



Paying Our Public Servants

The Dollars and Sense of BC and National Wage Trends

By *Stuart Murray*

AS CITIZENS, WE MAKE MANY DECISIONS ABOUT what kind of society we want to create. One of these decisions is how we value public services and the people who deliver them. We are collectively the employers of the broader public service. Our taxes pay for the wages of government employees, and the governments we elect are mandated to manage them on our behalf. As a result, there is some onus on us to decide what kind of employers we want to be.

Collective agreements for 84 per cent of positions in the broad provincial public sector will expire by March 31, 2006.¹ The season of collective bargaining in British Columbia is upon us, and we must consider what we think is fair treatment for a large number of people whose lives and livelihoods will be affected by the outcome of this bargaining process.

Given the large number of people who work in the broader public sector, this is a question of what we believe to be fair, appropriate and pragmatic treatment for our friends, relatives, neighbours, and in some cases ourselves.

This backgrounder provides context for the upcoming debate about public sector collective bargaining, and highlights the trends the government must be aware of if it is to attract and retain talented workers within the public sector and maintain a healthy morale.

This paper does not offer an estimate or recommendation of what public sector wage increases should be, nor does it make recommendations about the trade-offs between wage increases and other spending priorities.

This paper simply provides contextual information on broader wage trends that should inform our thinking on what a reasonable employer's bargaining position might be.

Labour Rights

As we enter a new round of bargaining, it is helpful to consider some elements of our labour history. Over the past two decades, Canada has seen a growing trend of governments passing legislation that restricts collective bargaining. Because Canada is a member of the International Labour Organization (ILO), unions have the right to file complaints with the ILO. Since 1982, there have been 70 ILO complaints filed against federal and provincial labour legislation in Canada – an extremely high number for an ILO member country. In three-quarters of the cases the ILO investigated, Canadian governments were found to be violating ILO freedom of association principles.²

Restrictions on collective bargaining in BC – such as wage freezes, imposed wage controls, and back-to-work legislation – occurred under the governments of three different political parties: Social Credit, the NDP, and the Liberals.

Many of the ILO's concerns about Canadian labour rights violations pertain to recent actions in British Columbia. In March 2003, the ILO "strongly condemned" provincial governments in BC and Ontario for proclaiming legislation that fell below ILO standards

of freedom of association.³ Effectively, this is a reprimand from an international human rights body for our failure to protect fundamental democratic rights.

As citizens we should be wary of limiting the rights and freedoms that ultimately affect us all.

Pay Policy

When the 2002 BC Budget was released, the provincial government announced public sector wage guidelines of zero per cent for the next three years. Asserting that government employees were already well paid, then-Finance Minister Gary Collins said he saw no reason to increase public sector salaries.

This is a strange assertion, given the provincial government's stated desire to mirror the private sector's ways of doing business. The government has brought the private sector into the management of services in many areas, such as the privatization of BC Rail, the

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contracting out of health care support services, and the use of public-private partnerships (P3s) when starting new infrastructure projects.

When it comes to wage increases for employees, there are well-established norms of behaviour in the private sector, and indeed among all major employers. Large, committed employers with talented workforce tend to have formal compensation systems, including analysts and managers who specialize in the area. There is a professional association for compensation professionals. There are also major consulting firms that specialize in measuring the "going rate" for different jobs.

These formal compensation systems exist in the public and private sectors alike. However, private sector employers with unionized workforces do not have the option of foreclosing on collective bargaining through legislation. Nor can they simply ignore labour market realities. As a result, they assume that the only collective agreement they will achieve is one they negotiate

through collective bargaining, often under the threat of a strike.

As we might expect, employers are reluctant to spend more on pay increases than is the norm in the broader labour market. Employee pay is typically one of the biggest expense items in an employer's budget, and along with benefits and pensions, can consume two-thirds to three-quarters of total revenues.

Recruiting and retaining employees is generally the reason employers provide compensation at all. The degree to which an employer can recruit and retain employees is a key measure of the success of any compensation policy.

As a result, employers are also reluctant to spend too little on pay, for fear that employees will quit for job opportunities elsewhere. Employers routinely make choices about the trade-offs between turnover and wages.⁴ In a strong economy where there are many job opportunities, such as current-day BC, workers are more likely to perceive better possibilities and are more likely to quit their job in search of an alternative.⁵ There are several negative consequences of high turnover, including added staffing and training costs, administrative costs, operational disruption, lost productivity, and low morale.⁶

The government has been careful to provide pay increases for executive positions. When justifying these increases it cites concerns about being able to retain skilled staff and recruit people from the private sector. For these very reasons, we should be keeping up with the broader labour market for other levels of jobs as well. It's not as if the market magically disappears once our attention shifts outside the executive suite.

