Institute for Public Policy Research

# THE PUBLIC SECTOR NEEDS A REAL PAY RISE

**Joseph Evans,**
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# SUMMARY

Following pay offers which amounted to real terms income cuts, public sector workers have been taking industrial action to demand higher pay increases. Rising prices are undercutting household incomes and pay for the average public sector worker has been declining in real terms since August 2021.

In this report, we argue that demands for higher pay settlements for public sector workers are justified. Even if the average public sector worker receives a 6 per cent pay rise, they will still be £1,400 worse off this year in real terms compared to before the pandemic. This is negatively impacting the UK's public services, which are currently experiencing a workforce crisis.

A stronger pay settlement would help to address four problems facing the public sector: declining living standards, a workforce crisis, the decreasing quality of services and the reality that pay for the UK's public sector workers lags behind our international peers.

We call on the government to **restore public sector pay to 2019/20 levels.** This would go beyond the government's recent below-inflation pay offers and thereby undo the real-terms pay cuts which public sector workers have suffered as a result of rising prices.

Once the government has restored public sector pay to 2019/20 levels it must outline a plan which, at a minimum, ensures that the purchasing power of public sector workers does not slip back into decline. We argue that this should include a commitment to **raise public sector pay above the inflation rate every year for the next five years.**

This commitment would require a permanent increase in day-to-day spending, which we argue should be funded through tax increases. This could be done while at the same time making the UK's tax system fairer. Contrary to the government's claims, we find that raising public sector pay in this way would not be significantly inflationary. This is preferable to redirecting funding from existing budgets, which risks further degradation of essential public services.

# 1.
# INTRODUCTION

Over the last year, the UK's public sector has experienced the most significant wave of strike action in decades. Following pay offers which amounted to real-terms cuts against a backdrop of high inflation, public sector workers in healthcare, education, the civil service and local government have been taking industrial action to demand higher pay increases. As a result, the public sector lost more working days to industrial action between May 2022 and April 2023 than in any other 12-month period since comparable records began in 1996 (ONS 2023e).

We argue that a higher pay settlement is justified. The government recently offered some public sector workers pay rises of between 6 and 8 per cent. Even if the average public sector worker receives a 6 per cent pay rise, they will still be £1,400 worse off in 2023/24 in real terms compared to 2019/20.[1] What's more, public sector pay has failed to grow in line with private sector pay over the last decade and in 2022/23 real public sector pay reached its lowest point in 19 years.[2]

This is negatively impacting the UK's public services. The public sector is experiencing a workforce crisis: employees are leaving due to declining pay and working conditions and employers, like the NHS, schools and local councils, have warned that they are struggling to recruit new staff. As a result, essential public services are being hollowed out and are declining in quality. In the NHS this is particularly acute, with unprecedented waiting lists in the face of rising staff shortages.

We argue a strong pay settlement is both possible and desirable. With disputes continuing, public sector employees leaving and service quality deteriorating, there is an urgent need to resolve the question of public sector pay. A strong pay settlement would help to address four problems facing the public sector.

1. **Declining living standards:** declining real wages have significantly eroded the living standards of key workers.
2. **Workforce crisis:** staff retention has increasingly become a problem since 2010 due to declining pay and work conditions, and the public sector is struggling to recruit and retain staff.
3. **Decreasing quality of services:** falling real-terms pay and poor staff retention is affecting the quality of public services.
4. **Lagging behind our international peers:** pay for the UK's public sector workers is falling behind that of equivalent advanced economies.

Our core recommendation is that **the government must restore public sector pay to 2019/20 levels**. This would go beyond the government's recent below-inflation pay offers and thereby undo the real-terms pay cuts which public sector workers have suffered as a result of rising prices.

Once the government has restored public sector pay to 2019/20 levels it must outline a plan which, at a minimum, ensures that the purchasing power of public

1 The actual pay offer varies between public sector occupation (some getting more, some less than 6 per cent). Absent a published number, we assume 6 per cent to be the overall average. The estimated fiscal costs include pension contributions and are net of expected additional income tax and VAT. These are calculated using the IPPR tax benefit model.

2 IPPR analysis of ONS 2023c and 2023d (see figure 2.1).

sector workers does not slip back into decline. We argue that this should include a commitment to **raise public sector pay above the inflation rate every year for the next five years.**

### BOX: PAY DEMANDS BY PUBLIC SECTOR UNIONS AND THE GOVERNMENT'S PAY OFFERS

Pay demands have differed among public sector workers, depending on the sectors they work in and the trade unions which represent them. Some unions asked government to open negotiations on pay without calling for specific increases for their members. Others initially demanded pay growth to match or exceed the high inflation rate, while a handful called for pay restoration based on real-terms income losses over the last decade. Below we compare these demands with the government's pay offers.

