



DUBLIN ECONOMICS WORKSHOP EVIDENCE FROM THE PAY COMMISSION

23rd September 2017

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LAYOUT OF PRESENTATION

1. Public Service Pay Commission
2. Issues Around Setting Public Service Pay
3. Public Service Pay Costs
4. Earnings Trends
5. Econometric Analysis of Public-Private Earnings Gap
6. Conclusion and Next Steps

The analysis and views set out in this presentation are those of the authors only and do not necessarily reflect the views of the Public Service Pay Commission.

PUBLIC SERVICE PAY COMMISSION

- ❑ Established in October 2016 as an Independent body to advise the Government in relation to public service pay
- ❑ Commission is made up of a Chairperson and six members appointed by the Minister for Public Expenditure and Reform
- ❑ The first report of the Commission (May, 2017) provided evidence on a range of remuneration issues based on its remit to provide inputs to Government on the unwinding of the Financial Emergency Measures in the Public Interest (FEMPI)
- ❑ Negotiations between the parties has lead to the draft agreement of Public Service Stability Agreement (PSSA) 2018-2020

ISSUES AROUND SETTING PUBLIC PAY

- ❑ Exact level of public service remuneration is difficult to estimate
- ❑ Information on averages are misleading – “Average pay in public sector is 40% higher than private sector”
 - Public services across Europe are older, more educated and more likely to occupy managerial positions
 - Composition of private sector is very different to that of public sector
- ❑ More informative to consider trends and statistical analysis
 - “Like for like” job comparisons (e.g. Benchmarking Body 2007)
 - Econometric analysis
- ❑ Public service wages across Europe are mostly set by collective bargaining and/or legislative decision

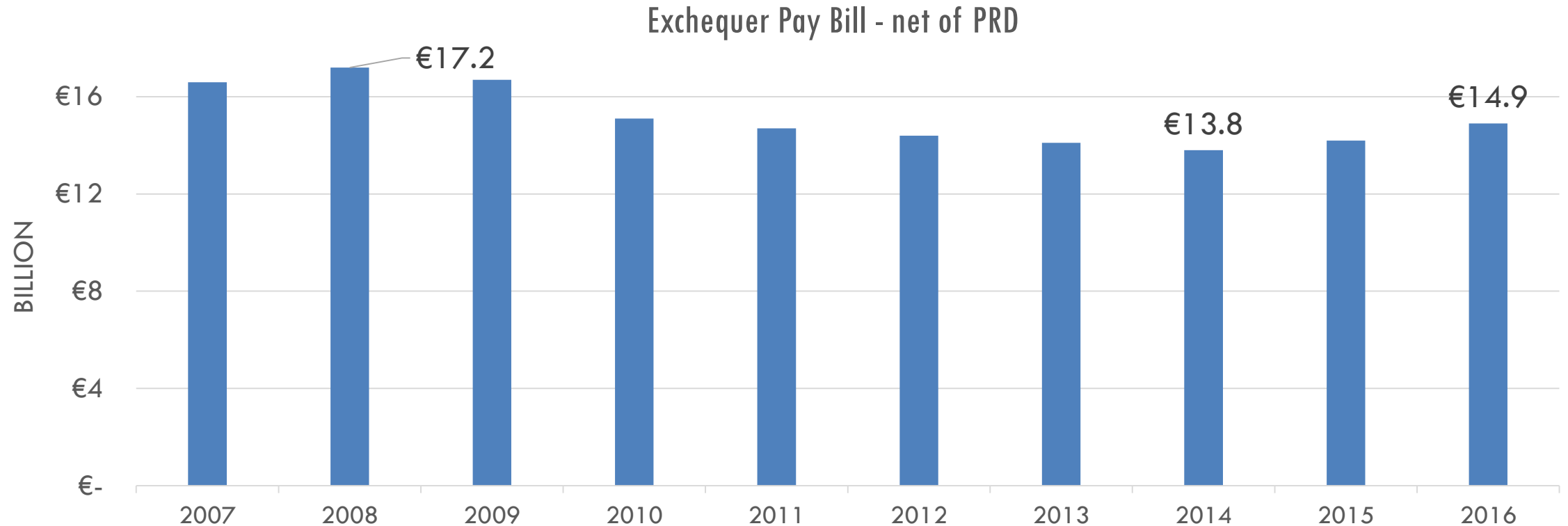
DATA AND DEFINITIONS

- ❑ Earnings = Earnings from employment (e.g. overtime, bonuses, etc.)

