



MARCH 2015

VIEWPOINT – PUBLIC SECTOR PAY GRADES

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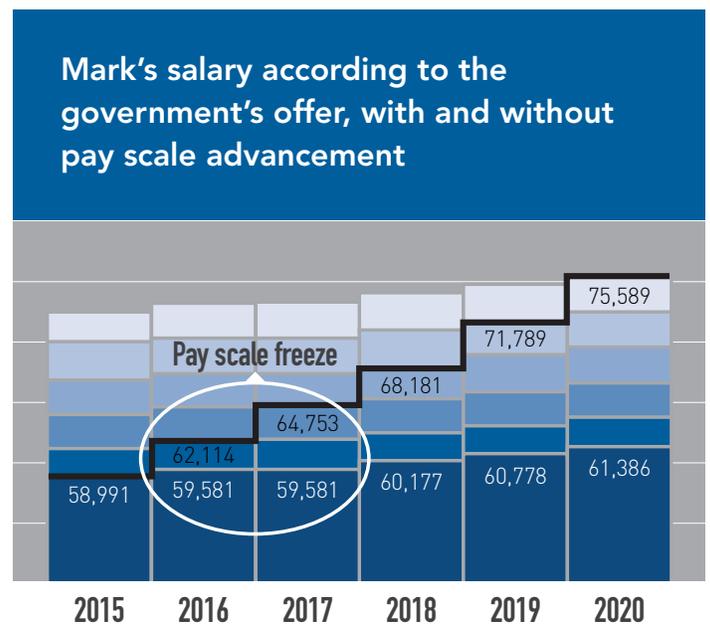
In the context of the current negotiations for the renewal of public sector collective agreements, the figures discussed in the public debate can be misleading. The widely reported percentage increases demanded by unions and offered by the government do not represent the pay raises of public sector employees in Quebec, but rather increases to the pay grades themselves. This distinction is crucial for properly understanding how salaries will change following the current round of negotiations.

Pay grades are the different salary levels associated with different levels of seniority. The salary of a public sector employee is determined by the work experience that allows him or her to climb from one pay grade to the next year after year. There are a varying number of pay grades, depending on the position, that correspond to an employee's accumulated work experience and level of educational attainment.

The salary associated with each grade can appreciate by a certain percentage each year. Indeed, it is this component that is at the heart of the dispute between the government and the unions. The confusion stems from the fact that we speak of increases to the levels of the pay grades as if these were the pay raises of individual workers. Whereas even in the case of a pay scale freeze, an employee who has not reached the top pay grade can receive a raise by progressing up the pay scale from year to year.

On one side, the government is offering a freeze for the next two years followed by an indexation of 1% for the three subsequent years.¹ Since an indexation of 1% will apply for 2015 in any case, as a result of the last collective agreement, the pay scale freeze will only actually be in effect for the year 2016.² On the other side, the unions are demanding pay scale increases (that is, increases to each pay grade) of 3% per year, as well as a 5.5%

Figure 1



Source: Authors' calculations. Amounts in current dollars.

adjustment for the year 2015 in addition to the 1% increase due to the preceding collective agreement.³

TWO CASES: A TEACHER AND AN ENGINEER

In order to understand the effect of these proposals, let's take the hypothetical cases of Mark, a teacher in his thirties with six years of experience, and of Joan, an engineer barely out of university with just two years of experience as a civil servant. Mark's situation is illustrated in Figure 1.

With six years of experience, Mark finds himself at the 11th pay grade, because the first years of employment allow one to climb more than one grade per year. With the government's offer, his

salary of \$58,991 will climb by an annual average of 5.1% over the next five years. As a result, Mark's purchasing power will steadily increase, to reach an annual salary of \$75,589 in 2019-2020.⁴ If the unions' counter-offer were accepted as is, Mark would be entitled to a generous annual average increase of 8.5%. In other words, his salary would grow by \$29,715 over a period of five years, approximately double the government's offer, to reach \$88,706.⁵

As for Joan, the government's proposals would lead to a \$15,458 wage increase for her, from \$56,969 to \$72,427 in 2019-2020. This corresponds to a 4.9% annual increase. According to the terms of the unions' offer, her salary would grow by 8.3% per year to reach \$84,995 after five years.⁶

