

FABIAN SOCIETY

A public services pay policy

William Brown and Bob Rowthorn

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Introduction

Over 5 million people are employed in public services in Britain - one employee in five. Their paybill amounts to almost a third of all public expenditure.

Despite this, no British government has considered public services pay as deserving any sort of long-term strategy. Policy has been made in a piecemeal, inconsistent way, relying heavily upon established practice and deviating from it usually only in response to industrial action. A strategy of neglect was perhaps excuseable until the end of the 1960s. In the early post-War period the role of public services was largely unchallenged. Collective bargaining over their pay was highly centralised, relied heavily upon convention, and was virtually strike free. But from the early 1970s there has been increasing pressure to improve labour utilisation in the public services and, partly in response, there has been an increased tendency for public service employees to use strike action in pay grievances. The political cost of public service strikes was impressed upon the Labour Party in its 'Winter of Discontent' of early 1979. But the problem is not partisan. In the year to July 1989, under the Conservatives, almost half of working days lost in Britain were in the public services.

The tendency of governments to react to pay discontent in the public services, rather than to pre-empt it, has frequently been damaging to them electorally. The neglect of many public services in the 1980s is likely to make the electoral damage particularly great in the early 1990s. But there are also more positive grounds for a consistent public sector pay strategy. The high labour intensity of the public services ensures that pay must be of crucial importance. The management of pay cannot be divorced from the management of those who are paid. A major victim of the casual management of public service pay has been the quality of the services offered.

This study analyses what has happened to public service pay in recent years and the extent to which the pay structure has been distorted from a desirable long-term position. We look at the peculiar circumstances of labour in the public services and how these have altered during the past decade. In the light of recent developments, we analyse the technical requirements of a pay fixing machinery and to the institutional options that might embody them. We conclude with the problems of transition to a new policy.



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Recent history

After a steady growth throughout the 1960s and 1970s, the number of public service employees has remained fairly stable during the 1980s.

The employees with whom we are concerned are all those in the public sector except for employees in the nationalised industries and other public corporations. The total headcount, including both full- and part-time, was 5.38 million in 1979 and, after fluctuating without a clear trend, was 5.24 million in 1989. No less than 59 per cent of these were women, almost half of them in part-time employment. Because of the growth in part-time employment, however, in terms of 'full-time equivalent' employees the overall employment figures translated into a gradual decline from 4.56 million in 1979 to 4.34 million in 1989. A breakdown by major categories is given in Table 1.

	1000s of full-time equivalent employees
Armed Forces	308
Other Central Government	756
National Health Service	1008
Local Authority Education	1003
Local Authority Social Services	282
Local Authority Construction	118
Other Local Authority	675
Police (inc civilians)	191
Total	4341

(Source: Economic Trends CSO)

Table 1 - Employment in UK Public Services 1989

Overall pay movements

Until the 1970s the relationship between average pay in the public services and in the rest of the economy had been stable. Public service pay increases followed the average for the rest of the economy fairly closely. With the 1970s this came to an end. It was replaced by a cyclical pattern of relative pay decline followed by surges of catching up. The picture since 1971 is given in Figure 1, which shows two different series for pay in the public services relative to earnings in the economy as a whole. The upper line uses aggregate data from the National Accounts. The lower line is derived from National Institute data

Public Service Relative Pay 1971 - 89
(as percent of whole economy average)

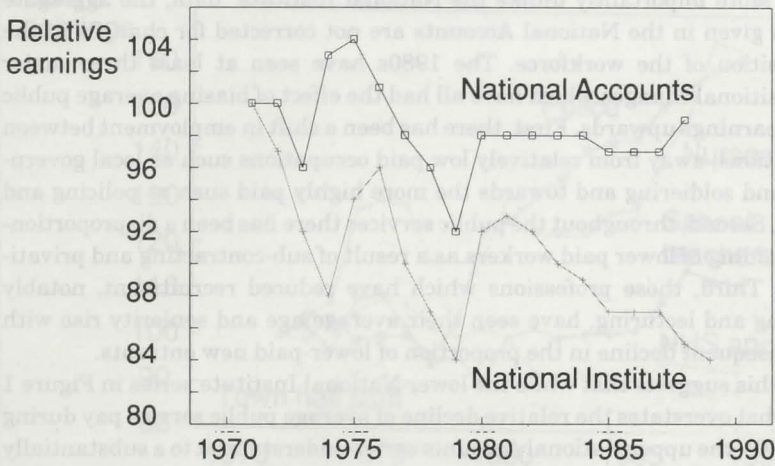


Figure 1

on the actual pay rates of public services compared with average earnings figures from the New Earnings Survey. We shall start with the similarities in the two data series.

The public services were first held back under the Heath government's efforts to restrain inflation without an explicit incomes policy. Then followed a sharp improvement in their relative pay position when, in 1974, reports of ad hoc inquiries into teachers' and nurses' pay coincided with index-linked 'threshold payments' and with substantial reorganisation in the NHS and local government. Under Labour's Social Contract incomes policy, the public services again fared relatively badly. They were successfully held down to norms which were breached in much of the private sector and the nationalised industries. Their deteriorating relative pay led to the Winter of Discontent strikes of early 1979. These were terminated by the establishment of the Standing Commission on Pay Comparability, chaired by Hugh Clegg, charged with the restoration of comparable pay levels with the rest of the economy. By the end of 1980, when the Commission was disbanded, this had been largely achieved.

