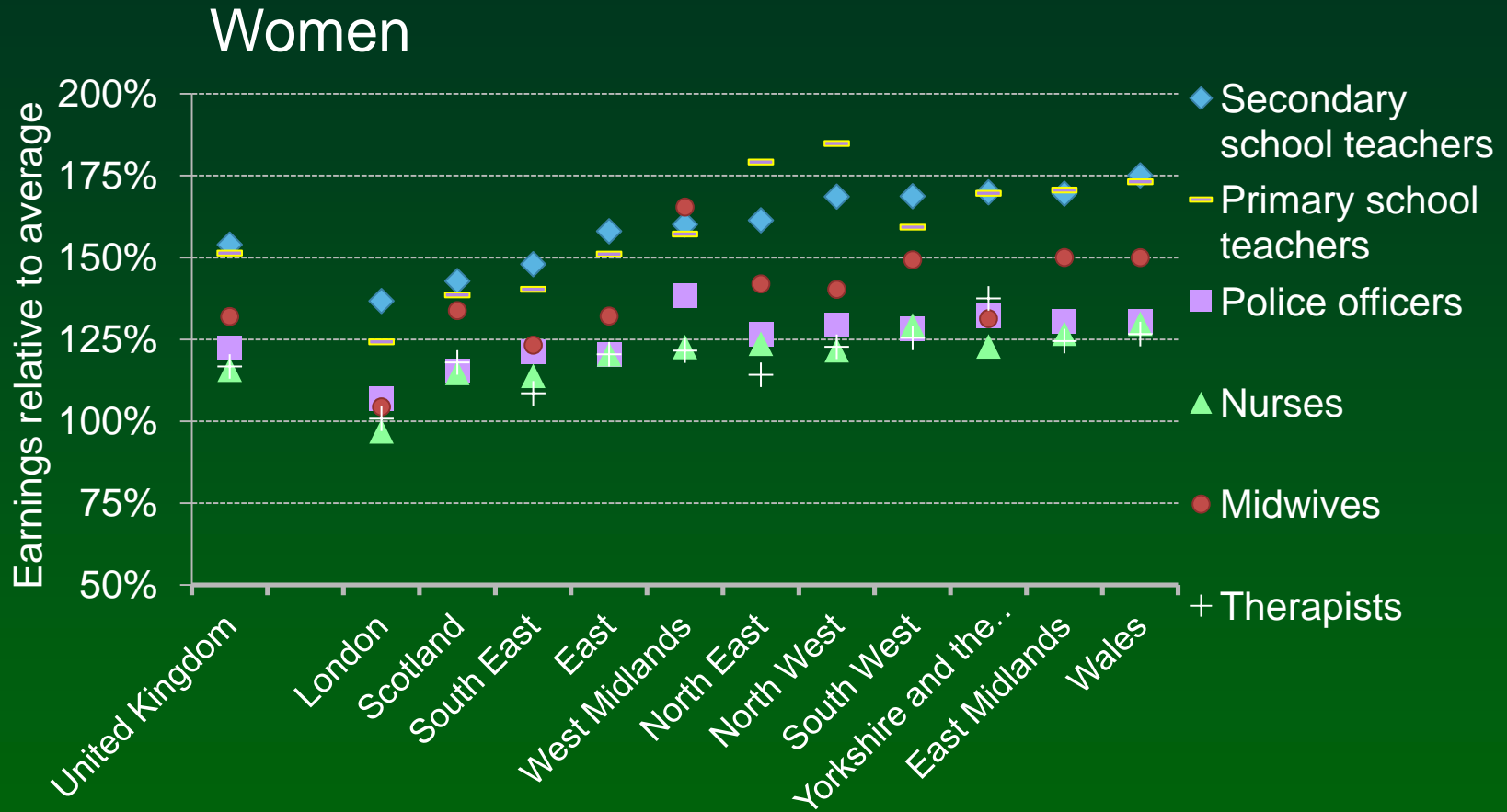
Relative pay across regions, selected occupations



Relative pay across regions, selected occupations



Relative pay across regions, selected occupations



Should public sector pay awards vary locally? (1/2)

- If higher relative pay:
 - leads to better quality public services then this is arguably unfair
 - doesn't lead to better quality public services then potentially inefficient
 - justified in more deprived areas then these could be targeted directly
 - draws high quality workers from the private sector then could affect firm location decisions and harm UK productivity (but if this is true then the estimated public sector pay premium by region are wrong)
- Local variation would increase the potential savings from moving public sector jobs out of London and the South East to elsewhere

Should public sector pay awards vary locally? (2/2)

- Boundaries likely to lead to some inefficiencies
- Short-run gains likely to be limited in an era of low nominal pay awards
- Any savings from lower pay increases in Scotland, Wales or Northern Ireland could not be used to finance greater pay increases elsewhere
- Within England would take funds out of low income areas and put it into high income areas exacerbating existing differences
 - although far from clear that high relative public sector pay is the best way to support these areas

Should pay setting be localised?

- Localised bargaining could work better if local people know better
- Might give greater market power to some workers and lead to their wages being competed up by rival public sector employers
 - potentially already happens with local authority chief executives?

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