- ❑ Net of PRD: Reduces pay to reflect the impact of Pension Related Deduction (PRD) rate for each year
 - FEMPI introduced the PRD in 2009, the Commission's analysis treated PRD as a pay deduction

- ❑ Definition of Public Service: Civil Service, Local Authorities, Garda Síochána, Defence Forces, Non-Commercial State Agencies, Health Services and Education. Excludes Commercial State Agencies.

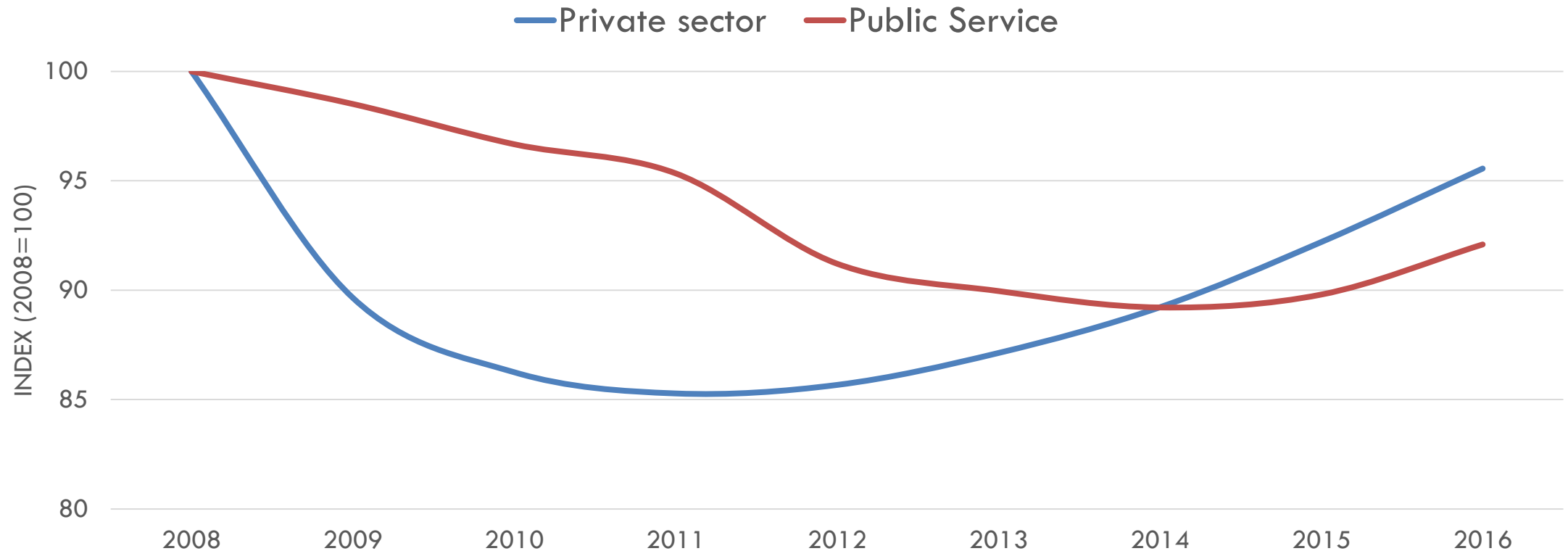
EXCHEQUER PAY BILL



□ Exchequer Pay Bill decreased by 20% from €17.2bn in 2008 to €13.8bn in 2014

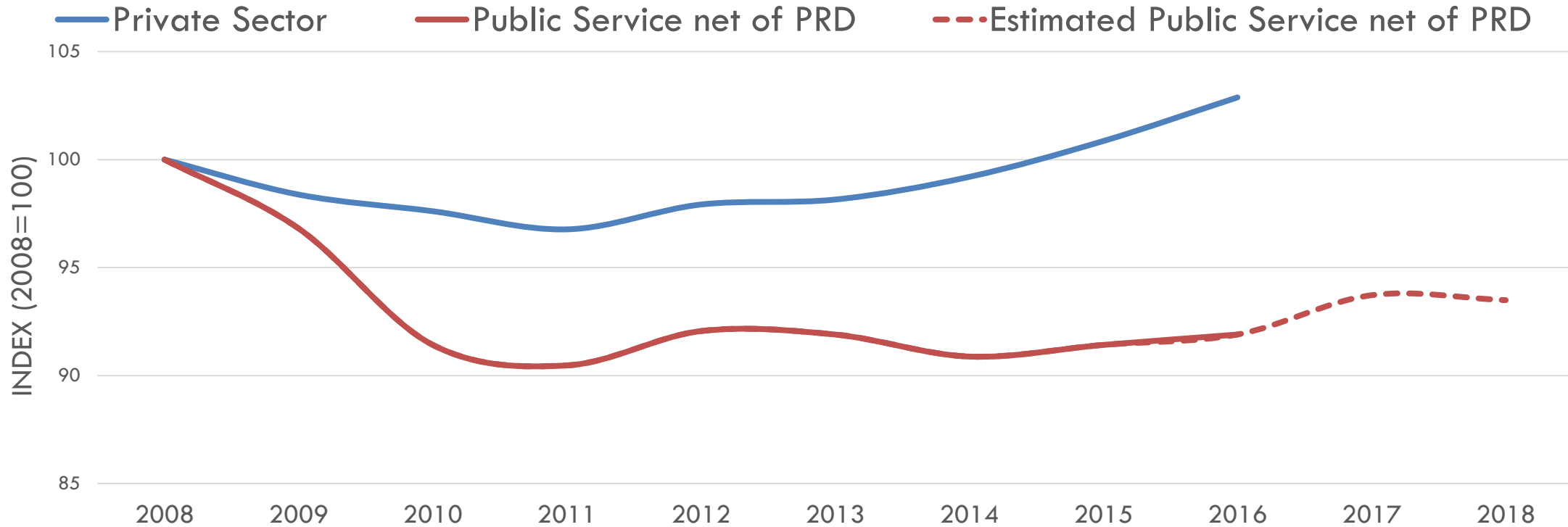
