Inequality

The price of **austerity**

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The case for fair pay

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“Over the last three decades, an increasing share of national income has gone to bankers and business executives”

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Foreword

The government’s economic policy of pay austerity – the pay freeze followed by the pay cap of 1% – is not working. The price we are having to pay is growing inequality. Exorbitant energy bills, increased travel costs, benefit and tax credit cuts, VAT increases and falling wages have resulted in high levels of personal debt, just to make ends meet. It has also led to weak consumer spending, sluggish demand, and an under performing economy. Without increasing wages, we are not able to break out of this destructive cycle.

This is not just our analysis but the recent OECD report, ‘Divided We Stand’, argues that the wage squeeze and high levels of income inequality are at the heart of Britain’s economic troubles. Polly Toynbee notes in the Guardian (19 March 2012) that the gap between the income of the top 10% and the bottom 10% has multiplied 14 times in the last 25 years.

Over the last three decades, an increasing share of national income has gone to bankers and business executives. The diminishing share of GDP going to workers has led even the IMF* Managing Director to acknowledge the need for strong trade unions and policies that increase the share of national income going to workers.

The widening wages gap has been worsened by cuts in benefits and tax credits as low incomes fail to keep pace with the rise in earnings. With the obscene income differential between the top earners and the rest, PCS believes we urgently need to increase public sector pay. Britain is creating a profound and damaging economic segregation.

Over the coming months we need to win these arguments and force the government into delivering fair pay for public servants. This publication outlines the case against low pay and the pay freeze.

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Hugh Lanning
Deputy general secretary

*April 13, 2011, The Global Jobs Crisis – Sustaining the Recovery through Employment and Equitable Growth

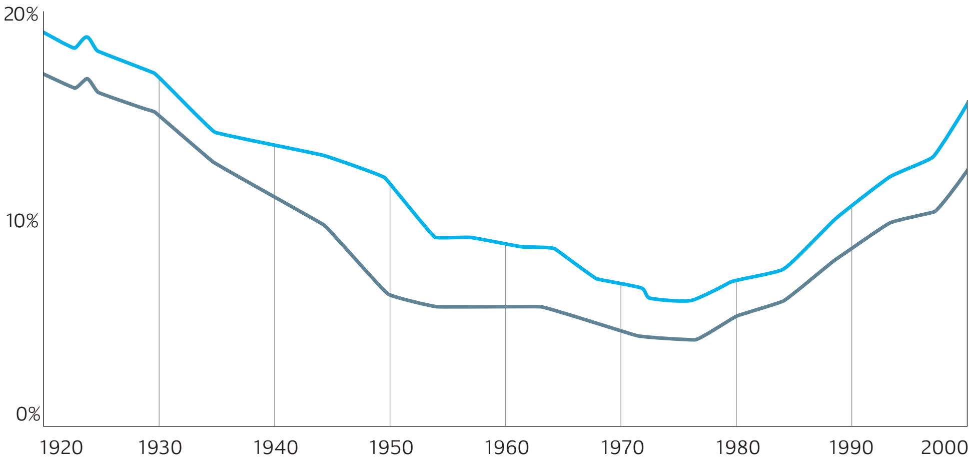
The price of inequality

Thirty years ago the UK was one of the most equal countries in the western world. Today the UK is a very unequal country, and this inequality is the result of a major shift in income distribution over the last three decades. The graph below illustrates how after fifty years of increasing equality, the last three decades reversed this trend.

Research by the High Pay Commission found that the top 0.1% of earners now command 6.5% of the national income, which could expand to 14% by 2030 if current trends continue. Looking beyond income to actual marketable wealth, the richest 1% of the UK's population now own 21% of marketable wealth, whilst the bottom 50% own just 7% of the wealth.

A recent TUC report, Britain's Livelihood Crisis, provides a comprehensive analysis of the decline in wage share of middle and lower income earners in the last thirty years. The report is very clear on the reasons for this inequality, and the manner in which it has come about: "market capitalism led to successive waves of cost cutting, downsizing and restructuring bringing decades of upheaval for the labour force while handing fortunes to the new financial oligarchy on a scale not seen since the 19th century".