When it has come to other public sector employees, however, the government has resorted to wage freezes and wage rollbacks. Yet tradespeople in BC's public sector are keenly aware of rising wages in the private sector, and teachers and nurses pay attention to what their counterparts earn in Alberta and Ontario. And so it is for all public servants.

Employers often find there is little money to be made or saved by ignoring the market rate for salaries and wages. Being an effective employer means keeping pace with the market in compensation, and not just in profits and product pricing. For this reason wage cuts

outside of the public sector are rare, due to the negative impact on morale, which in turn affects productivity and profits. Generally, an employer will not cut wages unless faced with some sort of emergency. And typically, once an employer's emergency has passed, it will take measures to restore pay levels to those that reflect the market.

Given the current provincial budget surplus, there is no financial emergency that would warrant a wage freeze. In fact, now is an ideal time to take measures to ensure public employees are paid properly.

Survey Data on Wage Trends

When attempting to achieve a collective agreement, deals tend to be struck around a mutual understanding of what is fair and practical in terms of pay increases. One of the main factors that both labour and management look at is how much other workers have received in pay increases. Indeed, in her September 14 budget update, finance minister Carole Taylor rightly stated that "we'll need to provide for pay increases that reflect labour market conditions and are sustainable over the long term."⁷

In this context, it is worthwhile to look at what the current labour market conditions are.

In September 2005, several consulting firms (plus WorldatWork, the compensation professional association) released market surveys indicating what major employers intended to spend on base salary increases (see Table 1).

These surveys predict 2006 pay increases in the 3.2 per cent to 3.4 per cent range with an average increase of 3.3 per cent.

These are broad-brush statistics, reflecting employers of various sizes in all industries in Canada in both the public and private sectors. Sometimes people like to fine-tune the data based on geography, industry or employer size. For example, companies in information technology, oil and gas, or located in Alberta will look at their own unique market, because the availability of skilled employees or money may be different.

Some of these additional slices of data are interesting. For example, Mercer predicts that 2006 salary increases in BC will be slightly higher at 3.5 per cent. Hewitt predicts that increases in the Vancouver area in 2006 will be 3.7 per cent. By looking at the BC and Vancouver data, we find that our province may experience faster wage growth than the rest of the country.

It is interesting that when the economy in BC is going well and workers start earning higher wages than elsewhere, the government takes credit for the province's economic performance. However, when it comes time for collective bargaining, the government is reluctant to acknowledge that private sector wages are growing more quickly than elsewhere.

On the other hand, unionized workers are expected to get slightly lower increases. Morneau Sobeco predicts the average salary increase for unionized hourly employees for 2006 (nationally in both the public and private sectors) will be 2.7 per cent, while Hewitt

Consulting firm	2006 increase (%)
Mercer HR Consulting	3.4
WorldatWork	3.4
Hewitt	3.4
HayGroup	3.3
Watson Wyatt	3.3
Morneau Sobeco	3.2

Sources listed on page 7.

predicts unionized employees will receive pay increases for 2006 of 3.0 per cent.

Generally, if you look at finer slices in the data, you start a numbers game where you can get a higher or lower number depending on what you want to prove. So the safest data, and the most objective and transparent process, is to look at all the data unless you are in some special context. This number for 2006 is 3.3 per cent.

In recent years, actual pay increases have also been around 3.3 per cent. Over a three year period, the rest of the labour market has received increases close to 10 per cent.⁸

These surveys collect data from major employers in a variety of industries. When we look at data specifically dealing with major collective bargaining environments, the numbers look a little different (see Table 2).

As we can see, from 2002–2005 inclusive, public sector employees in British Columbia saw their nominal wages increase by a total of only 2.2 per cent. Some public employees were not affected by the provincial government’s wage freeze, including municipal employees and those not covered by the Public Sector Employer’s Council. Therefore the public sector wage increase was greater than zero.

However, we can also see that average wage gains in the BC public sector were in fact -2.3 per cent in 2004. This decline in wages includes the effects of the

15 per cent wage cut for hospital support workers who were members of the Hospital Employees’ Union. Like the wage freezes, this wage cut was imposed on workers by legislation.

It is interesting to compare BC’s public sector wage increase to total wage increases in the private sector in BC, and the public sector in Canada overall. For the 2002–2005 period, unionized employees in the BC private sector achieved increases totaling 7.2 per cent, and those in the public sector across Canada achieved increases totaling 9.8 per cent.

Since 2002, public employees in BC have seen wage increases that are 5.0 percentage points below those achieved in the BC private sector, and 7.6 percentage points lower than those achieved in the public sector nationwide.

