A Trojan Horse for Regional Pay

The misuse of "pay gap" data

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Protecting Public Services
Supporting Public Servants

Preface

Dear Friend

The lobby in favour of regional pay comprises the usual suspects; the Confederation of British Industry, the Institute of Directors, Chamber of Commerce, the neo liberal economists and their political representatives in the current Conservative/Liberal Democrat coalition government. It is not surprising that these interests should continually search for new ways to create an environment which is more hostile to the general public and friendly to the business elites.

Their central argument on pay is that public sector pay is too high and should be more closely aligned to pay in the local private sector. For them the problem is not characterised as a problem of low pay in the private sector and, in an echo of their position in the current pension debate, they use the comparsion with the lowest end of the private sector to bludgeon the public sector into accepting this as the benchmark.

Where such interests lead, their political representatives inevitably follow and in his Autumn 2011 Statement the Chancellor of the Exchequer, George Osborne, took a step that even Margaret Thatcher avoided when he asked the Pay Review bodies to report to him by July 2012 on the case for regional rates of pay across the UK. We have seen enough extremism already from this Coalition to know this is no idle threat.

The real story on pay is, as usual, somewhat different from the headlines. Behind the sound bites and front pages are facts about what is termed the public/private sector pay gap which are hidden because they don't suit the agenda of the business lobby or the papers they own. This latest NIPSA publication highlights these facts and reveals a different narrative.

We are all prone to incessant propaganda and conditioning. That is why it is essential that we have available to us well researched and articulated alternative perspectives to strengthen our resolve in defending the interests of public servants from those who, in truth, regard public services as little more than lucrative profit centres in waiting.

Over time pay gaps between the public and private sector do exist. That is undeniable. It is however a complex issue with, in the current context, lower graded public sector employees tending to be paid better than the lower paid in the private sector while at certain middle and higher levels the opposite is the case. But then some of us will not be surprised that the private sector pays its elite handsomely and the people it holds in contempt a pittance.

Despite this there are real objective reasons why public servants at lower and middle levels tend to be better paid than their private sector colleagues. For example, there is a much greater requirement for public servants to have attained relevant qualifications and skills than private sector employees. This publication examines and highlights such facts.

In 2010/2011 Northern Ireland private sector workers were paid 21% below the UK average for private sector workers. If the business lobby in Northern Ireland have a new passion for fairness, they should address this fact and campaign against this inequality. But then that might cut into their profit margins and as we know their only interest is self-interest.

When the establishment economists employed by banks and consultancy firms, politicians and our Captains of Industry and Finance complain about the public/private sector pay gap, when they, through virtual monopoly coverage in the media demand action to be taken for the sake of the economy or for the good of Northern Ireland, remember they do not have a monopoly of the truth. Remind yourself that they represent the same interests that pushed the world economy over the cliff and would destroy our public services. They stand on the side of those who are the enemies of fairness, decency and equality.

Yours Sincerely

B. Campfield

Brian Campfield
General Secretary

A Trojan Horse for Regional Pay

The misuse of "pay gap" data

Prior to the Leveson Inquiry, a journalist who spoke at a seminar organised to examine the issue of phone hacking highlighted how a paper owner's editorial prejudice affects the way a story is shaped. He outlined how:

> **News editors, keen to appease their superiors with eye-catching news lists, dump the onus on reporters to stand-up their fantastical hunches and ill-informed assertions. The question is not: "Do you have a story on X"? It is 'Today we are saying this has happened to X – make it appear so.[1]**

The Leveson inquiry's evidence continues to illuminate how the political control of a very small number of owners – the Murdoch 'empire' in particular - has exerted a malign influence over topical debate for decades. The "big lie" they feed through their outlets is that they are supporting the underdog against a "nanny-state's" interference. While never presented in such terms, this agenda is politically driven offering the false freedom of neo-liberalism. This:

> **is grounded in the "free, possessive individual", with the state cast as tyrannical and oppressive. The welfare state, in particular, is the arch enemy of freedom. The state must never govern society, dictate to free individuals how to dispose of their private property, regulate a free-market economy or interfere with the God-given right to make profits and amass personal wealth. State-led "social engineering" must never prevail over corporate and private interests. It must not intervene in the "natural" mechanisms of the free market, or take as its objective the amelioration of free-market capitalism's propensity to create inequality[2].**

At every opportunity therefore, the press and broadcasters are ready to propagate any story that attacks the public sector and its employees whether it is on pay, pensions or terms and conditions. We are all familiar, for example, with how they treat the issue of public sector pensions. This presents a myth of 'unsustainable', 'gold-plated' public sector pension recipients luxuriating in privilege at the expense of private sector workers. (See the rebuttal of these lies in 'Public Sector Pensions, Myths and Facts', NIPSA, October 2011). Similarly another recent favourite is the Aunt Sally of the pay 'gap' between the private and public sector.

