The Jimmy Reid Foundation

BRIEFING

February 2024

Pay in Scotland

Introduction
Recent surveys indicate that pay settlements may fall following calls from the Bank of England to restrain wages. In this briefing, we look at some of the key issues for Scotland.

Context
The CIPD's quarterly Labour Market Outlook survey of employers claims the tide is turning on pay. For over a year, expected basic pay awards for the upcoming 12 months have been at 5%. This quarter, they have fallen to 4%, matching the level of CPI inflation reported in the 12 months to December 2023. In the public sector, average settlements are down from 5% to 3%.

CIPD claim that labour market pressures will weaken as employers slow down their hiring plans. However, the survey also finds that one-third plan to increase staffing, and only one in ten plan to cut them. Nearly one in five employers planned to cut jobs in the public sector, reflecting budget cuts as the UK Government prioritises tax cuts over public services. *"The public and private sector gap in pay expectations is widening again, at a time of mounting pressures on public services."*

The Bank of England has long argued for pay restraint, arguing that pay settlements are being reflected in the inflation figures - feeding consumer spending power when it is trying to cool demand and, therefore, the pace of price growth. Not that such restraint appears to apply to the Bank itself. The top team saw their wages increase in the last financial year, with deputy governors earning between £348,000 and £378,000. 537 of its staff are now paid more than £100,000 – a 14% increase on the year before.

The argument that private sector pay contributes to inflation is weak because price rises have been driven by supply shortages rather than pay. There is no evidence that public sector wage increases are producing inflation.

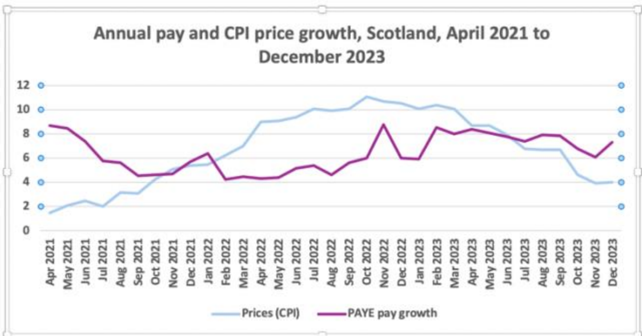
The Scottish private sector economy returned to growth last month. It was the fourth-strongest performer among the 12 UK nations and regions, according to the latest Royal Bank of Scotland survey. There was strong growth in the services sector, although manufacturing recorded another sharp contraction. The Scottish Government Budget will put significant pressure on public services in Scotland.

Pay in Scotland
The STUC analysis of the Pay As You Earn Real Time Information (PAYE RTI) data for Scotland paints a more detailed picture of pay than the broad-based headlines generated by employer surveys, often based on small samples. We also need to look at pay over a longer period.

They highlight that real pay in Scotland increased in the second half of 2023 but remains below where it was two and a half years ago.

STUC analysis of ONS statistics

Real weekly pay in December 2023 was £4 lower than in April 2021 according to CPI inflation and £30 lower according to RPI inflation. The table below shows real terms monthly pay cuts for 18 months between January 2022 and June 2023.

