# Public and Private Sector Pay

October 2013

## 2013 update

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## Overview

- Over 12% of GDP (£180 billion) is spent on remunerating employees in the public sector. Our report *Local Pay, Local Growth*, outlined how pay negotiation in the public sector (characterised by rigid, nationally set and collectively agreed settlements) means that large differences can exist between the pay of equivalent workers in the public and private sector.
- We showed that these can be damaging to public services, are unfair to public sector workers in high cost areas and are an inefficient use of taxpayer money that would be better spent on creating jobs and driving growth in areas hit hardest by the recession.
- This note updates and extends our previous analysis of public sector pay differentials using newly available Labour Force Survey data. The most recent estimates are up to March 2013.
- It shows that for the median public sector worker, an hourly pay premium of 6.1% exists when adjusted for age, gender, full time and part time work, region, qualifications and length of employment. For those public sector employees toward the bottom of the income distribution, this premium rises to 14.1%. For those towards the top of the income distribution, there is a pay penalty of 4.8%. There are also large regional variations.
- In parts of the country where premiums are highest this would mean that a private sector worker on median wages would be as much as £3,200 a year worse off than their equivalent in the public sector.
- To improve public services, boost growth and give a better deal to public sector employees, our recent report *Local Pay Local Growth*, recommended that the government abolishes national pay bargaining and works with trade unions to implement a system of localised pay bargaining with an effective system of performance related pay.

# Introduction

Several of our previous publications have estimated the differentials that exist between public and private sector pay.[1] These have shown that, while significant differences exist between measures of average hourly pay between the two sectors, these are, in part, accounted for by differences in the composition of the two workforces. For example, the public sector is, on average: more highly qualified; more likely to be female; more often working part-time; and more likely to have been in their current job for over five years.[2]

However, even after accounting for these differences in composition, we have shown that significant differentials exist between the hourly pay of otherwise similar individuals in the public and private sector. These vary significantly between different groups:

- Public sector employees located towards the bottom of the earnings distribution tend to enjoy a *pay premium* compared to otherwise similar workers in the private sector;
- Public sector employees located towards the top of the earnings distribution tend to experience a *pay penalty* compared to otherwise similar workers in the private sector;
- Females in the public sector tend to have larger pay premiums than males.
- Public sector workers outside of London tend to have a larger pay premium than those in London.
- When considering remuneration (as compared to pay) differentials, the significantly greater value of public sector pension schemes tends to make public sector pay premiums larger.

This short report updates our findings in these areas with the most recently available release of the Labour Force Survey. It provides estimates of the pay differentials that exist for otherwise similar individuals in the public and private sector up to March 2013. It shows how these vary across both the earnings distribution and the country and how the differentials have evolved over time.

# Results

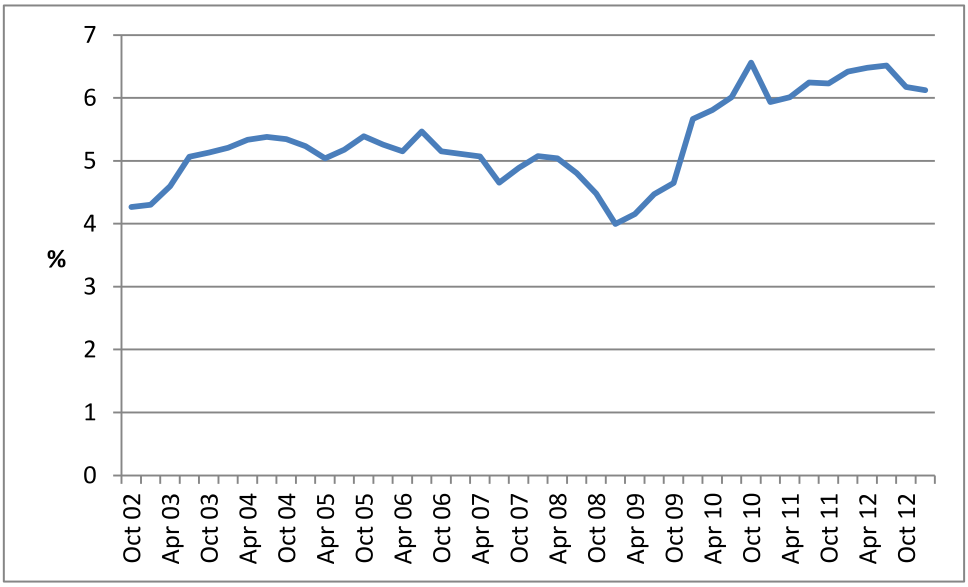
## Average (median) pay differential

### National average

Figure 1 shows the hourly pay premium for public sector workers when measured by hourly wages and after controlling for compositional differences (age, gender, education, tenure of employment, whether job full time and permanent and region) in the public and private sector workforces. It shows that between January and March 2013 (the most recently available Labour Force Survey data) public sector workers enjoyed a premium of 6.1% compared to their equivalents in the private sector.