As usual, in the current war on the public sector the press follow the lead of an agenda set by a number of right wing think tanks. One such 'player' is 'Policy Exchange'. This organisation, which describes itself as an "independent, non-partisan educational charity particularly interested in free market and localist public policy questions" is cited on its own website as a "wellspring of new ideas" by the far from 'non-partisan' George Osborne. Significantly this 'independent' organisation also hosted an event at which one time former NUJ picket and current Education Minister Michael Gove launched his attack on public sector union leaders prior to the mass industrial action of November 30th 2011.

Within the Policy Exchange's examination of public/private sector pay and conditions a regressive ambition clearly emerges. In this way, behind the bogus reference to 'fairness' (defined as private sector versus public sector), Policy Exchange propose ending national strike balloting in the public sector, deepening the existing public sector pay freeze into a 'paybill freeze' and 'reforming' i.e. diminishing public sector pensions[3]. These 'ambitions', that appeared in May 2011, are indistinguishable from the discussion of the public sector in the Chancellor of the Exchequer's Autumn Statement of 29 November 2011. It is clear, therefore, that the role of such "Market fundamentalist"[4] bodies is to clear the path for their friends in Government and create a climate in which callous attack can be dressed up as 'necessary reform'. As with the pensions propaganda, the ground has been prepared by the headline grabbing 'politics of envy' that presents a 'privileged' public sector 'unjustly' getting more than the private sector. Hence headlines such as:

- Public sector pay, conditions outstrip private sector report says[5]
- Public Sector salary myth exploded: State Workers earn more[6]
- Public Sector pay races ahead in a recession[7]
- Public Sector…so big and…generous...it is sucking workers out of private companies[8]

and a couple of local variants:

- "£164…that's how much more a week public sector workers earn than anyone else"[9].

"Ahoy there! Where are all the well-heeled NI workers? Er, taking a cruise" [10]

Away from such bogus frenzy, this paper looks at the factual explanations for public versus private sector pay 'gaps' in the UK and the specific structural reasons that explain the situation in Northern Ireland.

The first point to make is that the headlines above are so misleading because the necessary statistical and other caveats they require and which defeat their sensationalist purpose are largely ignored. This point was made in response to similar headlines that signaling 'public sector pay' was becoming part of the pre-General Election debate within the UK in 2010. At this time Goldacre[11] pointed out that, if the desire is to over-state the anti-public sector case, there are a number of techniques. The first is to chase a specific measure, for example, annual salary rather than 'hourly pay'. The second is to choose a timeline which best exaggerates the 'dramatic' nature of the public sector 'outstripping' the private sector. The third is to ignore the "long-standing phenomenon" of the greater number of part-time jobs in the public sector to exaggerate the difference in the number of average hours worked in each sector. In this way:

> **The long-standing difference in median wage for all jobs in each sector is hardly informative on the question of whether someone is paid more or less than their peer in the other sector. It's hard to decide what the comparison job is for a policeman, a firefighter, a teacher, and so on, and to make that comparison between medians meaningful you'd need data showing the breakdown of what kinds of jobs are done in each sector...I don't know if the public sector pays more than the private sector for the same work, or less: nobody does, from a difference in median wages[12].**

Similarly, the Institute of Fiscal Studies (IFS) caution against the over-exaggerated use of these ***estimate*** figures.

> **Drawing conclusions on the public sector pay premium from such raw comparisons is not appropriate. The raw differential does not take into account the fact that the skill compositions of the two sectors are markedly different: it is like using the average pay of neurosurgeons and the average pay of bartenders to conclude that neurosurgeons are overpaid![13]**

On the complex issue of comparators the IFS has also commented that:

> **the jury is out on whether jobs between the private and public sectors can ever meaningfully be compared. Is the role, for example, of a private sector swimming pool attendant comparable with that of a public sector museum educational assistant? Both are within the Office of National Statistics' (ONS) 'sports and leisure assistant' code. Similarly, is the job of a public sector head teacher the equivalent to that of a private sector dance lecturer? Again they can be found in the same occupational classification (teaching professionals)[14].**

As one observer, summing up his weariness about the willful misuse of this data, stated "Unless commentators want to close hospitals, schools and police forces, they should stop complaining about the difference in average pay"[15].

On the structural issues the TUC has reinforced the IFS' approach and outlined the broad features of pay in the public and private sector as follows:

- Pay is less unequal in the public sector – those at the bottom get a bit more and those at the top get less than their equivalents in the private sector[16].
- In terms of the latter and the ratio of highest:lowest salary, the IFS reports that the gap between the lowest and highest earners is higher in the private sector with the top 5 per cent (95th percentile) of earners paid around 5.6 times more than the bottom 5 per cent (5th percentile). The gap is 4.6 times in the public sector. Similarly, the claims of higher pay in the public sector may reflect a post 'crash' dip when the floor collapsed for many private sector workers on median earnings, but as management consultancy, the Hay Group, suggests, at the top the "hit" on pay did not happen with senior managers in private firms still earning considerably more than the public-sector equivalent[17].
- The private sector employs more unskilled workers on the minimum wage than the public sector, and the public sector has a higher proportion of professional workers (such as teachers and doctors)[18].
- The composition of sectors can change over time. If the public sector transfers lots of low paid jobs to the private sector through contracting out, average pay in the public sector will increase even if no-one gets a pay rise[19].
- The public sector consists of a higher proportion of older employees and earnings tend to increase with age and experience[20]. This point is emphasised by 2011 Annual Survey of Hours and Earnings (ASHE) data that suggests that gross weekly earnings were highest in the 40-49 age band, decreasing thereafter[21].

