

Chapter 10

Government Employment and Compensation—Facts and Policies*

Sire: A vast majority of civil servants are ill paid.... The result is that skilled and talented men shun public service and look for more honorable and remunerative means of livelihood.... Intelligent, hardworking, competent, and motivated individuals should direct Your Empire's civil service. If treated as they well deserve, the employment of such persons may well reduce the number of civil servants to one fourth of its current size.

— Ali Pasha 1871¹

The overall objective of government employment and pay policies is to achieve a government workforce of the right size and with the skills, motivation, ethos, and accountability needed for efficient, effective, and responsive administration. Yet, economists as well as international organizations have tended to pay more attention to the fiscal implications of government employment. Issues related to the skills, incentives, performance, and accountability of government employees in developing countries have been examined largely by political scientists and specialists in public administration. It is now clear that successes in reducing government employment and containing the wage bill in the developing world have been few, modest, and short-lived. (See, for example, World Bank 1996.) Nor have these cost reductions been accompanied by improvements in the accessibility and quality of social services. A major reason for this disappointing outcome has been the lack of attention to the longer-term issues. Overemphasis on cost containment as an end in itself

* This chapter relies in part on Schiavo-campo (1996, 1998). Permission to reproduce parts of those articles is appreciated. Special acknowledgement also goes to Giulio de Tommaso and Amitabha Mukherjee, who collaborated on the original survey of government pay and employment (cf. Schiavo-campo, et. al. 1997).

gives civil service reform a bad name, magnifies resistance to change, and ultimately nullifies the savings achieved by controlling costs (Schiavo-Campo 1996).² Moreover, the empirical basis of the quantitative reforms themselves has been of varying reliability and uneven geographic coverage, and has often been outdated.³

This chapter first summarizes the relevance of a good civil service to sound economic management and development. The second major section gives the results of an extensive survey of government employment and levels of compensation around the world. The third and fourth major sections outline the policy issues relevant to government employment and to compensation, and the last section gives the customary summary of the key points and directions for improvement.

THE IMPORTANCE OF A GOOD CIVIL SERVICE

Civil service issues are not a new concern. In ancient times, the People's Republic of China (PRC) and Rome built their empires on efficient and competent civil servants. And the above-quoted advice given over a century ago to Ottoman Sultan Abdul Aziz by his Grand Vizier Ali Pasha is remarkably current and applicable to several countries today. (The Sultan disregarded most of Ali Pasha's policy prescriptions, and it is sobering to note that just about 30 years later the Empire was overturned by the Young Turks, largely because of the continuing degradation of Turkey's public administration apparatus.) A good civil service is very important in five areas—governance, production of public goods and services, economic and social policy, expenditure/revenue and project administration, fiscal sustainability, and institutional development.

Civil Service and Governance

There is strong evidence from all countries that a skilled, motivated, efficient civil service with a professional ethos is one of the key requirements of good governance. Effective accountability, transparency of relevant information, appropriate participation, predictability of public administration based on the rule of law—all require a sound core of public administrators. A good civil service is not, of course, sufficient in itself to produce good governance; other mechanisms must be in place. Experience shows, however, that a very bad civil service is sufficient to produce bad governance, even if the right accountability and other mechanisms are in place. (In turn, there are strong links between governance and development; see chapter 1.)

Civil Service and Public Goods and Services

The production of public goods is a function of economic and social infrastructure, capital, materials, labor (i.e., public employees), and the technology of their production—i.e., the rules of behavior and accountability that condition the quantity and quality of public services. It would be nonsensical for the analysis of *private* production to exclude consideration of labor inputs, skills, and pace of technological change. Similarly, it would make no sense for the analysis of public production to exclude consideration of the size and quality of the public workforce, and of improvements in the institutional rules that guide its behavior. Access to public services and their quantity and quality depend in large measure on the skills and motivation of the public employees who provide the services or oversee their delivery.

Civil Service and Economic Policy Improvements

Economic policy improvements can be subdivided into enabling reforms (e.g., lifting price controls) and affirmative reforms (e.g., improving public expenditure management). The former, often called stroke of the pen reforms, may be difficult politically but do not require much administrative capacity. By contrast, affirmative improvements, sometimes called second-stage reforms, depend crucially for their implementation on competent and motivated government personnel. Unfortunately, in country after country, good policy reform programs have been formulated in every detail but one: *who* will implement them? The problem is well known, but the obvious corollary of an efficient and professional civil service to implement new policy is rarely addressed. It is easier to assume that, somehow, good policies will implement themselves. (Moreover, implementation failures become evident only sometime after the fact, when those responsible have long since moved to other pursuits.)

