

<b>Institution: Swansea University</b>		
<b>Unit of Assessment: 17, Business and Management</b>		
<b>Title of case study:</b> Influencing UK and Welsh Government policies in the areas of employment and public sector pay.		
<b>Period when the underpinning research was undertaken:</b> 2002–2015		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b> David Blackaby Philip Murphy Nigel O’Leary Melanie Jones Paul Latreille	<b>Role(s) (e.g. job title):</b> Professor in Economics Professor in Economics Professor in Economics Professor/Reader Professor in Economics	<b>Period(s) employed by submitting HEI:</b> Oct 1982–Dec 2020 Oct 1990–Sept 2016 Oct 1992–present Aug 2001–Sept 2014 Oct 1991–Dec 2012
<b>Period when the claimed impact occurred:</b> 2013–2020		
<b>Is this case study continued from a case study submitted in 2014?</b> Y		
<b>1. Summary of the impact</b> <ol style="list-style-type: none"> <li>1) Reducing economic inactivity rates in Wales. Inactivity rates have fallen markedly from 5% above the UK average to below it since we provided advice based on our research.</li> <li>2) Exerting an ongoing influence on UK Government public sector wage policy. In 2012, our advice resulted in the abandonment of a proposal to introduce regional public sector pay, and this policy idea has not been revisited since. Furthermore, the research has also influenced the way the Office for National Statistics produces its ongoing estimates of the public-private sector wage gap.</li> <li>3) Improving the delivery of early years and primary education and raising the skills of educators in Wales. Our 29 recommendations for the future development of Foundation Phase education were implemented in full, including an additional GBP1,000,000 to be spent on staff training.</li> </ol> <p>REACH: This body of work has continued to impact policy decisions at both the UK and Welsh Government levels.</p> <p>SIGNIFICANCE: The downstream impact of this influence has helped reduce unemployment and economic inactivity in Wales and ensure fair pay for public sector workers UK-wide. In Wales, it has also contributed to the upskilling of educators, which benefits both staff and pupils.</p>		
<b>2. Underpinning research</b> <p>Our strong research base in the areas of labour and regional economics has been internationally recognised and has resulted in the development of three research centres (involving Blackaby, Murphy and O’Leary): the Welsh Economy Labour Markets Evaluation Research Centre (WELMERC) in 2002 (GBP1,300,000 of European Social Fund research funding) [G1]; the Spatial Economics Research Centre (SERC), an ESRC Research Centre in 2008 (GBP250,000 of research funding to Swansea, led by LSE and involving Glasgow, Newcastle and Oxford) [G2]; and the Wales Institute of Social and Economic Research, Data &amp; Methods (WISERD) in 2009, (GBP961,820 of ESRC research funding to Swansea [G3 &amp; G4], with a further GBP505,000 in 2019 [G5]). WISERD is an inter-institutional, multi-disciplinary research centre that has enabled economists to work with educational and industrial relations researchers at Cardiff University. Work by Swansea researchers across these centres is described as follows:</p>		

**[R1]** found that skills play an important role in influencing wages and employment rates (particularly for disadvantaged groups) and highlighted the importance of early years education. After **[R1]** was published, the Welsh Government contacted the research team to commission further work in this area. This action resulted in the *Barriers to Economic Activity Reports [R2a&b]* which contributed to important labour market debates in both Wales and the UK. The reports noted the importance of introducing more effective gateways for the unemployed and new gateways for the inactive on incapacity benefits. Both recommendations were taken up by the UK government, resulting in changes to labour market legislation. This research was also cited in reports by the UK Government and the Organisation for Economic Co-operation and Development (OECD). Article **[R3]** on the economically inactive and the reservation wage arose directly from the research undertaken for the Welsh Government **[R2a&b]** which used unique survey data collected in Wales. The results suggest that changes in benefits, particularly incapacity benefits, could play an important role in meeting an 80% employment target.

**[R5]** built on earlier research examining public-private sector differences and it showed that a significant training advantage existed for public sector workers. However, using the average characteristics of workers within an establishment as a control for sorting effects virtually eliminated the estimated public sector training advantage. This has otherwise been a regularly observed empirical finding of many individual-based training models. Further research **[R4]** examined the robustness of the public-private pay differential estimates used by the Institute of Fiscal Studies. The estimates produced shaped government policy on the proposed introduction of regional pay. The study raised a number of estimation issues, including the importance of considering firm size in empirical models.