This represents almost a 20% and 8% rise respectively in the premium compared to the same quarters of 2007 and 2010, although the premium has been relatively steady since mid-2010. Note that these figures use a four-quarter moving average of the raw analysis in order to smooth any potential seasonal effects. The raw figure for January-March 2013 was 5.3%, suggesting that we will start to see falls in the size of the premium at the median after future data releases.

**Figure 1: Median hourly pay gap between public and private sector when controlling for differences in the composition of the workforces (Jan 2002 – March 2013)**




Source: LFS, authors own calculations

## Regional breakdown

A characteristic of the setting of pay in the public sector is the system of national pay bargaining. This means that pay across large swathes of the public sector is set with little regard to differences in the cost of living and labour markets in different areas. Since private sector wages tend to be set more flexibly, this means that, where the cost of living is high, the private sector can flex their pay upwards and overall pay premiums tend to be smaller. The converse is true in areas where living costs are lower. Table 1 demonstrates this with the most recently available data (January – March 2013).

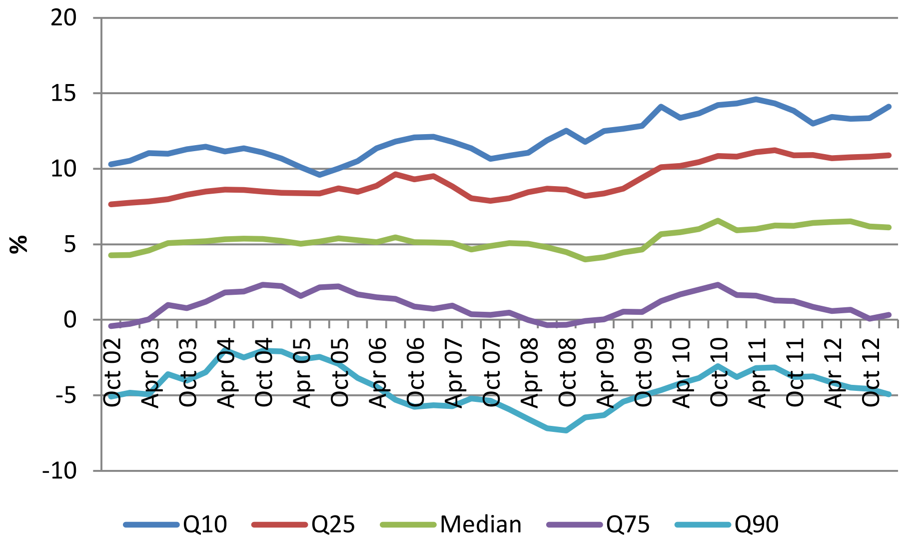
| Table 1: Median hourly pay gap between public and private sector, by region (January-March 2013) | |
|---|---|
| **Region** | **Median hourly pay differential (%)** |
| Rest of North East | 14.41 |
| Merseyside | 14.08 |
| South West | 13.58 |
| Strathclyde | 12.44 |
| Greater Manchester | 11.57 |
| Rest of Scotland | 10.51 |
| Rest of Yorkshire & Humberside | 10.38 |
| West Midlands Metropolitan County | 9.51 |
| Northern Ireland | 8.42 |
| Rest of North West | 5.31 |
| South Yorkshire | 5.12 |
| Wales | 3.82 |
| West Yorkshire | 3.55 |
| Outer London | 2.51 |
| East Midlands | 2.35 |
| Tyne and Wear | 0.39 |
| South East | -0.17 |
| East of England | -0.35 |
| Rest of West Midlands | -2.25 |
| Inner London | -3.31 |

Source: LFS, authors own calculations

### Variation across the earnings distribution

We have also analysed how pay differentials differ across the income distribution. Figure 2 shows the results of this analysis. As before, the median gap stands at 6.13%. The corresponding figures for those at around the 10th income percentile (i.e. bottom ten per cent of workers) is 14.12% of hourly wages. For those at around the 90th percentile (i.e. the top ten per cent of workers) there is a pay penalty of around 5%.

