



Spatial Economics Research Centre

Thursday, 19 January 2012

Local Public Sector Pay

Interesting piece from Chris Giles at the FT on the [debate around local public sector pay](#). The big issues here are around what we mean by fairness, the impact on public sector services and the wider spatial impacts.

On fairness, as I've explained before, I prefer to think of equal reward for equal work, rather than equal pay. The difference is that the former takes into account [local differences in the cost of living](#).

Chris Giles suggests that the main argument in favour of reforming public sector pay concerns the second of these issues - the impact on public sector services. As he says: "There is little reason why Britain should tolerate that a nurse, teacher or police officer should live towards the top of the local income distribution in the north-east or south-west of England, but be stuck well down the pay scale in London and the south-east." In the low real wage areas, equal pay translates into low reward with subsequent consequences for public services (at the extreme, this difference kills people as explained by CEP colleagues investigating the impact of national pay in the NHS).

The FT is more dismissive of the impact on the wider spatial economy: "The simple argument deployed by Mr Osborne, that high public sector pay in poorer regions crowds out private sector enterprise, is also suspect." This is a bold claim given the [lack of evidence](#) in this area. The crucial issue here is whether the demand stimulus provided by higher public sector pay offsets the supply distortion in the labour market. Very little is known about either of these effects.

Preliminary findings from ongoing research suggest that there is some evidence of distortion in the labour market - at least from public sector jobs (we haven't yet looked at pay). Specifically, we seem to be finding that areas receiving more public sector jobs see no obvious effect on overall total employment, but do see lower manufacturing employment. This would be consistent with a story where public sector jobs crowd out 'tradeable' manufacturing while providing a demand stimulus to local services. A little more work to do until we are more confident on this finding, but suggestive of the fact that it might be a little early to completely rule out such labour market distortions.

Posted by [Prof Henry G. Overman](#) on [Thursday, January 19, 2012](#)

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