Income share of top 1% in UK before tax after tax



Source: Dorling, D. (2011, page 292)

Inequality and change 1970–2005 UK annual income before tax

	Number of people	Average income 1970	Average income 2005	Change 1970–2005
Top 0.1%	47,000	£98,193	£780,043	**694%**
Top 0.1–1%	420,000	£55,535	£155,832	**181%**
Top 1–10%	4.2 million	£20,525	£49,960	**143%**
Bottom 90%	24.8 million	£11,400	£16,837	**48%**

Source: Calculation based on figures given in M Brewer, L. Sibieta et al, Racing Away? Income inequality and the evolution of high incomes, Institute for Fiscal Studies, 2008

The table above clearly illustrates how the super-rich have seen their pay accelerate between 1970 and 2005 whilst those at the bottom have been subject to much slower increases. For example the top 0.1% have seen a change of 694% whereas the bottom 90% have only seen a change of 48% – an increase of £690,000 compared to £5,000.

Despite government rhetoric, the public sector does not have to accept a pay freeze or cap as a prerequisite to paying off the national debt or enhancing economic performance. Holding down pay actually deepens the crisis. Furthermore, as shown in the book "The Spirit Level: Why Equality is Better for Everyone" by Richard Wilkinson and Kate Pickett there is overwhelming evidence that the high level of inequality in the UK is responsible for lower life expectancy, increased infant mortality, lower degrees of trust between citizens, and a range of other negative outcomes in the nation's health and social cohesion. It is also unjust.

"Thirty years ago the UK was one of the most equal countries in the western world"

The bonus bonanza

The problem of the poor is the rich. As a result of the government's economic policy, 99% of us are paying for the greed and incompetence of the banking and financial sector. The government delivers wage and pension cuts for public servants and demands that no one should be paid more than the prime minister. Yet no one demands the same sacrifices of private sector directors, even though their excesses are far more damaging to social cohesion.

A survey by Income Data Services shows that directors of FTSE 100 companies have seen their pay rise by 55% to an annual average of £4.9 million each. FTSE 100 directors received average bonuses of £701,512 – more than many people collect during their entire working lives. This is an increase of 34% from 2010: £462,998 to £701,512.

Bankers have brought the economy to its knees, but still get their executive bonuses. In 2011 Barclays paid more than £2 billion in bonuses. Goldman Sachs paid around £8 billion in executive pay and bonuses. The semi-nationalised Royal Bank of Scotland had a third quarter pretax loss of £1.4 million, but paid out £2 billion in bonuses. The gamblers – investment bankers – received an average bonus of £110,000. The new boss of the state-funded Lloyds Banking group is to collect an estimated package of £8.3 million.

Photo: Jess Hurd/reportdigital.co.uk

> **"The problem of the poor is the rich"**

Tesco is a private company similar in size to larger parts of the public sector, and its 2010 annual accounts show that the average salary of its 372,338 full-time equivalent employees, grossly inflated by the inclusion of executives, was just over £16,500. The average for ordinary workers will be considerably less. Many Tesco employees have to apply for tax credits and social security benefits to keep their heads above water. Yet chief executive Terry Leahy picked up £17.9 million in pay, bonuses and share options.

The millions spent on bonuses at RBS which is the 82% taxpayer-owned bank, would be better spent on keeping vital public services running. Remarkably, the bonuses paid out by nationalised banks exceeded those paid out to every other public sector worker in the country. It's yet more evidence that we are not all in this together.

Women hardest hit

Women, who already experience economic inequality, are the hardest hit by the pay freeze and cuts. The austerity measures imposed by the government are having a disproportionate impact on women's incomes, jobs and the public services they use. According to the women's rights group the Fawcett Society, women will shoulder three-quarters of the pain. Roughly 40% of working women are in public sector jobs hit by the pay freeze. As women make up 85% of part-time jobs in the civil service and a similar number of posts in other public services they are also highly vulnerable to job losses. The treasury predicts its cuts will lead to at least 500,000 public sector jobs losses and between 600,000 and 700,000 jobs in the private sector being lost by the end of this parliament.

