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Public Sector Pay in Northern Ireland

Issues and Context

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SUMMARY

The issue of pay in the public sector in the UK has stimulated much discussion in recent months particularly with regard to the UK government policy of capping pay increases. Public sector pay in Northern Ireland has also been an issue of contention for some years, yet much of that debate has been based on some fundamental misconceptions.

Private sector pay growth has outpaced public sector pay growth for all but two of the last 17 years. The public sector pay cap has fallen behind inflation and is forecast to fall further behind in years to come.

Falling public sector pay has often been justified by the public/private pay gap. However, the simple ratio of median pay rates used to describe the gap in Northern Ireland is inaccurate and misleading. Using the same metric across the rest of the economy shows the unsuitability of this method.

KEY POINTS

- Median pay in the public sector has grown less rapidly than in the private sector every year since 1999.
- The pay cap has resulted in a cumulative loss to public sector workers of up to 8% since 2011.
- Comparing median pay rates is an imprecise and possibly misleading method of evaluating the difference between public and private sector pay.
- Based on simple ratios, the gap between workers in the public and private sectors is 1.43.
- Using the same method, the pay gap between the Finance and Accommodation sectors is 2.4 and the gap between Corporate Managers and Sales Assistants is 3.9.
- More detailed research is required before policy judgements are made about the level of pay in the public sector.

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Research for new economic policies

Introduction

The issue of pay in the public sector in the UK has stimulated much discussion in recent months particularly with regard to current government policy. From 2011-2013 the UK government froze pay rates across the public sector. Since 2013, annual increases have been capped at an average of 1% and it is intended that that cap will remain in place up until 2019. Restraining public sector pay, the UK government argue, is necessary in order to achieve their fiscal policy objectives.

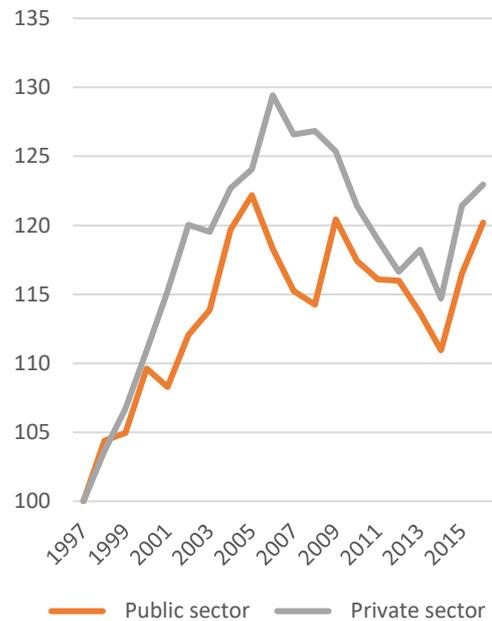
Public sector pay in Northern Ireland has also been issue of contention for some years. Most of the discussion and debate regarding this topic stems from the contention that the average public sector worker earns, on average, more than average private sector worker in Northern Ireland. However, while this assertion is technically correct, it is crude comparison and can actually be quite misleading.

This *Research InBrief* aims to set out the recent context of public sector pay in Northern Ireland with regard to both private sector pay and inflation. The public/private pay gap is a crude comparison and is not an appropriate method for evaluating public policy. This *Research InBrief* will also seek to give some context to this, by evaluating a range of other pay gaps within the Northern Ireland labour market.

Public Sector Pay Cap

As set out in the introduction, public sector pay in Northern Ireland has been subject to the same constraints as the UK over the last number of years. Irrespective of the gap between the two, the growth of median pay in the public sector has fallen behind that of the private sector. As Figure 1 shows, private sector pay growth has outpaced public sector pay growth every year from 1998-2016. Public sector pay experienced large falls before the imposition of the 2011 pay cap, and experienced consistent negative growth up until 2015. There is no evidence that the fall in public sector pay boosts overall private sector pay. As Figure 1 shows, it is more likely that the opposite is the case.

Figure 1: Growth of Public and Private Sector Pay in NI 1997-2016 (1997=100)



Source: Annual Survey of Hours and Earnings (NISRA)

Looking at the cost of living implications of the pay cap, Figure 2 shows that inflation has exceeded 1% per annum for all but two of the past six years.

Figure 2: Public Sector Pay cap less CPI inflation 2011-19



Source: Inflation Report (BOE)
 Note: Inflation from 2017-2019 is Bank of England forecast

Furthermore, it is forecast that inflation will exceed 1% every year for the next 3 years. This means that, with the exception of 2015 and 2016, government policy will have delivered a real terms cut in pay every year from 2011 to 2019. The cumulative loss from 2011 to 2016 has been just over 8%.

