

Public and private sector earnings: fact and fiction

Comparisons of earnings levels between employees in the public and private sectors have returned to the front pages in recent weeks, after the publication of a report highlighting the gap in headline average earnings between publicly and privately-employed workers. Although the use of official statistics can give this argument credibility in the eyes of the media, the differences between the public and private sector workforces mean that this sort of comparison is far from straightforward. In this article we explore some of the reasons why.

Front-page newspaper headlines announced in May that public sector workers were ‘more than 40 per cent better off’ than employees in the private sector. These headlines were prompted by the latest attempt to compare public and private sector earnings. In the event, the different make-ups of the public and private sector workforces mean that these attempts almost always fail to compare like with like, and while they could be seen as a justification for the Government’s public sector pay freeze policy, their value when it comes to benchmarking public sector pay against the private sector is questionable.

The report from the Policy Exchange think-tank that sparked the recent ‘40 per cent’ headlines follows previous comparisons, in that it uses official earnings data to make these sectoral comparisons. However, use of this source begs the question of which earnings measure to use. The Office for National Statistics (ONS) produces an Annual Survey of Hours and Earnings (ASHE), which is typically used for these comparative studies, but within this release are some 25 separate tables, each broken down into 10 parts. These show different patterns and measure different criteria. It is little surprise, then, that a statistic can usually be found to support almost any argument about earnings.

Public and private sector earnings 2010

Depending on which measure is used, ASHE data in 2010 can be used to tell a range of stories about public and private sector average earnings. For example, taking median gross hourly pay for all employees it shows average earnings 35 per cent higher in the public sector, at £13.54 an hour compared to £10.06. Taking gross annual earnings at the mean, however, ASHE shows 5 per cent higher income in the private sector, at £27,195 compared to £25,892.

These outcomes are not incompatible, they simply measure different things. Median hourly pay shows the rate paid to a worker at the midpoint of a group’s

earnings distribution, and is less affected by small numbers of extremely high earners. It is useful for finding a pay rate for a ‘typical’ worker within a fairly homogenous group. Mean annual earnings, meanwhile, show the total amount of income per employee for a group of workers in a year. This gives less of an idea of the ‘typical’ rate, but where there is a wide distribution of individuals and no single ‘typical’ worker to measure, it can give a better idea of the overall income of the wider sector, including bonuses, paid overtime and additional hours worked.

Most measures within ASHE show higher average earnings in the public sector than the private, especially those measures that remove the impact of bonus pay, which is much higher in the private sector. But whether we choose to look at the hourly rate for a particular worker or the total annual earnings per employee across the two sectors, a comparison is only worth making when there are meaningful comparators. The key structural differences between the two workforces mean it is questionable whether this is ever possible.

Sectoral differences

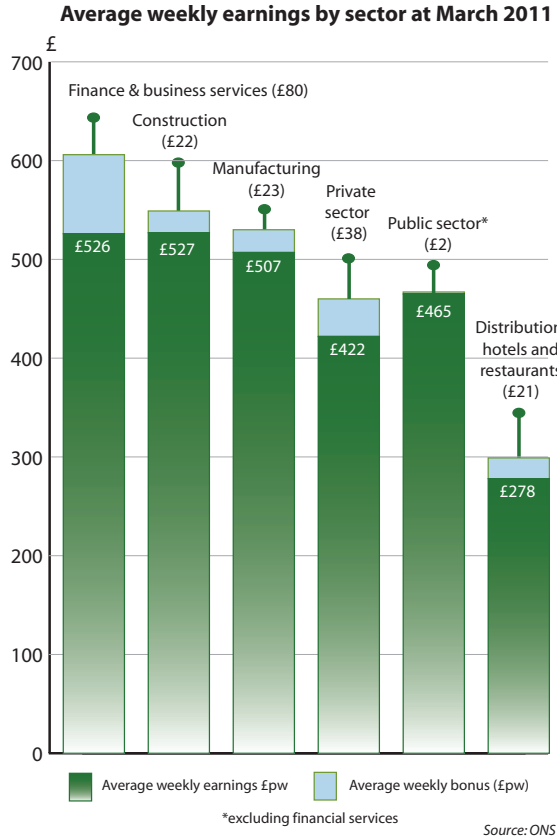
Although individuals in the public and private sectors may sometimes be able to identify similar roles within their respective organisations, the sectors as a whole have very different profiles. The public sector employs a higher proportion of professionally-trained staff, undertaking specific service roles such as those within healthcare, education and the emergency services. As a result, a much larger percentage of the public sector workforce is educated to diploma or degree level. Furthermore, unlike the private sector, the public sector workforce is around two-thirds female. Finally, as Will Hutton recognised in his report on fair pay, the differential between the top and bottom earners within an organisation is also much smaller in the public sector than the private sector.