It is also women who use most of the long list of social security payments that are being cut. The cutting back of the Sure Start maternity grant will affect 262,000 women. The decision to freeze child benefit will affect a disproportionate number of women. Housing benefit reform will impact on 2.9 million women. Then there are the tax credit reforms, and the removal of income support for lone parents when

their children reach the age of five (instead of seven) which will further push women below the poverty line as nine out of 10 single parents are women.

Existing inequalities are clearly being exacerbated by these cuts, but according to the Fawcett Society the government has missed one crucial legal obligation in its analysis for cuts: It failed to carry out an "equality impact assessment".

> "The austerity measures imposed by the government are having a disproportionate impact on women's incomes, jobs and the public services they use"

The pay freeze impacts hardest on those on low incomes, the disabled, the young and ethnic minorities. Theresa May, the minister in charge of equality, has written to her colleagues to warn there was a "real risk" that government plans would disproportionately affect women, ethnic minorities, disabled people and the elderly.

Linking the indexation of benefits, tax credits and public service pensions to the consumer prices index (CPI) rather than retail price index (RPI) means the real value of benefits, tax credits and public service pensions – all of which women rely on – will significantly decrease.

Pension contribution increases will also hit women hardest, as despite the government's pledge to protect those on salaries under £15k, part-time workers taking home less than £15k will not be protected. Their contributions will be based on notional full-time pay, not actual pay and research by the TUC reveals that almost a million public sector workers are caught out in this way, 91% of them women.

Photo: Murdoch Ferguson

The civil service are not paid more

There exists a myth that civil servants, and public sector workers generally, are paid much more than those in the private sector. This is another attempt to drive a wedge between workers in the public and private sectors.

Analysts recognise that it is very difficult to make general comparisons between pay in the public sector with that in the private sector. It is an attempt to compare apples with oranges; the pay differences have rational explanations. For example, many of the traditionally lower paid jobs (cleaning, security, messengers etc) have been outsourced from the public to the private sector. The fact is that when pay for civil service jobs is compared with jobs with similar skills and responsibilities in the private and public sectors, the pay of civil servants is significantly lower.

A 2009 analysis by Income Data Services ‘Civil Service Pay – a comparative study’ reported that: “In particular, basic pay levels for the key civil service grades are behind those for comparable jobs in the rest of the public sector, the private sector and within this, the finance sector”. IDS produced pay comparisons based on similar job weights in the rest of the public sector, the private sector and the finance sector. For the most populated civil service grades (AO, EO and HEO) the report showed pay gaps at almost every pay rate, with the private, public and finance sectors paying more, in a range from 7% to 24%.

Photo: Simon Hadley

> **“When pay for civil service jobs is compared with jobs with similar skills and responsibilities in the private and public sectors, the pay of civil servants is significantly lower”**

The pay freeze has stopped pay progression for many in the civil service and makes civil servants worse off than other sectors of the economy. For many public servants, progression arrangements have been funded separately from cost-of-living increases. So the majority of workers in local government, the NHS and teaching will be receiving pay-progression during the pay freeze and the proposed pay cap whereas civil servants are being denied this right. Also, the government have stated they want to end incremental pay progression, and establish current pay minimum amounts as the “rate for the job” with all progression being performance driven.

It gets worse: local pay

If local pay is the answer: what is the question? Consecutive governments have identified the civil service as a target for 'reform'. The civil service has experienced countless reviews and reorganisations in search of greater 'efficiencies'. This has resulted in severe reductions in staff numbers and increased workloads for those who remain, alongside continuing threats of redundancy and privatisation.