**Figure 2: Estimates of hourly pay gap (%) between public and private sector at different points in the earnings distribution (Jan 2002 – March 2013)**




Source: LFS, authors own calculations

Table 2 demonstrates how these differentials vary across the country in the most recently available data (January – March 2013). It shows that the variation across the earnings distribution combines with differences in the differentials across regions to create substantial overall differentials for groups of workers in particular areas. These differentials vary from a premium of over 20% for public sector workers at the bottom of the earnings distribution in large parts of the North East and North West of England, to a pay penalty approaching 20% for high paid public sector workers in the South and East.

**Table 2: Hourly pay gap (%) between public and private sector at different parts of the earnings distribution for different regions, January-March 2013.**

| Region | Q10 | Q25 | Median | Q75 | Q90 |
|---|---|---|---|---|---|
| Tyne and Wear | 11.85 | 3.16 | 0.39 | 1.11 | 1.99 |
| Rest of North East | 24.41 | 13.99 | 14.41 | 7.18 | -0.03 |
| Greater Manchester | 28.45 | 21.20 | 11.57 | 6.19 | -2.55 |
| Merseyside | 25.88 | 18.45 | 14.08 | 20.91 | 8.43 |
| Rest of North West | 20.38 | 17.45 | 5.31 | -3.06 | -2.90 |
| South Yorkshire | 3.95 | 6.39 | 5.12 | 12.55 | 8.66 |
| West Yorkshire | 10.90 | 5.85 | 3.55 | -1.89 | -6.90 |
| Rest of Yorkshire & Humberside | 8.89 | 11.63 | 10.38 | -0.30 | -1.86 |
| East Midlands | 14.05 | 5.61 | 2.35 | 0.55 | -7.99 |

| | | | | | |
|---|---|---|---|---|---|
| West Midlands Metropolitan County | 13.14 | 15.34 | 9.51 | 1.31 | -5.54 |
| Rest of West Midlands | 15.13 | 18.10 | -2.25 | -4.99 | -10.09 |
| East of England | 4.07 | 5.18 | -0.35 | -11.36 | -17.46 |
| Inner London | 1.74 | -0.45 | -3.31 | -8.17 | -17.72 |
| Outer London | 17.85 | 12.79 | 2.51 | -11.29 | -15.22 |
| South East | 15.53 | 7.42 | -0.17 | -7.17 | -13.17 |
| South West | 18.18 | 15.30 | 13.58 | 6.60 | -2.12 |
| Wales | 14.42 | 7.63 | 3.82 | 7.19 | 0.10 |
| Strathclyde | 23.40 | 13.23 | 12.44 | 10.71 | 1.13 |
| Rest of Scotland | 18.69 | 16.90 | 10.51 | -0.49 | -8.79 |
| Northern Ireland | 5.15 | 8.13 | 8.42 | 16.21 | 8.67 |