Overview

Before examining these structural explanations in greater depth, what are the academic rather than mainstream media headlines on this issue? The IFS' overview of the 2010 Labour market found "public sector employees were paid on average 7.8 per cent more than private sector employees… an increase of 2.5 percentage points since 2007, where the pay difference was estimated at 5.3 per cent"[22]. They point out, as a first significant caveat, that pensions, company cars, health insurance, etc. are not factored into such calculations. Furthermore the ASHE data does not include the self-employed and takes place at a time (April) outwith the main bonus season (January-March), a period of greatest relevance in the higher earning areas of the private sector.

Similarly, it is important to stress that to use what are estimates across a sector is to presume that the global picture is of one (i.e. private) sector taking a 'hit' and the public sector cosseted from such pressures. This ignores that:

> **the truth is that all pay was not frozen in the private sector in 2009. IDS research shows that around one-third of companies had pay freezes – centred on manufacturing, construction and road and air transport. Elsewhere, in energy, finance, retailing and pharmaceutical there were rises for most people and the most common level of increase was around 2%.**
>
> **…in the finance sector, when the figures for February and March are published in April and May, they are more than likely going to show that big bonuses have returned where they shrank back a year ago, and this will produce a statistical bounce which will push the private sector into stronger figures just at the moment when the arguments for cut backs and pay freezes in the public sector will be at their height[23].**

The importance of age, education and qualification on pay

Looking beneath the headline pay "gap" figures, the IFS' analysis of 2006-2009 data from the Labour Force Survey illustrated the significance of 'controlling' for education, age and qualification. When this is done a crude headline is reduced to a sober explanation (See **Table 1**).

Table 1 Estimating public sector wage premium in the UK[24]

	Men	Women
Raw premium wage	+19%	+26%
Controlling for education	+12%	+17%
Controlling for education, age and qualification	+2%	+7%

A summary of a number of other studies into this issue (see **Table 2**) similarly dilutes the current anti-public sector sensationalism in the media. While the studies acknowledge the existence of a 'raw wage differential' in favour of public sector employees (as reflected in the ASHE analysis), again, once adjustments have been made to take account of factors such as age, experience and qualifications, this raw differential tends to become much lower.

In addition the studies highlight that:

- The UK public sector pay 'premium' appears to be greater for women than men.
- [It] is greatest (and positive) for low paid workers, whereas for higher paid workers it appears to disappear, or even becomes negative.
- A number of these studies have suggested that public/private wage differentials may exist only due to the imperfect nature of the UK labour market. Studies by Disney & Gosling (2008) and Postel-Vinay & Turon (2005) have indicated that for a highly-mobile workforce, long-term wage differentials would not depart strongly from zero. In fact, Postel-Vinay & Turon indicate that this would be particularly true for 'highly employable' workers (i.e. this may partly explain the observation that the public sector pay premium is greatest for low paid workers)[25].

Table 2 Major reports into public-private wage differentials[26]

Author(s)	Data	Main Results/Conclusions
Institute for Fiscal Studies (2009)[i]	Labour Force Survey (2006-2009)	Headline public-private sector wage differentials were 19% for men and 24% for women respectively. Adjusting for education, age and qualifications reduced these differentials to 2% for men and 7% for women respectively.
Disney and Gosling (2008)[ii]	New Earnings Survey/ Annual Survey of Hours and Earnings (1975-2006)	Long run public sector pay differentials do not seem to depart strongly from zero, in particular where labour is highly mobile. Public pay policy should not concentrate solely on pay levels, but also on what remuneration-quality 'mix' of the workforce best reflects the public interest.
Chatterji and Mumford (2007)[iii]	The British Workplace Employee Relations Survey (2004)	On average, full-time male public sector employees earn around 11.7% more than their private sector counterparts. The report suggests that the public sector pay premium is associated with public servants being more likely to have individual characteristics associated with higher pay and to their working in higher paid occupations.
Postel-Vinay and Turon (2005)[iv]	British Household Panel Survey (1996-2002)	When job mobility is considered, in a highly mobile labour market, the life time public-private sector wage differential is essentially zero for 'highly employable' workers.
Lucifora and Meurs (2004)[v]	Labour Force Survey (1998)	The raw average wage differential between the public and private sectors in Great Britain is 16.1%. After adjusting for age, years of experience and level of education, the differential reduces to between around 6%. The public-private wage differential varies along the pay scale; at lower levels the differential favoured public sector employees, but towards the higher end, it is private sector employees who are favoured.
Heitmueller (2004)[vi]	British Household Panel Survey (2000)	By employing a switching regression model and testing for double sample selection from the participation decision and sector choice, the public-private sector wage gap was shown to be 10% for males and 24% for females.
Disney and Gosling (2003)[vii]	General Household Survey and British Household Panel Survey (Historical)	Revisiting their 1998 work, Disney and Gosling concluded that men in the public sector earned only slightly more than their private sector counterparts during the 1990s. However, during this time period, women in the public sector enjoyed a significant premium over their private counterparts.
Disney and Gosling (1998)[viii]	General Household Survey and British Household Panel Survey (Historical)	The average public sector pay gap was approximately the same at the end of the 1990s as at the start of the 1970s – for males the headline hourly public sector premium was 14%. However, once age and qualifications were accounted for, the public sector pay gap was only 1% for men (but remained at 14% for women).