Public and private sector average earnings 2010				
	All employees – median		All employees – mean	
	Public sector	Private sector	Public sector	Private sector
Hourly pay – gross	£13.54	£10.06	£16.08	£13.94
Annual pay – gross	£22,902	£20,575	£25,892	£27,195

Source: ONS

The private sector in comparison contains a much wider variety of employees, with a much higher ratio of unskilled workers with few qualifications, but also much larger rewards available to those at the top of their professions. It has the largest number of the highest-paid employees (in finance and business services) and

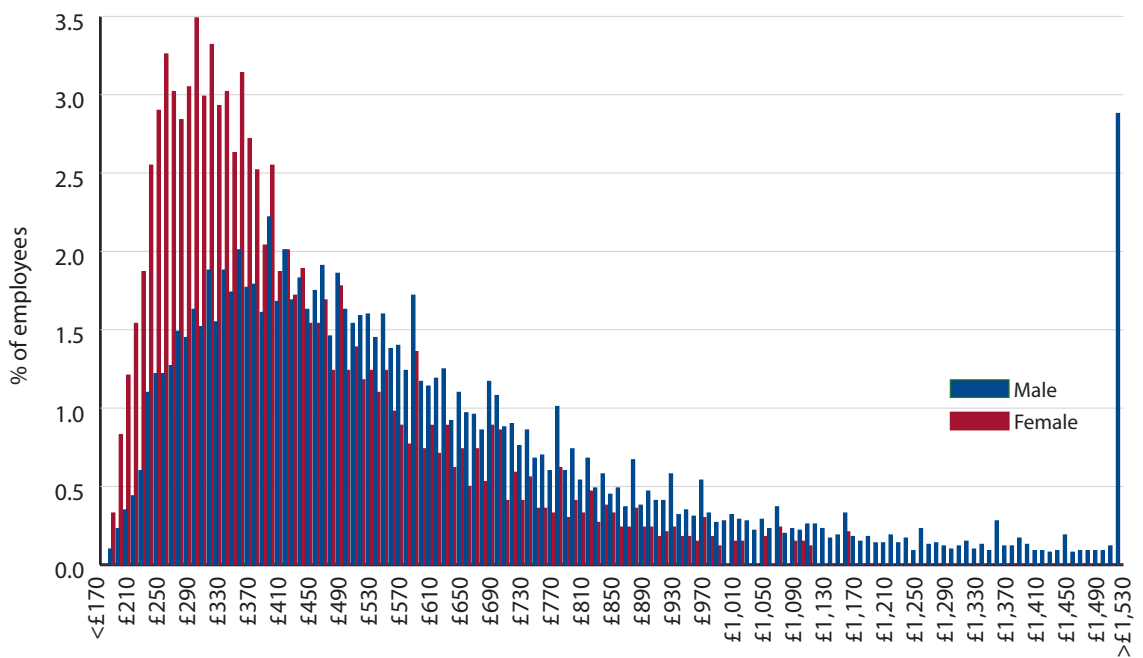
the largest number of the lowest-paid (in retailing, hotels and restaurants and cleaning), as well as all those in between. Average Weekly Earnings (AWE) figures from the ONS, left, highlight the differences in income levels within different parts of the private sector, as well as showing how the averages for each of these sectors compare with the public sector as a whole.



These structural differences produce predictably different income distributions. In the public sector, with a larger proportion of skilled, professional service jobs within a structured pay scale, average earnings are bunched closer around the midpoint. It may also be that traditionally low-paying jobs are better remunerated in public sector roles where there is greater responsibility. Cleaning in hospitals or catering in schools, for example, might attract a premium for the importance of those jobs compared to cleaning or catering in the private sector or elsewhere in the public sector. As well as far fewer low-paid workers at or near the level of the minimum wage in the public sector, there are also far fewer individuals earning the very high wages that are achievable in parts of the private sector.