The biggest difference between the two series in Figure 1 concerns what happens after 1981. The averages based upon the National Accounts imply that the public services have preserved their relative position; in sharp contrast the National Institute data suggest that the relative position of the public services has worsened to an unprecedented extent. How is this discrepancy to be explained?

Part of the explanation is that the National Institute data are based upon

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the rates of pay for only the lower grades of public service worker who have done badly during the 1980s relative to higher grades not covered by this index. More importantly unlike the National Institute data, the aggregate figures given in the National Accounts are not corrected for changes in the composition of the workforce. The 1980s have seen at least three major compositional changes which have all had the effect of biasing average public sector earnings upwards. First, there has been a shift in employment between occupations, away from relatively low paid occupations such as local government and soldiering and towards the more highly paid such as policing and health. Second, throughout the public services there has been a disproportionate shedding of lower paid workers as a result of sub-contracting and privatisation. Third, those professions which have reduced recruitment, notably teaching and lecturing, have seen their average age and seniority rise with the consequent decline in the proportion of lower-paid new entrants.

All this suggests that while the lower National Institute series in Figure 1 somewhat overstates the relative decline of average public service pay during the 1980s, the upper National Accounts series understates it to a substantially greater extent. But it would be wrong to dwell too long on these aggregate figures. A historically remarkable feature of the 1980s has been the sharply contrasting pay experience of different public service occupations.

Table 2 - Earnings Changes in Selected Groups 1972-90

	Percentage change relative to average of all employees' earnings						Real earning change	
	72-75	75-77	77-80	80-81	81-90	72-90	81-90	72-90
Teachers	-10	4	-20	15	-8	-21	12	13
Police	-18	11	11	6	6	13	29	61
Nurses	4	11	-15	14	2	14	24	62
Armed Forces	-20	12	-3	1	-16	-25	3	6
NHS Ancillaries	-12	12	-14	2	-24	-35	-7	-7
Cent Govt Manual	-23	22	-16	17	-15	-22	3	11
Local Govt Manual	-10	11	-16	3	-9	-22	11	11
Town Hall Staff	-23	7	-17	10	-17	-38	2	-11
Civil Servants	-18	18	-15	9	-15	-23	3	9
Public Non-Manual	-12	9	-12	10	-9	-15	12	21
Public Manual	-13	13	-15	4	-16	-27	2	4
All Public	-13	10	-13	9	-10	-17	10	18
Whole Economy:								
Non Manual	-3	0	0	2	3	2	26	45
Manual	2	-1	-1	-3	-7	-9	14	28
All Employees	0	0	0	0	0	0	22	41

Note: Public manual = NHS ancillaries, central govt, local govt manuals.
Public non-manual = all other groups shown

Source: National Institute Economic Review and New Earnings Survey

Real Weekly Earnings in Selected Public Services 1972 - 90 (1972 = 100)

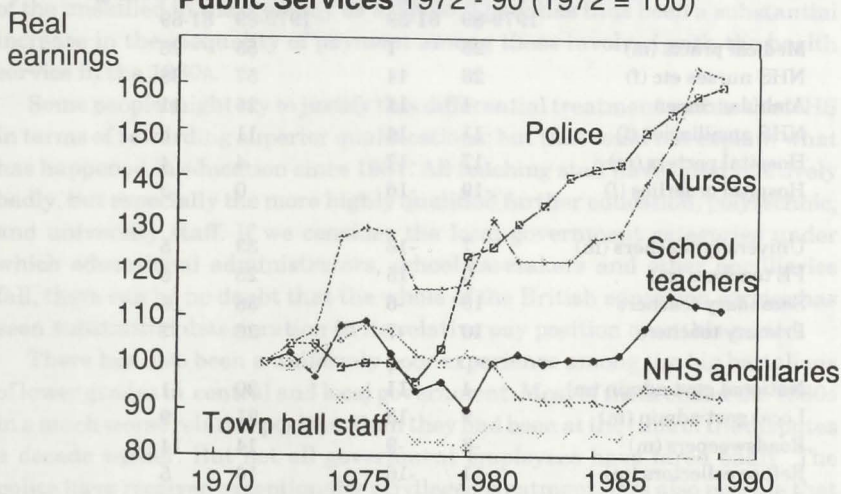


Figure 2
Source: NIESR

Pay variations within the public services

Table 2 provides information on the relative performance of pay in different major occupational groups over the main phases of this recent erratic relative pay history, using National Institute data based on pay scales rather than actual earnings. The table also gives real earnings changes. Figure 2 shows year-to-year movements for key groups. There are clearly substantial differences in their relative pay experience.

The period since the last major phase of catch-up at the start of the 1980s is of particular significance for future policy. It is apparent that, within the public services (as in the wider economy), manual workers have seen their position deteriorate with respect to non-manuals. This raises the question of what has been happening to pay structures within individual public services. It is also apparent that there have been substantial differences in the timing of changes in the relative circumstances of different groups, which counsels extreme caution in choosing a base date for comparison purposes; no single base date is satisfactory for all groups or can be taken at face value on its own for any one group.