Public/Private Pay Gap

In the preceding analysis public and private sector pay have been analysed by looking at the median weekly wage. The median wage is preferred over the mean wage because it actually corresponds to a wage being earned, whilst the mean wage is a statistical misrepresentation. However, using the median as opposed to the mean, makes an adjustment for inequality. The public/private pay gap in Northern Ireland is 43% when calculated with median wages, it is 28% when calculated with mean wages. This is because the mean full-time wage in the private sector is 21% larger than the median, while it is only 9% larger in the public sector. This shows that wages are more widely dispersed in the private sector and more skewed toward the upper end of the distribution.

In the last two years, median public sector pay has increased by more than 1% but this is because the data that are available chart the median wage for a group of workers that may change substantially. We cannot know what the increase in pay was of individual workers in the public sector, we can only look at averages. For instance, if a number of low paid jobs are lost or outsourced from the public sector, the median wage for the public sector as a whole is likely to increase. This can take place even if individual workers receive no increase in their pay.

Figure 3 shows the decrease in the number of public sector jobs over the period from 2010 to 2016. A Voluntary Redundancy Scheme launched in 2015 is likely to have impacted numbers in the figures for 2016 and into the future. It is likely that lower paid workers will make up a large portion of the agreed redundancies as such workers would be entitled to a smaller redundancy payment. Higher paid public sector workers

are more likely to be closer to retirement and therefore less likely to be deemed appropriate for redundancy purposes. What this means is that further redundancies in the public sector are likely to increase the median wage of the sector without necessarily increasing wage packets of individual workers.

Figure 3: Public Sector Employee Jobs in Northern Ireland 2010-2016



Source: Quarterly Employment Survey (NISRA)

In order to look at what the real pay gap is between workers in the public and private sectors, simply comparing overall median rates of pay is not sufficient. The Central Statistics Office in their recent analysis of the public/private pay gap in the Republic of Ireland (CSO, 2017) noted that such comparisons are misleading due to the heterogeneity of both sectors. To make a real comparison of pay gaps, most studies carry out an analysis of pay rates between workers with similar characteristics carrying out similar jobs. This allows a more accurate comparison of pay rates in each sector. It is possible with existing data in Northern Ireland to identify an individual characteristics and job functions, but even with that, problems persist.

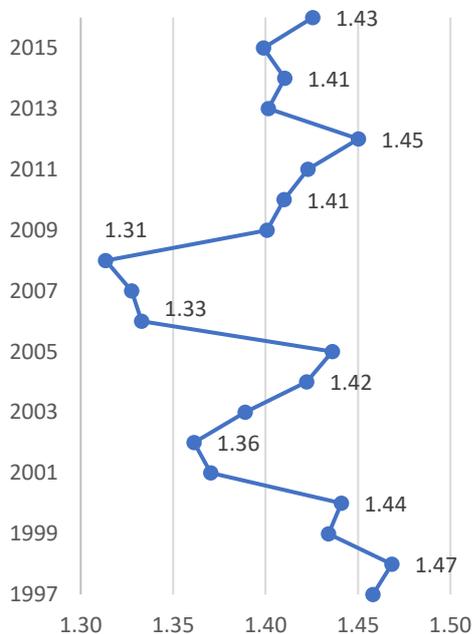
Put simply, the nature of work carried out in both sectors is rarely comparable. For

certain professions in the public sector, private comparators are possible. It should not prove difficult to find accountants or HR managers performing similar functions in both sectors. The task becomes more difficult with professions such as nurses and teachers. There are private schools and healthcare providers in Northern Ireland but not enough to fall within the sample of official statistics. For social workers or members of the police force, there are simply no comparators in the private sector.

Which Gap?

The public/private pay gap as it is currently reported is ratio of median weekly wages. Figure 4 shows that in 2016 it was 1.43 and in 1997 it was 1.46. While the ratio dropped during years of stronger economic growth in Northern Ireland, much of this dissipated over the subsequent years of recession or stagnation. What is remarkable is that while the public/private gap in Northern Ireland is large compared to other regions of the UK, it is remarkably stable.

