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SPERI British Political Economy Brief No.1

# Pay in manufacturing & finance.

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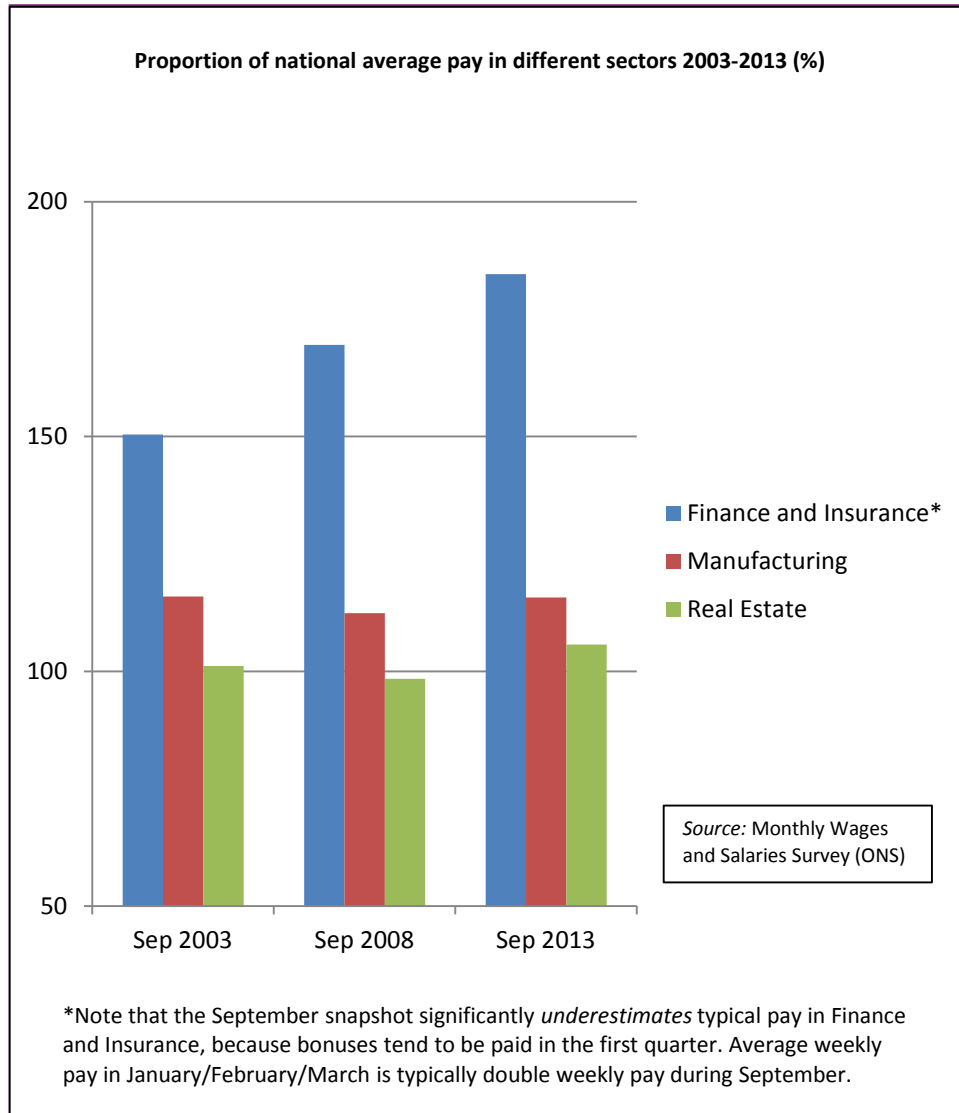
In this brief the Sheffield Political Economy Research Institute (SPERI) considers what levels of pay across different sectors of the UK economy tells us about the experience of economic rebalancing since the financial crisis. In an economy rebalanced towards manufacturing, and away from financial services, we would expect to see the pay gap between these two sectors beginning to close.

## Background

- The manufacturing sector has declined as a proportion of UK economic output over the last few decades. In contrast, the services sector – particularly the finance and insurance sector and real estate activities – has grown.
- In 1980 manufacturing represented around 30 per cent of the UK's gross value added (GVA) and employed around a quarter of the workforce. But it now represents around 12 per cent of GVA and employs less than 10 per cent of the workforce.
- In his 2011 budget speech George Osborne promised a 'march of the makers' as part of a rebalancing of the economy back in favour of manufacturing.
- A smaller manufacturing sector need not be equated with poorer performance. Retention of high-skilled manufacturing jobs, as low-skilled jobs migrate to emerging economies, would see productivity and pay in the manufacturing sector improve.
- At present, however, only 40 per cent of British manufacturing firms are involved in technological innovation, compared to 70 per cent in Germany.
- A focus on 'advanced manufacturing' was promised as part of the coalition government's 2011 'plan for growth'.
- A transformation of this nature would also improve the tradability of the UK's manufacturing output and enhance the dispersion of skills and technology from manufacturing to other areas of the economy.
- Rebalancing the economy in favour of manufacturing would also assist geographic rebalancing; London has a lower proportion of jobs in manufacturing than any other region.

## Evidence

- At the beginning of 2000 manufacturing workers were paid around 20 per cent more than the national average. By September 2013 this had fallen to around 15 per cent.
- In contrast, the pay gap between the finance and insurance sector and the national average has largely been maintained. It fell from around 90 per cent in January 2000 to around 70 per cent in September 2008, but has since recovered to around 85 per cent.
- Manufacturing workers typically earn 37 per cent less than finance and insurance workers – this gap has grown from 34 per cent in the past five years.
- In the past five years, real estate workers have gone from being paid 2 per cent below the national average, to 6 per cent above. The pay gap between real estate and manufacturing has also closed, from 13 per cent in September 2003 to 9 per cent in September 2013.



## Analysis

- Pay data offers no evidence that the economy is rebalancing in favour of manufacturing.
- Manufacturing is in danger of becoming a rump sector – both smaller and less productive (compared to other sectors).
- In contrast, pay in finance and insurance – even without considering the receipt of annual bonuses – is soaring.
- Pay in real estate remains behind manufacturing but there is evidence that it is catching up. High-skilled workers are therefore more likely to be attracted away from tradable and technology-intensive sectors.

## Conclusion

Measured in terms of pay – a useful proxy for skills and productivity – there is little sign that the UK economy is rebalancing towards manufacturing. The pay gap between manufacturing and financial services is growing, and levels of pay in the real estate sector are fast catching up to manufacturing. Both of these trends should worry those interested in developing a more sustainable and regionally-balanced model for economic growth in the UK.

## Annex

Average weekly earnings (nominal) in manufacturing, finance and real estate				
	All	Finance and Insurance	Manufacturing	Real Estate
January 2000*	£311	£587	£369	£322
% difference to All	-	+88.7	+18.6	+3.5
% difference to Finance and Insurance	-	-	-37.1	-45.1
September 2003	£359	£540	£416	£363
% difference to All	-	+50.4	+15.9	+1.1
% difference to Finance and Insurance	-	-	-23	-32.8
September 2008	£442	£749	£497	£435
% difference to All	-	+69.5	+12.4	-1.6
% difference to Finance and Insurance	-	-	-33.6	-41.9
September 2013	£475	£877	£550	£502
% difference to All	-	+84.6	+15.7	+5.7
% difference to Finance and Insurance	-	-	-37.3	-42.8

Source: Monthly Wages and Salaries Survey (ONS) \*Data before January 2000 is not available



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