Accordingly, Table 3 provides data on actual earnings for more precise occupational groups from the large sample of the New Earnings Survey in order to shed light on what has been happening to pay differentials within health, education, and government. It does so for both 1979-89 and 1981-89, in order to pick up changes both before and after the last catching-up period.

	Percentage change relative to all employees' earnings		Percentage change in real weekly earnings	
	1979-89	81-89	1979-89	81-89
Medical practs (m)	25	1	55	26
NHS nurses etc (f)	26	14	57	38
Ambulancemen	1	-11	25	11
NHS ancillaries (f)	-11	-14	11	8
Hospital porters (m)	-17	-17	4	4
Hospital orderlies (f)	-19	-16	0	3
University teachers (m)	7	-16	33	5
FE teachers (m)	0	-15	25	6
Secondary teachers	10	-6	36	16
Primary teachers	10	-7	36	17
National govt admin (m)	-4	-11	20	11
Local govt admin (m)	-2	-13	21	9
Roadsweepers (m)	-8	-9	14	14
Refuse collectors (m)	-11	-16	10	5
Police constables (m)	8	1	34	26
Low paid private sector males	-13	-9	8	14
Accountants (m)	18	10	47	38
Finance specialists (m)	35	23	68	54
all male employees	0	0	24	25
all female employees	6	3	31	29
all employees	0	0	24	25

Note: index for private sector males based on NHS data on male cleaners, general farmworkers, repetitive assemblers, packers and bottlers and building labourers.

Source: New Earnings Survey

Table 3 - Earnings Changes for Specific Groups 1979-90

The occupational groups which it is possible to include in the Table are heavily constrained by the need to have significant sample sizes. In order to pick up what has been happening to low-paid male workers outside public services, we have also constructed a composite group of the unskilled in what are very largely private sector occupations. At the other extreme, to provide an indication of the experience of the high-paid in the private sector, we have included accountants, and the NES category of 'finance, insurance and tax specialists'.

There are striking contrasts in what has happened to the internal pay structures of health, education and government. The relative position of medical practitioners and nurses has improved dramatically over both 1979 and 1981. The ambulancemen experienced a substantial worsening of their position after 1981, which the settlement following the 1989/90 strike will have more or less rectified. But the remarkable contrast is with the portering

and hospital orderly staff whose position has deteriorated far more than that of the unskilled in the economy as a whole. There has thus been a substantial increase in the inequality of payment among those involved with the health service in the 1980s.

Some people might try to justify this differential treatment within the NHS in terms of rewarding superior qualifications, but that could not explain what has happened in education since 1981. All teaching staff have fared relatively badly, but especially the more highly qualified further education, polytechnic, and university staff. If we consider the local government categories under which educational administrators, school caretakers and other ancillaries fall, there can be no doubt that the whole of the British education service has seen substantial deterioration in its relative pay position over this period.

There has also been a uniformly poor experience among the big battalions of lower grades in central and local government. Most of them ended the 1980s in a much worse relative position than they had been at the time of the disputes a decade earlier. But not all government employees have fared badly. The police have received exceptionally privileged treatment. It is also notable that the higher echelons of the Civil Service have done well by comparison with the lower ranks. The old grade of Assistant Secretary has seen a 26 per cent rise in real earnings since 1981 as have medical practitioners and police constables. For Permanent Secretaries and Generals the rise in real earnings since 1981 has been 37 per cent, comparable to that of accountants.

Summary

For the past twenty years all public service workers have been subject to extremely erratic pay treatment. In the 1970s this erratic treatment was at least fairly consistent across the public services, and was largely the consequence of successive governments' attempts to use public sector pay to set an example in national incomes policies.

During the 1980s there has been little consistency. Although the public services as a whole have seen their relative position decline, there have been some occupational groups, most notably police, doctors and nurses, whose treatment has, by any standards, been extremely favourable. By contrast, other professional groups in public administration and in further and higher education have experienced sustained relative decline.

The employees who have fared worst throughout the public services are the least educated. A high proportion of these are women. But their relative misfortune, in broad terms, reflects the substantial growth in inequality of payment across the whole economy. The relative position of private sector low-paid manual workers has also worsened in the 1980s.

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The current machinery

Britain has entered the 1990s with a public service pay structure in disarray. This will breed short-run problems.

The more conspicuous will be the messy and emotive industrial disputes among those who have lost out. Their bargaining position will strengthen with the tightening of the youth labour market through demographic changes. Any government that is forced, as its predecessors have been, to initiate a hurried 'catching-up' phase in response to strike action will then face a massive unplanned increase in public expenditure. Another, more insidious, short-run problem will be the steady loss of efficiency and commitment amongst the aggrieved groups whose relative pay has suffered. Their low morale leads to worsening services, ill-used equipment, and consequently cumulating costs.

There will be longer-run problems for recipients of the services in question. The relative pay of the employees in any particular public service is an important indicator of the priority given to that service. The pay data suggest that the present British government, by design or default, currently places notably low priority on the care of local communities and on the whole range of education. In broad terms, remedial services have been given higher priority than those concerned with prevention or with human investment. The short-sightedness of this approach can be illustrated by observing that if more were spent on giving young people career prospects less would have to be spent on policing their misdemeanours. There will be enduring social and economic costs arising from the 'fire-fighting' character of recent public service pay policy.

