

There is a solution to public sector pay disputes if th...

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I [posted this thread](#) on public sector pay rises on Twitter this morning:

A Treasury minister said yesterday that 'We are taking a responsible stance on public sector pay to limit the risk of inflation becoming both more severe and lasting longer than it needs to.' This is complete nonsense. Let me explain why. A thread.....

To be clear, this is the Tweet I am replying to:

<https://twitter.com/simonclarkemp/status/1538798657490890753?s=21&t=OJ3kjoIIpxin2MJ2znDyA>

So far I am not seeing anyone saying clearly enough why this is wrong, and why the irresponsible party in these negotiations is the government. That's why I am writing this thread.

First, let's start with why we have inflation right now. The causes have nothing whatsoever to do with wage rises. Inflation was initially caused by the poorly planned reopening from Covid which led to a sudden increase in demand for energy and severely disrupted supply chains.

Those supply chains were mainly from China on things like microchips, but they delayed the production of many high-ticket price goods like cars, and this pushed up prices of these things in a way that rapidly increased the inflation index.

Then we got a war that was unexpected, which has led to more disruption, massive increases in fuel prices, and sanctions which have already had a big impact on food prices. And China is still imposing serious Covid constraints.

But when it comes to wage rises, the public sector has seen about 1.5% pay increases in the last year. The private sector is 8%, but maybe half of that is in bonuses and most

of it is for those already on very high pay.

So, the reality is that amongst people on average and lower earnings pay rises are leaving people much worse than they were before Covid. What there most definitely is not is a wage rise spiral. Pay is dragging way behind inflation and most definitely not fuelling it.

In that case where is the money that everyone is paying for higher priced goods and services going, because it's not going to employees? The answer is it is going to companies, banks and speculators in oil, gas and food. In each case it's giving them additional profits.

What this inflation is doing in that case is massively shifting the rewards in society from people who work for a living to those who make money by speculation. This is why oil, energy companies, banks and big commodity trading companies are all reporting massive profits.

It's worth noting that the boss of BP said late last year that he said he was running 'a cash machine'. So are all his competitors. This is why we have inflation. The country is being fleeced.

And just before I get back to the consequences, this is happening with government approval. We know this because the Bank of England is increasing interest rates right now, and that can only happen with tacit government consent because the Chancellor has the power to over-rule such decisions.

These interest rises are designed to cut household incomes on the assumption they are too high and are fuelling inflation when all the evidence is that we actually have a cost-of-living crisis with people having insufficient money already to pay their bills.

The Bank of England is ignoring this evidence. It is instead dogmatically increasing rates, effectively increasing the price of money alongside everything else. But what that means is money is shifted from those with less of it - those who borrow - to those with more of it.

There's another aspect to this interest rise though. Because of quantitative easing the UK's commercial banks have around £900bn on deposit with the Bank of England that was effectively gifted to them by the government after the 2008 financial crisis and during Covid.

They are paid interest in these balances at the rates of interest that the Bank of England is now pushing up. Over the next three years or so they could profit by £50 billion or so from this without literally doing a thing to earn it. The government is doing nothing to stop this.

Nor is it doing anything to curb inflation. I think it should cut VAT and duty rates to cut

the inflation rate. It would be easy to do. But it would rather more tax paid by us poured into the Treasury instead, stripping money out of our pockets so Sunak can balance his books.

So, the government is itself right now profiting from inflation, as are banks, and it's doing nothing to stop large companies and landlords increasing their prices. Nor is it increasing taxes on the investment income of those gaining from increasing interest rates.

And for those who think the windfall tax is an answer to all this, dream on. It won't even be paid for a couple of years as yet.

So, the government is sitting by, and is even encouraging inflation by pushing up prices (by increasing interest rates and by collecting more VAT and duties) whilst saying nothing to those companies that are really fuelling inflation, and letting them get on with it.

But then it turns round and says it must stop wage rises because these are what is fuelling inflation, when glaringly obviously that is not true.

But let's suppose for a moment that the government wins. Imagine it succeeds in forcing 9% real wage cuts on public sector employees this year, on top of the well-documented loss of earnings they have already suffered over the last decade. What happens then?

This will mean three things. First, around 5 million people in the country will have a great deal less to spend after all essential bills have been paid, if those suffering the pay cuts can still afford to do that.

What that means is that all the business in the retail and leisure sectors where these employees might have spent to date will be in turn see a massive drop in their income from these people at the time their own costs are rising rapidly.

And given that if the government wins then many employers in the private sector will also try to impose low pay deals, it's likely that large parts of the UK working population will face having to cut large parts of their discretionary spending very soon.

So, those businesses those employees with lower pay would have spent with will, again, have less income. In turn they will then cut costs, or staff pay, or make people redundant. And in that case even more people will have less to spend and so a recessionary spiral begins.

That's the first consequence of forcing large numbers of people in the state sector to take pay cuts. Doing this will actually create a private sector downward spiral that then delivers recession. That's virtually inevitable. It's almost as if the government wanted it to happen.

Then there's the second consequence. That happens when those suffering pay cuts can't pay their essential bills, whether for fuel costs or rapidly rising housing costs. If the government forces real pay cuts then before long people will be defaulting on their debts.

Those bills include mortgages, so forcing people into pay cuts can create a banking crisis. It also includes rent defaults. For both reasons homelessness is likely to increase. And then all the social problems that follow can escalate.

