

Impact case study (REF3b)

Institution: Swansea University
Unit of Assessment: 19 - Business and Management Studies
Title of case study: Influencing policy in the areas of Employment and Public Sector Pay.
1. Summary of the impact

Our research has had a significant impact on economic policy formation. This impact is best exemplified by looking at two examples:

- 1) **Safeguarding 10,000 jobs in Wales:** providing the evidence base for the introduction of the ProAct.
- 2) **Providing critical evidence to the debate initiated by the Chancellor of the Exchequer** in 2011 for more market facing pay for over 6 million public sector employees, which was subsequently abandoned in 2012 in part based as a consequence of our research findings.

The underlying research on regional and labour economics spans over two decades, involving the creation, since 2002, of 3 research centres (£2.4m to Swansea) which, through 50 reports, have impacted directly on policy.

2. Underpinning research

Swansea has a strong track record of research on regional and labour economics and the Welsh economy. The *Oxford Bulletin* 1995 (**R1**) paper on Britain's North-South divide built on earlier research published in the *Economic Journal* and estimated hedonic wage and unemployment equations finding a strong role for skills in determining regional differences in unemployment and wages. This implied a need for regional policy to be geared towards re-training; one which would be less inflationary than other strategies. The paper also found higher wages were required in large plants to compensate employees for working in such settings. Papers in the *Manchester School* 1999 and *Oxford Economic Papers* 2002 (**R4**) and a number of papers in *Economics Letters*, most recently in 2005, have compared and contrasted the unemployment and earnings experiences of whites and ethnic minorities and the impact of recessions and again found important roles for public sector employment, job tenure and plant size in determining labour market experiences of disadvantaged groups. The *Economics Letters* (2007) paper (**R5**) on the economically inactive and the reservation wage arose directly from the research undertaken for the Welsh Government (**R6**). The paper, using unique survey data collected in Wales as part of the research, provides estimates of the elasticity of the reservation wage and exit probability with respect to state benefits, and the arrival rate of job offers. The results suggest that changes in benefits, particularly incapacity benefits, could have an important part to play in meeting an 80% employment target by 2010. Our *Economics Letters* paper, 1999 (**R2**) was one of the first papers to use quantile regressions to examine the public/private sector wage differential and found the highest premiums at the lower tail of the wage distribution and a larger differential for women. This research was followed up with a paper (**R3**) examining the robustness of the Institute of Fiscal Studies estimates of public/private pay, which had been cited by the Chancellor of the Exchequer in his Autumn Statement 2011 and 2012 Budget, as a reason for introducing more market-facing pay for over 6 million public sector workers in the UK.

This strong research base in the areas of labour and regional economics has been recognized internationally and resulted in the development of three research centres (involving **Blackaby, Jones, Murphy and O'Leary**); WELMERC (Welsh Economy and Labour Market Evaluation Research Centre) in 2002 (£1.3m of European Social Fund research funding); SERC (Spatial Economics Research Centre) an ESRC Research Centre in 2008 (£250k of research funding to Swansea, led by LSE and involving Glasgow, Newcastle, Oxford and Swansea); and WISERD (Wales Institute of Social and Economic Research, Data and Methods) in 2009 (£496k of HEFCW research funding to Swansea). Recognising expertise on public sector pay issues, in October 2012 **Murphy** was awarded an ESRC grant of £198k (for 18 months involving **Blackaby** and **Jones**) under its Secondary Data Initiative, entitled *The Labour Market Implications of Changes in the Public Sector*.

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These research centres have undertaken research on unemployment, inactivity, migration, the gender pay gap, productivity, inward investment, public/private sector wage differentials and labour market transitions, and since their creation, have attracted additional funding. For example in 2010 the Welsh Government published 3 WELMERC reports on its website, including "[Modeling and Explaining Regional Differences in Economic Prosperity within Wales](#)". However probably the most significant report was on *Identifying Barriers to Economic Activity in Wales (R6a&b)* which was commissioned by the Welsh Government, on the basis of the research strengths (R1, R4) outlined above and published in two parts in 2003 and 2004. These reports examined the issue of economic inactivity and outlined a number of policy options to address the problem, including additional training and wage subsidies.

Blackaby (Professor), **Murphy** (Professor), **O'Leary** (Reader), **Jones** (Reader) and **Staneva** (Research Officer) were appointed to posts at Swansea University in 1982, 1991, 1992, 2002 and 2011 respectively and have remained in post throughout. Authors highlighted in **bold** were based at Swansea at the time of publications below.