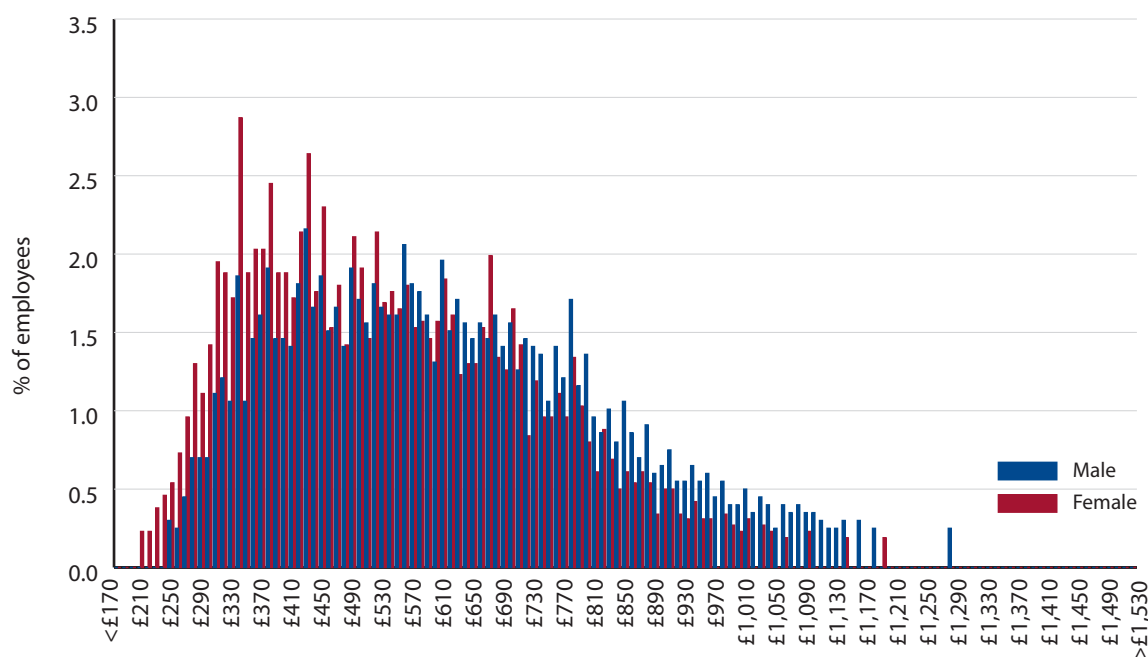
The private sector, by contrast, has a much greater proportion of workers at the lowest end of the distribution, with very low levels of income, particularly among women. However the distribution is then much more evenly spaced, with a long 'tail' of individuals with earnings many times that of the national average. In other words, the potential for both very high and very low wages is much greater in the private sector.

Private sector distribution of gross weekly earnings for full-time employees, April 2010



Source: ASHE/IDS

Public sector distribution of gross weekly earnings for full-time employees, April 2010



Gender profiles

Perhaps unsurprisingly, average earnings in the public sector for women are significantly higher than for women in the private sector on almost all measures in ASHE, while the gap for men is much smaller. This difference is largely a result of the differing jobs typically undertaken by women in the two groups. In the private sector, the female-dominated roles tend to be lower-skilled and significantly lower-paid, including the five 'c's of catering, cleaning, cashiering, clerical work and caring. In the public sector, by contrast, female-dominated roles include caring and clerical work but also higher-skilled jobs, such as nursing or teaching, which require professional qualifications and attract higher rates of pay.

This key difference can be seen in the earnings distribution graphs above. The largest proportion of female earners in the private sector have incomes not much above the level of the minimum wage, whereas in the public sector the largest proportion of women are distributed around a higher earnings level of £516 a week, closer to the peak distribution of male earnings in the sector at £607. This illustrates the fact that the 'gender pay gap' has been significantly wider in the private sector than in the public sector since the ONS began publishing this calculation. In 2010, the ONS reported the median gender pay gap as 10 per cent for full-time employees in the public sector, compared to 19.8 per cent in the private sector.