Civil Service and Public Expenditure/Revenue Management

The execution of current and investment budgets and the administration of the tax system are in principle a subset of the policy implementation issue, but they require separate attention because of the importance of financial resources for the entirety of government and economic activity. (See chapters 7 and 8.) It is hard to disregard the dominant influence exercised by the public employees involved in budgeting or tax administration. Incompetent, dishonest, or unmotivated employees make

it very difficult to formulate a sound budget and next to impossible to execute it properly and to collect revenue efficiently. For this reason, project-specific remedies are often introduced on an ad hoc basis—such as paying bonuses to attract the best people in government to the project, or setting up separate administrative arrangements altogether. These partial remedies, however, are insufficient, risky for the integrity of personnel (who are tempted to cut corners in order to gain entry into the favored projects), and invariably counterproductive for the effectiveness of the overall public administration. Much of the negative impact of technical assistance in this area, discussed in chapter 21, is due to the destructive raiding of the best government employees by donors, to improve the performance of the projects they have financed but at the expense of the administrative system as a whole and of long-term development. Institutional enclaves never work for long, and often damage the overall public administration apparatus.

Civil Service and Fiscal Sustainability

The fiscal burden of the wage bill is considerable in countries with a large government, and efficient downsizing of government calls for intelligent ways to reduce the numbers or the salaries of public employees or both. The alternative to closing one's eyes to unsustainable expenditure levels is invariably far greater costs and reductions in employment later. However, it matters not only how much the wage bill is reduced but how it is reduced. Reductions in force or changes in compensation structure must be designed with an eye to the broader objective of a good and competent government workforce. A judicious combination of measures affecting both number of employees and their salaries can improve the effectiveness of the government apparatus at the same time as it reduces its cost. In any event, as noted earlier, shortsighted concentration on cost saving jeopardizes the effectiveness of government and rarely produces lasting savings to boot.

Civil Service and Institutional Development

As discussed in chapter 1, the interaction of institutions and organizations is key to “institutional development”—i.e., a move to a more efficient set of rules, and hence to lower transaction costs and higher levels of economic activity. It is evident that the effectiveness of organizations and their interaction with the regulatory framework depends fundamentally on the *people* in those organizations. Consequently, a good government workforce is both effect and cause of institutional development. More efficient rules, including those on incentives, can lead to improved

performance by government employees. But conversely, a skilled and motivated civil service is instrumental in institutional development and the implementation of regulatory improvements.

THE QUANTITATIVE DIMENSION OF GOVERNMENT EMPLOYMENT AND PAY

As noted, one reason for the limited success of civil service reform efforts in the past has been weak and unreliable evidence on the numbers and salaries of government employees. The facts by themselves are subject to different interpretations, and can sometimes provide a veneer of false precision to inappropriate policy advice. However, a good empirical basis permits comparisons with similar countries and can serve as a constructive entry point for a dialogue on durable improvements. In the area of government employment and pay, establishing a good empirical basis is not easy. Almost 20 years ago, Heller and Tait (1983, p. 35) noted: “It is surprising and depressing how little information is readily available on public sector employment and pay.” The methodological difficulties they described at the time are still largely with us and explain the paucity of readily available data. They are summarized in the appendix to this chapter, which is recommended reading to understand the special caution needed to interpret the results described below.

These methodological difficulties preclude the inclusion of all countries. However, a large-scale survey conducted in 1997 collected and verified central and local government employment and wage data for 80-100 countries in the early 1990s, including all sizable countries in every region (except for Brazil and Mexico). The detailed country-by-country results are shown in the statistical appendix and summarized in the tables below.⁴

Although the size of the sample for each region is sufficiently large to make it representative of the region as a whole, one should take the regional averages shown below only as pointers for further analysis. For example, the very low compensation of civil servants in the former Soviet Union is, in part, a clue to the many in-kind subsidies and benefits given to public employees in that region. It is the country-by-country data in the statistical appendix that matter more, although even these can be quite misleading in the absence of knowledge of the country and its circumstances.

Also, it is important not to interpret the percentage of the population (or labor force) accounted for by government employees as the best indicator of the size of government. As argued in chapter 1, it is generally more

meaningful to use the percentage of gross domestic product (GDP) accounted for by government expenditure. Thus, while government employment accounts for less than one sixth of total employment worldwide, government expenditure accounts for over one third of total GDP. (The higher percentage is due to the fact that a larger proportion of government expenditure is allocated to goods, services, and equipment than to employee salaries.) However, the two indicators of government size correlate very closely, and the *ranking* of countries by relative government employment is virtually the same as their ranking by relative government expenditure.