i Section 9,IFS Green Budget: http://www.ifs.org.uk/budgets/gb2010/gb2010.pdf
ii Changing public sector wage differentials in the UK.
iii Flying High and Laying Low in the Public and Private Sectors: A Comparison of Pay Differentials.
iv The public pay gap in Britain: Small Differences that (don't) matter.
v The Public Sector Pay Gap in France, Great Britain and Italy.
vi Public-Private Sector Wage Differentials in Scotland: An Endogenous Switching Model.
vii A New Method for Estimating Public Sector Pay Premia: Evidence from Britain in the 1990s.
viii The changing distribution of male wages in the UK, 1966-1992.

Pay and qualifications

The issue of qualification merits further consideration in order to examine the private and public sectors in terms of both 'profile' and 'reward' in each sector, how these sectors have changed over the last decade and how this effects pay gap data. In terms of overall numbers, the IFS suggests that the public sector workforce contains more people with a degree or an equivalent qualification - 38 per cent in 2010, compared to 23 per cent in the private sector.

In this regard, with the advantage of the Labour Force Survey,[27] the specific effect of the last Government's policy in relation to Graduate recruitment is shown (see **Table 3**).

Table 3 Graduate employment by sector 1998-2009[28]

	% of private sector workforce 1998	% of private sector workforce 2009	private sector change	% of public sector workforce 1998	% of public sector workforce 2009	public sector change
Degree or equivalent	15.3%	20.2%	5.0%	24.8%	38.5%	13.7%
Higher education	10.1%	8.3%	-1.8%	17.3%	14.1%	-3.1%
GCE A Level or equivalent	23.6%	24.7%	1.1%	18.1%	17.5%	-0.6%
GCSE grades A-C or equivalent	22.9%	24.3%	1.4%	19.1%	17.6%	-1.4%
Other qualifications	14.7%	13.1%	-1.6%	11.6%	7.7%	-3.9%
No qualification	12.6%	8.4%	-4.2%	8.6%	4.0%	-4.6%

While this reflects the numbers of graduates in relation to sector, a further breakdown of pay by qualifications in the public sector reveals a more complex picture. In this way "public sector pay is compressed compared to the private sector. Graduates get paid less in the public sector than in the private sector; while those without qualifications earn more…and those in the middle with A-levels earn the same"[29]. (See **Table 4**).

Table 4 Mean hourly pay by qualification (2009)

	2009 mean private hourly pay	2009 mean public hourly pay	public compared to private
Degree or equivalent	£18.20	£17.60	-3.4%
Higher education	£13.80	£13.00	-6.2%
GCE A Level or equivalent	£10.90	£10.90	0.0%
GCSE grades A-C or equivalent	£9.70	£10.20	4.9%
Other qualifications	£9.20	£9.80	6.1%
No qualification	£7.80	£8.10	3.7%

Similarly, on the specific question of lower pay in the public sector for graduates, for example, the IFS has highlighted that "on average those in the public sector earned around 5.7 per cent less than those in the private sector in 2010"[30].

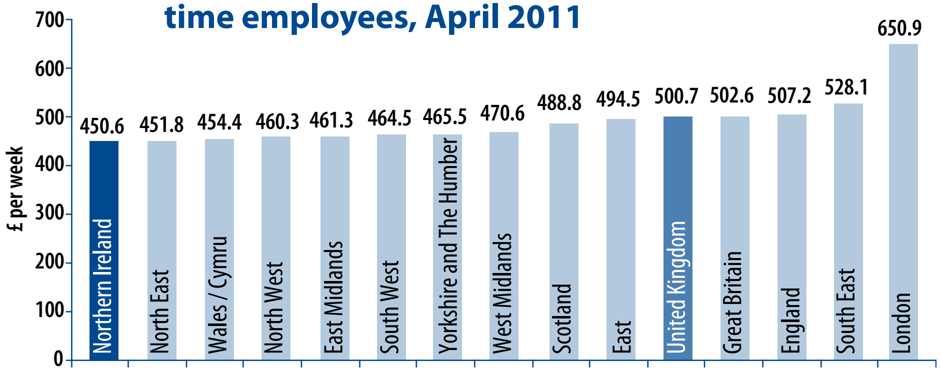
As one commentator noted "these figures confirm something that is perhaps a bit complicated for some newspapers. Graduates get paid less in the public sector than the private sector, but mean pay is higher in the public sector because it employs more graduates[31].