- Drivers of decrease included: moratorium on recruitment, pay reduction measures and incentivised retirement schemes
- From 2014 -2016 the Pay Bill increased to €14.9bn which is approx. 29% of current expenditure
- Local Authority pay bill, which is not directly funded from exchequer and excluded above, is estimated to be €1.3bn in 2016

EARNINGS TRENDS — AVERAGE EMPLOYMENT



More severe decline in employment in the private sector compared to gradual decline in public service

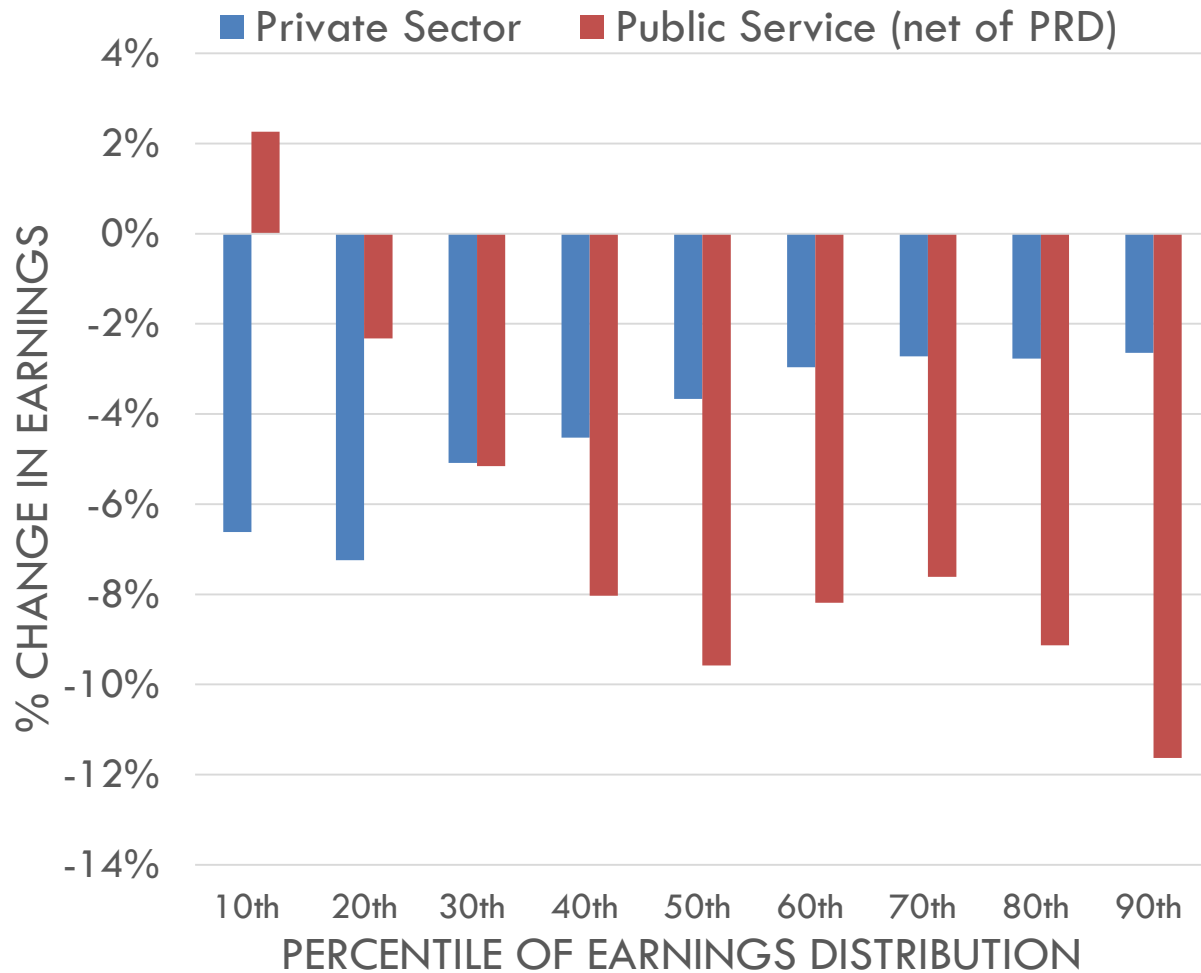
EARNINGS TRENDS — AVERAGE WEEKLY EARNINGS