Finally, the data on which the survey was based were, at the time of publication of this book, around 5-6 years old. It is possible that changes have occurred since then. However, it is most likely that the global trends and regional averages remain as described below.

The Basic Picture in the 1990s

Employment

Table 10.1 and figure 10.1 show civilian employment in central and local government administration and in teaching and health employment in the various regions—as percentages of the population. The key findings are as follows:

- Worldwide, total government civilian employment averages around 5 percent of the population. Government employment is relatively largest in the developed market economies of the Organisation for Economic Co-operation and Development (OECD); second largest in Eastern Europe, the former Soviet Union, and Central Asia (ECA); and relatively smallest in sub-Saharan Africa and Asia (2.0 percent and 2.6 percent of the population, respectively). Latin America and the Caribbean (LAC) and the Middle East and North Africa (MENA) are in between, with government employment in those regions accounting for about 3.0 percent and 3.9 percent of the population, respectively.
- Relative to total employment, interregional differences are much less marked because developing regions have significantly lower participation rates in the formal labor market and higher unemployment. Worldwide, civilian government employment accounts on the average for about 11 percent of total employment.

MENA and OECD countries have the highest percentage, at about 17 percent; ECA and LAC have 16.0 percent and 8.9 percent, respectively; and Africa and Asia are at the low end, with 6.7 percent and 6.3 percent, respectively.

- The picture changes somewhat if teachers and health personnel are excluded. Because of the large numbers of such personnel in ECA (from longstanding Soviet policy), the large overall public employment in that region is primarily in teaching and health, with a small central administration. However, there is a clear difference between Eastern Europe and the former Soviet Union, where public employment in social sectors is relatively much higher than in Eastern Europe. To some extent, these subregional differences existed before the fall of the Berlin Wall in 1989. But in part the difference is due to the greater efforts in Eastern Europe since 1990 to improve education and health service efficiency and, to that extent, reduce personnel requirements.
- During the 1980s, local government administration grew to almost the same level of employment as central government administration. Clearly, civil service improvement efforts are sadly incomplete if they do not include consideration of local government and of teaching and health personnel.
- The intercountry variability of government employment is the only category for which there is no difference between industrial and developing countries. This suggests that the *range* of choices regarding the role of government neither diminishes nor increases with economic growth.

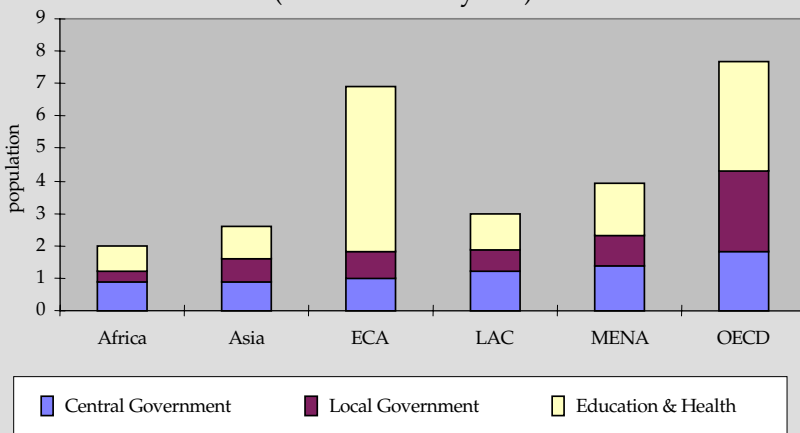
Finally, it is essential to warn again that differences in government employment size, *by themselves*, show broad trends and flag possible concerns but cannot be allowed to form the basis for policy recommendations. In-depth country-specific analysis is needed to justify any recommendation concerning the size of government employment.

Table 10.1
Government Employment in the Early 1990s
 (as percentage of the population)

	No. of Countries	General Government	Government Administration		Teaching and Health
			Central	Local	
Africa	20	2.0	0.9	0.3	0.8
Asia	11	2.6	0.9	0.7	1.0
Eastern Europe and former Soviet Union	17	6.9	1.0	0.8	5.1
Latin America and Caribbean	9	3.0	1.2	0.7	1.1
Middle East and North Africa	8	3.9	1.4	0.9	1.6
OECD	21	7.7	1.8	2.5	3.4
Overall	86	4.7	1.2	1.1	2.4

Source: Statistical Appendix. All averages are unweighted.