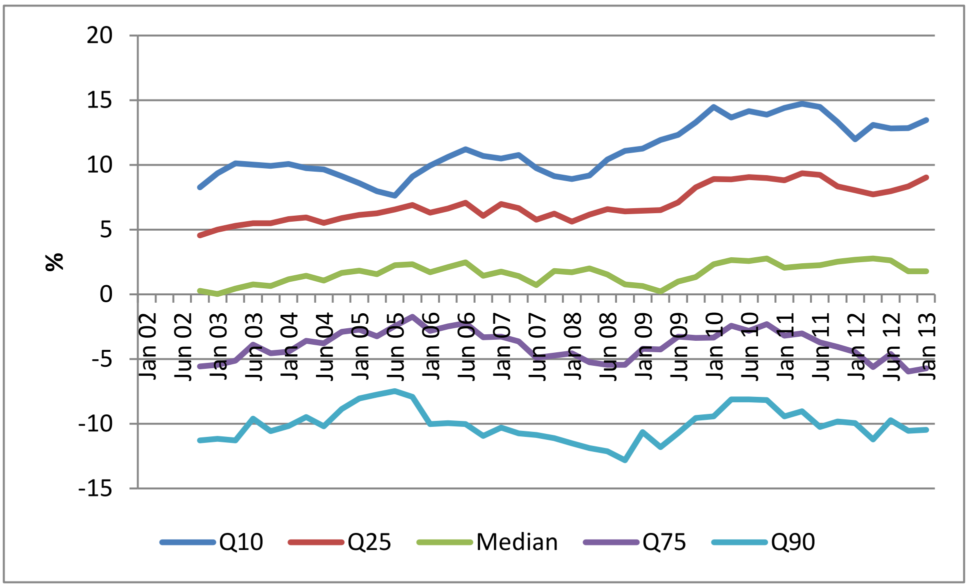
Source: LFS, Authors own calculations

## Gender

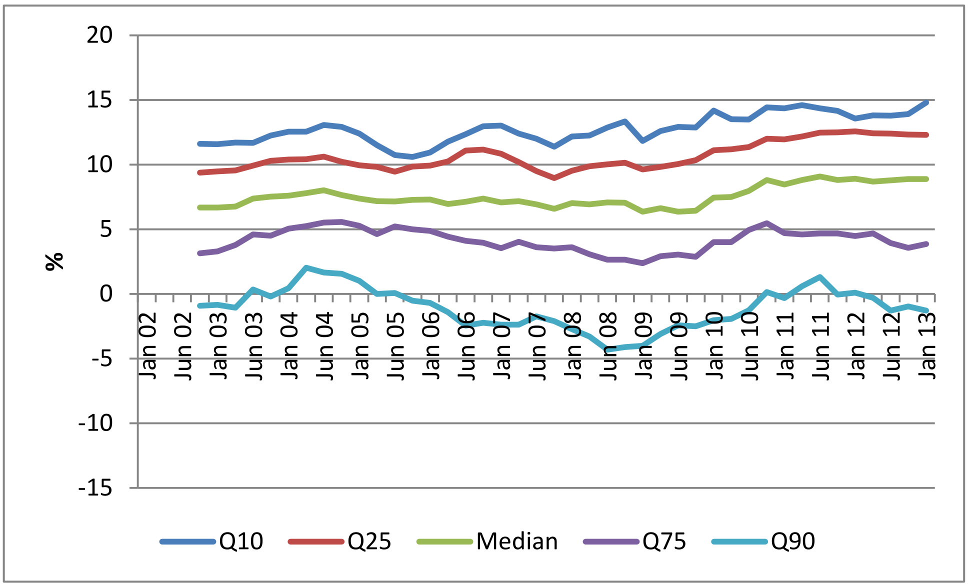
This section breaks down the results above to see how they vary by gender. On the whole, it shows the premiums (penalties) tend to be larger (smaller) for females. Figure 3 demonstrates how differentials have changed over time at different points of the earnings distribution for males and females respectively. Table 3 shows differentials (percent of hourly pay) for the most recently available data and how they vary for males and females in different parts of the UK.

**Figure 3: Estimates of hourly pay gap (%) between public and private sector at different points in the earnings distribution (Jan 2002 – March 2013), split by gender**