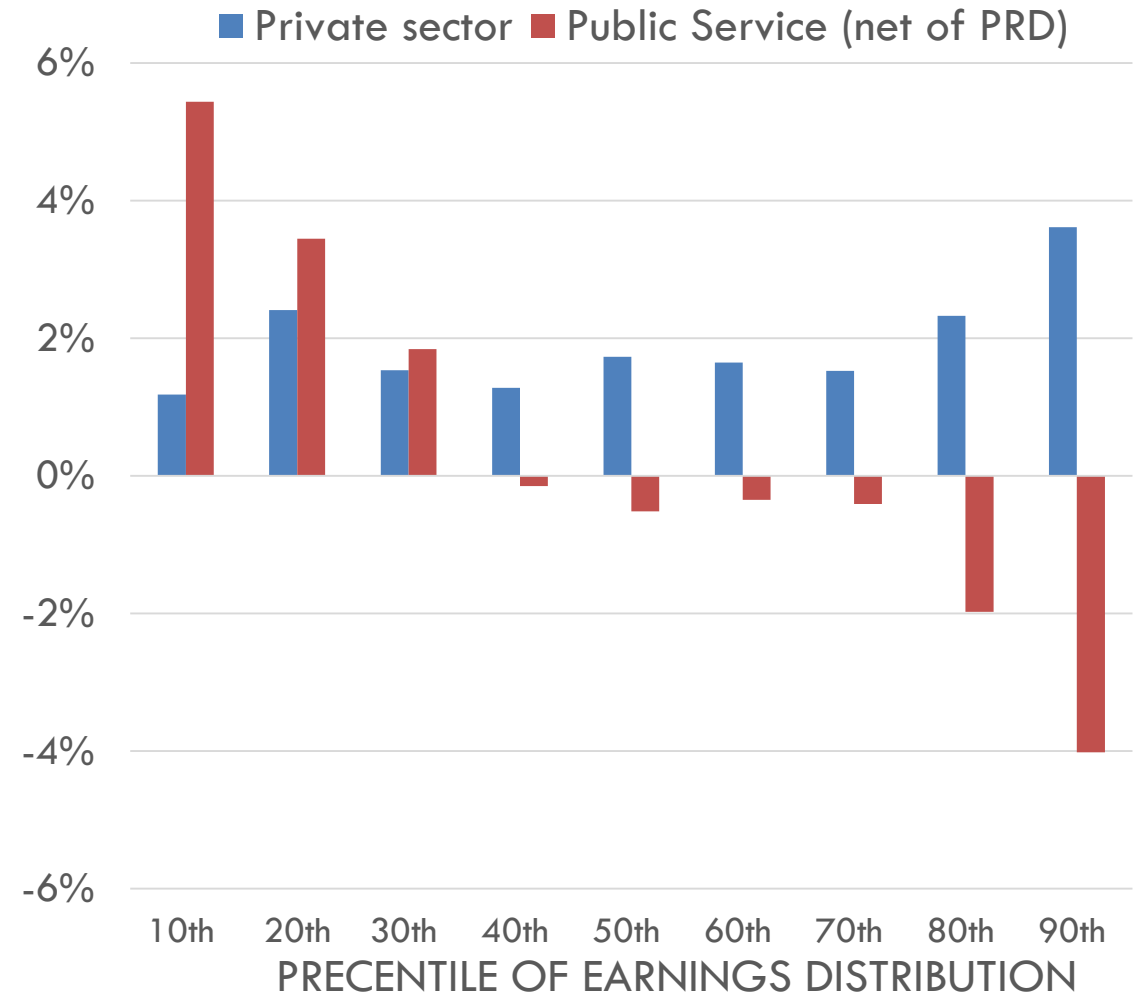
- ❑ Private sector earnings declined from 2008 to 2011 but recovered to 2008 levels in 2015 and have continued on an upward trajectory
- ❑ Public service earnings saw a greater and more severe decline
 - Projections based on PSSA, LRA and Garda Pay Deal indicate that average public service earnings will grow to 6.5% lower than 2008 levels by 2018