Northern Ireland perspective

When the local press in the run up to the November 30th 2011 strike action was scrambling around for any anti-public sector "ammunition", they seized on new data from the Northern Ireland Statistics and Research Agency annual survey of Hours and Earnings 2011. We've referred above to the crudeness of one front page.[32] What is noticeable, however, is the lack of prominence given to the evidence that the same data offered of the continuing pay gap between all employees (public and private) in Northern Ireland and those in the UK. For example, the 2011 data that so animated the local press on public-v-private sector, also presented a median gross weekly wage for all workers in Northern Ireland of £450.60 – the lowest of any region in the UK – lower than Wales or the North East of England and 10% below the UK equivalent. Median gross annual earnings for full-time employees at £23,185 were 12% below the UK equivalent. When this median is adjusted to include part time employees in both private and public sector, it falls to £360 - 10.9% lower than the UK equivalent. Furthermore, average private sector earnings in Northern Ireland at £394.20 per week were 17.8% below the UK average.

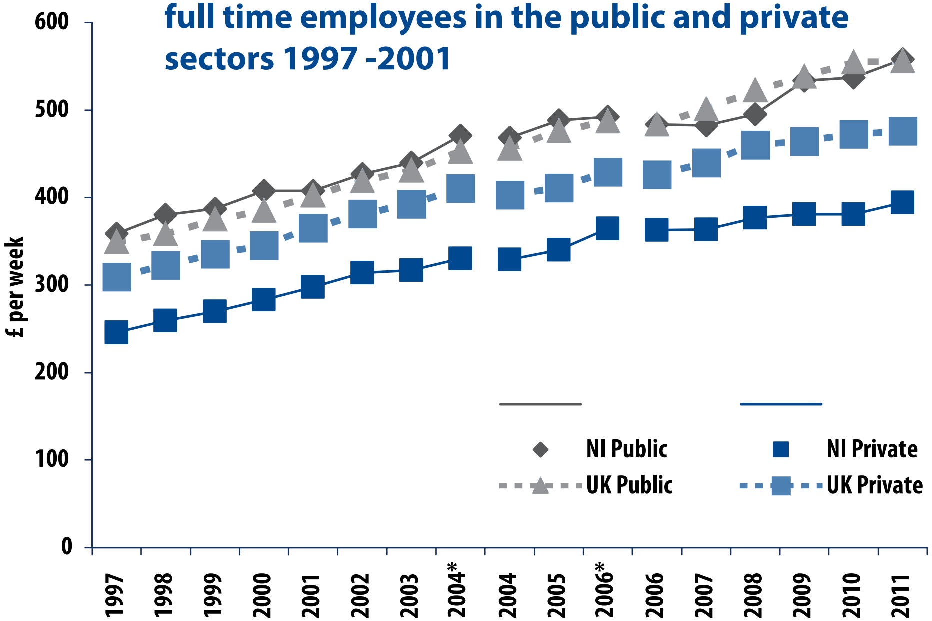
Public sector earnings for all employees in NI were 2.2% lower than those in the UK[33]. (See **Figure 1**)

Figure 1 UK regions: Median gross weekly earnings for full time employees, April 2011



Obviously, where there is national bargaining, Northern Ireland can 'hold its own', although 2009 data suggested that "Northern Ireland's public sector has a lower proportion of employees in higher-level occupations than the UK average and generally in the lower end of the distribution"[34]. This is also the case for 2011. (See **Figure 2**).

Figure 2 Median gross weekly earning (NI versus UK) for full time employees in the public and private sectors 1997 -2001



The dramatic difference that should be "headline grabbing" but is not is the situation in the private sector. Here analysis suggests that the gap in wages between a Northern Ireland and a UK private sector worker "is not explained by occupational structure"[35]. As a consequence "the public-private pay differential is greatest in Northern Ireland and **this is primarily due to low private sector wages within the region**"[36]. (See **Table 5**)

Table 5 Median gross weekly earnings for full time employees in the public and private sectors

£	Northern Ireland		United Kingdom	
	Public	Private	Public	Private
April 2011				
Men	590.2	422.9	602.8	518.8
Women	549.5	333.6	522.9	383.5
All	557.9	394.2	555.9	476.2
April 2010				
Men	581.4	411.9	606.0	517.0
Women	509.9	320.1	516.2	378.8
All	537.1	380.9	554.4	472.6
% Change				
Men	1.5	2.7	-0.5	0.3
Women	7.8	4.2	1.2	1.2
All	3.9	3.5	0.3	0.8

Steal the cheapest and attack the rest

It is ironic that those who are most in favour of part or full privatisation are the very people who make the loudest noise about a public-private pay 'gap'. In fact, this very policy necessarily exacerbates such a gap by bringing the profitable but poorly paid elements from the public sector into the private, thus bringing its average pay figures down and widening the gap between this sector and the one from which they are being removed – without a single employee in the public sector being paid a penny more.