- **Healthcare:** NHS workers represented by more than a dozen unions called for 'inflation-busting' increases in 2022 (HM Government 2022). Nurses represented by RCN called for 5 per cent above RPI, while junior doctors represented by BMA called for a 35 per cent increase (RCN 2022b; BMA 2022). In June 2023 the government implement a 5 per cent pay rise for one million NHS employees covered by the Agenda for Change contract, including nurses and paramedics (HM Government 2023c). The government followed this with the offer of a minimum 6 per cent pay rise for doctors and dentists and an average 8.8 per cent pay rise for junior doctors in July 2023 (HM Government 2023b).
- **Teaching:** Teachers and headteachers represented by five unions called in 2022 for restoration of real-terms pay lost over the previous decade (NEU 2022). After the government offered a 5.1 per cent increase, teachers represented by NASUWT in England called for a 12 per cent increase in 2022 (NASUWT 2022). The government announced it would raise pay for teachers and headteachers by 6.5 per cent in July 2023 (HM Government 2023d).
- **Civil service:** Civil servants represented by FDA called for secure fair pay and reward that recognises their contribution towards delivering high-quality public services (FDA 2022).

  PCS called for a 10 per cent increase in 2022, while Prospect called for negotiations which recognised declining real pay since 2010 (PCS 2022; Prospect 2022). The government announced in June 2023 that civil servants would receive a 4.5 per cent pay rise and followed this with a 5.5 per cent offer for senior civil servants in July 2023 (HM Government 2023a; FDA 2023).
- **Local government:** Local government workers represented by UNISON, Unite or GMB called for pay rises of 2 per cent above inflation in 2022 and 2023 (UNISON 2022). Local government employees were not included in the government's pay offers of July 2023.

# 2.
# THERE IS AN URGENT NEED TO ADDRESS THE PUBLIC SECTOR WORKFORCE CRISIS

In this section we analyse how the decline in real public sector pay has contributed to a workforce crisis, declining quality of services and a relative decline by international standards. Taken together, this provides indicative evidence that restoration of real pay to 2019/20 levels is a crucial part of any strategy to increase the quality of the UK's public services.

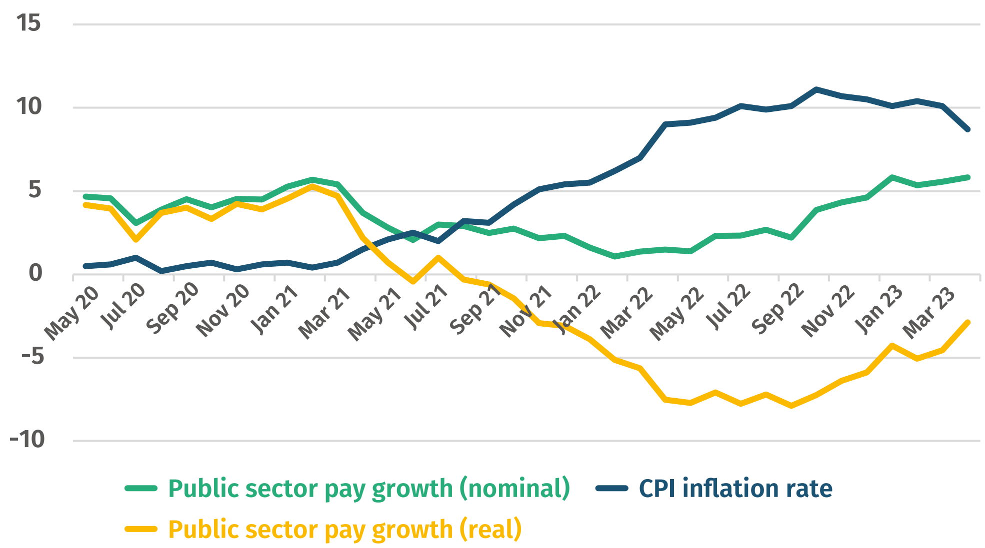
## 2.1. PUBLIC SECTOR PAY HAS TAKEN A HIT OVER THE LAST DECADE

Rising prices have caused a real terms decline in household incomes. Increasing costs of energy and goods drove inflation to its highest level in more than 40 years in October 2022. Inflation is now also being driven by food prices, which had climbed by 19 per cent in March 2023 (ONS 2023b). Those rising prices have eroded real household incomes, which in many cases have failed to keep pace with the high inflation rate (ONS 2023a).