More recent research estimating the public-private sector wage differential **[R6]** drew on data from the Skills and Employment Survey (between 1997 and 2012). These data include information on the intrinsic quality of work, such as job skills, discretion and autonomy in the workplace, work intensity, and insecurity and anxiety at work. All these factors have been found to influence wages, yet they are rarely captured by the data sets used for most of the recent public-private sector pay gap estimates. The study, similar to earlier work in this area, drew upon conventional data sets and controlled for personal characteristics; it concluded that there was a public-private sector wage differential of 7.4%. When the intrinsic quality of work variables we identified were included, the overall public-private sector wage gap became negligible. This research challenges the idea that working in the public sector attracts a 'double premium' of better pay and better quality jobs. Instead, it suggests that wage differentials compensate for differences in the characteristics of work and its intrinsic features.

### 3. References to the research

The research below was funded through the research centres listed in section two.

**[R1]** D. Blackaby, D. Leslie, P. Murphy, N. and O'Leary (2002) "White/Ethnic Minority Earnings and Employment Differentials in Britain: Evidence from the LFS", Oxford *Economics Papers*, Vol. 54 pp. 270-297. DOI: [10.1093/oepp/54.2.270](https://doi.org/10.1093/oepp/54.2.270) **ABS 3\***

**[R2a&b]** Research-based Report in two parts: "Identifying Barriers to Economic Activity in Wales (Stage 1)" (2003) **AND** "Identifying Barriers to Economic Activity in Wales (Stage 2): A Survey of Economically Inactive People in Three Areas of Special Interest" (2004) D. Blackaby, D.P. Latreille, P. Murphy, N. O'Leary and P. Sloane

**[R3]** D. Blackaby, D. 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. DOI: [10.1016/j.econlet.2007.02.005](https://doi.org/10.1016/j.econlet.2007.02.005) **ABS 3\***

**[R4]** 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. Published as "Regional Pay? The Public/Private Sector

Pay Differential”, *Regional Studies*, 2017, Volume 52 Issue 4 pp. 477-489. DOI: [10.1080/00343404.2017.1331295](https://doi.org/10.1080/00343404.2017.1331295) **ABS 3\***

[R5] P. Murphy, D. P. Latreille, M. Jones, D. Blackaby (2008) “Is There a Public Sector Training Advantage? Evidence from the Workplace Employment Relations Survey”, *British Journal of Industrial Relations*, Vol. 46 Issue 4 December, pp. 674-701. DOI: [10.1111/j.1467-8543.2008.00699.x](https://doi.org/10.1111/j.1467-8543.2008.00699.x) **ABS 4\***

[R6] D. Blackaby, A Felstead, M. Jones, G Makepeace, P. Murphy and V Wass (2015) “Is the Public Sector Pay Advantage Explained by Differences in Work Quality?” Chapter 8 in *Unequal Britain at Work*. Edited by A Felstead, D Gallie, and F Green, Oxford University Press, Oxford.

#### Grants

[G1] David Blackaby (PI), 2002 – 2008, The Welsh Economy Labour Markets Evaluation Research Centre (WELMERC), Phase 1: 021021WA, Phase 2: 57251/056002WA/1, European Social Fund, GBP1,300,000

[G2] David Blackaby (PI), 2008 – 2013, The Spatial Economics Research Centre (SERC), ES/J021342/1, ESRC, GBP250,000

[G3] David Blackaby (PI), 2008 – 2012, The Wales Institute of Social and Economic Research, Data & Methods (WISERD), Higher Education Funding Council for Wales, GBP432,000

[G4] David Blackaby (PI), 2014 – 2019, Devolution, social and economic change and the local and regional landscapes of civil society (WISERD 11), ESRC, ES/L009099/1, GBP529,820

[G5] David Blackaby (PI), 2019 – 2024, The Wales Institute of Social and Economic Research, Data & Methods (WISERD), ES/S012435/1, ESRC, GBP 505,120