It is important to bear in mind that the private sector is less unionized than the public sector. While the overwhelming majority of public sector employees are unionized, in the private sector only 20 per cent of employees are unionized.⁹ Since one of the purposes of unions is to increase wages, we would normally expect higher wages, and possibly higher wage increases, in the public sector than in the private sector. Legislative interventions that restrict collective bargaining have, however, created the opposite effect.

In addition, the wage freeze means that after inflation those BC public servants who have received zero

Table 2: Annual Nominal Pay Increases in Collective Bargaining Environments

Year	BC		Canada	
	Public sector	Private sector	Public sector	Private sector
	(% increase)	(% increase)	(% increase)	(% increase)
2002	2.2	1.4	2.9	2.6
2003	1.2	1.4	2.9	1.3
2004	-2.3	1.8	1.4	2.2
2005*	1.1	2.6	2.6	2.6
Total, 2002–2005	2.2	7.2	9.8	8.7

* Data for 2005 reflects annual increases negotiated for the period from January to July. Table 2 sources listed on page 7.

per cent have actually seen a decrease in real pay of about 7.8 per cent over three years.¹⁰

There is, of course, the question of whether government employees were overpaid in the first place. This issue was addressed in a report the CCPA released last December, *Women's Employment in BC*, by Sylvia Fuller and Lindsay Stephens, wherein the authors conducted an extensive original econometric analysis.

The authors found that although public sector employees overall are paid more than those in the private sector, when we adjust for individual and job characteristics that tend to influence differences in pay, the pay difference between men in the private and public sectors becomes insignificant.¹¹

However, women do still earn 15.3 per cent more in the public sector than they do in the private sector after we account for these individual and job characteristics. The authors' interpretations are that:

...the BC public sector does not pay above-market wages to workers in general, but only to women. This finding suggests that rather than viewing women as 'overpaid' in the public sector, it may be more accurate to see them as relatively underpaid in the private sector.

*...men earn 15.7 per cent more than women in the private sector, even after we account for differences in their individual and job characteristics. However, while men do earn more than women in the public sector overall, once we account for differences in men and women's wage-related characteristics, this gap is no longer statistically significant. These results therefore support the assumption that women's public sector wage advantage results largely from a less discriminatory working environment in the public sector.*¹²

This report used 2002 data, which means there have been three years of pay freezes since then, eroding the parity between the public and private sectors. By now, public sector employees are likely being paid less than their equivalent counterparts in the private sector.

Ability to Pay

Prior to the recent September 14 budget update, the government had the embarrassing problem of a ballooning surplus. For a variety of reasons, revenues began

to significantly outstrip spending. With the budget update, the province responded to the growing surplus by further reducing corporate taxes, increasing spending on several programs, and committing funds to paying down the debt.

But a sizable surplus remains. The projected surplus (including the forecast allowance) is \$1.6 billion for 2005/2006, \$1.2 billion for 2006/07, and \$1.3 billion for 2007/08.¹³ The CCPA's analysis is that the actual surpluses are likely to be even larger.

The important thing to notice is that the provincial government is now in a position where it is difficult to ask people to endure hardship for future gain. This means that many of those who were asked (and, indeed, forced) to make sacrifices in the past four years have a rightful claim on at least a portion of the new funds.

Any wage increase involves a cost to the public purse. A 1 per cent increase in compensation is estimated to cost the provincial government \$160 million per year.¹⁴ Thus, for example, a 3 per cent increase in base pay for one year would cost approximately \$480 million. Ultimately, what is affordable must be viewed

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in the context of other priorities to be considered in the budget-making process.

As we enter collective bargaining, we should also consider the role of pay equity. Pay equity ensures that female-dominated jobs receive pay that is equal to that of male-dominated jobs with similar levels of skill and responsibility.

Much like collective bargaining, pay equity is an important element of global human rights and has an important history. As a recent CCPA study on pay equity noted:

The idea of pay equity, or equal pay for work of equal value, is really nothing new. It was a feature

of the Treaty of Versailles early in the 20th century, which became the basis for its inclusion in the Treaty of Rome, which in turn established the European Union's approach to pay equity. The International Labour Organization (ILO) had a 1951 convention on pay equity signed by Canada. And, in 1977, Canada included equal pay for work of equal value in the Canadian Human Rights Act. It is also in effect in Quebec (1975), Ontario (1987), Manitoba (1985), New Brunswick (1989), Nova Scotia (1988), Saskatchewan (1997), and the Yukon (1985).¹⁵

BC did have pay equity legislation briefly, but it was reversed by the current government. Pay equity gains had nonetheless been achieved, but at the bargaining table. This reinforces the importance of allowing collective bargaining to occur in free and fair conditions.

Conclusion

If we continue the practice of imposing wage freezes and restricting collective bargaining rights, we run the risk of becoming a society that is both short on human rights and beset by performance problems in the public service.