What has given rise to this position? We consider briefly the background of our current public service pay-fixing institutions and then the ways in which they are changing. The two features of public service pay fixing that have aroused most debate over the years are, first, the extent to which it is centralised and, second, the criteria by which it operates.

Until the 1980s there was little to check a steady tightening of central control. Most evident in the Civil Service, this was also to be seen in the way that government officials were by stages placed alongside employer representatives in pay negotiations for the health service, police, probation officers, and teachers, and in the way they came to play an increasing part behind the

scenes in local government and the fire services.

So far as operational criteria are concerned, there is one theme that dominates the history of public service pay in Britain. Since way back into the last century a recurring criterion for pay fixing has been that of comparability with the pay of workers elsewhere. In the Civil Service a steady refining of the practice of comparison with similar jobs outside culminated in the establishment of the Pay Research Unit (PRU) in 1955. In the subsequent decade grievances provoked by government pay restraint gave rise to a series of one-off ad hoc commissions into the pay of particular groups: doctors and dentists, the police, the armed forces, and prison officers. All ended up by recommending a pay rise based on some form of comparability, sometimes somewhat idiosyncratic and always very favourable to the occupation in question.

From the NBPI to Clegg

This increasing reliance upon rather haphazard comparison was challenged by the National Board for Prices and Incomes, which had been created in 1965. The Board was initially opposed to any arguments based upon comparability on the grounds that they subverted pay rises linked to productivity, but by 1969 the Board had conceded that there was little alternative to the use of comparability for many public servants. A similar U-turn was executed under the Heath government in 1972 when it first terminated all automatic comparability links and then, through the new Pay Board, reinstated them.

Meanwhile, the winding-up of the NBPI in 1970 had necessitated the establishment of three standing pay Review Bodies to cover groups for whom bargaining was felt to be inappropriate: the armed forces; doctors and dentists in the NHS; and 'top salaries', covering senior members of the civil service, nationalised industries, the judiciary, and the armed forces. But the era of ad hoc inquiries was not over. In the early 1970s a period of public service discontent without precedent saw inquiries instituted for nurses and for teachers. As before their recommendations relied upon unsystematic comparisons and provided no basis upon which pay could be reviewed in subsequent years.

Once again in 1975 incomes policy intervened, with the Social Contract policy suspending all official comparability or pay linkage schemes. And once again it was short lived, for by 1978 an inquiry into police pay established the most favourable formula yet achieved, the automatic 'indexation' of police pay to average earnings nationally. After a prolonged strike the firemen achieved a similar settlement in 1978. By then the full extent to which public service pay was being held behind that in the rest of the economy under the Social Contract was becoming evident. In 1979, after the wave of 'Winter of Discontent' strikes, all efforts to use other pay criteria were abandoned with the

establishment of the Standing (Clegg) Commission on Pay Comparability.

Pay policy under the Conservatives

A precondition for the creation of the Clegg Commission had been that the Opposition would agree to honour its findings if there were a change of government. When approached by Callaghan on this, Thatcher agreed. Her government honoured the agreement and met the considerable costs of 'catching-up' as the Commission's reports on different public services came out over the year following her election victory. With these complete, the Commission was abolished and the phrase 'pay comparability' was once again thrown into political perdition.

The official position of the government was to distance itself from public service pay fixing and to expose the latter to the discipline of market forces. To this end compulsory tendering was introduced and sub-contracting to the private sector encouraged. Besides the wider legislative campaign against trade unions, a variety of professional associations had their powers undermined, in education, health, local government, and the law. There was a repetitive rhetoric in favour of decentralising public service pay bargaining and there were repeated attempts to oblige employing bodies to pay according to local labour market circumstances.

Reality has been different. The Review Bodies for armed forces, doctors and dentists, and 'top salaries', have continued. To them in 1983 was added one for nurses and midwives as a reward for the Royal College of Nursing forswearing strike action. Another large non-TUC union, the Police Federation, has continued to benefit from indexation, along with the firemen, although the ambulance workers failed to achieve the same result from their 1989/90 dispute. Members of Parliament achieved a long ambition by having their pay linked to the Civil Service in 1988.

The Review Bodies are annually urged by the government to operate by criteria other than comparability, but they continue to ignore the instruction. They use the Office of Manpower Economics to carry out pay surveys and then, in their annual reports, they patiently explain once again why notions of productivity and market forces have little applicability for the groups with which they deal. The government has chosen to do little more than tinker with the timing of their awards.

In contrast to the rhetoric of decentralisation, most public service pay bargaining has seen continued tightening of central Treasury budgetary control during the 1980s. The most extreme case has been that of school teachers who had their Burnham negotiating arrangements suspended in 1987 and replaced by a centrally administered pay structure. Local government has been contained first by rate capping then by introduction of the Community Charges. Polytechnics have been transferred from local to central

government and, like universities, have had the form and terms of pay settlements increasingly controlled by the Treasury.

