

Private and Public Sector Pay Deals

Pay deals are on the rise, but there is concern about a growing gap between pay settlements in the public and private sectors.

Across all three employment categories, management, clerical and operative, there is evidence of rising pay levels. Overall basic pay is rising at an annual rate of 3.3 per cent compared with 2.9 per cent two months ago and total earnings going up by 3.4 per cent (2.7 per cent). Management is up 2.9 per cent, clerical 3.3 per cent and operatives took the biggest gain with 3.6 per cent.

Employers say inflation, company performance and prospects continue to be the main drivers influencing pay, but economists analyzing the feedback from companies contributing to the index have been surprised by the absence of a skills shortage from the catalogue of business headaches. The shortage has been cited by employers as a regular major feature among the pressures influencing pay deals.

The main focus now is on the outlook for next year's pay deals, with forecasts pointing to continuing wide differences between public and private sector settlements and the risk of more industrial disruption. Private sector pay could increase by 4.5 per cent according to Incomes Data Services (IDS) while the Government will attempt to hold the public sector line at 2 per cent - 2.5 per cent for the second year. IDS sees unions mounting strong challenges and questioning whether the public sector pay review bodies, pressured by the Government, can be regarded as independent.

Many public sector unions last year negotiated inflation linked deals. However, following higher than expected inflation, those deals now look less attractive and unions are keen to claw back some of the lost ground. With the threat of industrial action, the government has to toe a thin line between continuing to fight inflation and avoiding a disruptive loss of public sector services.

Employment trends are encouraging, according to the latest data from the Mandis-Adecco job-creation index. Almost 41,000 jobs were created across 21 key industries last month, 20 per cent higher than the corresponding period last year. The biggest increases were in health and social care, transport and distribution, along with leisure

and recreation. At the other end of the scale, the loss of engineering and textile jobs showed a rise.

Questions

1. Explain what is meant by the marginal revenue product of labour.
2. What is the impact of a skills shortage on the equilibrium wage rate?
3. Why do you think public sector pay increases may lag behind private sector increases?