Occupational comparisons

If comparing aggregated figures for the public and private sectors as a whole is unhelpful, is there a way to weigh up pay for specific jobs with comparable roles?

The Policy Exchange report into public and private sector earnings purported to do this, by taking job categories within the ASHE figures and comparing public sector average earnings for each occupation with the equivalent figure in the private sector.

According to Policy Exchange, some 288 jobs in ASHE are 'comparable categories', of which 167 (58 per cent) show higher average earnings in the public than the private sector on the measure the group used. However, an ONS occupational classification is not in itself any guarantee that jobs are being compared on a like with like basis. For example, one of the occupations highlighted by Policy Exchange in their report is that of 'sports and leisure assistants', showing a higher average earnings level in the public sector workforce. From this, we might assume that these figures compare earnings for employees in gyms and leisure centres, and show that those run by councils pay higher wages for similar skills than those run by private operators.

But this would be an oversimplification. A closer look shows that the ONS code for 'sports and leisure assistants' covers no less than 57 separate job titles. These include gym assistant, pool attendant and lifeguard, but also job titles as diverse as professional gambler, croupier, golf caddie, master of ceremonies, wardrobe mistress, and a range of roles in museums, such as education assistants and guides. This demonstrates that the notion of 'comparable jobs' is harder to measure than some commentators might wish. The presence of museum workers in this category demonstrates a wider point – that even within the same occupational category, workers in different sectors may be doing entirely different jobs requiring different

skills. For example, we can safely assume that museum guides will be predominantly employed in the public sector, and this job title would cover employees with a quite different range of skill sets and qualifications to those of a gym instructor.

Another category highlighted by Policy Exchange is that of ‘primary and nursery education teaching professionals’. According to their chosen measure, median annual pay for this employee group is £33,140 in the public sector and only £21,159 in the private sector. But as has been pointed out elsewhere, this grouping of primary school teachers, who are predominantly employed in the public sector, with nursery teachers, of whom a greater proportion are employed by private businesses, makes any attempt to compare public and private earnings practically meaningless. Even if nursery and primary workers were perfectly balanced between the public and private sectors, a look at the job titles going into this occupational category reveals that it lumps together all teaching professionals including headteachers, regular teachers and dance lecturers, and even monks and nuns attached to religious primary schools.

Examining the collected average earnings of a group including nursery teachers, primary school heads and affiliated monks or nuns may provide a useful snapshot of aggregate earnings in pre-secondary education. But it is emphatically not useful for comparing earnings between the public and private sectors, since no attempt is made to give weight to the numbers of employees in different jobs. ASHE occupational categories may provide a means of benchmarking within a group of employees, but cannot be used in this way to compare sectors in which the categories have different compositions, different job titles, different skill sets and different responsibilities.

Outsourcing

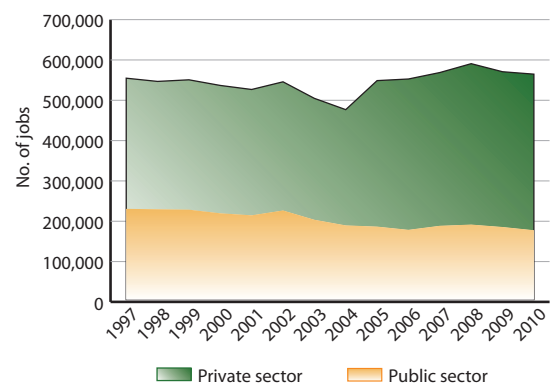
One major problem with any attempt to compare average earnings in the public and private sectors is the trend for public organisations to outsource lower-paying, lower-skilled jobs such as cleaning and catering to private contractors. This has the effect of cutting out a large proportion of low-paid, often female employees from the public sector workforce and dumping them wholesale into the private sector count. Outsourcing exaggerates the trend identified above for the public sector workforce to be concentrated around the median, and the private sector to have a large proportion of low-paid employees, particularly women, earning around the level of the minimum wage.

Outsourcing low-paid jobs is not a new phenomenon, and the trend can be traced back to at least the 1980s, with a long-term impact on the earnings distribution ever since. ASHE data has only been collected since 1997, so misses much of the early period of outsourcing,

and even in its 14 years of collection has undergone several changes of methodology, as well as changes to occupational codes. Nevertheless, it is possible to track the ONS occupational category of ‘cleaners, domestics’, which covers most general workplace cleaning jobs – including some of the public sector roles that have undergone extensive outsourcing.