Figure 10.1
Government Employment, Early 1990s
 (various recent years)



Wages

Table 10.2 and figure 10.2 show the fiscal weight of the central government wage bill and average wages both as a multiple of per capita GDP and in relation to private wage levels. (But note the difficulties of

international comparisons of relative public wages explained in the appendix. Note also that, while the data for the wage bill ratio and for average wages as multiples of GDP are averages for over 90 countries—and therefore highly representative—the ratios of public- to private-sector wages come from a handful of countries for which evidence can be found.) The reader is advised to treat all of these figures—and especially those in the last column—with a large dose of salt. Every measure of relative wage adequacy is imperfect to some degree, except in the few cases where a private pay comparability survey exists, and such cases cannot be taken as fully representative of other countries. However, all measures produce consistent results, summarized below:

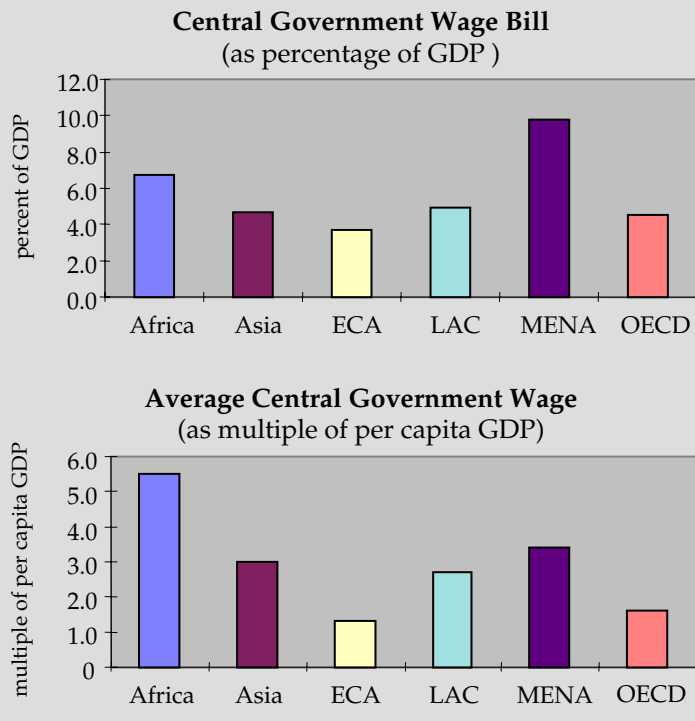
- Globally, the central government wage bill absorbs a little more than 5 percent of GDP. With wage rates for local government roughly estimated at about three fourths of central government wages (and given the employment information shown in table 10.1), *general* civilian government salaries can be estimated to absorb about 8 percent of GDP as a worldwide average.
- The heaviest fiscal weight of the central government wage bill is in the Middle East and North Africa, at almost 10 percent of GDP, followed by Africa at 6.7 percent of GDP. Asia, the OECD countries, and Latin America are all under 5 percent of GDP.
- When measured as a multiple of per capita GDP, relative central government wages appear higher in Africa than in any other region, apparently contrary to widespread evidence of the deterioration of public wages in Africa. This, however, is largely due to the lower participation rate and the greater importance of informal production in African countries. Furthermore, the continental average is influenced by comparatively high salaries in francophone Africa, which are 7-11 times per capita GDP. In most of the rest of Africa, the widespread consensus of severe wage inadequacy is correct.
- Conversely, the relatively low wage multiplier for OECD countries is related to the higher participation rate, the much higher GDP, and the smaller skill differentials between public employees and the rest of the workforce. (The low figure for ECA is *in part* explained by the existence of various in-kind benefits, which are not captured in the available data, but the reality of inadequate government wages in the former Soviet Union is undeniable.)
- The highest government wages are found in the Middle East and North Africa, about one third higher than comparable private compensation.

Table 10.2
Central Government Wages in the Early 1990s

	No. of Countries	Central Government Wages and Salaries as % of GDP	Average Central Government Wage as Multiple of Per Capita GDP	Ratio of Public-to Private-Sector Wages
Africa	21	6.7	5.7	1.0
Asia	14	4.7	3.0	0.8
ECA	21	3.7	1.3	0.7
LAC	12	4.9	2.5	0.9
MENA	8	9.8	3.4	1.3
OECD	16	4.5	1.6	0.9
Overall	92	5.4	3.0	0.8

Source: Statistical Appendix for the first two columns; various reports and World Bank project documents for about 16 countries, for the ratio of public-to private-sector wages.