The Civil Service pay system has had a decade of shifting fortunes. The scrapping of the Pay Research Unit in 1981 was accompanied by the establishment of the Megaw Inquiry. Its report criticised the old system for slavishly adhering to comparisons with the outside world to the neglect of the managerial potential of internal pay structures. It argued for a looser attention to outside pay trends and more priority 'to sustaining settled and coherent internal relativities'. It argued against decentralisation and against greater geographical differentiation of pay rates. The government responded by tentatively introducing performance related pay and then a growing measure of decentralisation, not geographically, but by separating functions and by the establishment of partially independent 'agencies'. Some of the Megaw advice has been heeded in the development of common pay 'spines' for the Civil Service, coherent internal pay structures onto which separate occupational and functional pay structures are pegged.

The fragmentation of national pay agreements

The present Conservative government is relying heavily upon the fragmentation of public service bargaining as a means to control costs and improve labour utilisation. In addition to the steps just mentioned in the Civil Service, pressure has been placed on the Review Body for nurses to regionalise pay bargaining. The Review Body's response has been cautious and critical, arguing that the opportunity to supplement national rates in response to local pressures could become a 'soft option for poor management'. The government nearly succeeded in forcing universities to bargain separately in 1989, and notice has been served of similar pressure on schools and polytechnics in future. The local authorities have also been encouraged to move to local bargaining, and in 1989 thirteen councils in the South East broke away from national pay bargaining in order to pay more in response to local labour shortages.

The policy of decentralisation is, we shall argue, doubly flawed. It is based on a fallacious view of labour market mechanisms. It also mimics a misunderstanding of private sector practice. But one can understand why it has gathered such momentum through an appreciation of the quite exceptional labour market circumstances of London in the 1980s.

Over many decades average earnings in the London area had stood at approximately 15 per cent above the average for the whole country, and those for the 'rest of the South East' had remained at around the national average. This was the case as recently as 1979. But by 1985 the average for the London area had risen to 21 per cent above, and by 1989 to 29 per cent above the national average. By 1989 the 'rest of the South East' had risen only slightly

to 4 per cent above the national average. Elsewhere in the country, however, there was no increase in the dispersion of regional pay. Inter-regional differentials, which had narrowed substantially in the 1970s, showed no sign of diverging in the 1980s. In summary, in an increasingly homogeneous national labour market, there has been a crisis specific to London. It has arisen from changes in industrial structure (notably the growth of employment in private services), from shortages in skills (with the government's neglect of training in the 1980s) and from housing shortages (exacerbated by restrictions on land use for building).

London-based policy-makers have responded to their local crisis as if it reflected a national problem. They have failed to appreciate that the scrapping of national agreements would expose non-metropolitan public service managers to the instabilities of local leap-frogging. Indeed, so accustomed have they come to a non-metropolitan labour force subdued by high unemployment that they have forgotten the crucial stabilising role that can be played by national agreements in highly unionised industries in times of rising expectations.

They have also misunderstood the decentralisation of bargaining that has been occurring in the private sector. Over the past twenty years private industry has tended to move away from following the industrywide 'national' pay agreements covering many employers in favour of agreements specific to individual companies. In addition, large companies have tended to decentralise bargaining internally. But it has not been a desire to exploit the opportunities of local labour markets that has driven these changes. Employers have been primarily concerned to relate pay more to the particular profit and productivity circumstances of different product markets.

Recent research makes clear that where pay bargaining has been decentralised within a private sector company, it has usually been on the basis of what the employees in question are producing, rather than where in the country they happen to be working. Within a particular product division, however scattered its sites are around the country, private sector managers are generally diligent in upholding a coherent pay structure. Indeed, this practice is likely to have been an important factor contributing to the trend of converging average earnings between regions outside the South East over the last twenty years. Their reaction to the more recent crisis in the London area has been particularly interesting. It has not been to scrap this policy, but to build up quite specific and identifiable London 'allowances'.

Functional decentralisation

We conclude from this that the rhetoric of 'decentralisation' makes no economic sense for pay in the public services if it is taken to mean geographic decentralisation. It will merely provide local managers with another reason for making pay concessions. In congested areas these will feed through into

increased housing prices. Decentralisation of pay fixing is feasible in the non-geographic, functional sense only insofar as the separate functions are truly independently accountable. For example, central government has recently given greater independence to, among others, the Inland Revenue, British Nuclear Fuels, and HMSO. But this will only lead to their having greater control over the link between their pay and the efficiency and the quality of their services if they also have the discipline of their own financial and performance targets.

Decentralisation of pay bargaining can have few benefits in hospitals, universities, schools, refuse disposal, policing, probation and the like, where the government, for good reasons, retains centralised financial control. There are no clear performance indicators for these services whereby geographical discrimination could be used as a management tool. The level of literacy, lawlessness, sickness, housing, insanity and so on of the local public depends upon many exogenous factors which would impede any attempt to measure the services' local 'value added' sufficiently accurately to be other than a very crude instrument. It would certainly be much too crude to be a sound basis for fixing local budgets and for bargaining local pay supplements.

As significant as the question of management control is the integrity of the public service professions. A national pay structure is an integral part of the means they use to maintain their professional standards. It is also crucial in facilitating geographical mobility of labour within the professions. Fragmented bargaining within individual public services could be expected to give rise to an increasingly uneven quality of service nationwide.