Public sector pay has taken a considerable hit as a result. Figure 2.1 shows that public sector pay has been declining in real terms since August 2021. Even if the average public sector worker receives a 6 per cent pay rise, they will still be £1,400 worse off in 2023/24 in real terms compared to 2019/20.[3]

**FIGURE 2.1: PUBLIC SECTOR PAY HAS BEEN DECLINING IN REAL TERMS SINCE AUGUST 2021.**

**Public sector pay changes year-on-year compared to the rate of Consumer Price Inflation over the last three years**



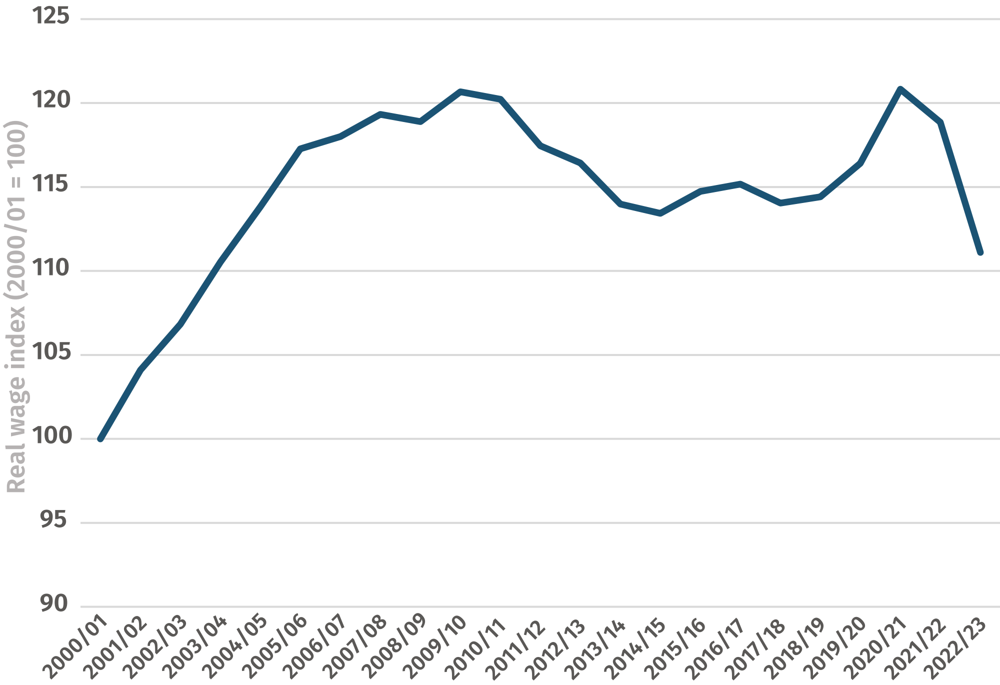

Source: IPPR analysis of ONS 2023a, 2023b

3 IPPR analysis of ONS 2023c, 2023d.

More broadly, purchasing power for the average public sector worker has declined since the start of the last decade. Figure 2.2 shows that public sector pay declined continuously in real terms between 2010/11 and 2014/15. It then plateaued until 2018/19 and briefly recovered during the Covid-19 pandemic, before the sharp rise in inflation after the pandemic induced a steep, painful decline.

**FIGURE 2.2: DESPITE RECOVERING BRIEFLY DURING THE PANDEMIC, REAL-TERMS PAY FOR PUBLIC SECTOR WORKERS REACHED ITS LOWEST LEVEL IN 19 YEARS IN 2022/23.**

**Public sector real wage index, where 2000/01 = 100**




Source: IPPR analysis of ONS 2023c, 2023d

This means that public sector workers have experienced real-terms pay cuts in the period since 2009/10.

TABLE 2.1: SUMMARY OF HOW THE FOUNDATIONS OF PUBLIC SERVICES ARE BEING ERODED

| Sector | Median real terms pay change in Q1 2022 to Q1 2023[4] | Workforce crisis | Quality of public services | International comparisons |
|---|---|---|---|---|
| **Healthcare** | -6.3% | Vacancy rate for nurses in 2010: 2.5 per cent (NHS Digital 2010).<br><br>Vacancy rate for nurses in 2023: 9.9 per cent (NHS Digital 2023). | Waiting list for hospital treatment in 2010: 2.5 million.<br><br>Waiting list for hospital treatment in 2023: 7.3 million (NHS England 2023). | Nurses' pay: below OECD average, largest decline in OECD since 2010 (OECD 2022a).<br><br>Specialist doctors: fourth highest paid in OECD, fourth largest real-terms decline since 2010 (OECD 2019). |
| **Education** | -10.2% | Vacancy rate in state-funded schools in 2010: 0.1 per cent (DfE 2022).<br><br>Vacancy rate in state-funded schools in 2022: 0.5 per cent (DfE 2022). | Pupil-to-teacher ratio in 2010: 17.1.<br><br>Pupil-to-teacher ratio in 2022: 18 (DfE 2022). | UK school teachers: OECD average, among lowest pay growth since 2010.<br><br>UK headteachers: amongst the best paid in the OECD (OECD 2022b). |
| **Civil service** | -3.8% | Civil servants who moved departments or left entirely in 2021-22: 13.6 per cent (Clyne et al 2023). | High turnover found to damage productivity and expertise and increases recruitment and training costs (Clyne et al 2023). | Data unavailable |
| **Local government** | Data unavailable | English council workforce in 2009: 1.5 million FTE.<br><br>English council workforce in 2022: 1 million FTE (LGA 2023b). | Local authority leaders warned in 2023 that the workforce crisis threatened vital local services (Eichler 2023). | Data unavailable |