3. References to the research

- [R1] **D. Blackaby** and **P. Murphy** (1995), "Earnings, Unemployment and Britain's North-South Divide: Real or Imaginary?" *Oxford Bulletin of Economics and Statistics*, Vol. 57, pp. 483-508.
- [R2] **D. Blackaby**, **P. Murphy** and **N. O'Leary** (1999), "The payment of public sector workers in the UK: reconciliation with North American finding", *Economics Letters*, Vol. 65, pp. 239-243.
- [R3] **D. Blackaby**, **P. Murphy**, **N. O'Leary** and **A. Staneva**, (2012) "An investigation of the IFS public-private sector pay differential: A robustness check", Swansea University Department of Economics Discussion Paper 2012-09.
- [R4] **D. Blackaby**, D. Leslie, **P. Murphy** and **N. O'Leary** (2002), "White/Ethnic Minority Earnings and Employment Differentials in Britain: Evidence from the LFS", *Oxford Economic Papers*, Vol. 54, pp. 270-297.
- [R5] **D. Blackaby**, **P. Latreille**, **P. Murphy**, **N. O'Leary** and **P. Sloane** (2007), "An analysis of reservation wages for the economically inactive", *Economics Letters*, Vol. 97, Issue 1, pp. 1-5.
- [R6a&b] "Identifying Barriers to Economic Activity in Wales" (Stage 1) 2003 <http://cymru.gov.uk/about/aboutresearch/econoresearch/completed/barriersone/?jsessionid=56x1K88PFjr94STcRk2x0SwV2Gtn8NT6gQh4hh215ScDyNKWvMK!392406782?lang=en>
- "Identifying Barriers to Economic Activity in Wales (Stage 2): A Survey of Economically Inactive People in Three Areas of Special Interest" 2004 **Blackaby**, **Latreille**, **Murphy**, **O'Leary** and **Sloane** <http://cymru.gov.uk/about/aboutresearch/econoresearch/completed/barriers/?lang=en>

4. Details of the impact

1) The Barriers to Economic Activity Report contributed to important labour market debates in both Wales and the UK (R6). The Report noted the importance of introducing more effective 'gateways' for the unemployed and also introducing new 'gateways' for the inactive on incapacity benefits. Both these recommendations have been taken on-board by the UK government in recent changes to labour market legislation. The report was cited in Government Reports including in "A Review of Local Economic and Employment Development Policy Approaches in OECD countries", OECD 2008 (C5). In 2009 **Blackaby** and **Murphy** were also requested to provide written and oral evidence to the Enterprise and Learning Committee of the Welsh Government on unemployment and the recession, given their research in the area of skills, unemployment and the Welsh economy (C9).

R6 also noted the importance of redundancy on increasing inactivity in Wales and the role of training and wage subsidies in reducing unemployment. During the recent recession (October 2008), the Welsh Government introduced ProAct, based in part on this evidence from (R6). The ProAct programme is unique in the UK and involves offering wage subsidies and funding for

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training to firms to keep workers in employment who would otherwise have been made redundant. Estimates suggest 10,000 people were helped by ProAct to stay in work in Wales (C1). An Impact Evaluation of ProAct (C2) found 13% of companies supported believed they would have closed altogether without help. One manufacturing company employing between 25-49 employees stated “without the wage subsidy we would have lost at least another 5-6 staff”. A multi-union spokesperson for the global conglomeration Tata said “unique to Wales the ProAct scheme is set to benefit a large number of the workforce protecting their jobs and further improving their employability” (C4).

Rhodri Morgan First Minister for Wales, stated in 2005 (Forward C3) “The Welsh Assembly Government is committed to developing policies on the basis of a firm body of evidence and I am pleased to see that the programme recommended by the Panel is beginning to make a real contribution to policy development in Wales. The major research into ‘Barriers to Economic Activity’ (R6) has been particularly useful... and this has contributed to new proposals to help raise economic activity”.

A number of seminars were given to civil servants of the Welsh Government outlining the findings and recommendations of the research. Jonathan Price, Chief Economist, Welsh Assembly Government stated in 2012, “The major report produced for the Welsh Government on ‘Identifying Barriers to Economic Activity’ (R6) was very insightful and contributed to Welsh Government policies to reduce economic inactivity in Wales, which have seen the gap between Wales and the rest of the UK fall and included the ProAct and ReAct programmes.”

2) The Chancellor of the Exchequer announced in the Autumn Statement of 2011 that the public sector pay freeze would come to an end in 2012/13, with public sector pay awards of 1 per cent planned over the next 2 years. Emphasis was also placed on making public sector pay more responsive to local labour market conditions. Evidence from the IFS was quoted which revealed a public/private sector pay premium of around 8 per cent and which found substantial differences in the regional pay premium. Given their research background in this area **Blackaby, Murphy O’Leary** and **Staneva** undertook a robustness test of the IFS research (R3) and found it very sensitive to measurement issues and time period choice. In particular regional differentials varied over time and were generally much smaller in periods before the current recession and when plant size was introduced (R1, R2, R4). This research was quoted in the evidence of the Welsh Government to the Pay Review Bodies which argued against the introduction of market-facing pay (C6).