**Male**



**Female**




Source, LFS, author's own calculations

| Table 3: Hourly pay gap (%) between public and private sector at different parts of the earnings distribution for different regions, January-March 2013. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q10 | | Q25 | | Median | | Q75 | | Q90 | |
| **Region** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** |
| Tyne and Wear | 13.60 | 13.64 | 15.61 | 2.74 | 16.52 | 1.09 | 1.56 | 1.64 | 1.33 | 1.36 |
| Rest of North East | 24.48 | 24.52 | 22.21 | 15.63 | 15.48 | 16.59 | 10.25 | 10.17 | 0.72 | 0.75 |
| Greater Manchester | 28.62 | 28.66 | 18.29 | 22.24 | 17.18 | 15.55 | 7.29 | 7.23 | -1.55 | -1.52 |
| Merseyside | 26.64 | 26.68 | 17.75 | 18.32 | 9.89 | 17.25 | 22.80 | 22.59 | 8.58 | 8.61 |
| Rest of North West | 22.71 | 22.75 | 6.53 | 17.78 | 7.94 | 9.97 | 0.41 | 0.42 | -1.31 | -1.28 |
| South Yorkshire | 4.06 | 4.10 | 7.69 | 6.55 | 5.43 | 8.01 | 16.47 | 16.32 | 9.88 | 9.91 |
| West Yorkshire | 10.82 | 10.86 | 14.47 | 7.72 | 15.62 | 5.50 | 1.90 | 1.89 | -6.24 | -6.20 |
| Rest of Yorkshire & Humberside | 9.78 | 9.82 | 7.54 | 14.50 | 5.63 | 15.69 | 4.91 | 4.88 | -1.75 | -1.72 |
| East Midlands | 14.37 | 14.40 | 17.19 | 7.57 | 11.16 | 5.71 | 4.22 | 4.19 | -7.45 | -7.41 |
| West Midlands Metropolitan County | 14.57 | 14.61 | 17.77 | 17.22 | 0.99 | 11.23 | 1.74 | 1.74 | -4.74 | -4.71 |
| Rest of West Midlands | 16.39 | 16.43 | 5.68 | 17.80 | 3.11 | 1.06 | -1.78 | -1.75 | -9.19 | -9.16 |
| East of England | 6.14 | 6.17 | 1.00 | 5.70 | -2.53 | 3.18 | -7.24 | -7.15 | -16.41 | -16.37 |
| Inner London | 2.29 | 2.32 | 13.36 | 1.03 | 4.01 | -2.46 | -4.95 | -4.88 | -17.51 | -17.48 |
| Outer London | 18.78 | 18.81 | 7.70 | 13.39 | 1.16 | 4.08 | -7.60 | -7.51 | -15.08 | -15.05 |
| South East | 16.29 | 16.33 | 17.04 | 7.72 | 15.92 | 1.23 | -3.86 | -3.80 | -10.67 | -10.63 |
| South West | 20.12 | 20.16 | 8.75 | 17.07 | 5.81 | 16.00 | 10.45 | 10.36 | 0.24 | 0.27 |
| Wales | 14.31 | 14.35 | 15.76 | 8.78 | 14.80 | 5.88 | 8.98 | 8.91 | 2.70 | 2.74 |
| Strathclyde | 25.39 | 25.42 | 16.24 | 15.79 | 12.49 | 14.87 | 12.90 | 12.79 | 1.15 | 1.18 |
| Rest of Scotland | 19.53 | 19.57 | 10.07 | 16.26 | 10.24 | 12.56 | 2.66 | 2.65 | -7.14 | -7.11 |
| Northern Ireland | 5.50 | 5.54 | -0.03 | 10.10 | -0.07 | 10.31 | 22.08 | 21.88 | 8.87 | 8.90 |

Source: LFS, authors own calculations.

# Conclusion

The most recently available Labour Force Survey data suggest that a sizeable public sector pay differentials exist. These differentials vary from over a 20% premium to nearly a 20% penalty for different groups of public sector workers across the country. For the median worker, the pay premium is 6.1%.

In financial terms, applying these figures would suggest that a private sector employee working full time on around the median hourly wage, would be around £1,400 a year worse off than their equivalents in the private sector. In parts of the country where premiums are highest this rises to as much as £3,200 a year.

This premium exists even before the substantially more generous public sector pensions arrangements and other factors are added to the analysis.

In our previous reports on public sector pay and conditions and a recent report *Local Pay, Local Growth*, Policy Exchange has argued that this situation is unfair to public sector workers and represents an inefficient use of taxpayer's money. It also leads to worse public services, with recent reports finding that the system of national pay bargaining can lead to more deaths in hospitals and poorer school outcomes for children.[3,4]

To do this we have urged the government to remove automatic pay uplifts for public sector employees, abolish national pay bargaining and move to a system of pay negotiation which can reflect local labour markets and reward performance. All of these measures would allow local managers to better reflect the needs of the customers they are serving, could boost productivity and allow the public sector as a whole to provide a better service. It would also ensure that we effectively reward the best workers in the public sector.

# Endnotes

[1] See: Holmes, E., & Oakley, M., (2011). Public and private sector terms and conditions and the issue of fairness. Policy Exchange, London; Oakley M., (2011). Further analysis on the public sector pay premium. Policy Exchange, London. Oakley, M., (2012); Mind the gap: the size and costs of differentials between the public and private sectors in the UK. Policy Exchange, London.

[2] Oakley, M., (2012). Mind the gap: the size and costs of differentials between the public and private sectors in the UK. Policy Exchange, London.

[3] Propper, C., and John Van Reenen, J., (2010). “Can Pay Regulation Kill? Panel Data Evidence on the Effect of Labor Markets on Hospital Performance”. Journal of Political Economy Vol. 118, No. 2 (April 2010), pp. 222-273

[4] Propper C, Britton B, (2012) ‘Does Wage Regulation Harm Kids? Evidence from English Schools’, Centre for Market and Public Organisation, Bristol University.

# Acknowledgements

Data used for analysis in this paper are:

Office for National Statistics. Social Survey Division, Quarterly Labour Force Survey, January 2000 – March 2013 [computer files]. Colchester, Essex: UK Data Archive [distributor]. August 2013.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