

# Some Reflections on Public Sector Pay

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# Outline of presentation

- Recap on benchmarking
- Public-private earnings differentials
- Public sector pay: dimensions
- Recruitment and retention (R&R)
- Putting R&R front and centre
- Other issues

# Benchmarking revisited

- Background: perceptions and expectations
- Motivation: a better system; fairness vs private sector
- Research methodology
- Outcome: average award; range of awards; cost
- Critique: lack of evidence; lack of transparency; an elaborate charade?

# Public-private earnings differentials

- The pioneers (!): Boyle, McElligott and O'Leary (2004)
- Subsequent work: Murphy (2007); Kelly et al (2008); CSO (2009); CSO (2012); CSO (2016)
- Growing influence on the process?
- Limitations of analysis
- Usefulness and relevance

# Estimates of public-private differential

- Boyle, McElligott and O'Leary: **13% (2001)**
- Murphy: **8-10% (2003)**
- Kelly, McGuinness and O'Connell (2008): **7.7% (2003); 23.5% (2006)**
- CSO (2009): **12.6-19.1% (2007)**
- CSO (2012): **10.8-25.1% (2007); 11.6-21% (2009); 6.1-18.9% (2010)**
- CSO (2016): **2.9-9.5% (2011); 2.1-8.4% (2012); 0.2-6.3% (2013); -0.7-5.4% (2014)**

# Relevance of estimates of differential

- 'The precise estimated level of the premium is too sensitive to model specification to be considered definitive, but the **trend** in the premium and its **distributional pattern** are more stable with respect to what is included in the model'. PSPC Report
- Distributional pattern: at the 90<sup>th</sup> percentile of the income distribution the public sector showed an **11% premium in 2007** and a **13% discount by 2014\***
- At what point did the earnings gap become a discount? Well above the 90<sup>th</sup> percentile in 2007; at the 80<sup>th</sup> percentile in 2008; 60<sup>th</sup> percentile in 2010; 50<sup>th</sup> percentile in 2014\*

*\* NB: These estimates are based on a specification that tends to understate the overall public sector premium*

# Effects of FEMPI and its unwinding

(% of 2015 salary)	23,000	32,000	61,000	70,000	100,000	120,000
<b>FEMPI reductions</b>	7.1	9.7	13.7	21.0	23.9	24.9
<b>LRA benefits</b>	8.7	5.9	3.1	6.6	6.8	7.0

# PSBB and PSpC: Terms of Reference

## PSBB

- Recruitment and retention
- Modernisation and efficiency
- Equity between public and private sectors
- Competitiveness and sustainability

## PSBC

- State of national finances and competitiveness
- Other government spending priorities
- Reform agenda
- Equity considerations
- Recruitment and retention

# Public sector pay: multiple dimensions

- **Macro/fiscal:** competitiveness and sustainability  
state of national finances  
other government spending priorities
- **HRM:** modernisation and efficiency  
reform agenda
- **Labour market:** recruitment and retention

**Where does equity fit into this?**

- **Political**

## What dimensions have dominated?

- 2002: all about fairness
- 2017: mostly about macro

**It's never been about recruitment and retention**

# Recruitment & retention: a history (of neglect)

PSBB Mark I: 4 paras of a 278 page report

“The Body was concerned at the inability of some public service employers to provide adequate information about vacancy levels and the effect of their recruitment policies over time.”

# Recruitment & retention: a history (of neglect)

PSBB Mark II: 6 pages of a 240 page report

- Limited discussion of R&R issues by sector
- “Unfortunately, the difficulties identified by the previous Body in regard to a lack of adequate information still remain. Responses by public service employees in some areas to requests for information reveal a paucity of consistent, reliable and up-to-date data across the public sector on the issue of recruitment and retention”\*
- ICTU’s Public Services Committee did not specifically address R&R

*\* An Garda Siochana and the Defence Forces noted as exceptions*

# Recruitment & retention in the PSPC Report

- PSPC: 11 pages of a 148-page report
- Several references to data limitations (esp. in relation to retention)
- No evidence of general difficulties: Civil Service; Education sector; An Garda Siochana; Local Authorities
- Specific difficulties: Hospital Consultants; Nursing; Radiographers; Psychologists & Paramedics; Public Dentistry; specialist grades in the Defence Forces; senior management & specialist grades in the Civil and Public Service
- Remuneration not the only issue

# Putting recruitment and retention front and centre

- 'One size fits all' not the answer
- There is no labour market in 'public sector workers'
- Need for a differentiated approach
- 'One stop shop' or separate exercises?
- Centralised or decentralised?

# Implications of a more flexible approach

- Separate reviews imply basic deal plus?
- ...and higher public sector pay bill?
- Experience of other countries
- Ireland has exceptionally centralised HRM system
- Implications for public sector reform generally

# OECD 2008 Report: *Towards an Integrated Public Service*

'A recurrent feature of public sector modernisation in OECD countries is a **growing need for more differentiated pay setting**. Both the labour market and public sector activities have become less homogeneous and public administrations need to develop pay setting arrangements that are sufficiently flexible to enable an adaptation of pay systems and structures to the specific situation and requirements of each organisational unit'.

As pay systems become more flexible, **centralised pay setting becomes less rational and efficient** since differentiation has to be based on information provided by and held at local level.'

## OECD 2008 Report (contd)

- 'Ireland has a centralised HRM system with an exceptional level of *ex ante* controls on staff numbers, grades and compensation in comparison with other OECD countries.'
- 'Detailed *ex ante* controls are costly in that they slow down responsiveness. It takes time for staff to comply and they [the controls] drive out initiative and desensitise managers to results.'
- 'The performance model calls for a relaxation of financial and managerial input controls and an increase in managerial flexibility in relation to spending and staff'.

**A high performance culture calls for less command & control and more empowerment, accountability and responsibility for local management.**

## A few other issues

- Need for decompression of pay structure
- Equal pay for equal work?
- Regional variation: a Dublin allowance?
- The pension-salary trade-off