Economic Outlook for Pay Review Bodies

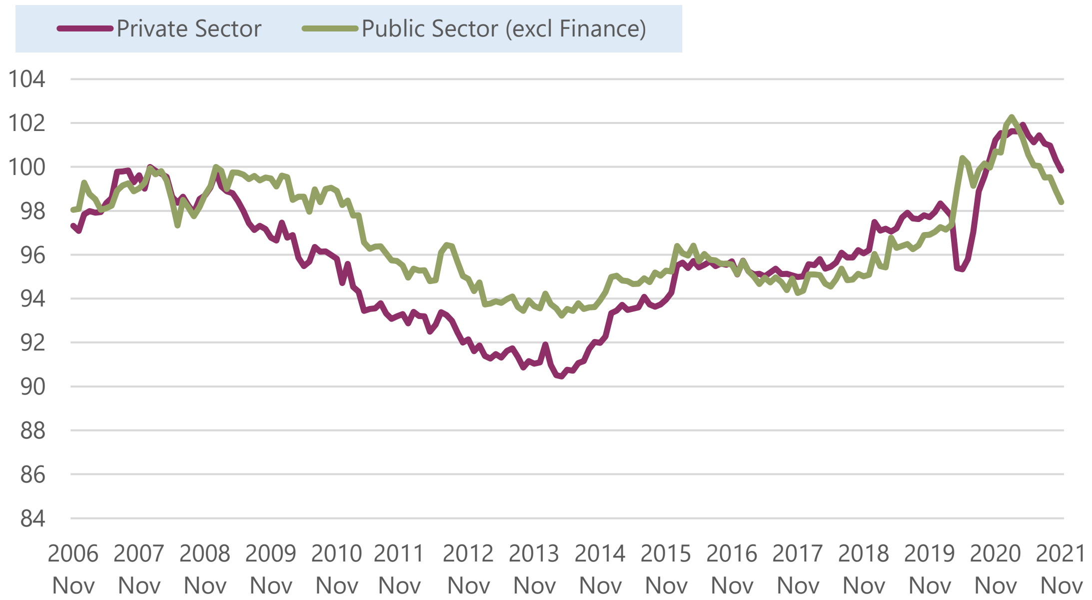
Introduction

This briefing note provides material for unions to use in supporting their pay claims, and response to the Treasury's briefing note for pay review bodies.

Public sector pay policy has a critical role in supporting economic recovery and improving pay across all sectors of the economy. The government should avoid levelling down public sector pay in a misguided attempt at parity. Public and private sector pay decline and grow together.

Recent Pay Trends

Real pay (excl. bonuses): indices, pre-pandemic peaks=100



Source: ONS AWE, ONS RPI and TUC calculations

Parts of the banking sector under public ownership are excluded from the public sector pay measure

Based on RPI, real pay in the public sector is £45 a week lower now than it was at the peak before the 2008 financial crisis. Even using CPI, public sector pay is £3 a week lower in real terms. This stagnation is seen in pay across all sectors of the economy.

This record-breaking pay crisis is particularly damaging as we deal now with a cost-of-living crisis. Real pay is falling due to a combination of inflation and slowing pay growth. Workers are feeling the pinch and should not be punished further as prices continue to rise. Inflation is being driven by supply chain issues and energy price rises and cannot be remedied by holding back pay.

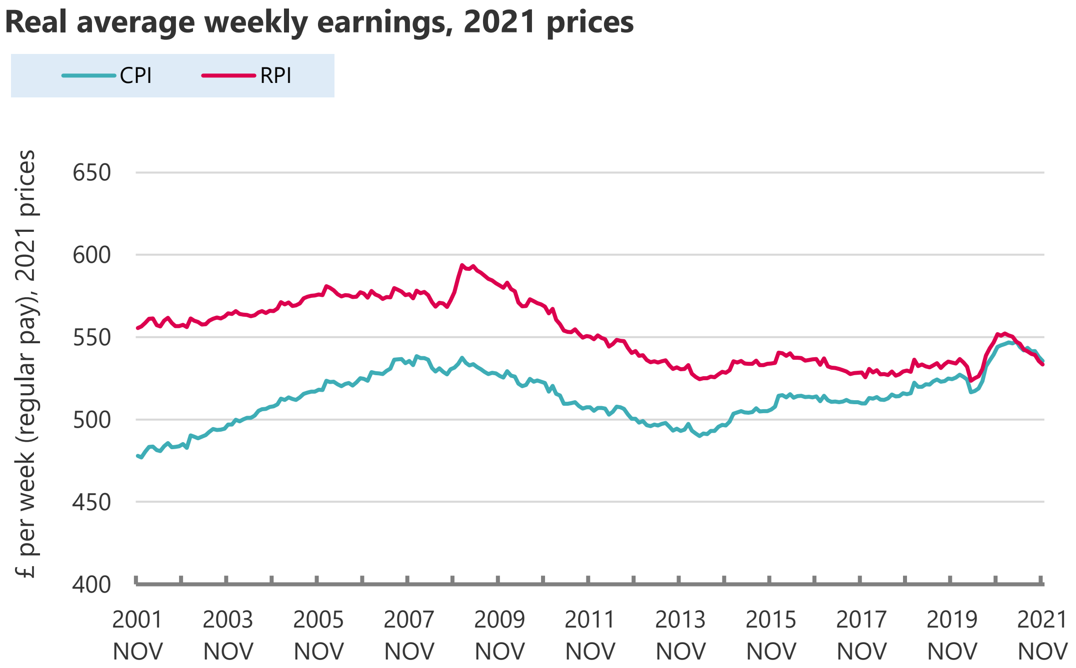
Instead, the government should get public sector pay back on an upward growth trajectory. Decent wages are an investment in public sector workers and their local economies. This would strengthen the economy and feed into much-needed pay growth for all workers. The government's vision of a high wage economy[1] will be undeliverable if public sector pay is held back.

