

With Strikes Dominating the News, How Do We Measure What A 'Fair' Pay Award Is?

Vicky Pryce

The question of what a large increase in public sector workers pay might mean in the battle to control inflation- as well as for government finances- is a real one. Wage growth and its trend will be carefully assessed by the Bank of England when it decides on the size of its expected interest rate hike this Thursday- and this in a week which is also likely to see the Federal Reserve Bank in the US and the European Central Bank raising their own rates by either 50 or 75 basis points. Wage growth matters because even if international pressures that have contributed to the high inflation rates, such as energy and food prices, begin to fade, the fear is that high pay awards will embed higher inflationary expectations across the economy and lead to a wage price spiral which will then be harder to shift.

There are some 5.7m people employed in the public sector accounting for around 20% of all government spending^{[ii](#)}. An inflation equating increase would add considerably to the current fiscal pressures. In October the IFS calculated that a 10.1% pay award would add an extra £18b to the public sector pay bill by comparison to an earlier 3% baseline assumption ^{[iii](#)}. The Chancellor argues that this would also fuel further inflation. But what seems to be happening is a 'them and us' divide emerging. Although median income in the public sector remains above that of the private sector, the latest data suggest that average regular public sector pay in the three months to October rose by 2.7% year- on- year. The increase in private sector pay over that period was 6.9%. Both are of course way below inflation. But if one excluded the distortions in pay trends during the height of the pandemic, the ONS calculates that this represents the largest gap in pay growth differentials on record^{[iiii](#)}.

The figures suggest a gulf is developing. And though the government concerns are understandable in themselves, this all raises the problem of whether as a society we value work properly. Do we decide that some work is less productive than others- that done by women for example where a pay gap still persists. Or that the value of unremunerated work, such as household duties, caring for children or for elderly or sick parents or being involved in charitable activities, is effectively zero even though if one had to pay for those activities they would be counted in our GDP?

Is our view of the current conflicts coloured by what we think is productive and contributes to the economy as against what isn't. How many times have we heard threats of 'culls' of the civil service or attacks on public sector 'inefficiency' from Ministers and the need to squeeze greater 'efficiencies' out of the public sector, as was done during the austerity years, so it can do 'more with less'! One has to go no further than look at the latest government- commissioned damning report by the King's Fund on the budget constraints for the NHS during the austerity years and beyond and the problems we are as a result living through now^{[v](#)}.

Measuring public sector productivity- and remunerating people accordingly- will however remain difficult whatever the outcome of the strikes. This is an important issue given that globally the public sector accounts for some 25% of world GDP and for around 38% of total formal employment according to recent estimates by the World Bank. But assigning proper values is a problem. There are multiple reasons for this. An absence of market transactions for some of the services provided restricts the ability to assess value, in other words if the public sector has effectively a monopoly of provision of a service with little to compare it against. So we tend to focus on inputs- easier to measure- than on outputs which often tend to be long term.

Even if there is private sector provision, the picture can be distorted by price controls – on medicines for example- or by government subsidies. And many public sector interventions or services tend not to be stand-alone but often require input from many different organisations or bodies- how do you value for example the different inputs of a surgeon, a nurse, an anaesthetist, a pharmacist, a cardiologist in a single operation- or for that matter a cleaner who kept sepsis at bay. And the National Grid that (mostly) keep the lights on in the operating theatre. Or the schools and universities that trained many of those involved.

CIPD in its *Working Lives* report^[v], produced just before the pandemic, defines good work in all sorts of different ways but an overriding one was that it should be fairly rewarded- but I suspect that however the current impasse is resolved much more thinking will have to be given on how to measure ‘good’ and what is ‘fair’.

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^[i] <https://researchbriefings.files.parliament.uk/documents/CBP-8037/CBP-8037.pdf>

^[ii] Institute for Fiscal Studies, Green Budget 2022 – Chapter 4, Public spending, pay and pensions, 8 October 2022

^[iii] <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/december2022>

^[iv] <https://www.theguardian.com/society/2022/dec/12/decade-of-neglect-means-nhs-unable-to-tackle-care-backlog-report-says>

^[v] https://www.cipd.co.uk/Images/uk-working-lives-summary-2019-v1_tcm18-58584.pdf