Figure 10.2
Central Government Wages in the Early 1990s



Changes Over the Past Decade

Table 10.3 and figure 10.3 compare the findings of an earlier survey of about 50 countries (Heller and Tait 1983) with the results of the more recent survey, for the same countries (hence, with different results than the larger sample). Between the early 1980s and the early 1990s:

- A large contraction in both central government employment (relative to population) and the relative wage bill is evident, with the relative size of central government shrinking by about 40 percent when measured by employment and by one third when measured by the wage bill.
- Central government employment decreased (in relative terms) across the board during the 1980s, by about one third for OECD, Africa, and Latin America and a whopping 60 percent for Asia. The reduction was only in part offset by growth in local government. In LAC, the reduction in central personnel is largely explained by a vast shift from central to local government. In Africa, the reduction in central employment was reinforced by a probable shrinkage in local government as well.
- Relative central government wages have fallen by around 15 percent. The decline has been slight in OECD countries, and government salaries have been about steady in Latin America and Asia (excluding India, which after 1986 increased substantially the salaries of its civil servants). Thus, it is the developments in Africa that are largely responsible for the global decline in the relative government wage. Moreover, the decline in African civil service wages relative to GDP occurred in a decade of severe economic contraction, while the rest of the world was experiencing some degree of economic growth and the East Asian economy was booming. Consequently, while the economic welfare of the average civil servant improved slightly worldwide, and significantly in Asia, it declined sharply in Africa.
- Because of the concomitant contraction in central government employment, the central wage bill as a proportion of GDP dropped in Africa on *both* counts. Adding to this the reduction in central government wage bill in both Asia and Latin America (in Latin America because of the move to decentralization), for developing countries as a whole the relative weight of the central government wage bill declined in the 1980s by almost 30 percent.

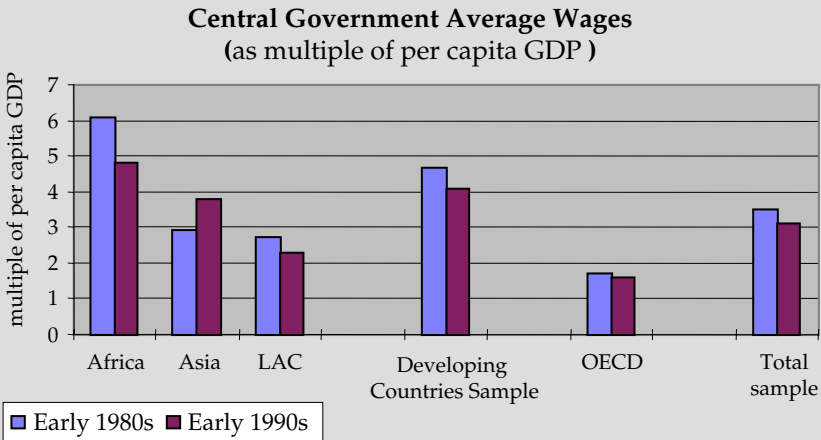
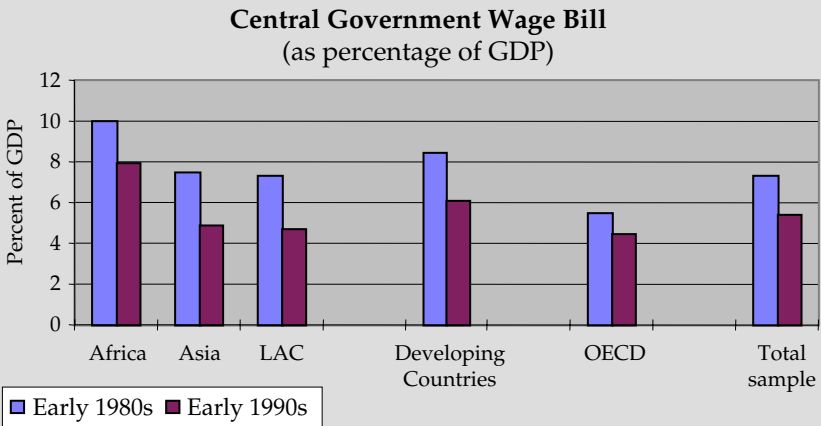
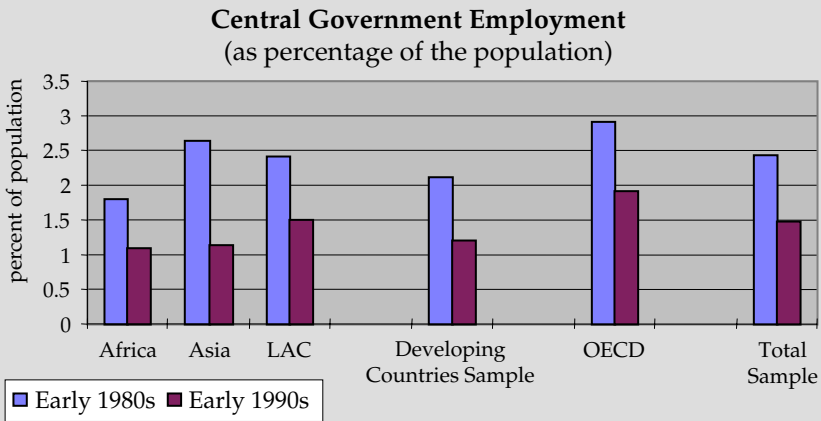
Table 10.3
Government Employment and Wages, Early 1980s and Early 1990s

