3. How should we set the pay of nurses?

I am going to talk about how we should set the pay of nurses. That sounds like a very practical discussion but in fact it is grounded in a theory established by a countryman of mine many decades ago. Let me introduce myself first. I am Robert Elliott. I am now an Emeritus Professor at the University of Aberdeen in the northeast of Scotland. I used to direct the Health Economics Research Unit which is based in Aberdeen, until three years ago. My training is as a labor economist. I came into health economics through a backdoor and through my interest in the health workforce. I have done a lot of work in labor economics. Most recently, I was sitting on something called the Low Pay Commission which was established by Tony Blair's government in 1997 to set the minimum wage. Blair's government introduced the minimum wage and I was one of two academics who sat on that Commission setting the minimum wage for the United Kingdom. In addition to that, I advised the European Commission. I devised the formula that uprates the salaries of all the civil servants in the Commission. I think it also affects the salaries of those in the OECD and other international organizations. I have taken an interest in how we should set the pay of public sector workers for a long time. Today I want to talk about how we should set the pay of nurses. Nurses are the largest single professional group delivering health services. About 60% of the budget of the spend on health services goes on salaries. We have conducted comparatively little research into the effectiveness of that spend. Today I want to discuss the principles that should inform the setting of that pay. Really, there are two guiding principles that should inform pay setting. The first is to recognize that nurses have what we call transferable skills that there are alternative jobs that nurses can undertake. Secondly, that their competencies within the job grow over a number of years. Those two principles should inform the way we set the pay of nurses. We operationalize those concepts within a framework that was devised a long time ago and articulated a long time ago by a fellow Scotsman, Adam Smith, in 1776 when he articulated the theory of net advantages. I won't articulate that framework for you but you can certainly read about it and I'll be very happy to engage in any email correspondence thought appropriate on that subject. How should we think about those two features? The first is that nurses' skills are transferable. By that I mean that there are alternative employers competing for nurses' services. They undergo initial training – In France, nurses are trained for around 38 months initially. That training provides them with a set of skills that are in some ways specific to the occupation of nurses but that are also, in many respects, more general. They can be used in a number of employments. That means there will be other organizations perhaps hospitals or private enterprises competing for nurses' services. Perhaps not working as nurses, but in other capacities where they utilize skills they developed in their training and application as nurses. The second principle, of course is that nurses' competencies grow over a number of years after they have completed their training. That means we should think in terms of their rewards also increasing over a number of years beyond their initial salary which is paid upon completion of training. In labor economics terms we're saying that their productivity increases over a number of years. Labor economists argue that wages should reflect productivity. Those are the basic principles. The question is of course: how do we operationalize them? We do not start with a blank sheet – we start with a set of established wages. Nurses are in employment, they are being paid, so how should we operationalize and what is the significance of these frameworks?

First, establishing competitiveness. What we really need to know is that nurses work in many different geographical areas. Hospitals are located in different geographical areas. What we need to do in order to establish the competitiveness of their wages in these different areas is collect data on, essentially, the ease with which hospitals can attract and retain nurses. It could be turnover data, or it could be vacancy data. Typically, when we look at that data we find that turnover and vacancy rates vary across geographical areas. The current problem with attracting and retaining nurses in Paris is because, as you all know, nurses in the public health system in France are paid under national salary scales. These national salary scales do not differ according to where the nurse works. That's unlike the pay of comparative and competitor occupations where there is regional variation. That means that in some areas of France nurses are relatively well paid compared to those competitors but in other areas they are underpaid. That's not a problem that is unique to France. I've worked in this area of research extensively in the United Kingdom. In the UK, nurses in London are paid some 25% more than they are paid in other geographical areas of the UK. And yet, that is still not enough to equalize vacancy and turnover rates across the National Health Service in England. Clearly there is a problem here about adjusting nurses' pay to reflect the competitiveness of outside pay, to reflect the attractiveness or unattractiveness of working in different geographical areas, to reflect the extra cost that is incurred by living and working in particular geographical areas. Those differences in the net advantages to go back to the framework of Adam Smith can, evidently, be quite substantial. In setting nurses' pay we need first of all to establish the competitiveness and the way it varies across geographical areas. We need, secondly, not to pay them a simple spot salary but to increment their pay over a number of years. They need to be paid on salary scales that recognize their increasing competence, their increasing effectiveness, their increasing productivity. It is challenging to say how long those scales should be. But we have tools which enable us to identify how their competencies grow and we should use those to establish what the appropriate length of the salary scale should be. I tried that exercise with a group of public sector workers whom I advised. They were rank-and-file police officers in the UK. We conducted such an exercise and established that their competencies grew over a period of seven years. These were beat officers, normal patrol officers. While they continued to grow in effectiveness after that, the increment, the margin of that growth, was modest. That suggested we should be paying police officers rank-and-file police officers, on salary scales of seven points. I have articulated the principles we should employ in setting nurses' pay. This is an important area for future research in France. I would encourage some of you to employ those tools to research these issues. I would be happy to engage in discussion with any of you who would wish to. My email address will be made available by the Course Director. Thank you.