The first lesson from the private sector is thus that the management structures of the public services should not be distorted by a generalised response to the peculiar circumstances of London. These have always been unique, and can best be dealt with by unique allowances. The severity of these circumstances in the late 1980s is already diminishing as housing prices begin to balance out nationally.

The second lesson is that it is foolish to decentralise pay bargaining geographically in services which still possess clear national coherence in terms of finance, regulation, and occupational integrity. To attempt it is a prescription for leapfrogging comparability claims, geographical immobility, and low professional morale.

3 A coherent pay policy

The diversity of past experience has provided much from which policy makers might learn. We shall start with what it clearly advises against, and then move on to more positive lessons.

There can be no justification for returning to the old cyclical pattern whereby a period of public service pay restraint is followed by an explosive phase of catching up. Past episodes have always proved electorally damaging and they have greatly disrupted the efficient management of the services in question. The trade unions involved can hardly be expected to persuade their rank-and-file of the merits of peaceful bargaining when the lessons of the past suggest that disruption is the surest means of restoring eroded relative pay.

There are dangers in ad hoc inquiries into the pay problems of specific public services. Past experience suggests that they become unduly biased in favour of the occupation in question. The result is at best an exceptionally favourable pay rise which is used as a datum point for grievance for years to come. The 1974 enquiry into nurses' pay was a case in point. At worst the result is a rigid formula for future pay rises which other groups try to generalise into an economically unrealistic formula for the whole of the public services. The recent efforts of ambulancemen to attach themselves to the formulae given to police and firemen illustrates this.

The Review Bodies are an improvement on ad hoc inquiries because they have continuity from one year to another and thus have, to some extent, to live with their past decisions and to develop a degree of consistency over time. But their composition tends to make them advocates on behalf of the occupation they are exclusively concerned with, rather than dispassionate assessors of the broader scene. It would be no solution to create additional Review Bodies to cover services and occupations which do not yet have them.

No satisfactory public service pay formula can be based upon automatic indexation, whether to average prices or to average earnings. Apart from the problems such formulae pose for macro-economic policy, they deny employers a vital managerial tool. As we shall now discuss, without some discretion to bargain over pay structures it is vastly harder to achieve productive change. Some future government will have to deal with the lazy decision of the last

Labour government to index police pay. Apart from creating a serious anomaly, it has generated absurd debates about the supposed distinctive qualities of 'emergency services'.

The Labour Party's 1989 Policy Review contains a terse statement on public service pay: 'In the public sector, we shall provide clear guidance to management as to the financial structure within which they must operate and then leave them free, subject to our firm commitment to a national minimum wage, to negotiate wage settlements within that framework. If they fail to meet their fixed targets, they will not be given the soft option of raising prices, but will be replaced. On pay generally, we reject a pay policy or any form of pay norm as being unhelpful and unworkable'.

The Policy Review is thus proposing, in effect, a cash limit policy of the sort that fared so poorly in the early 1980s with the added spice that managing boards which allow large pay settlements will be sacked *pour encourager les autres*. But in public services, where the bulk of costs are labour costs, it is naive to pretend that the 'financial structure' can be established by the Treasury without an implicit 'pay norm'. The Policy Review thus effectively contradicts itself within three consecutive sentences, leaving no remaining shred of guidance on the matter. The brief reference to public sector pay in the 1990 document *Looking to the Future* fails to clarify the position.

Necessary conditions

Much can be learnt from the combined experience of Clegg and Megaw. It was in the terms of reference of the Clegg Commission that it should investigate 'the possibility of establishing acceptable bases of comparison with terms and conditions for comparable work', and in the short time available his Commission used two techniques. Where there were substantial numbers of employees doing like jobs in the private sector, the now defunct Pay Research Unit was used to carry out 'job-for-job' comparisons. Where there were not sufficient comparable jobs elsewhere, management consultancy firms were used to apply job evaluation techniques - a method already used by the Review Body for the Armed Forces. It was found that off-the-shelf measures developed for industrial jobs were inadequate to cope with the different characteristics called for in jobs such as nursing and teaching. Clegg did not have time to develop anything more appropriate.

The Commission's swan song was a General Report which analysed its experience in some detail and outlined a down-to-earth course of action for any official body that might later be called on to resume a similar task. It considered that suitable 'factor plan' techniques could be jointly developed which would meet the particular needs of the main public service professions, and suggested that this might be accompanied by parallel 'job-for-job' comparisons. It also recommended that there should be a single agency, such as a

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modified Office of Manpower Economics, concerned with gathering data and standardising definitions and job descriptions for all public service pay research. Clegg did not envisage the need for a large staff for a future standing commission, calling only for the addition of an independent job evaluation expert and the capacity to inquire into the industrial relations circumstances of particular cases.

On one crucial issue the Clegg Commission was adamant. It should not have been asked to act as arbitrator. It should not, in other words, have been required to award specific pay rises that were binding upon the parties concerned. This conclusion is of great significance. It is frequently argued that the public services should have 'no strike deals' whereby disagreements would end in compulsory arbitration. That might make sense if 'correct' pay levels were precise and uncontroversial amounts, which could be arrived at by some objective means. But they are not.