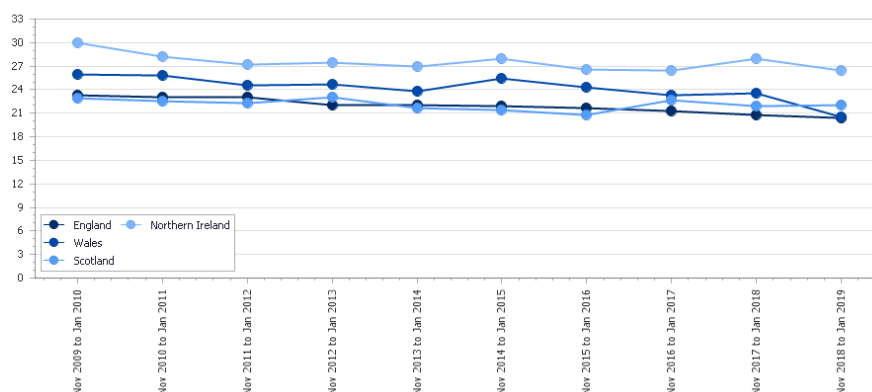
#### 4. Details of the impact

##### Impacts on the economy: reducing economic inactivity and unemployment

Context: The research centres listed in section two have undertaken a significant amount of research on labour market inequalities and have published over 60 reports. The *Barriers to Economic Activity in Wales* reports [R2a&b] were commissioned by the Welsh Government on the basis of these research strengths, and the two parts were published in 2003 and 2004. These reports examined the issue of high levels of economic inactivity in Wales and outlined a number of policy options to address the problem, including additional specific training needs, benefit ‘gateways’ and wage subsidies. This research resulted in the development of our REF 2014 impact case study, which was corroborated by supporting evidence from Rhodri Morgan, then First Minister for Wales, and Jonathan Price, Chief Economist for the Welsh Government.

High levels of economic inactivity coupled with relatively low levels of employment, had been long-standing economic problems in Wales, and the two-part report [R2a&b] noted that policy response would take many years to dramatically influence behaviour. Economic data from 2019 [C1] revealed that the Welsh economy has been transformed in these areas since the research was undertaken and policies were recommended. Additional data [C2] show that the unemployment and economic inactivity rates in Wales have fallen below the UK average. The employment rate, which was nearly 5% below the UK average in 2001 is, as of 2019, above the UK average.

**CHART: Economic inactivity rates by UK country and quarter (seasonally adjusted)**



[C2]

In support of the continued impact of our research in this area, Chief Economist Jonathan Price said: *'Economic inactivity rates, which in 2000 were higher than in any other UK country or region and 5% above the UK average, have, over the recent past, been comparable with many other regions. This trend has not been observed in other peripheral regions of the UK such as the North East and Northern Ireland, where rates have remained high. The insights from research carried out by Swansea University continue to be a key reference point for policy making in this area'* [C3].

Furthermore, the 2014 case study showed that the public-private sector wage differential was exaggerated [R4]. This finding led the UK government to abandon proposals for regional public sector pay (announced in autumn 2012) and also led the Office for National Statistics (ONS) to adopt firm size in the way it models the public-private wage differential. To this end, our research was acknowledged by the ONS in 2013, and they still produce estimates of the public-private sector wage differential with and without the firm size variable to this day [C4]. More recent work in [R6] then showed that when a number of intrinsic quality of work variables are included in the calculation, the size of the public-private sector differential is reduced. This finding has important implications for recruitment and retention. This research was discussed in the 28<sup>th</sup> NHS Pay Review Body Report [C5], which noted how this research *'had included factors which are rarely collected by data sets such as the Labour Force Survey and ASHE on which most recent public-private sector pay gap estimates are based'*. Despite the UK Government's recommendation of a pay freeze for NHS staff, the report recommended a 1% pay increase for over one million workers and the collection of better vacancy data.

#### **Impact on learning: improving the delivery of early years and primary education:**

The Welsh Government's Foundation Phase introduced a radical new curriculum and pedagogical approach to the teaching and learning directed at pupils aged three-to-seven years in all state schools. Following the roll-out (2004 to 2011), WISERD undertook an evaluation of the Foundation Phase, with Swansea leading on the economic evaluation, given our long-established WELMERC expertise in the economics of education [R1 & R5]. This evaluation [C6] was one of the largest evaluations of a new educational curriculum ever conducted in the UK and its main impact was in giving confidence to the Welsh Government about the importance and future of the Foundation Phase and providing the key evidence base for them to develop it further. The evaluation made 29 recommendations about the future development of the Foundation Phase which were formally accepted in full by the Minister for Education. The Minister thanked the research team for *'the extremely robust and comprehensive approach that they've taken'* and for *'their continuing support and vigour in delivering a successful early year experience for our youngest learners'* [C7].