EARNINGS DISTRIBUTION - % CHANGE IN EARNINGS

2007-2010



2011 - 2014



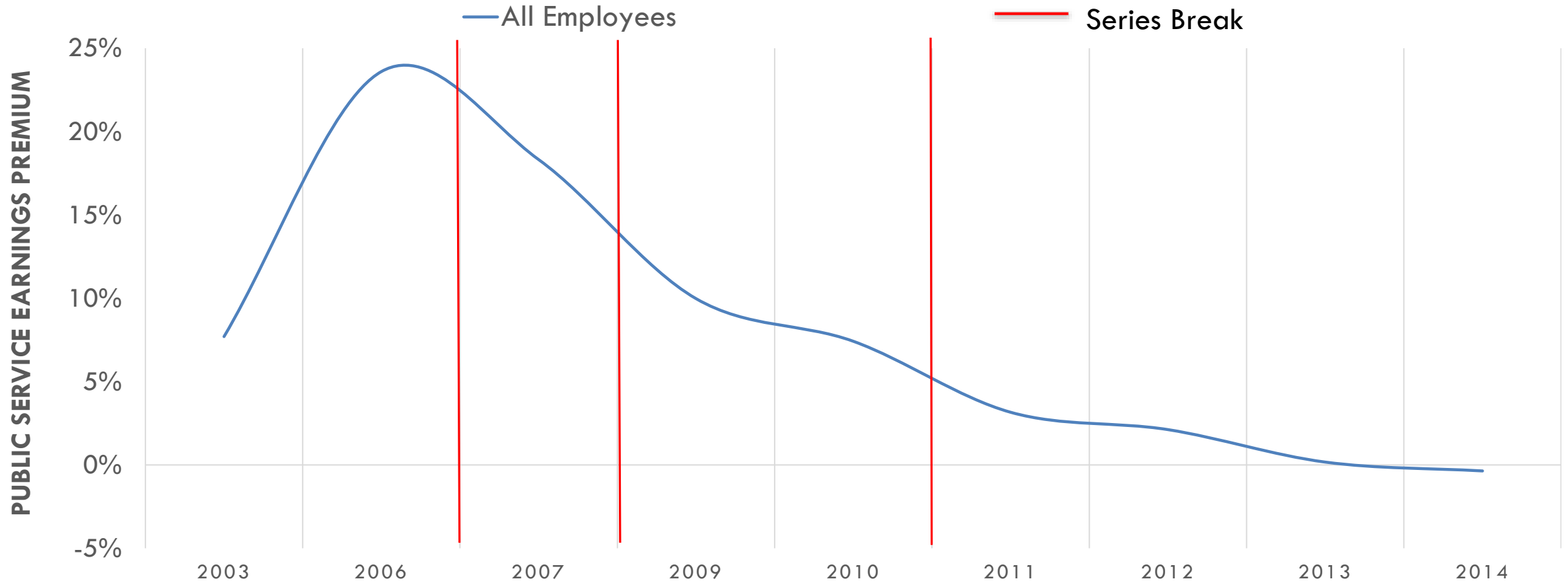
THEMES EMERGING FROM PAY TRENDS AND DISTRIBUTION

- ❑ Different Responses to the crisis:
 - Public service reduced pay and had some voluntary reduction in employment
 - Private sector reduced numbers in employment and slightly reduced pay
- ❑ The changes in earnings in the public service were and continue to be progressive
- ❑ The changes in earnings in the private sector were slightly regressive with the lower income percentiles taking:
 - the largest reductions in earnings in the 2007-2010 period; and
 - the smallest increases in earnings in the 2011-2014 period