As Unison has pointed out:

> **If you outsource all the low-paid jobs, in a hospital for instance, by employing contractors to provide cleaning services then you're going to be left with the better-paid jobs. And conversely, the private sector (even though it's working in the public sector and doing work previously done by the public sector) will see an increase in low paid workers.**
>
> **If you increase the salaries of those at the very top of the public sector – Director General of the BBC and so on – then that will also bring the average up without making much difference to those who serve the lunches in the Beeb's canteen[37].**

Most exploited defended in public sector

As we have just discussed in relation to privatisation, the most vociferous critics of this 'pay-gap' from the private sector are champions of the very policies creating the material climate to which they are over-reacting. The same applies to the protections that exist in the public sector (however limited or glacially slow in terms of enforcement) in relation to minimum wage, equal pay, etc. that have a presence and effect that, in sectoral terms, offer protection, especially to the greater number of women (at least prior to the austerity onslaught) employed within this sector.

While the Captains of Industry and Finance have traditionally campaigned against such protection, without the statutory protection offered as a result of collective bargaining power in the public sector the worst paid, least protected, lower layers of the private sector pay pyramid are trapped. Even Policy Exchange are obliged to agree with the TUC that "public sector pay premiums are highest for those with relatively low earnings…The lowest paid staff in public sector employers being paid slightly more in the public than the private sector[38]. However to be paid marginally above minimum wage in the public sector and locked on it within the private sector hardly constitutes 'privilege'.

The effect of the state rescuing the reckless

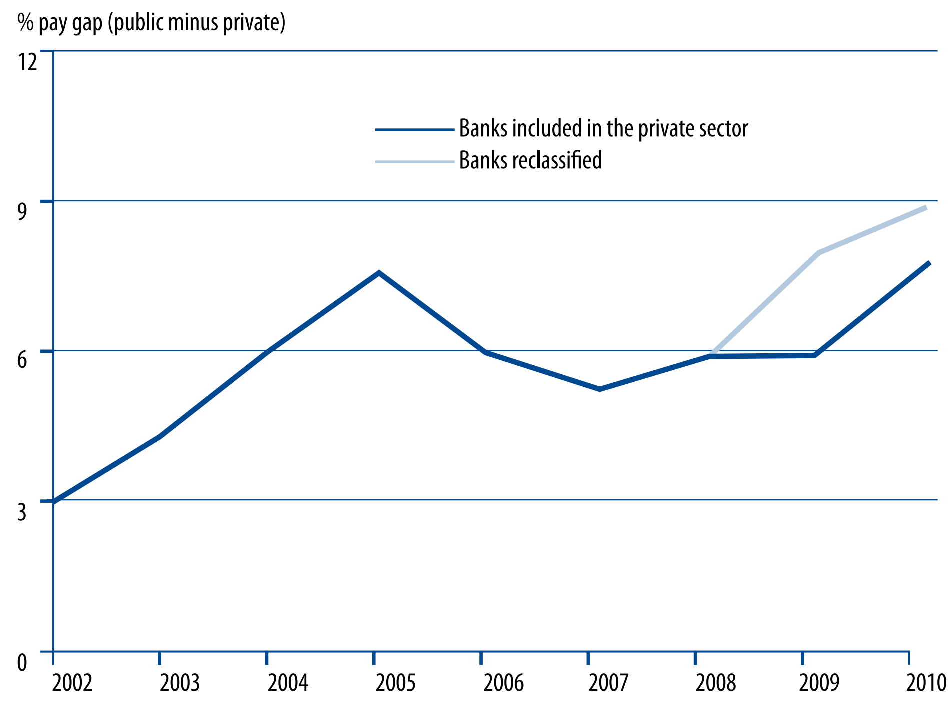
Another underlying feature of current 'pay gap' data that attracts little attention from anti-public sector critics is the fact that the UK government's decision to rescue the banking sector had "an upward impact on public sector earnings with 200,000 finance sector employees (the highest paid sector in the country) moving from the private to the public count"[39].

As the Office of National Statistics point out:

> **In 2007, Northern Rock was reclassified as a public sector company, and, in 2008, Lloyds Banking Group, Royal Bank of Scotland Group and Bradford & Bingley were also reclassified as public sector companies. As the IDS report points out, average earnings in the financial sector are higher than average earnings in the private sector as a whole. Therefore, the reclassification of the banks into the public sector had an effect on the public/private sector pay gap as some of the highest earners in the UK economy were incorporated into the public sector[40].**

Recent analysis from the IFS illustrates the inevitable effect that employees "reclassified to the public sector" had on the 'gap' (see **Figure 3**).

Figure 3 Reclassifying the banks' employees



Those ideologues who feign most concern for the taxpayer and the pressurised public purse on the pay gap issue say little about this consequence of the state once again underwriting market failure. Incredibly, those who helped drive the world economy over the precipice appear unchastened enough to despise the sector that rescued them. Matt Ridley, for example, ex-Chairman of Northern Rock to whom the Treasury select committee attributed a "high-risk, reckless business strategy"[41] that caused the first run on a UK bank since 1878, after this rescue still attacked 'government' as "a self-seeking flea on the backs of the more productive people of this world … governments do not run countries, they parasitise them."[42]

The failures at the top of Northern Rock, Royal Bank of Scotland and their US equivalents expose the "myths of risk"[43] that have been used to justify top salaries (i.e. that such high-flyers carry a colossal burden and therefore deserve the equivalent reward). Similarly, the idea that 'menaced' by regulation such "superstar" entrepreneurs may be "lost to us" is also delusional, with the research of the High Pay Commission finding that "global mobility is limited, with only one successful FTSE 100 Chief Executive officer poached in five years – and even this person was poached by a British company"[44].