Figure 4: Public/Private Sector Pay gap in Northern Ireland 1997-2016



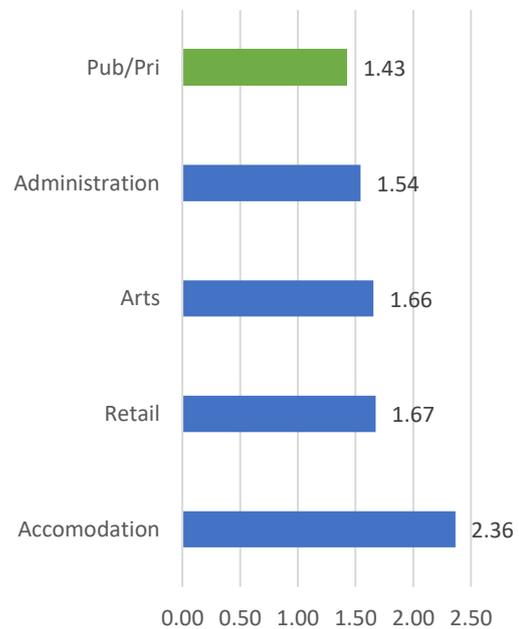
Source: Annual Survey of Hours and Earnings (NISRA)

If we were to extend the analysis used to compare the public and private sectors to other sectors of the economy, it becomes clear that the much larger gaps are present throughout the economy. Comparatively, the

gap between public and private sector employees is one of the smallest gaps in the Northern Ireland labour market.

The Finance sector has one of the highest median weekly wages in Northern Ireland. Figure 5 shows that when the median wage in the finance sector is compared with other sectors of the economy, far larger gaps emerge. These range from 2.36 in the Accommodation and Food sector to 1.54 in the Administration sector. All of which exceed the public/private pay gap.

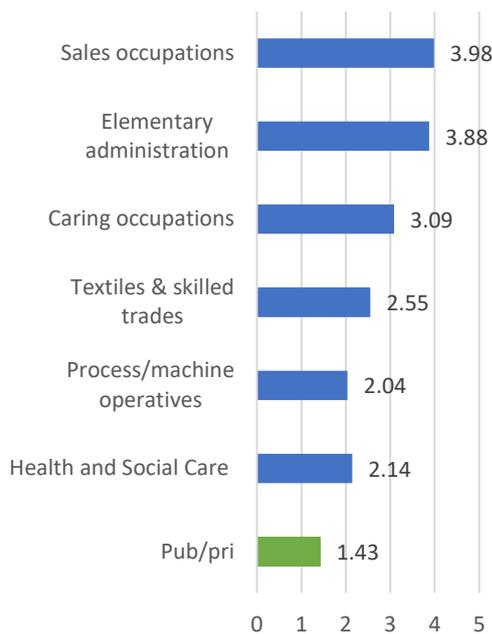
Figure 5: Pay Gaps between Finance and selected Industry Northern Ireland 2016



Source: Annual Survey of Hours and Earnings (NISRA)

When the same analysis is applied to occupations, an even larger set of gaps can be observed. Corporate Managers have one of the highest median weekly wages in Northern Ireland. As Figure 6 shows the median wage for a corporate manager is almost four times that of a Sales Assistant and again nearly four times that of an Elementary Administrator. It is also 2.14 times as large a Health and Social Care worker, many of whom work in the public sector.

Figure 6: Pay Gaps between Corporate Managers and selected Occupations Northern Ireland 2016



Source: Annual Survey of Hours and Earnings (NISRA)

This analysis is not produced to make the argument that a person working in Finance should be paid the same as a person working in Retail nor that a Corporate Manager should be paid the same as a Sales Assistant. The jobs and occupations that are contrasted here are incomparable, and the workers receiving these wages vary even more in terms of qualifications and experience. This same level of scepticism needs to be equally applied when median pay is compared between the public and private sectors.

Further and deeper analysis of comparative pay levels is required in order to inform pay policy. A greater equality in wages is a worthwhile policy goal, but as the preceding analysis shows, policy would be better focused on closing the larger pay gaps that exist in the labour market.

Conclusion

There is little evidence that pay restraint in the public sector has given a boost to the private sector and based on recent trends it is more likely that the contracting public pay growth has dragged down private sector wage growth. The UK government policy of capping pay in the public sector has

delivered a real terms pay cut to workers in Northern Ireland. Whilst median pay in the public sector has grown in recent years, this is likely to be a compositional effect.

Simple comparisons between overall median pay in the public and private sectors is an unsophisticated method of evaluation that can be highly misleading. When such comparisons are reported, it would be wise to treat them with as much scepticism as one would apply to simplistic comparisons among other sectors of the economy discussed in this inBrief. The public/private pay gap, as it is currently understood, should not influence public pay sector policy.

References

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