ANALYSIS OF PUBLIC-PRIVATE EARNINGS GAP

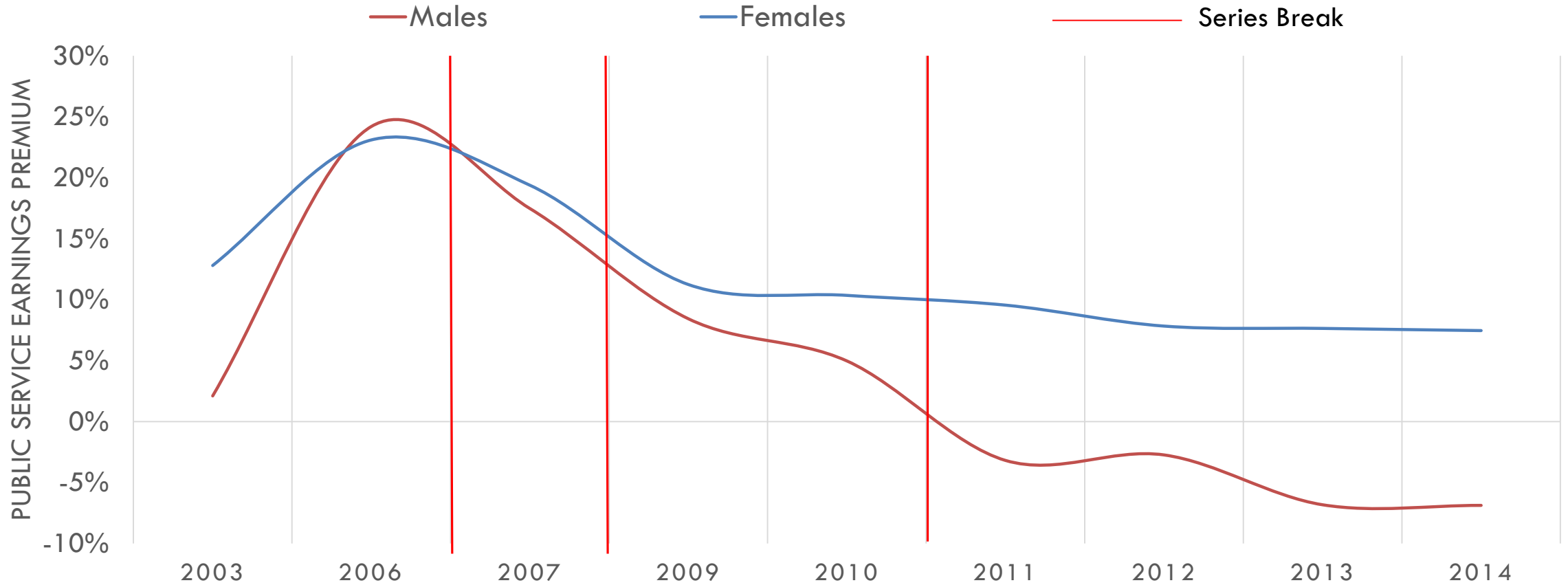
- ❑ Aim of the econometric analysis was to usefully compare earnings to inform the parties on the estimated earnings differential
 - The econometric analysis estimates the premium/discount attributable to the public service compared to the private sector while controlling for employee characteristics (e.g. gender, age, occupation, education etc.)
- ❑ This type of analysis has been carried out in Ireland since 2004 (Boyle et al.,2004) and more recently by the CSO
- ❑ Studies considers weekly earnings for full-time employees aged 25-59, net of PRD and weighted to reflect the national workforce.
- ❑ The models that are combined differ slightly, depending on the characteristics that are included in the model (i.e. State agencies or trade union membership)
- ❑ **Precise level of the premium is too sensitive to model specification to be considered definitive**
- ❑ **However, the trend in the premium and distributional pattern give a strong indication of the changes in the earnings gap over time**