When arbitration becomes the normal means of pay fixing, the arbitrators in practice have to take steps to avoid inconsistency between different awards. In effect they have to develop their own tacit incomes policy. Under very special circumstances this may be necessary, but it does not prevent their becoming the target of discontent. It generates frustrations for employees and their unions who come to feel distanced from the pay fixing process and often lose touch with the harsher realities of bargaining. It tends to breed deeper resentment with employers, who accuse arbitrators of neglecting market forces and of creating inflexibilities, and with governments, who typically complain that the arbitrators ignore national economic priorities.

Clegg noted the well-established empirical finding that the interplay of labour market and product market forces leaves a substantial margin of indeterminacy within which pay levels might be fixed, and that it is the role of collective bargaining and managerial skill to determine where within that margin a settlement might be reached. He concluded that a standing commission could be expected to provide authoritative data on the range of comparable pay levels, but that it should leave it to the negotiators to achieve the precise settlement.

Private sector practice

It is here that the later analysis of the Megaw Commission becomes important. Megaw's view was that the Pay Research Unit had tried to follow job-for-job comparisons too slavishly. It was preferable to follow the example of large private sector corporations, keeping pay levels broadly in line with external trends, but placing first priority on maintaining 'settled and coherent' internal pay structures. These are the basis on which employees can be offered the career structures that will encourage them to take on new skills and responsibilities. They are of substantially greater motivational significance to the

employees concerned than the vague notions that they might have about 'fair' comparisons outside the organisation. The ability of managers to have control over their internal pay structure is essential for eliciting productivity from employees, whether through effort levels, changed working practices, or additional training.

In summary, Clegg's experience had much to say about the technical problem of making sensible external pay comparisons and also about the institutional circumstances under which they could be made effective. Megaw's contribution was to demonstrate that less need be demanded of these external comparisons. The need is not to bind internal pay levels tightly to external comparisons, but to make the bindings sufficiently few and sufficiently loose to protect the integrity of the internal pay structure.

Institutional implications

What implications can we draw from this discussion of past experience?

- The first is that the issue of comparability cannot be ducked. Sooner or later it has always become a central issue in fixing public service pay. If it is left till later comparability has usually been applied rigidly, expensively, and inefficiently as a panic measure.
- The second is that there are good reasons for not applying comparability principles in dogmatic detail. A broad degree of comparability should be preserved but the integrity of an internal pay structure should not be subordinated to specific external comparisons. There should be a margin within which managers can protect the motivational potency of internal pay structures and within which employers and employee representatives can bargain over domestic issues of fairness and flexibility.
- The third is that the separate public services should be entitled to regular pay reviews - probably annually - for which they should have uncontroversial and sound comparability data. These would, of necessity, be retrospective, based on settlements already reached elsewhere, so that public service bargaining could be clearly seen to follow, not lead, the pay fixing process. But these data would provide the background for bargaining and not, it should be emphasised, an automatic linkage. It is possible to envisage sound managerial and economic reasons why a particular year's settlement for one public service might be either below or above whatever level might be suggested by the crude use of comparability.
- The fourth is that a single commission should oversee all public service pay survey work, superseding the Review Bodies and possibly incorporating the Office of Manpower Economics. It would have the capacity to develop appropriate job evaluation expertise and a small research staff to enquire

into the industrial relations circumstances of particular public services when, for example, pay arguments revolved around issues of pay structure reform or retraining.

- The fifth is that this body, which might be called the 'Public Services Pay Advisory Commission' must be seen to be independent. Its independence could be ensured by a governing council like that of the Advisory, Conciliation and Arbitration Service, ACAS, with experienced individuals some of whom would be nominated, but not delegated, by the CBI and TUC. As specific public services came up for consideration it might wish temporarily to co-opt from a panel of people with appropriate specialist knowledge. It would be of supreme importance to protect the data that the Commission provided from partisan (or government) doctoring. It would be expected to account for itself and its methods to Parliament in an annual report.
- The sixth is that this Advisory Commission must be seen as permanent. It is only by assuring the public service unions that their pay will not again be left behind that they can be expected to negotiate reciprocal assurances on industrial peace and on co-operation with change. An appropriate constitutional form might be a royal charter. It is worth recalling the recent history of bipartisan support for such matters. At considerable cost to their new governments, Wilson honoured Heath's 'threshold payments' in 1974 and Thatcher honoured Callaghan's Comparability Commission in 1979. Public service unrest has such damaging electoral consequences that governments are likely to acquiesce in a bipartisan solution so long as they are convinced that the operation of the Commission is not inhibiting public service managements from innovation.

The longer term

The British public services are (with the exception of the Armed Forces) highly unionised. The purpose of the Commission would be to make collective bargaining more effective rather than to displace it. It would be to allow public servants the opportunity to participate in keeping their pay in line with pay levels in the economy they serve without being forced to disrupt the services to which their careers and self-esteem are overwhelmingly committed.

Such a body might be expected, over time, to develop a role as honest broker in developing a coherent strategy in public service pay. This could, for example, include the development of common views on the relationship between the employer's obligation to provide training and the employees' expectations of career progression. The Commission might encourage collective discussions among public service employers on matters of common interest. It could develop close working links with the public service unions through the TUC.