In the Autumn statement 2012 the Chancellor announced he would not be pursuing market-facing pay in the public sector, “this means continuing with national pay arrangements in the NHS and Prison Service and we will not make changes to civil service arrangements either”.

Margaret McEvoy, Deputy Director and Chief Economist Office of Manpower Economics stated 2012, “In December 2011 the Chancellor asked the Pay Review Bodies to consider how to make pay more market facing for certain remit groups, including Agenda for Change staff in the NHS, teachers, prison staff and senior staff in the public sector. He noted that there was substantial evidence that the differential between public and private sector wages varies substantially between local labour markets. The research ‘An investigation of the IFS public- private sector pay differential: a robustness check’ by **Blackaby Murphy O’Leary**; and **Staneva** (2012) on overall public-private sector pay differentials was timely and its finding that for many regions the differential is not significantly different from zero played a valuable role in helping Review Boards assess the evidence on the issue. The research has been referenced in a number of the reports” (R2, R3, C7, C8).

Subsequent research by the ONS (2012) found, when introducing organisational size into wage equations, that the public/private sector differential fell from 7.3% to 2.2%. Ole Black, Deputy Director, Public Policy Analysis Division ONS stated in 2013, “An important priority for ONS was to improve our model to assess public and private sector pay differences to help provide independent evidence to inform the debate and policy on regional public sector pay. As part of this work we looked at and evaluated external work across a wide range of organisations. One piece of work that was particularly useful was the analysis carried out by Swansea University which offered new

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insights into some of the variables that influence the pay gap. A particular area of interest was the use of firm size within our model which we had not considered in our earlier work. Having studied the work of Swansea on this variable we then explored using this within our model, which improved our analysis and offered new insights”.

In summary impacts include a) research that provided the needed support for the introduction of ProAct in Wales (safeguarding 10,000 jobs) and b) an important input into the debate initiated by the Chancellor of the Exchequer in 2011 for more market facing pay for over 6 million public sector employees in the UK, subsequently abandoned in 2012, which would have resulted in millions of public sector workers in relatively less prosperous areas of the UK seeing a reduction in their real wage rate.

Reflecting their research on the Welsh economy, and the labour market in particular, members of the team have been in demand by the press and media to discuss issues in the areas of unemployment and public sector pay. Since 2008, they have undertaken 4 media appearances for the BBC nationally, 14 for BBC Wales, 3 for ITV Wales, 2 for national radio, 28 for BBC Radio Wales and numerous interviews for the press. **Blackaby** was also extensively interviewed for two BBC Wales, Week-In Week-Out documentaries on unemployment in 2008 and 2009. <http://news.bbc.co.uk/1/hi/wales/8326865.stm> “Given his research in the area of labour markets and knowledge of the Welsh economy Professor **Blackaby** is our first port of call on a number of labour market issues particularly unemployment.” Kathryn Chadwick, Producer, BBC Wales Current Affairs.

5. Sources to corroborate the impact

[C1] Welsh Government 10,000 plus jobs in Wales backed by ProAct. <http://wales.gov.uk/newsroom/educationandskills/2010/100513proactmil/?lang=en>

[C2] Short, Lefauchaux and Hirst (2011) Impact Evaluation of ProAct, Cambridge Policy Consultants Ltd. <http://wales.gov.uk/docs/caecd/research/impactevaluationproacten.pdf>

[C3] Welsh Government (2005) Annual Report on Government Funded Economic Research In Wales 2004. <http://wales.gov.uk/firstminister/reports/economic/erap/2004/2004e.pdf;jsessionid=3575DEA2FE60EF92152B34001026B359?lang=en>

[C4] BBC (2009) Taxpayers’ cash for steel plants. <http://news.bbc.co.uk/1/hi/wales/8293861.stm>

[C5] OECD (2008) A Review of Local Economic and Employment Development Policy Approaches in OECD Countries. OECD. <http://www.oecd.org/cfe/leed/42768683.pdf>

[C6] Regional and Local Market pay in Wales: Evidence Summary Submitted for Consideration by the Pay Review Bodies May 2012 Welsh Government.

<http://wales.gov.uk/about/aboutresearch/regionalpay/?lang=en>

[C7] NHS Pay Review Body: Market-Facing Pay, Presented to Parliament by the Prime Minister and the Secretary of State for Health, December 2012 Her Majesty’s Stationary Office. http://www.ome.uk.com/NHSPRB_Reports.aspx

[C8] NHS Pay Review Body: Twenty-Seventh Report 2013, Presented to Parliament by the Prime Minister and the Secretary of State for Health, March 2013, Her Majesty’s Stationary Office. http://www.ome.uk.com/NHSPRB_Reports.aspx

[C9] [Welsh Government Enterprise and Learning Committee minutes \(EL\(3\) 08-09.](#)