## 2.2. THE PUBLIC SECTOR IS EXPERIENCING A WORKFORCE CRISIS

Across health, education, the civil service and local government, the public sector is struggling to attract and retain the staff who deliver our public services. A wealth of research, surveys and data point to an emerging recruitment and retention crisis across the public sector workforce. A poll commissioned by the Trades Union Congress (TUC) highlights that one in four public sector workers are actively considering leaving their post, with over a third of these workers citing low pay as their primary reason for quitting (TUC 2023).

- **Healthcare:** There are currently over 100,000 unfilled vacancies in the NHS, projected to increase to almost 180,000 by next year (Shembavnekar et al 2022). The vacancy rate for nurses in England has nearly quadrupled since 2010 (NHS Digital 2010, 2023).

4 IPPR analysis of Longitudinal Labour Force Survey, Q1 2022 to Q1 2023.

- **Teaching:** Teacher vacancy rates have risen over the past decade and the overall number of qualified teachers in state-funded schools has not kept pace with increasing pupil numbers (DfE 2022). At the same time, recruitment of early careers teachers has significantly declined. Following years of under-recruitment in early career teachers, recruitment into teacher training programs was 40 per cent below DfE targets last year and is projected to be over 50 per cent below target this year (Worth 2023).
- **Civil service:** In the civil service, satisfaction with pay is declining: just over a quarter of civil servants felt their pay 'adequately reflects' their performance in 2022, a 10 per cent drop in satisfaction from the previous year (Clyne 2023). The number of civil servants either moving between departments or leaving the civil service altogether reached its highest level in at least a decade between March 2021 and March 2022 (Clyne et al 2023).
- **Local government:** Between 2009 and 2022 the English local government workforce was cut by more than a third (LGA 2023b). Nine in 10 councils said they experienced recruitment and retention issues in 2022, especially in social care, which is on the government's shortage occupations list (LGA 2023a, HM Government 2023e).

## 2.3. WORKFORCE CHALLENGES UNDERMINE THE QUALITY OF THE UK'S PUBLIC SERVICES

Existing recruitment and retention challenges in the public sector follow a trend that started last decade, and have rapidly accelerated since the pandemic. Problems with the recruitment, retention and morale of staff are a major driver of poor performance of public services (Clyne et al 2023). Pay restraint could exacerbate these trends, negatively impacting the quality of the UK's public services.

- **Healthcare:** Indicators of health were in decline by the end of the 2010s after capacity in the healthcare system was constrained by funding cuts, misplaced reform and incorrect definitions of 'efficiency' (Thomas, Poku-Amanfo and Patel 2022). The Covid-19 pandemic added to these existing pressures by overwhelming acute sites and severely straining the NHS workforce (Patel, Thomas and Quilter-Pinner 2021). In a recent survey by the Royal College of Nursing, eight in 10 nurses said there weren't enough nursing staff to meet all patient needs safely and effectively (RCN 2022a).
- **Teaching:** At the same time as vacancy rates in state-funded schools increased five-fold, there was a 5 per cent increase in the pupil-to-teacher ratio, meaning there are now fewer teachers per student (DfE 2022). Alongside recruitment and retention challenges, schools are now confronting increased costs in supply cover, catering and repair, alongside the ongoing challenge of supporting pupils to catch up after Covid disruptions (Drayton et al 2022).
- **Civil service:** High turnover in the civil service damages productivity, undermines subject knowledge and expertise, disrupts projects and increases the resources required for recruitment and training (Clyne et al 2023).
- **Local government:** Local authority leaders recently warned that the council workforce crisis threatened vital local services (Eichler 2023).

## 2.4. PUBLIC SECTOR PAY IN THE UK IS LAGGING BEHIND OUR INTERNATIONAL PEERS

Public sector workers in the UK fare worse than comparable professions in other countries in terms of pay. Even before the cost of living crisis, nurses' pay was 8 per cent lower in 2020 than it was in 2010. In contrast, most other European countries have seen nurses' pay increase or maintained at 2010 levels. Countries such as Belgium, Germany and the Netherlands offered between €10,000 and €30,000 more than the UK per year once adjusting for differences in purchasing power (OECD 2022).