If the provincial government chooses to limit pay increases to a level lower than the rest of the labour market, the effect will be to hobble the public service with substandard management practices. If the government chooses to underpay its staff, it will over the long

term create a civil service that is less experienced, less educated, and less motivated than its counterparts in the broader economy.

As employers, then, we are facing several major forces. We face the pressure of a labour market that suggests we should budget for and offer pay increases. After several years of wage controls, there is also a legitimate demand for redress – pay increases that would make up for past losses in relative wages. We have a growing surplus that creates opportunities for meeting some of these pressures. Finally, there is a growing need for greater human rights in the areas of collective bargaining and pay equity.

This government is early in its new mandate, and there are two clear paths available to it. One is based on fair and reasonable practices that are consistent with and respond to labour market trends, strengthen human rights, and ensure sound management practices. The other is based on a partisan agenda of picking fights with unions, weakening the public service, and harming public sector morale.

We must remember that the way we, as a society, treat our public employees is a reflection of our values and beliefs. We must make trade-offs between our concerns as taxpayers, workers, and citizens. The current dynamic between human rights, labour market pressures, and the availability of public funds is compelling us to be significantly more generous than we have been in the past.

Notes

- ¹ Holman, Sean. "Year of the Gun?" *Public Eye Online*. July 28, 2005. Citing data from the Public Sector Employers Council Secretariat. Available at <http://www.publiceyeonline.com/archives/000756.html>
- ² *Collective Bargaining in Canada: Human Right or Canadian Illusion?* Published by the National Union of Public and General Employees and the United Food and Commercial Workers Canada. 2005. p. 65.
- ³ *Ibid.*, p. 66.
- ⁴ Huselid, M. A. "The Impact of Human Resource Management practices on Turnover, Productivity and Corporate Financial Performance." *Academy of Management Journal*, 1995 Vol. 38. p. 651.
- ⁵ Maertz, C.P. and Campion, M.A. "25 Years of Voluntary Turnover Research: A Review and Critique." *International Review of Industrial and Organizational Psychology*, 1998 Vol. 13. p. 62.
- ⁶ *Ibid.*, p. 51.
- ⁷ BC Ministry of Finance. "Improved Support for Seniors at Heart of Budget Update." News release effective September 14, 2005.
- ⁸ For 2005, Wyatt reported an increase of 3.3 per cent, WorldatWork reported an increase of 3.5 per cent, Hay reported an increase of 2.8 per cent, and Hewitt reported an increase of 3.4 per cent. By taking the average of these four figures, we find that the 2005 actual increase was about 3.3 per cent. For 2004, Wyatt reported an increase of 3.2 per cent, WorldatWork reported an increase of 3.4 per cent, and Hay had projected an increase of 3.1 per cent. By taking the average of these three figures, we find that the 2004 actual increase was about 3.2 per cent.
- ⁹ Statistics Canada, *Labour Force Survey*, cansim download for Table 282-0078, reflecting data for the British Columbia private sector in calendar 2004.
- ¹⁰ Bank of Canada website. Based on unadjusted CPI for January from 2002 to 2005.
- ¹¹ Fuller, Sylvia and Stephens, Lindsay. *Women's Employment in BC: Effects of Government Downsizing and Employment Policy Changes 2001-2004*. Canadian Centre for Policy Alternatives. December 2004. p. 32.
- ¹² *Ibid.*, pp. 32-33.
- ¹³ British Columbia Ministry of Finance. *September Budget Update 2005/06 – 2007/8*. September 14, 2005.
- ¹⁴ *Ibid.*, p. 29.
- ¹⁵ Cohen, Marjorie Griffin and Cohen, Marcy. *A Return to Wage Discrimination: Pay Equity Losses Through the Privatization of Health Care*. Canadian Centre for Policy Alternatives – BC Office. April 2004. p. 7.

Sources for Tables 1 & 2

Table 1:

Data forecasting 2006 pay increases and past increases in 2004 and 2005 for Mercer, WorldatWork, HayGroup, Watson Wyatt and Morneau Sobeco come from the September 14, 2005 article in the *Canadian HR Reporter* entitled "Salary Survey Season" found online at www.hrreporter.com/loginarea/members/viewing.asp?ArticleNo=3984

Data for Hewitt is from its *Canada Salary Increase Survey – Survey Highlights: 2005 and 2006*. This report is available at <https://was7.hewitt.com/TCC/home/home.jsp>

Table 2:

Human Resources and Skills Development Canada, as provided via email correspondence with BC Statistics. Original tables are available at www.hrsdc.gc.ca/en/lp/wid/mws/index.shtml. These data reflect annual collective bargaining increases for unionized workplaces with over 500 employees.

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Any errors and opinions presented in this paper are those of the author, and do not necessarily reflect the views of the Canadian Centre for Policy Alternatives.

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