

Pensionomics.com Commentary 10th June 2010
Can a senior civil servant be worth £150,000 per year?
(Dr Frank Eich)

2009 was the year when the general public demanded greater transparency with respect to their politicians' pay and expenses. 2010 appears to be the year when it is the senior civil servants' turn, with David Cameron, the Prime Minister, publishing the list of civil servants earning more than £150,000 a year and promising to publish the names, grades, job titles and annual pay for those civil servants on or above the lowest senior civil service pay band (which is around £60,000) by September. Combine this with this week's statement by George Osborne, the new Chancellor, that public sector pensions are in line for cuts, and it is clear that the pressure is on.

The media revelled in the news that 172 senior civil servants earned more than the Prime Minister and Vince Cable, the new business secretary, called for "more discipline" from civil servants.

The objective of this move, so we are told, is to enable the general public to judge for themselves whether they are getting value for money from their senior civil servants. This move is also clearly meant to send a strong signal and it succeeds in doing so. But it also raises a number of important questions.

Leaving to one side the issue whether this move justifies the loss in privacy for those civil servants affected (unlike Members of Parliament, with the exception of a very few individuals, civil servants do not have a public profile and are in fact strongly discouraged by their political masters or even banned by the Civil Service Code from seeking one), it also poses the question whether a senior civil servant could offer value for money to the taxpayer on a salary in excess of £150,000.

It is difficult to see how a comparison with the Prime Minister's salary could help to answer this question. Civil servants are professionals comprising among others statisticians, scientists, IT specialists, project managers, social researchers, procurement specialists, lawyers, veterinary surgeons, HR experts, secret agents or administrators. Many of them have career opportunities outside the civil service, a not insignificant number have moved between the public and private sectors. As such the generosity of their salary – or more appropriately their total financial reward package including the pension promise and other potential benefits – should be judged on a like-for-like comparison with their private sector peers.

Much has been made lately out of the fact that average pay in the public sector exceeds that in the private sector and that – so it is believed – in combination with the defined-benefit pension promise on offer, public sector workers in general and civil servants in particular are nowadays financially well off. There is in fact a good reason why average pay in the public sector is higher than in the private sector: public sector workers are on average more highly qualified and fill more demanding positions. This is particularly the case for women. One should also not ignore the fact that there are substantial variations in pay differentials along the income distribution and across the regions.¹ Much of this reflects the more compressed nature of the pay structure in the public sector and civil service relative to that in the private sector. As a result public sector workers do relatively worse compared to their private sector peers in London and the South East, and the higher up they are in the income distribution. Conversely, they appear to be doing relatively better in less prosperous regions and lower down the income distribution.

As such it should come as no surprise that *only* 172 civil servants are on a salary of or above £150,000. They represent merely 0.034 per cent of the civil service, which employs around ½ million people. As a comparison, in the labour force more generally, 0.8 per cent (which is 25 times the share in the civil service only) of those having taxable incomes from employment had incomes in excess of £150,000.

Looking at relative salaries only, one could thus argue that the compressed nature of the civil service pay scale is likely to give the taxpayer the more value for money, the more skilled and senior the civil servant. Perhaps counter intuitively, the most senior civil servants could in fact be offering the best value for money! This conclusion is unlikely to change once the true value of the different pension promises is factored into the analysis – the salary gap at the very top of the professions is just too big for that. Further down the respective income distributions – where the salary gap between public and private sector is not as marked – the value of the pension promise could very well change this assessment. What this suggests is that a discussion of value for money

should not only focus on absolute pay but also relative pay vis-à-vis the private sector and should also be based on the total financial package on offer and not only salaries (and strictly speaking should also factor in what the individuals in question are actually doing and whether they are any good at it...one can spend £100 wisely and £10 badly...). If anything, by focussing on those at the upper end of the pay scale, it seems that the new government is barking up the wrong tree.

¹ For a further discussion, see *Evaluating public and private sector pensions: The importance of sectoral pay differentials*, Dr Frank Eich, Pension Corporation Research, May 2009.

(Dr Frank Eich, Senior Economist at Pension Corporation, is on secondment from the civil service to Pension Corporation)