The UK was also an outlier for teachers' pay. Some European countries such as Sweden, Hungary and the Czech Republic saw real wages increase by around 30 per cent in that period. Most maintained pay at 2010 levels. In contrast, English teachers' pay was 4 per cent lower in 2020 than in 2010 (Zuccollo 2022). Whilst English head teachers were among the best paid in the OECD, average secondary school salaries were upwards of $20,000 higher in the Netherlands, Germany and Austria in 2021. UK teachers have the lowest level of job satisfaction in the OECD and amongst the highest stress levels.

If the government continues on its current trajectory of suppressing public sector pay, especially in key occupations such as nursing and teaching, the salary gap between the UK and other European countries will continue to widen. This has the potential to in turn exacerbate staff shortages in the UK as skilled public sector workers leave to countries where they can enjoy a much better standard of living.

# 3.
# GOVERNMENT MUST COMMIT TO A REAL PAY RISE FOR THE PUBLIC SECTOR

Many indicators of declining quality are caused or worsened by staff shortages, which are in turn exacerbated by declining living standards. Addressing the decline of real-terms public sector pay must therefore be a crucial part of any plan to increase the quality of the UK's public services. The government therefore needs to outline a clear, robust plan which will rebuild labour market confidence in key public sector professions.

Our core recommendation is that the government must commit to **restoring the pay that public sector workers have lost in real terms since the before pandemic**, in addition to the recent pay offer of on average 6 per cent.

Once the government has committed to restoring real-terms pay it must outline **a plan to increase the purchasing power of public sector workers for the next five years.** This will boost labour market confidence in public sector professions.

### 3.1. THE GOVERNMENT MUST IMPLEMENT AN EMERGENCY UPLIFT TO RESTORE PUBLIC SECTOR PAY TO 2019/20 LEVELS

Public sector workers need a pay uplift which restores the real-terms pay cuts they have experienced since the pandemic. This uplift would amount to a **10.5 per cent increase** for the average public sector worker, compared to the government's recent pay offers of on average 6 per cent. The additional cost to the government is **£7.2 billion** in 2023/24, on top of a pay rise of on average 6 per cent (table 3.1).[5]

### 3.2. THE GOVERNMENT SHOULD COMMIT TO INCREASING THE PURCHASING POWER OF PUBLIC SECTOR WORKERS OVER THE FOLLOWING FOUR YEARS

Beyond 2023/24, and thus after the restoration of 2019/20 real pay, the government should outline a plan to further boost the real pay of public sector workers. In figure 3.1 we show three high level scenarios: (a) minimum; (b) mid-point; and (c) restoration of 2010/11 levels.

At a minimum, **the government should commit to ensuring that real pay of public sector workers does not decline after 2023/24.** This would mean pegging public sector pay growth to the rate of inflation. In addition to restoring the real-terms pay losses that public sector workers have experienced since before the pandemic, this would cost the government an additional **£10.7 billion per year** by 2027/28.[6] This is shown as scenario (a) in figure 3.1.

However, as we argued in the previous section, evidence suggests that the decline in real pay since 2009/2010 has contributed to the workforce crisis in the public