Inflation

Inflation is at a thirty-year high. RPI inflation was 7.5 per cent in December and CPI was 5.4 per cent.

Workers are paying the price for these high levels of inflation. The government should avoid making workers pay further. Nominal wage growth is already slowing and real wages are falling.

Based on RPI, real pay is down 3.4 per cent on a year ago. Declining real pay is being led by the public sector. Nominal public sector pay growth was 2.6 per cent in November compared to private sector pay growth of 4.5 per cent.



Source: ONS and TUC calculation

Workers should not be punished for inflation through declining pay or a slower economy. Arguments that the 'tightness' of the labour market or the strength of the economy mean that inflation is a risk are overplayed. Wage growth is slowing and employment levels remain down 600,000 on pre-pandemic levels[2]. Consumer demand remains down with retail sales falling by 3.7 per cent in December.

Instead pay should be bolstered to increase demand and strengthen the economy. The Treasury acknowledges that high inflation is due to global supply chain issues that are

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[1] Conservative Party Conference (2021) Boris Johnson's Keynote Speech https://www.conservatives.com/news/2021/boris-johnson-s-keynote-speech---we-re-getting-on-with-the-job

[2] Comparing February 2020 to November 2021. Source: Labour Force Survey.

likely to be temporary. Wages and demand are not driving inflation. Pay has stagnated for over a decade and wage growth is needed to get the economy growing.

Public vs private sector pay

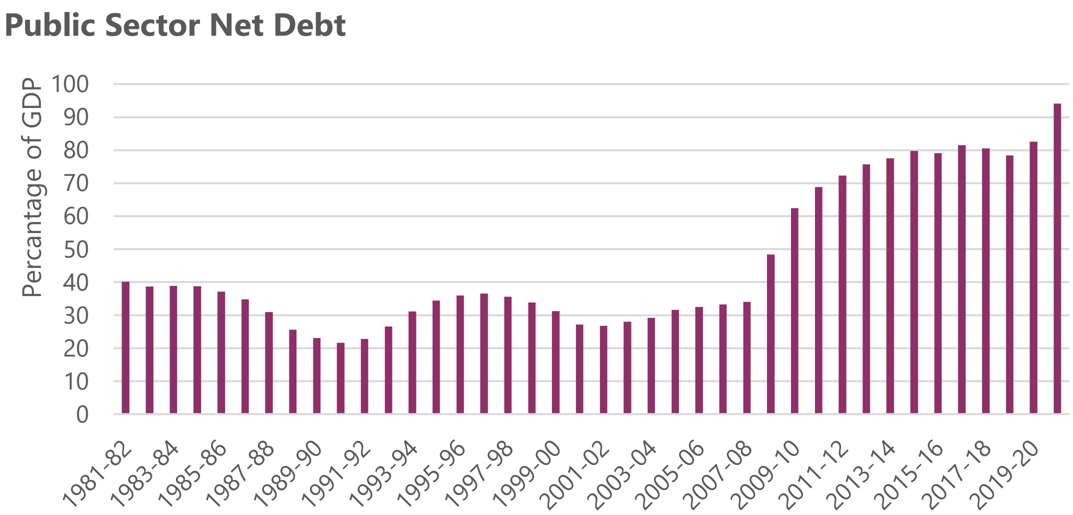
Public sector pay and private sector pay complement each other. When one is growing the other tends to grow and vice versa. Attempts to increase private sector pay by holding back public sector pay are counterproductive.

These attempts to create parity are also based on misleading evidence. ONS analysis shows that if overtime and bonus pay are included, average earnings have been lower in the public sector than in the private sector since 2014.[3]

Finally, the lines between the public and private sectors have become increasingly blurred. The outsourcing of public sector workers to the private sector has accelerated over recent years. This has driven down pay as workers employed by the private sector delivering public services are more likely to work longer hours, receive less pay and be on insecure or temporary contracts.[4]

Fiscal austerity

Public sector pay is a key lever the government can use to get money flowing through local economies. It stimulates growth and supports government finances. Attempts to restrain pay growth in the public sector are counterproductive. Over the last decade public sector pay restraint has been one part of an austerity policy that has fuelled low levels of growth and rising public debt. Public sector net debt grew from 48 per cent of GDP in 2008-9 to around 80 per cent from 2014-15 onwards while public sector pay was frozen or restrained. Higher pay and a stronger economy are the best route to sound public finances. [5]



Source: ONS and TUC calculation

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[3] ONS (2020) Public and private sector earnings: 2019
[4] TUC (2021) Levelling up at work
[5] TUC (2020) A Better Recovery