	Central Government Employment as Percentage of population		Central Government Wage Bill as Percentage of GDP		Central Government Average Wages as Multiple of Per Capita GDP			
	N	Early 1980s	Early 1990s	N	Early 1980s	Early 1990s		
Africa	13	1.8	1.1	9	10.0	13	6.1	4.8
Asia	5	2.6	1.1	6	7.5	5	2.9	3.8
Latin America	5	2.4	1.5	7	7.3	4	2.7	2.3
Developing country sample	23	2.2	1.2	22	8.5	22	4.7	4.1
OECD countries	15	2.9	1.9	14	5.5	11	1.7	1.6
Total sample	38	2.5	1.5	36	7.3	33	3.7	3.2

Source: For early 1980s, Heller and Tait (1983); for early 1990s, Statistical Appendix.

* Note that the data for the early 1990's are limited to the Heller and Tait sample. They therefore differ from those for the larger sample in this study. N represents the number of countries in the sample.

Figure 10.3
Government Employment and Wages, Early 1980s vs. Early 1990s



The Determinants of Government Employment

According to the so-called Wagner's law (see Bird 1971), the public sector tends to expand faster than the economy—in other words, growth is positively correlated with the share of public expenditure in GDP. The standard explanations for this tendency are the need for government to countervail the power of large industries, the costs of regulating an increasingly more complex economy, and the assumption that many public goods are socially superior goods. Organizational theory, moreover, argues for an inherent *tendency* of all large organizations to expand; because of the lower contestability of state activities, this is more likely to translate into the *actual* expansion of state organizations.

There is strong empirical support for this proposition (e.g., Lindauer 1981, Martin 1982, Diamond 1977, and Bird 1971). It is surely not accidental that government employment in OECD countries is twice as high, relative to population, as in the rest of the world (see table 10.1). However, the size of the public sector may be a function of several factors other than levels of development. The evidence suggests the following.⁵

The global picture

The closest association (positive) of government employment is with per capita income. When added to the results of earlier studies (e.g., Lindauer 1981, Heller and Tait 1983, Kraay and Van Rijckeghem 1995), this finding for a much larger sample removes all reasonable doubt about the validity of Wagner's law. However, this is not true in the OECD countries and the transition economies (see below). Also, because the law has very different possible meanings, the actual dynamics of the relationship between growth and government remain unclear.

The next closest association (negative) is between central government employment and relative wages, confirming the standard expectation that higher numbers of employees are associated with lower compensation.

It is interesting that, except in Africa, the fiscal deficit does not appear to be associated with the size of government employment. Generally, whatever influence government employment has on the deficit seems to be largely offset by the concomitant lower wages. Certainly, the availability of budget financing (stressed in Kraay and Van Rijckeghem 1995)

appears to be far more important for government employment than the level of the fiscal deficit per se.

Finally, although the statistical relationship between population and government employment is generally weak, it is very strong for central government in the OECD countries and in Latin America. This suggests the existence of economies of large-scale production in public services, but only for countries beyond a certain size and then only for the more developed central administrations. It is a sensible guess that information technology, with its expensive equipment and vast efficiency gains, is at the root of this phenomenon of lower relative labor requirements in the governments of rich countries.

The regional picture

The global findings are almost entirely due to the influence of Africa and Latin America. In the OECD group of countries, the only significant associations are between central government and population, and between local government employment and the fiscal deficit. The probable meaning of the first association has been noted above. The second association, between a higher central deficit and greater *local* employment, is not obvious. One possible explanation is that in OECD countries decentralization has meant the transfer of revenue to local entities more than in proportion to the expenditure responsibilities devolved. In developing countries, by contrast, a lower central deficit is associated with higher local government employment, suggesting a downloading of fiscal problems from the center to local governments. (See chapter 8 for a discussion of fiscal federalism.)