ECONOMETRIC ANALYSIS OF PUBLIC-PRIVATE EARNINGS GAP



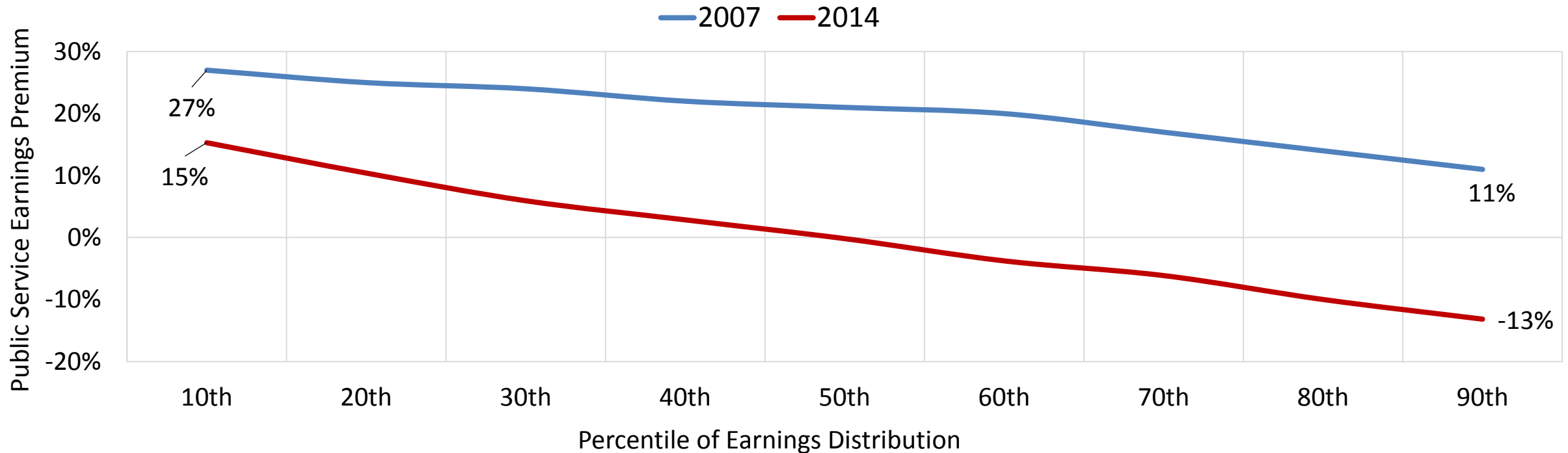
- ❑ Since 2006 the earnings gap between the public and private sectors has been declining
- ❑ Most recent analysis indicates that the public-private earnings gaps is approaching parity

ECONOMETRIC ANALYSIS OF PUBLIC-PRIVATE EARNINGS GAP



- ❑ The premium for males has been declining at a faster rate than females
- ❑ Theory: female employment is weighted more toward lower pay sectors in the private sector whereas female employment in the public sector is in sectors with above average earnings.

DISTRIBUTION OF EARNINGS GAP



- ❑ Public servants at the lower end of the earnings distribution have a higher premium than those at the upper end of the distribution, compared to the Private Sector
- ❑ The point at which the premium becomes a discount has been declining
 - The progressive pay adjustments have increased the discount at the higher end of the earnings distribution

THEMES EMERGING FROM THE ECONOMETRIC ANALYSIS

- ❑ The estimated public-private pay gap is substantially smaller than the raw premium which is widely reported
- ❑ Econometric analysis that controls for certain characteristics shows that the public-private earnings gap is approaching parity
 - The point on the distribution at which the premium becomes a discount has declined
- ❑ Based on earnings trends in 2015 and 2016 the public-private premium is likely to have declined further

CONCLUSIONS AND NEXT STEPS

- ❑ Pay trends, particularly since the crash, are different in the private and public sector
 - There is evidence of recruitment and retention issues particularly in leadership grades across the public service

- ❑ Pay gap between the public and private sector has declined over the last decade

- ❑ As the economy recovers pay is reemerging as a significant pressure, along with many other pressures, on the public purse

- ❑ Section 3 of the PSSA indicates that the Commission will analyse recruitment and retention issues in specific areas of the public service and report back by the end-2018



More information available at: <http://paycommission.gov.ie/>