What Ridley and other figures, such as Fred "the Shred" Goodwin of RBS, highlight is that the real story on pay is about a gap, but it is not the explicable one between sectors, rather an entirely unjustifiable one between the tip of the class pyramid and the rest. As the High Pay Commission comments:

> **Pay at the top has spiraled alarmingly to stratospheric levels in some of our biggest companies. In BP, in 2011 the lead executive earned 63 times the amount of the average employee. In 1979 the multiple was 16.5. In Barclays, top pay is now 75 times that of the average worker. In 1979 it was 14.5. Over that period, the lead executive's pay in Barclays has risen by 4,899.4% - £87,323 to a staggering £4,365,636.**[45]

Statistically - the rich are off the scale

It has been argued that the grotesque nature of such "rewards" has a statistical dimension, in that such is the scale of salary, bonus, share and pension options etc, they have to be treated as an 'outlier' and therefore never granted the centrality that marginal and explicable differences between sectors attract. This statistical tendency was noted in the United States, years before the concept of the "1%–v-99%" slogan entered the political domain:

The super rich, the less than 1 percent of the population who own the lion's share of the nation's wealth, go uncounted in most income distribution reports. For instance, the Centre on Budget and Policy Priorities, relying on the latest U.S. Census Bureau data, released a report in December 1997 showing that in the last two decades "incomes of the richest fifth increased by 30 percent or nearly $27,000 after adjusting for inflation." The average income of the top 20 percent was $117,500, or almost 13 times larger than the $9,250 average income of the poorest 20 percent.

But where are the super rich? [The] U.S. Census Bureau surveys regularly leave Big Money out of the picture. The Census Bureau in Washington D.C. revealed that for years the bureau never interviewed anyone who had an income higher than $300,000. Or if interviewed, they were never recorded as above the "reportable upper limit" of $300,000, the top figure allowed by the bureau's computer program. In 1994, the Bureau lifted the upper limit to $1 million. This still excludes the very richest who own the lion's share of the wealth, the hundreds of billionaires and thousands of multimillionaires who make many times more than $1 million a year. The super rich simply have been computerised out of the picture.

But by designating the (decapitated) top 20 percent of the entire nation as the "richest" quintile, the Census Bureau is including millions of people who make as little as $70,000. If you make over $100,000, you are in the top 4 percent. Now $100,000 is a tidy sum indeed, but it's not super rich. The difference between Michael Eisner, Disney CEO who pocketed $565 million in 1996, and the individuals who average $9,250 is not 13 to 1 — the reported spread between highest and lowest quintiles — but over 61,000 to 1. To grasp the true extent of wealth and income inequality in the United States, we should stop treating the "top quintile" — the upper-middle class — as the "richest" cohort in the country. But to do that, we need to look beyond the Census Bureau's cooked statistics. We need to catch sight of that tiny, stratospheric apex that owns most of the world[46].

The same point is made in the British context, pointing out how (using 2009 figures) a gross annual salary of £44,881 would constitute being among the top 10% of earners. It is quite a leap from this point, however, to the top 1% of £118,027 or the top income tax rate of £150,000 - 0.6% of 'salaried' individuals.

One such difficulty, even if the statisticians chose to look at the full pyramid, is the difference in the transparency of public sector and private pay. In short, it is easier to study a snapshot of those who pay as they earn as opposed to those who only pay if their accountant cannot hide it off-shore.

Finally, in terms of this real scandal between the top and the rest, John Philpott, Chief Economic adviser to the Chartered Institute of Professional Development has pointed out:

> **Unskilled workers are facing a choice between no pay and very low pay. One feature of the previous Labour administration was widening inequality, but real wages increased across every income group. This year's earnings figures, with wages stagnant in even nominal terms, look more like those from the US than the UK.[48]**

Public service for free

What is never acknowledged by those who know the "price of everything and the value of nothing" is of the contribution made by public servants that attracts no monetary reward. This has been described as the 'pro-social behaviour link[49] and according to research by the Centre for Market and Public Organisation (CMPO) at the University of Bristol comprised 120 million hours of unpaid overtime a year. Their 2008 study suggested that:

> **people working in the public sector areas of health, education and social care are more likely to do unpaid overtime than those in the private sector. This public-service ethos or 'pro-social behaviour', whereby employees are driven to serve for the greater public good rather than financial reward, is considered essential for these key services.**
>
> **The data show that 46 per cent of employees in education, health and social care in the non-profit sector do some unpaid overtime, compared with 29 per cent of their counterparts in the private sector. They also do more hours of unpaid overtime a week (nine hours 35 minutes compared with eight hours 20 minutes)[50].**

Incredibly the Policy Exchange has even suggested that the vocational commitment of the Public Sector worker is something that they should be grateful for – to the extent that this (Public Sector workers gaining "great job satisfaction" from their work because it is socially useful or 'interesting'[51]) is reward in itself!