This may be felt to be a weak body, unable to solve disputes at a stroke,

unwilling to sort out the really tough questions of relative pay such as whether an experienced school teacher should earn more than an experienced police officer. That is deliberate. The public services are inextricably intertwined and there are important political questions involved in the choice of priority. We mentioned earlier the relative emphasis between prevention and cure. Should some emphasis be shifted from dealing with illness through the health service to promoting hygiene through local authorities? Do we put resources into law enforcement and incarceration that would be better spent on giving potentially delinquent young people training and career opportunities? These are, and must remain, questions for Parliament and the fact that they may be reflected in relative pay levels between public services is not a reason for shuffling them off on an unelected Commission.

The public services pose a distinctive set of problems to any government as ultimate employer. Most of them are overwhelmingly the dominant provider of training for their employees and the dominant provider of their service, and they face no substantial overseas competition. A major advantage of avoiding rigid comparability is that a government would have a degree of discretion in bargaining over relative pay between the services which could reflect its long-term plans in training for, and providing, the services in question.

Implementation

There is no reason why a Public Services Pay Advisory Commission could not be established rapidly with the existing experienced staff of the Office of Manpower Economics and the Review Bodies. Its survey work, while rigorous, would need to be less detailed than hitherto. Our earlier statistical analysis showed that some groups are likely to be identified as having fallen seriously behind non public service comparators - the clearest cases being in local

Table 4 - Cost estimate for restoration of 1981 relative pay levels

	wage and salary bill £m	% change	cost of increase £m	main employer
General Public service	5638	3	169	CG
Defence	7815	3	234	CG
Public Order/Safety	6136	1	61	LA
Education	14080	10	1408	LA
Health	12420	3	373	CG
Social Security	4084	5	204	LA
Housing/Amenities	1694	7	119	LA
Recreation/Culture	1171	7	82	LA/CG
Other	2181	3	62	LA/CG
Total	55219	4.9	2713	

CG = Central Government, LA = Local Authorities. Source: UK National Accounts 1988.

government and education. But others, such as police, prison officers, ambulance staff and the medical professions, would need little special attention in terms of pay. This is not, of course, to deny other discontents that they might have as a result of the severe depletion of complementary resources. Many nurses would say that satisfactory pay levels are not enough to ease the hurt caused to their professional pride by closed wards and long waiting lists.

What would be the cost of implementing a policy of this sort? Table 4 draws on National Accounts data for 1988 to provide the basis for a very crude estimate of the cost of restoring the relative position of public service pay that prevailed in 1981 after the completion of the Clegg Comparability Commission's work. The table simply estimates the cost of raising the wage bill of each public service sector by the percentage necessary to restore the pay of the major occupational groups, relative to their private sector equivalent, to the position that prevailed in 1981. It takes no account of any additional costs which might result from the Labour Party's promised minimum wage. Such legislation would be a quite separate matter from comparability and would, in any case, affect public and private sectors alike.

The table implies that the overall cost of restoring broad comparability would probably not amount to more than a 5 per cent increase in the pay bill of the public services as a whole. At 1990 prices it would be of the order of £3.2 billion, equivalent to 40 per cent of tax relief on mortgages, or 14 per cent of military expenditure, or 1.5 % of total government expenditure. These rough figures provide a feel for the size of the problem.

It will be apparent that half the total cost of restitution comes from remedying past neglect of education. This highlights the fact that the cost of implementing this policy should not be seen narrowly as the cost of a public service pay policy, but more broadly as a necessary part of Labour's central policy commitment to a better educated and more compassionate society. In other words, the estimated cost of something around £3 billion for implementing this public service pay policy should not be seen as a separate additional commitment for a Labour government, but as largely a part of its existing commitments. Even so, the additional expenditure involved is substantial and serious consideration would have to be given to the phasing in of these pay increases.

Any costing exercise is best followed by some reflection on the consequences of inaction. If nothing is done it is highly likely that there will eventually be growing unrest in the public services. The electoral damage threatened by this will, on past experience, provoke the severe economic costs of a crisis reaction. In the longer term a failure to act will lead to the social and economic costs of worsening public services: public squalor, declining educational standards, and an increasingly desperate underclass. Remedying a decade's neglect of public investment in people will inevitably be expensive. But the costs of inaction are even greater.

A public services pay policy

Over 5 million people are employed in public services in Britain - one employee in five. Despite this, no government has developed any long-term strategy for public services pay. A major victim of this casual approach has been the quality of public services offered.

William Brown, Professor of Industrial Relations at Cambridge University, and Bob Rowthorn, Reader in Economics at Cambridge, analyse what has happened to public service pay in recent years, and the extent to which the pay structure has been distorted. They look at the problem of pay-fixing, and recommend the creation of a Public Services Pay Advisory Commission, similar to ACAS. This should be permanent, superseding existing Review Bodies, and have the capacity to develop job evaluation expertise. And it should be independent from government control.

The authors conclude by looking at the problems of transition to a more coherent policy. They argue that the cost of restoring broad comparability with the 1981 position would not add more than 5% to the public services pay bill. Half of this amount would be to remedy past neglect of education, and so would be central to Labour's strategy, rather than an additional commitment.

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