5 IPPR analysis of, BoE 2023, DWP 2023, IfG 2022 and ONS 2023a, 2023b, 2023c.

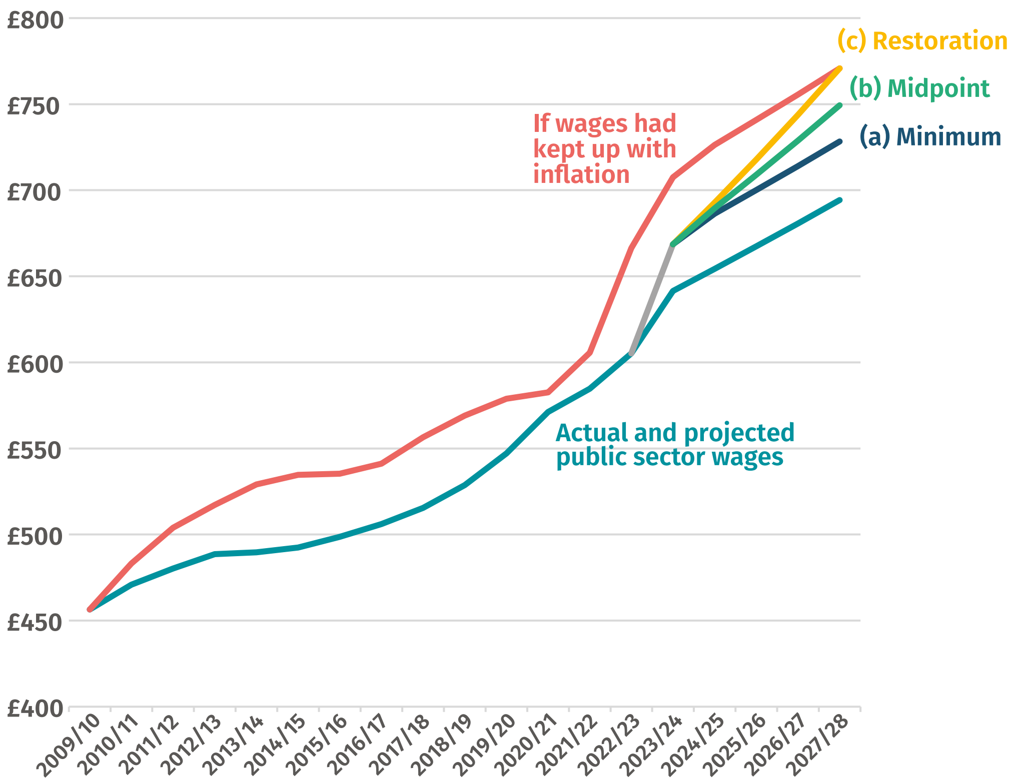
6 IPPR analysis of, BoE 2023, DWP 2023, IfG 2022 and ONS 2023a, 2023b, 2023c.

sector. We therefore include scenario (c) which restores real pay to those levels. This would cost an additional **£22 billion per year** by 2027/8.[7]

We also add a third scenario (b) which constitutes the midpoint between those two, at an annual cost of **£16.3 billion** by 2027/28.

**FIGURE 3.1: THE GOVERNMENT SHOULD COMMIT TO INCREASING PUBLIC SECTOR PAY ABOVE INFLATION FOR THE NEXT FIVE YEARS**

**Comparison of actual public sector wages, a scenario in which public sector wage growth had kept pace with inflation after 2009/10, and pathways towards increasing public sector pay in line with the rate of inflation**




Source: IPPR analysis of ONS 2023c, 2023d and MPC 2023

**TABLE 3.1: FISCAL COSTS OF THE THREE SCENARIOS (£BN)**

| Growth paths | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| a) Restoration | 7.2 | 11.8 | 15.0 | 18.4 | 22.0 |
| b) Minimum | 7.2 | 10.1 | 10.3 | 10.5 | 10.7 |
| c) Midpoint | 7.2 | 11.0 | 12.7 | 14.4 | 16.3 |

Source: Authors' analysis

7 IPPR analysis of, BoE 2023, DWP 2023, IfG 2022 and ONS 2023a, 2023b, 2023c.

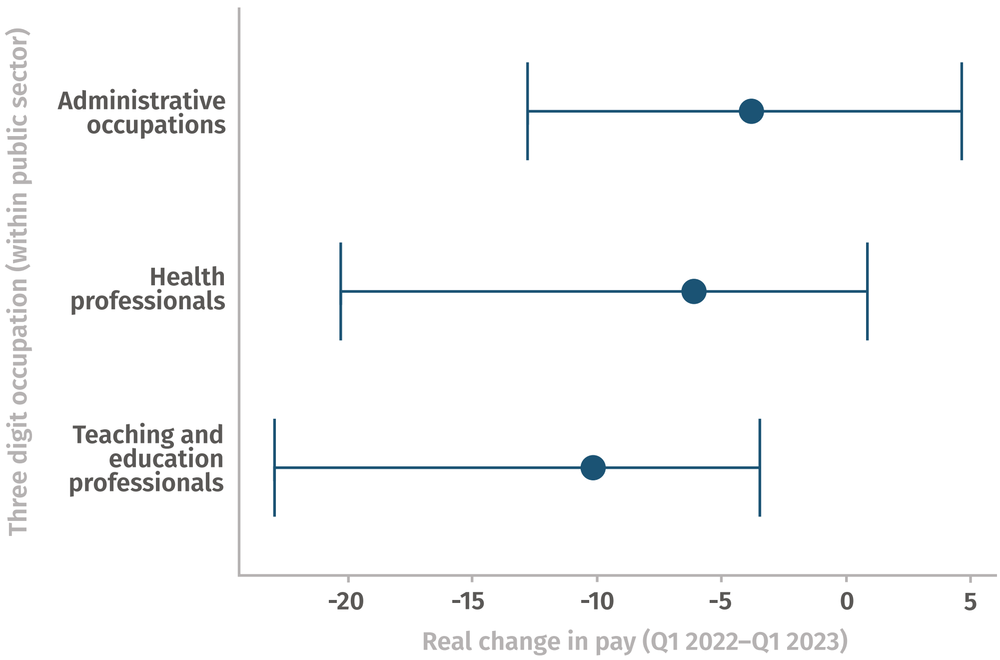
As a point of principle, **the government should commit to real-terms pay increases for the public sector every year for the next five years.** The inflation rate should be considered the 'floor' under which public sector pay growth cannot fall, but pay should be raised to a level which is above the inflation rate every year. The appropriate level of increase will depend on the fiscal environment in any given year.