The threat of regional pay

As we have alluded to earlier, the prominence of "pay gap crisis" stories over the last eighteen months in particular have suggested an ulterior motive – that of regional pay – a 'cat' the Policy Exchange research let 'out of the bag' a few months ago.

The threat became explicit on December 7th 2011 when George Osborne told the Treasury Select Committee that he was writing to the heads of the UK wide pay review bodies asking them to consider differences between public and private sector pay in local areas and determine levels that would allow the state to 'recruit, retain and motivate' suitable staff. Asking for reply by July 2012 the Government propose introducing such regional differences from 2013-14.

This proposal came a week after Osborne had announced that, at the end of the current public sector pay freeze, pay rises would be capped at 1%. As Alastair Hatchett of Incomes Data Services commented, this is the "strange logic that concludes that a financial crisis that started in the top echelons of banking should be resolved by freezing the pay of nurses, teachers and social workers"[52].

On the specific point of regional pay, TUC General Secretary, Brendan Barber, commented: "When the Chancellor talks about localised wage negotiations, what he really means are deep pay cuts in areas of high unemployment[53]".

Similarly, Gail Cartmail, Unite's Assistant General Secretary, said:

> **Employing public servants on the lowest possible pay is part of the Tory blueprint for privatisation. George Osborne wants to drive down pay to clear the way for private companies to take over our public services. There is absolutely no justification for a nurse in Newcastle being paid less than an equally qualified nurse in Oxford[54].**

The newspapers, presumably in their "what bears do in the woods" section, did report that the possibility of regional pay was "welcomed" by Policy Exchange.[55]

As mentioned above, elements of the local press were ready to pounce on the "pay gap" hysteria and similarly content to indulge their free market fantasies about how the local economy would be affected by regional pay. The Belfast Telegraph quoted Graham Gudgin who stated:

> **We are probably talking about graduates, people like doctors, school teachers, senior civil servants. Historically, they have received the same pay levels as people in England, apart from London. But because of lower house prices and lower costs of recreations — it is cheaper in Northern Ireland to be a member of a golf club or sailing club — these people can have a relatively high standard of living. They have therefore much more disposable income to spend on foreign holidays, for example, such as cruises." Dr Gudgin stressed his comments were "off the cuff" rather than scientific.[56]**

Similarly a traditional view from another economic commentator, not as "off-the-cuff", still casually accepted the prospect of regional pay cuts:

> **Economist Neil Gibson...Regional Director of Oxford Economics, said that realistically, public sector workers would face a real-term reduction of 20-25%, but warned it could be as high as 40%.[57]**

Incredibly a few days later the same newspaper within which these quotes are promoted led with a front page headline - "Shutters down – Retailers call for urgent action as more than 1,000 small businesses face closure next year"[58] and failed to make a connection between their free market wish-list of public sector cuts and its actual and potential consequence for their readership or the wider society as a whole.

Conclusion

The anti-public sector narrative on the 'pay gap' begins with exaggerated claims about what are explicable, estimated and transitory features of pay data and ends with the recipe for unregulated inequity that regional pay represents. It provides further evidence, should any be needed from a Government who casually propose fitness for work interviews for claimants undergoing chemotherapy[59], of the extremism of the UK coalition's agenda. The divide and conquer attempt to split private and public sector workers did not succeed in derailing the mass mobilisation of November 30th, 2011. It is vital that the Trade Union movement and its progressive allies show similar resolution in the face of this new danger, and resist regional disadvantage being compounded by regional pay.

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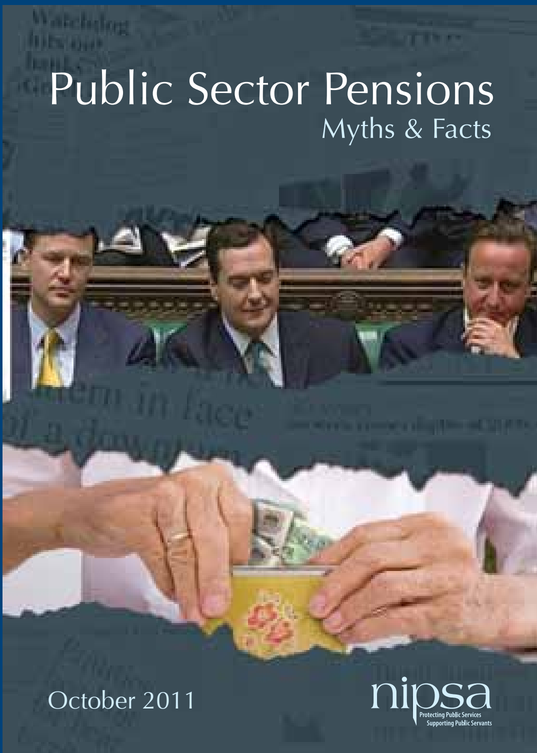

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