Even since 1997 we can track what appears to be movement in this role from the public to the private sector. In 1997 there were 225,000 jobs in this occupational role in the public sector, falling to 172,000 in 2010. In the private sector, meanwhile, there were 324,000 jobs in the ‘cleaners, domestics’ category in 1997, rising to 387,000 in 2010. Although the changes in methodology and classification means these figures must be treated with some caution, they broadly suggest that some 20 to 25 per cent of public sector cleaning jobs have transferred to the private sector over the last 14 years.

Public-private sector split in ‘cleaners, domestics’ category 1997–2010



Source: ONS

Nationalised banks

If public sector outsourcing has moved low-paying jobs from the public to the private sectors, artificially lowering average earnings in one and raising them in the other over a long period, a more recent phenomenon has had a similar impact at the top of the earnings distribution. In 2007 the ONS reclassified Northern Rock as a public sector employer, followed in September and October 2008 by Lloyds Banking Group, Royal Bank of Scotland Group and Bradford & Bingley after full or part nationalisation of their respective businesses.

This reclassification resulted in more than 200,000 finance sector employees moving from the private to the public sector count. The financial services sector is typically the highest paying in the economy, with average earnings significantly above the private sector average, so it is fair to assume that this will have had an upward impact on public sector average earnings.

The tables below show the effect of this reclassification on two particular categories of financial managers within the public sector count. In each case the job numbers at least doubled over four years, and despite year-on-year fluctuations, average earnings in each category rose at a faster rate than elsewhere in the public sector due to the influx of finance sector workers.

Financial managers and chartered secretaries, public sector – annual gross pay, all employees

Year	Number of jobs	Median	Mean
2007	20,000	39,880	43,171
2008	24,000	43,038	47,780
2009	36,000	–	54,541
2010	40,000	45,007	49,695

Source: ONS

Financial institution managers, public sector – annual gross pay, all employees

Year	Number of jobs	Median	Mean
2007	19,000	35,336	39,759
2008	8,000	36,416	–
2009	53,000	41,466	47,113
2010	53,000	41,287	46,423

Source: ONS

Civil service comparators

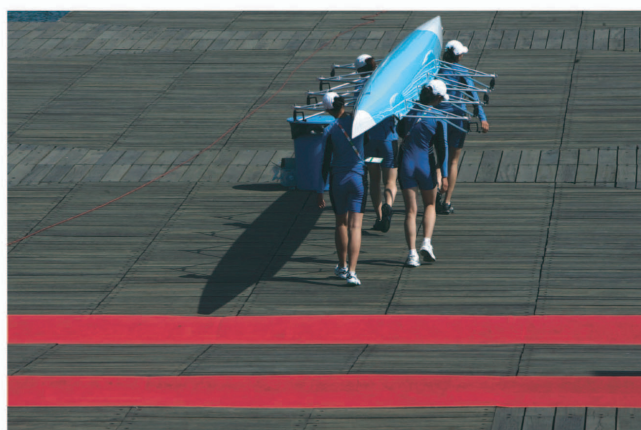
Although job content is not the same, this does not mean there are no roles across the public and private sectors that are comparable in terms of how they are evaluated, i.e. by job weight. For example, similarly-weighted jobs exist in the administrative and office functions of large private sector firms such as banks on the one hand, and in the civil service on the other. One such piece of research undertaken by IDS in 2009 looked at civil service administrative and executive grades, and used job level analysis in an attempt to find comparators within the public and private sectors. Using job levels meant that the project attempted not only to find similar roles, but to match them for the levels of responsibility and the skills and experience needed for the role.

This research suggested that within the lower-paid administrative civil service grades, pay at the minimum starting rate was in line with or slightly higher than pay for similar roles in the private sector. However, at the midpoint and maximum for these lower-paying grades, civil service pay lagged behind that in the private sector. At the higher level civil service grades measured – the executive officer levels – pay levels are behind those of private sector comparators. Although this research was undertaken in 2009, and the picture may since have changed, it provides at least some counter-argument to those who rely on ASHE to suggest that public sector workers have enjoyed a sustained and marked earnings lead over their private sector counterparts.

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