What is more intriguing is the absence of any association between relative wages and government employment in the OECD group. Among the possible explanations are a much higher elasticity of demand for government employees in advanced countries, or a greater weight of the psychological satisfaction derived from public service—since in countries with high per capita income and high participation rates a salary equal to a low multiple of per capita income permits a two-earner family to live reasonably well. If this is true, the implication would be very important: when public servants are respected and trusted, they are willing to accept lower pay. The opposite is also true: mistrusting and devaluing the contribution of government employees leads in time to the necessity of paying them higher salaries.

The lack of association between government employment and per capita income in the OECD group is also of considerable interest—and contrasts with earlier findings (e.g., Martin 1982). This means either that the Wagner tendency was counteracted by deliberate policies in the 1980s, or that Wagner's law itself becomes inoperative beyond a certain level of development—or both.

Among developing countries, the results are most striking in Africa, where there is conclusive evidence that the proportion of the population employed by central governments is higher where per capita income and the fiscal deficit are higher and wages lower. In Latin America, the correlation between central government and wages is almost as close as in Africa. Also, while there is no association between per capita income and employment in central administration, local government employment is strongly correlated with the country's income level. The richer Latin American countries appear in general to have progressed further on the road to decentralization.

A Concluding Word

Concerning government employment and pay, it is essential to underline once more that intercountry differences in government size or in relative wages, by themselves, cannot be allowed to form the basis for policy recommendations. Indeed, the plain data can be badly misleading if taken in isolation and at face value. Thus, for example, Sweden has the largest government employment and the lowest relative wage of all OECD countries, while Italy is close to the mean in both respects. Could one then conclude from these facts that the Swedish civil service is “bloated,” “underpaid,” and “demotivated” compared with the Italian “model”?

Concerning wages and employment, it would be risky to infer from cross-sectional data a likelihood that wages would rise (or fall) if employment were reduced (or increased) in any particular country. All one can say is the obvious, albeit powerful, statement that retrenchment offers the *possibility* of improving employee compensation, while employment expansion carries a strong *risk* of eroding wages. The unfortunate reality is that the temptation to oversimplify is often irresistible as soon as the facts are presented, regardless of cautions to the contrary. Still, one can only hope that oversimplifications are less damaging the more reliable the facts on which they are based.

EMPLOYMENT POLICY

Government personnel recruitment systems and practices are discussed, along with other aspects of personnel management, in chapter 11. The issues related to employment are discussed here because of their more direct policy roots and implications.

The “Right Size” of Government Employment

Overstaffing is a relative notion. That central government employment is comparatively high in a particular country is a useful “flag” for analysis but proves nothing in and of itself. The role of the government may be larger in that country: the appropriate debate in this case is on the large role of government, not on its corollary of a large workforce. Or, the degree of government centralization may differ: the appropriate debate in this case is on the geographic articulation of state responsibilities, and not on the size of the civil service *per se*. Among industrial countries, for example, while the French central civil service is among the largest and the British among the smallest, total government employment accounts for about the same percentage of population in both France and the United Kingdom (UK). Thus, even a very small civil service can be “overstaffed” if because of skill mix or weak accountability mechanisms the same level and quality of public services could be provided with fewer employees. Conversely, a relatively large workforce can nevertheless be understaffed if its size and skills are not commensurate with the responsibilities assigned to it by the population.

The civil service regulatory framework is also relevant: in particular, mobility within the civil service permits a smaller workforce without affecting service delivery (or may actually improve services or both). Again, the opposite is true: restrictions on mobility may lead to the necessity to enlarge the workforce or to reduced service delivery. And the impact of the use of information and communication technology on lower labor requirements needs no elaboration (see chapter 19).

Consequently, an assessment of the right size of government employment must be country-specific and must consider, among other things: the functions assigned to the state in that country, the degree of administrative centralization, the skill profile of the civil service, the availability of resources and of information technology, and the personnel regulations and constraints on staff mobility.

Retrenchment: Right and Wrong Ways

When the civil service is overstaffed, retrenchment, if done right, can provide the wherewithal to improve incentives for the remaining employees, or produce net fiscal savings, or both. In addition, retrenchment can actually raise morale (by revaluing public service) and stimulate the performance of the remaining employees. Nothing demoralizes a good performer more than to work next to a less qualified, underperforming, and uncommitted individual with the same rank and nominal responsibilities. Nevertheless, experience shows that retrenchment has typically been overused as a reform measure. Overemphasis on retrenchment (or mechanistic recommendations to reduce the workforce by some arbitrary number, without analytical and empirical justification) gives civil service reform a bad name and heightens resistance to change. Moreover, retrenchment is almost always financially costly in the short term, and the longer-term fiscal savings often do not materialize because new recruitment takes place or consultants are used in larger numbers.