This led to a Foundation Phase Action Plan in November 2016 [C8], which was described by the Minister for Lifelong Learning as *"developed with a wide group of stakeholders under the guidance of an Expert Group and sets out key actions for aspects on which research has shown us we need to focus"* [C9]. Over a third of the recommendations from the research focused on future training needs. Recognising the importance of these policy recommendations and the drivers needed to implement them, the Minister for Education also announced an additional GBP1,000,000 on to



develop the skills of Foundation Phase staff in May 2018 [C10]. Our research helped improve the delivery and effectiveness of early years and primary education in Wales, as noted by the Chief Economist: *'the research by Swansea University and partners has also helped to shape Foundation Phase education in Wales which, through the upskilling of educators, is providing positive benefits for both staff and pupils'* [C3]. Furthermore, this body of work [R1, R2a&b & also C6] has shown the clear link between education, especially in the early years, and future earnings, employment, health and wellbeing.

### Pathway to impact

Public engagement and membership of government advisory committees have been important mechanisms used to realize the impact described above. In January 2014, Blackaby and Murphy were invited by the Office for National Statistics to attend a meeting with the Treasury and the Institute of Fiscal studies to discuss their research and issues surrounding the measurement of the public/private sector wage differential. In October 2014, Blackaby was also invited to make a keynote presentation on [R3] and [R4] at the 'Government Economic Service at 50' event in Cardiff, attended by the First Minister of Wales and a number of senior civil servants from across the UK. In 2015, the research featured in the Academy of Social Science booklet 'Making the Case for Social Sciences 10: Wales' with Blackaby and Murphy showcasing the work to MPs and AMs in London and Cardiff respectively. Also, in 2015, Murphy presented [R4] to a meeting of Pay Review Body Economists in London. These economists were from six Pay Review Bodies responsible from making recommendations on pay to the Government covering approximately 2,500,000 or 45% of public sector employees – a pay bill of around GBP100,000,000,000 per annum.

### 5. Sources to corroborate the impact

[C1] Key Economic Statistics – March 2019 Statistics for Wales, Welsh Government.

<https://gov.wales/key-economic-statistics-march-2019>

[C2] Statistics Wales web site Welsh Government.

<https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Economic-Inactivity/chart-economic-inactivity-rates-by-uk-country-quarter>

[C3] Supporting letter from Chief Economist, Welsh Government (Reporter)

[C4] ONS Public and private sector earnings: 2019, release date September 2020.

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/publicandprivatesectorearnings/2019>

[C5] NHS Pay Review Body 28th Report: 2014.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/288690/NHS\\_Pay\\_Review\\_28th\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/288690/NHS_Pay_Review_28th_report.pdf)

[C6] Evaluating the Foundation Phase: Final Report [commissioned by Welsh Government]

Taylor, C., Maynard, T., Davies, R., Waldron, S., Rhys, M., Power, S., Moore, L., Blackaby, D., and Plewis, I., (2015) [https://dera.ioe.ac.uk/23035/3/150514-foundation-phase-final-en\\_Redacted.pdf](https://dera.ioe.ac.uk/23035/3/150514-foundation-phase-final-en_Redacted.pdf)

[C7] Statement – Evaluating the Foundation Phase (Huw Lewis AM, Minister for Education and Skills, 19 May 2015 16:39, Record of Proceedings)

<https://senedd.wales/en/bushome/pages/rop.aspx?meetingid=3165&language=en&assembly=4&startDt=18/05/2015&endDt=20/05/2015>

[C8] Welsh Government (2016) *Foundation Phase Action Plan* Cardiff: Welsh Government

<https://gov.wales/sites/default/files/publications/2018-03/foundation-phase-action-plan.pdf>

[C9] Written statement – Publishing the Foundation Phase Action Plan (Alun Davies AM, Minister for Lifelong Learning and Welsh Language, 7 November 2016. PDF available on request

[C10] GBP1,000,000 to strengthen how Foundation Phase is delivered in Wales, announcement by Kirsty Williams AM, Cabinet Secretary for Education and Alun Davies, Minister for Lifelong Learning and Welsh Language, 18 May 2017 <https://gov.wales/ps1m-strengthen-how-foundation-phase-delivered-wales>