The Effects of Pay Decentralisation on Teachers' Pay and Retention

Jake Anders*, Alex Bryson, Hedvig Horváth†, Bilal Nasim**

* UCL CEPEO, ** UCL SRI and IZA, † UCL SRI and CESifo

Elevator pitch

We investigate the effects of the 2013/14 Pay Reform in England, which granted schools the opportunity to flex teacher pay to respond to local labour market conditions, replacing a more rigid, seniority based system.

We find that schools mostly used the newly available flexibility to slightly economise on teacher pay, which they could do with only small decreases in retention rates. Our estimates imply lower monopsony power in state school sector than research in other countries have found.

The 2013/14 Teacher Pay Reform in England

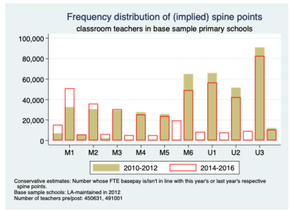
		Annual Base Salary for Classroom Teachers (current £)							
		2012 (Before): automatic progression through **seniority** pay points				2014 (After): opportunity to **flex pay within statutory range**			
Pay scale	**Pay point**	England and Wales (excluding the London Area)	Inner London Area	Outer London Area	Fringe Area	England and Wales (excluding the London Area)	Inner London Area	Outer London Area	Fringe Area
Main pay scale	M1/Minimum	21,588	27,000	25,117	22,626	22,023	27,543	25,623	23,082
	M2	23,295	28,408	26,674	24,331				
	M3	25,168	29,889	28,325	26,203				
	M4	27,104	31,446	30,080	28,146				
	M5	29,240	33,865	32,630	30,278				
	M6/Maximum	31,552	36,378	35,116	32,588	32,187	37,119	35,823	33,244
Upper pay scale	U1/Minimum	34,181	41,497	37,599	35,218	34,869	42,332	38,355	35,927
	U2	35,447	43,536	38,991	36,483				
	U3/Maximum	36,756	45,000	40,433	37,795	37,496	45,905	41,247	38,555

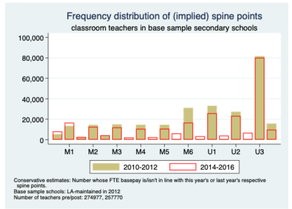
- **Policy goal: pay to respond to local labour market conditions** and to link to performance
- Unique feature: Unions continued to shadow seniority pay points as recommendations.

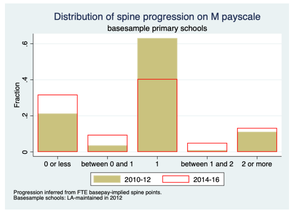
Forms of flexing pay

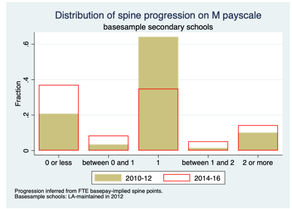
Exploit statutory/union recommended pay points to identify:

1. Paying in between pay points
2. Slowing down/speeding up pay progression



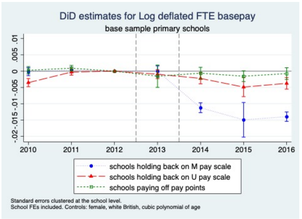


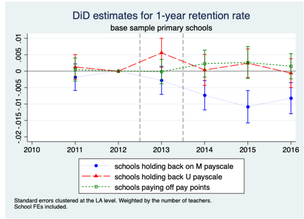


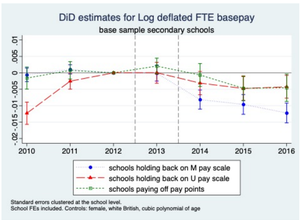


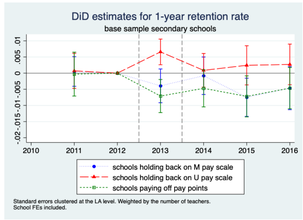
Effect on teacher pay and retention

- We exclude schools (~1/3) who flexed even pre-reform.
- We run (non-causal!) diff-in-diff models to compare schools who flexed more vs less:









Which schools flexed teacher pay?

Using cluster and factor analysis on the moments above, we construct a school-level metric of the intensity to flex pay.

- Schools **with more local/academy schools around, higher competitor pay** are more likely to flex pre-reform
- Schools **with fewer local/academy schools around, lower competitor pay** are more intensely holding back teacher pay on M pay scale
- 25-30% of the variation in likelihood of flexing pre-reform/intensity to flex is explained by **LA effects**

Implication: Monopsony power in local teacher labour markets

Following Manning (2003) and using our estimates, we can recover the labour supply elasticity facing individual schools:

$$\epsilon = 2\frac{\gamma^{DiD}_{retention}}{1-\text{retention rate}}\Big/\beta^{DiD}_{\log pay} = \begin{cases} 8.89 & \text{for primary schools} \\ 7.14 & \text{for secondary schools} \end{cases}$$

Given the non-experimental nature of our estimates, the elasticities are likely biased downwards, suggesting lower monopsony power than research in other school systems have found.

Corresponding authors: * jake.anders@ucl.ac.uk, ** a.bryson@ucl.ac.uk, † h.horvath@ucl.ac.uk

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Data: School Workforce Census 2010-2016