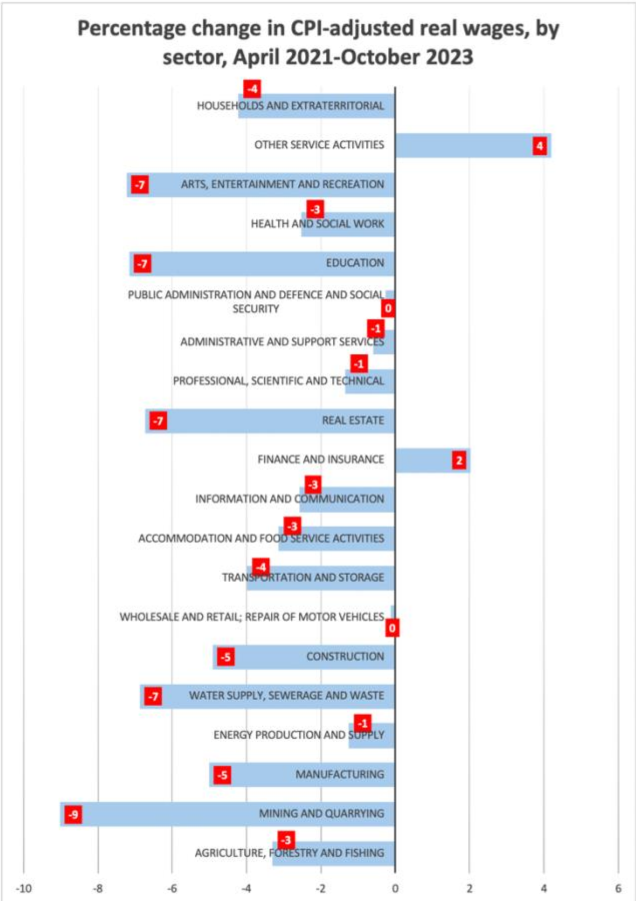


STUC analysis of ONS statistics

The typical worker in Scotland is £1,923 worse off due to pay not matching CPI inflation between April 2021 and December 2023. Using RPI inflation, the typical worker is £3,990 worse off.

Finance and Insurance and Other Services are the only sectors that saw a real terms increase in CPI-adjusted pay between April 2021 and October

2023. Finance and Insurance workers are £2403 better off than in October. In contrast, workers in mining and quarrying lost earnings worth £9332, public administration, defence and social security £4322, water supply, sewerage and waste £3569, real estate £3499, manufacturing £3210, education £3147, and construction £2987.



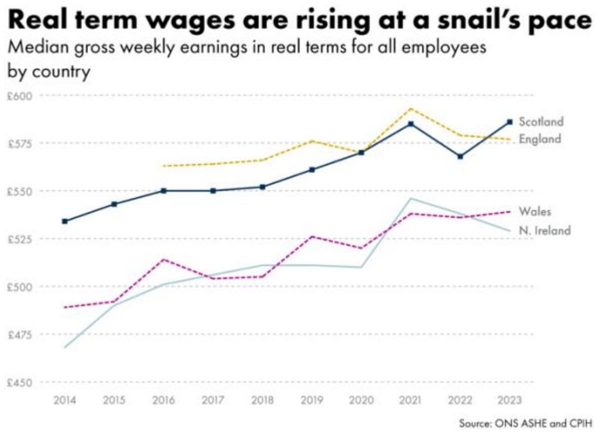
STUC analysis of ONS statistics

When using RPI-adjusted pay, the figures are even worse. Workers in mining and quarrying lost earnings worth £14785, public administration, defence and social security £7200, water supply, sewerage and waste £6381, real estate £5682, manufacturing £5821, education £5456, and construction £5611.

Assuming CPI-adjusted real-terms pay grows at the same rate in the second half of 2023, it will take 17 years for workers to recover the £1,923 in lost earnings between April 2021 and October 2023, according to CPI inflation. Assuming RPI-adjusted real-terms pay grows at the same rate in the second half of 2023, it will take 64 years for workers to recover the £3,990 in lost earnings between April 2021 and October 2023, according to RPI inflation. While the Government are seeking to phase out RPI, many unions and economists believe there are good reasons to keep RPI.

Conclusion
While real pay grew in the second half of 2023, weekly earnings are still lower than two and a half years ago. Moreover, two years of falling real pay has left workers between 1,923 and £3,990 worse off due to pay not matching inflation.

Had unions in Scotland not taken strike action, these figures would be even worse. Workers throughout Scotland secured more than £4 billion in pay and pension settlements in the past 18 months of industrial disputes. This is reflected in an analysis by SPICe of another ONS database, the Annual Survey of Hours and Earnings (ASHE). They highlight that wages in Scotland were the highest in the UK in April 2023. However, as they point out, one year of strong earnings growth may not go very far because real-term wages are rising slowly.



Given the debate around the impact of tax changes, SPICe also notes that the higher earners' earnings gap between Scotland and the UK appears to have closed. Scottish growth rates would also indicate that the claimed negative economic impact has not materialised.

With the UK Government failing to raise living standards, it is incumbent on the Scottish Government to pursue a different approach as the STUC and others have recommended. It must start by investing more in our public services – ensuring our key workers see a decent cost of living pay award in 2024 and protecting those on low incomes against cuts to the crucial local services they depend on.

Jimmy Reid Foundation
The Jimmy Reid Foundation is a think tank which brings together different voices from across Scotland to make the case for economic, environmental, political and social equity and justice in Scotland and further afield.
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(*Our thanks to Francis Stuart, Senior Policy Officer, STUC, for his work on the ONS data. Any errors or omissions are ours alone.*)