Despite these 'reforms', the government now wants the introduction of local pay rates in the public sector, starting with the civil service. This is not a new idea – it was last proposed in 2004. PCS commissioned a report by The Bevan Foundation 'Regional pay, regional poverty?' which outlined the complexity, inefficiency and likely disproportionate effect any move to local or regional pay would have on public sector workers, particularly women.

So far in 2012, there are indications that, in the civil service, local pay could be introduced using a number of pay zones, e.g. two London zones (outer and inner), a higher paying zone (for parts of southern England and a few major cities) and a lower paying zone for all other locations – which threatens 'pay permafrost' in these cases.

The private sector, in major firms, has abandoned the concept of local or regional pay. The impression is given that private sector pay is set by individual-level decisions based on specific local labour market variations. In reality, large, multi-site private sector companies operate within a national framework.

HR professionals in large companies with branches throughout the country confirm that national pay structures and pay determination provide simplicity, avoid the costs of duplication, allow better pay bill control, create consistency and avoid poaching of staff.

If the government genuinely wants greater efficiency then it should return to national bargaining. PCS does not accept any form of localised pay for two other reasons:

- It is unfair to pay two employees, working for the same employer on the same grade and doing the same duties, differing pay rates on the basis of the location of their workplace (except for London where more has traditionally been paid due to higher living costs, not based on the market).

Photo: Timm Sonnenschein

"The private sector has abandoned the concept of local or regional pay"

- There is no evidence that such a scheme would benefit local job-markets. It is more likely to have a detrimental effect on the local economies of already disadvantaged areas and would result in a deepening of the north-south divide.

Raising pay works

The global lesson is that raising pay works. The siren voices of the coalition government, and much of the media have used the economic crisis, the national deficit and decisions to cut public expenditure, so that these are all seen as imperatives – must do policies. They have turned a global financial crisis caused by corporate and personal greed into an ideological attack on public services, pay and pensions.

In Greece, after a decade of public spending cuts, massive privatisation programmes and deregulation, the country is near bankruptcy. More austerity imposed on top of what has happened in the past few years means it is almost certain that the 'Greek rescue' will fail.

Austerity in Spain also hasn't worked. Spain has entered a double-dip recession throwing the spotlight on the dire state of the whole Spanish economy. The unemployment rate has hit a new record high of 25%, its property bubble has burst, and its banks need a €120bn bailout.

Similarly, the experience in Ireland in recent years provides lessons. The trade unions and government in Ireland reached an agreement on a package of austerity measures. The Irish government later forced through more stringent measures.

The cuts policy is not a matter of economic necessity but of political choice. There are alternatives – as highlighted in the new PCS Austerity isn't working: There is an alternative booklet – and better decisions about stimulating economic activity could be taken, including by raising wages (thus more spending on goods and services) to enable the economy to grow and overcome the deficit over a period of time. Relevant examples exist in some Latin American countries, involving measures to encourage growth and building alternatives to austerity.

For example, Argentina has experienced one of the longest periods of economic growth in the country's history. By rejecting 'conventional' economic wisdom, the administration in Argentina has been able to grow the economy and create jobs by increasing demand. The latest US data shows that growth through public expenditure is ongoing and the unemployment rate is starting to fall.

The global economic crisis and fiscal aftershocks demonstrate the damage that can be done by groups of politicians too closely tied to a financial sector which has its own reactionary agenda. This is why PCS argues for an alternative to austerity.

FACT: **When you compare civil service grades with comparable jobs in the private sector, administrative staff are paid about 20% less**

FACT: **Most large, multi-site private sector companies have national pay structures not local pay**

FACT: **Evidence shows raising wages and boosting demand and growth are the most efficient ways to build a sustainable economy, not austerity**

FACT: **The pay freeze and benefit cuts will have a disproportionate impact on women as they make up a large part of the public sector workforce and are more dependent on benefits**

PCS pay demands in 2012 are:

- An end to the pay freeze/pay cap policy
- No pension contribution increases
- Pay progression is a right for all
- National pay bargaining not local pay
- That equality concerns should be the central principle on which pay systems are based and assessed

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