Pay grades also exist in the private sector. Indeed, public sector employees are not the only ones facing a pay scale freeze, as 7% of Quebec businesses anticipate such freezes in 2015, a proportion that had risen to 11% in 2014.⁷

According to forecasts for 2015, private sector employees will receive an average raise of 2.7%.⁸ By applying this rate to the salaries of Mark and Joan, we obtain an increase of between \$8,100 and \$8,400 for the next collective agreement. Even though the government's offer is nearly double these increases, the unions allege that public sector employees' salaries lag those of the private sector, and that the gap could double in size by the end of the period covered by the next agreement.⁹

Comparisons with the private sector require a good deal of prudence, however. According to the report on employee remuneration prepared by the Institut de la statistique du Québec, the gap in terms of salary was 8.4% in 2014, although there was no gap in terms of total remuneration.¹⁰ In reality, the usefulness of these statistics is limited by the methodology used to calculate them. For example, public sector employees enjoy job security whose estimated value is between 7% and 21% of their salaries.¹¹ By considering only this element, we can assume that there is in fact a remuneration gap, but that it is in the public sector's favour.

Our own demonstration also has its limits. Given that around 60% of public sector employees have reached the highest pay grades in their profession, these employees would receive, with the government's offer, pay raises that are below the rate of inflation for the next five years.¹² We should keep in mind, however,

that employees who have risen to the top of their pay scales receive higher annual salaries than the rest,¹³ namely \$75,700 for a teacher and \$81,700 for an engineer. Among these, some are moreover eligible for managerial positions, which come with their own pay scales.¹⁴

These hypothetical cases nonetheless demonstrate that for a good portion of public sector employees, the government's offer does not represent a salary freeze, but rather a pay raise that will actually be much higher than the average increases received by employees in the private sector.

REFERENCES

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2. Secrétariat du Conseil du trésor du Québec, *ibid.*
3. Fédération interprofessionnelle de la santé du Québec and Fédération autonome de l'enseignement, "Des offres patronales qui appauvriront encore les professionnelles en soin et le personnel enseignant," December 15, 2014.
4. These amounts are presented here in current dollars, as is standard practice in the negotiation of collective agreements. The amounts in constant 2015 dollars can be found in the Technical Annex and are calculated based on a hypothesis of a 1.8% inflation rate, which is the average inflation rate over the past five years.
5. Authors' calculations based on the rates in effect for April 2014. Secrétariat du Conseil du trésor, "Échelles de traitement, Commissions scolaires – Enseignante ou enseignant."
6. *Ibid.*, "Échelles de traitement, Fonction publique – Professionnels." This is for an engineer class 0 - grade 1.
7. Perrault Conseil, *Prévision salariale 2015*, September 2014, p. 11.
8. The average expected salary increase is 2.7% for the private sector. The only available data include freezes, exclude unionized personnel, and do not indicate the proportion of employees having reached the top of their pay scales. Statistics Canada, "Consumer Price Index, December 2014," January 2015; Normandin Baudry, "Enquête québécoise sur les augmentations salariales 2014-2015, Quatrième enquête," September 2014, p. 22.
9. Radio-Canada, "Fronde syndicales après les offres gouvernementales," December 15, 2014.
10. This is a comparison of the remuneration of 77 positions in the public sector and in private sector companies with 200 or more employees. Institut de la Statistique du Québec, *Rémunération des salariés : État et évolution comparés*, November 2014, p. 11.
11. International examples based on Germany (an average of 10.5%) and Australia (between 7% and 21%). See Christian Pfeifer, "Risk Aversion and Sorting into Public Sector Employment," IZA Discussion Papers, No. 3503, May 2008, pp. 6 and 7; Paul Daniel Muller, "La valeur de la sécurité d'emploi," *Viewpoint*, Montreal Economic Institute, March 2005, p. 2.
12. Secrétariat du Conseil du trésor du Québec, *op. cit.*, footnote 1.
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14. Secrétariat du Conseil du trésor, "Échelles salariales – Personnel d'encadrement."



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