## 3.3. PAY INCREASES WILL HAVE TO VARY ACROSS AND WITHIN SECTORS

Since 2022 real pay has fallen by 10.2 per cent for the median education worker, 6.3 per cent for health workers and 3.8 per cent for civil servants. However, there is large variation within public sector occupations, as shown by the 25th and 75th percentile spreads in figure 3.2.

**FIGURE 3.2: THE SIZE OF THE DECLINE IN PUBLIC SECTOR PAY VARIES WITHIN PUBLIC SECTOR OCCUPATIONS**

**Real wage change, 25th percentile, median and 75th percentile, by public sector occupation**




Source: IPPR analysis of Longitudinal Labour Force Survey, Q1 2022 to Q1 2023

This variation shows that the government will need to implement more specific increases depending on occupation, pay grade and sub-sector. Further analysis is needed to outline these recommendations.

# 4. PUBLIC SECTOR PAY RESTORATION WHICH IS PRIMARILY TAX-FUNDED IS NOT SIGNIFICANTLY INFLATIONARY

The above spending commitment would be a permanent increase to day-to-day spending. **We therefore think it should be, at least from the second year onwards, paid by tax increases.** This is preferable to redirecting funding from existing budgets, which risks further degradation of essential public services. It could also make the UK tax system fairer at the same time.

## 4.1. INCREASING PUBLIC SECTOR PAY WILL NOT SIGNIFICANTLY INCREASE INFLATIONARY PRESSURES

Prime minister Rishi Sunak has rejected calls for of public sector pay increases on the grounds of them being inflationary. However, public sector wages do not feed directly into pricing decisions, and therefore do not contribute to a 'wage-price spiral' as conventionally understood. Instead, concern about public sector pay settlements driving inflation can be viewed through two lenses: (1) the potential surge in aggregate demand and (2) potential spillover effects to private sector wages. We tackle each in turn.

1. **Aggregate demand:** We argue that our above macro scenarios should be financed through taxation (see below). This would mean the demand stimulus and any inflationary consequences following from the pay rise would be offset. But, even if debt-financed in the short term, the impact of the resulting demand stimulus on inflation would likely be limited. As we argue in Jung and Roberts (2022) and Jung (forthcoming), inflation going forward is unlikely to be due to a 'high pressure economy'. Rather most of the inflation we are seeing right now is 'passthrough inflation' from past shocks. In this context, a limited additional stimulus – in this case of £7.2 billion (0.3 per cent of GDP) in 2023/24 – would therefore not be significantly inflationary.

   Even in a downside scenario where high domestic demand is driving inflation, the impact of debt-financed spending of this degree would be limited. For example, we estimate that the inflation impact would be between 0.14 percentage points (based on BoE (2022)) and 0.09 (based on IMF (2023)). This degree of inflationary impact would be small, within error bands of forecasters' projections and far from changing the trend or 'significantly fuelling' inflation.[8]

8 The calculations are based on the following estimates: The IMF (2023) finds that since 1985, on average, an increase of 1 per cent of government spending was associated with a 0.5 percentage point increase in inflation. Note that this is a conservative estimate. The Bank of England (2022) finds a lower impact of only 0.33 percentage points. And the Bank of International Settlements (2023) finds a lower impact still, with a value of 0.1 for countries with high monetary policy independence. Our estimated impact, drawing on the IMF, is thus an upper bound. The full government pay package, including about 6 per cent increase agreed to be the government, (if it was fully debt financed which it likely is not), the inflationary impact would be at most 0.33 percentage points (IMF estimate).

2. **Spillover effects for the private sector:** The idea that public sector pay growth puts upward pressure on private sector pay growth continues to hold sway with economic policymakers, but there is not a great deal of evidence to back up this claim. In fact, the Treasury admits that there is 'uncertainty around the magnitude of any wage-price spillovers in the public sector' (HM Treasury 2023). Research suggests that a 1 per cent increase in public sector pay could push private sector pay up by between 0.1 and 0.4 per cent, but there is no evidence around how much of this would ultimately be passed through to prices (Dolton, Hantzsche and Kara 2020). This analysis was produced using data from the mid-1990s to the late 2010s, under a completely different macroeconomic environment.