After that, there is the third consequence, which is that with these odds stacked against them people working in the public sector will be desperate to get jobs in the private sector. This drain is already happening. Teachers, nurses, carers and many others will go elsewhere.

Then, of course the public services will begin to get even worse, although that of course is exactly what this government wants as an excuse to privatise them.

All three of these outcomes are a disaster for the people involved, vast numbers of businesses and those who work for them in retail and leisure sector, and for everyone who relies on public services, which is all of us.

Even the government will be, in the end, worse off. Right now its tax income is strong because of inflation. But that won't survive a strong recessionary downturn as people's wages fall and so spending is forced down, which is what they say they want.

So is a government minister right to say that 'We are taking a responsible stance on public sector pay to limit the risk of inflation becoming both more severe and lasting longer than it needs to'? He clearly is not. The government is being recklessly irresponsible.

What should be happening right now? First, the government should be stopping the Bank of England imposing interest rate rises that are designed to crush people, force companies out of business and all to increase the wealth of bankers, whilst having no impact on inflation.

Second, they should be cutting prices by reducing VAT, especially on fuel, and by cutting duties on petrol and diesel. That's not green and must not last, but we can't ever go green by forcing people into poverty, so let's be realistic about that.

Third, banks need to be subject to a windfall tax because they are already winning hands down from this crisis.

Then the question of what to do about public sector pay must be addressed. For those who think I'm going to say 'pay up at the rate of inflation' I'm sorry to disappoint, because that's not what I think. This situation is too complex for that. To be responsible I have to say so.

One reason for that complexity is that I don't think that this inflation is going to last. Consumer confidence is already tumbling. So is manufacturing production. And many raw material prices are falling now. These are all very strong indicators that inflation will fall soon.

There is another reason for thinking inflation will fall. It. That is that it always does. Supply chains sort themselves out, as is already happening. And energy companies will stop panic buying oils and gas at any price demanded.

Just as the toilet roll panic buying of 2020 ended, so will the panic buying by energy companies of 2022 that is pushing up prices come to an end. And energy prices always fall after panic buying, without fail. They will do so again, and probably sooner rather than later.

I'm not saying that prices will go back to where they were. That's as unlikely as this inflation continuing indefinitely. We must face the fact that the green transition will tend to increase energy prices. And while we insist on eating meat food prices are also going to rise.

But I am saying 11% inflation, as now forecast, is very unlikely to last and that real price falls may well happen in 2023 and afterwards. So what is required is a way to responsibly manage this complex scenario in a way that is fair, but does not create an inflationary cycle.

The answer is actually quite straightforward and is what the private sector is doing already. Around half the reported pay increases in the private sector right now are not pay rises as such, at all. What's actually happening is that above normal bonuses are being paid.

Let's ignore that many of these are going to be paid to bankers, and instead understand their purpose. A bonus is paid to make sure base pay remains under control whilst permitting employees to be rewarded for exceptional circumstances.

Right now we have an exceptional circumstance. It is unexpected and extraordinary inflation. It would be irresponsible to deny this and its impact, as the government is seeking to do.

Nor can we allow all returns to capital to increase because of this inflation, as is happening, and then demand wages are crushed, as the government is saying must happen. That's not responsible. That's deliberate opportunism at cost to working people.

But at the same time we don't want to embed inflation with universal large pay rises because as I have noted, inflation really could subside, and relatively quickly. So the answer has to be in flexible pay awards until we know more about how long inflation

might last.

I stress there should be exceptions to this suggestion. Those on benefits, including pensions, are already in need of real increases. They should be compensated by inflation matching rises. So too should those on minimum wage get this. As should those on student loans.

But as the income range goes up the mix between basic pay rises and one-off compensatory bonus payments to allow for inflation might need to be considered. There is no fixed ratio between the two, but in the private sector the mix might be around half and half.

Nor is it certain that in every case that full compensation for inflation can be paid. There has been a real cost to this crisis (albeit one the government could have done a lot to prevent) and some of that might fall on employees.

In other words, if inflation reaches 11% it is unlikely that pay rises, however split between basic pay and bonuses, will reach that level. There may be a gap to reflect real changing economic circumstances.

But what I am saying is that if the government is serious about protecting people and the public services from harm, and about avoiding the risk of recession that their current approach has implicit in it then their offer to pay 2% now is the height of irresponsibility.

What the government has to be offering is above-normal pay rises and one-off inflation adjustments until we know how long-term this inflation is really going to be.

But, this can't also be a final solution. That has to depend on future inflation. So, if economic conditions remain stressed, profiteering continues and the government does not cut taxes or interest rates then next year the bonuses will have to be consolidated into pay.

Any agreement this year has in that case to include the right to revisit this next year. The plus of this is it pushes the obligation to tackle inflation onto the government when it's doing nothing about it now except to demand that public sector employees take the burden of it.

And yes, I know that leaves uncertainty hanging over the future of pay for some working in the public sector. I can't pretend otherwise. But nor can anyone eliminate all the risk in the current situation. So, some compromise has to be found.

I suggest that the one I propose might just work. It's not perfect, but nothing is and it is a way forward.

But it could only work if the government also plays its part in stopping inflation by

stopping blaming workers for this inflation that they have done nothing to cause and does instead start tackling it by using the measures I suggest, and offering fair pay settlements now.

ENDS