   In the current environment, private sector pay growth is already outpacing public sector pay. A lack of capacity in the health sector is likely to be contributing to private sector labour shortages through the rise of long-term sickness (ONS 2022). Further outflows of staff from the NHS would only make this worse. The net effect of spillovers should, therefore, be limited.

## 4.2. TAX OPTIONS

Given that most of the costs will be from day-to-day spending, we think taxes should be increased to fund the pay rise. There are various tax increases that would raise the necessary funding while improving the tax system and positively shaping the economy.

**The UK tax system is lopsided, unfair, and not aligned with social objectives.** For example, the UK taxes similar activities at different rates. Income from labour is in some cases taxed at only half the rate if it is declared as a dividend, and at less than quarter the rate if taxed as capital gains (Advani and Summers 2020). IPPR has argued elsewhere that taxes can shape economic activity in a more balanced and welfare-maximising way (Jung and Nanda 2021).

In table 4.1 we present a list of options for tax increases that would fulfil these criteria (updated, based on previously presented in Jung and Roberts 2022).

**TABLE 4.1: OPTIONS FOR RAISING TAXES THAT DAMPEN INFLATION RISK WHILE ALSO IMPROVING EFFICIENCY, EQUITY AND BEHAVIOUR CHANGE**

| | Annual revenue (£ billion) | Likely multiplier (ie demand impact) |
|---|---|---|
| Restoring the NICs increase or similar income tax reform | 17 | High |
| Equalising rates on capital gains and income from work and removing the annual exempt amount (1) | 17 | Low |
| Extending national insurance contributions to all investment income and pension-age individuals (2) | 12 | Low-medium |
| Equalising dividend rates and removing separate allowances (3) | 6 | Low |
| Abolishing non-dom tax status (4) | 3.2 | Low |
| Share buybacks tax of 4 per cent, based on 2022 buybacks levels (5) | 1.9 | Low |
| Extending the windfall tax on oil and gas companies (6) | No current estimate | Low |
| Replacing inheritance tax with a lifetime gifts tax (7) | 9 | Low |
| Annual wealth tax on net assets over £10m (8) | 16 | Low |

Sources: 1. Nanda 2019a, 2. Advani et al 2021 (excludes pension income), 3. Evans, Hayes and Dibb 2022, Nanda (2019b), 4. Advani et al 2022, 5. Evans 2023, 6. Krebel and Kumar 2022 (revenue estimates likely to be out of date and therefore not included here), 7. Roberts et al 2018, 8. Wealth Tax Commission 2022

Some taxes can reduce inflationary pressures by pulling demand out of the economy. This means that taxes which are levied carefully can fight inflation without hitting the poorest in society (Jung and Nanda 2021). This can result in more distributionally positive outcomes than raising interest rates.

Moreover, there is a huge injustice about the challenges faced in public service workplaces like the NHS while income from wealth is taxed at rates below the incomes of public sector workers, like doctors and nurses. In the UK, most capital gains benefit only a small number of people. For instance, the majority of the UK's taxable capital gains in 2018/19 (£41 billion) were made by just 10,000 individuals (0.015 per cent of the population), who each made gains of £1 million or more (HMRC 2020). And half of taxable gains went to only 5,000 individuals (Advani and Summers 2010).

# 5. CONCLUSION: HOW RESTORING PUBLIC SECTOR PAY CAN HELP RENEW OUR PUBLIC SERVICES

Boosting public sector pay is not a silver bullet which will solve all the challenges facing the public sector. Improving working conditions also requires parallel investment in expanding the workforce and upgrading infrastructure.

Nonetheless, addressing the decline of real-terms public sector pay must be a crucial part of any plan to increase the quality of the UK's public services. Many indicators of declining quality are caused or worsened by staff shortages, which are in turn exacerbated by declining living standards.

The government therefore needs to outline a clear, robust plan which will rebuild labour market confidence in key public sector professions. This must include a commitment to reverse the real terms pay cuts that public sector workers have suffered since the pandemic, as well as a long-term plan to sustain public sector purchasing power. In the absence of such a strategy, the government risks enabling an outflow of workers as the UK falls further down international pay rankings and public sector employees emigrate in search of better living standards.

Increasing pay for public sector workers in this way should not come at the expense of those working in the private sector. The government has a choice about how it funds the public sector wage bill, and tax increases which address the UK's lopsided and unfair tax system would produce distributionally positive outcomes. Moreover, investments in the public sector have spillover benefits for the private sector. After all, everyone benefits from the products of the work of public sector employees, like free health care and an educated workforce.

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