Retrenchment is often politically and socially costly as well, particularly when general unemployment is high and alternative job opportunities are scarce. However, political costs are not inevitable. (As Frederick Malek puts it, sometimes “the best politics is good government.”) There are circumstances when the support of the public at large for reductions in government employment offsets the loss of support from those directly involved—as in many Eastern European and former Soviet Union countries. This is certainly the case when civil servants have lost the trust of the public through inefficient service delivery or corruption. Also, political opposition can be defused if the change is well managed, for good reason and with appropriate explanations and equity of action.

However, when not done right, retrenchment can be very counterproductive:

- The immediate risk is skill reduction—if the program inadvertently encourages the best people to leave. Voluntary severance and early retirement can be especially problematic in this respect. The difficulty is that it is precisely these measures that are administratively easier and more humane, and appeal to the civil servants themselves.
- The near-term risk is the recurrence of overstaffing—if personnel management practices, information, and control systems are not

strengthened before or at the same time as retrenchment occurs. If wages have been raised in the meantime to improve incentives, such an outcome ratchets up the fiscal cost of government employment.

- The broader risks from a retrenchment program that is perceived as arbitrary and opaque are demoralization of employees, lower service quality, and possibly social conflict in societies driven by ethnic, clan, or religious differences.

The general conclusion is not that retrenchment measures should be avoided. In many countries, downsizing is virtually mandated by fiscal needs; in others, it is an important component of necessary structural reform. But retrenchment must be approached as part of an overall improvement in the efficiency and quality of government functions and not as an isolated cost-cutting exercise. The right size of the workforce must be derived from an appropriate vision of the role of the state and functional reviews of the efficient organizational structure of government. Rightsizing of government employment is not an end in itself but a means toward the end of better provision of public services. In any event, whatever the rationale, experience shows that retrenchment programs must be designed with great care, and their implementation must be as transparent as possible and consistent with clear and specific criteria determined in advance. It is difficult to overstate the importance of candid and open communications in this process. Cooperation by the media is therefore important.

Other lessons of actual international experience have been identified as follows (see Rama 1999, Haltiwanger and Singh 1996, and Robbins 1996):

- Earnings losses are not an adequate measure of the economic losses suffered by the retrenched employees, particularly for employees who withdraw from the labor force after being separated from government service.
- The rules of thumb typically used to set compensation packages involve some multiple of the public-sector wage. This may be a grossly misleading criterion, since it ignores individual characteristics related to the welfare loss, such as level of education or the number of dependents.
- Tailoring of severance pay programs is costly and time-consuming. However, the gains from better-tailored severance programs are far greater than the costs of determining which individual workers are actually redundant and the appropriate amount of severance compensation.

- Former civil servants appear to suffer much higher than average levels of unemployment. The risk of unemployment is especially high for younger women and older men.
- Income supports or retraining may be especially important for young women. The provision of start-up capital for self-employment may reduce the unemployment of older males and females. The retraining, however, must match the requirements of the external job market (which is not always the case).
- Younger men with low severance payments are more likely to be employed after separation, and those with high severance payments to use these mainly for self-employment and retirement.
- Targeting retrenchment on the basis of skills and age, and then using a variety of options to reduce employment (as well as a combination of compensation packages), is much less likely to generate unemployment. As in the case of tailored severance, such targeted and multidimensional programs are expensive, but the payoff in terms of productivity gains and lower adjustment costs is larger.
- Seniority-weighted severance packages are likely to lead to the loss of longer-tenure, better-educated, and more able workers.

The upshot of this experience is to take the time and resources needed to prepare carefully a retrenchment program, and to tailor the severance compensation to employee characteristics; to avoid seniority-targeted retrenchment and seniority-weighted severance compensation; and to ensure that measures are put in place to prevent the recurrence of overstaffing.

A possible endpoint is provided by the Japanese way of handling civil service size issues, called the “bonsai” approach by Anne-Marie Leroy (Box 10.1). Although vast differences naturally separate Japan from other countries, and from developing countries in particular, there is much in the “bonsai” approach that is worth considering by developing countries as an eventual outcome of retrenchment programs in the civil service.

Box 10.1

Japan: The “Bonsai” Approach to a Small and Efficient Civil Service

The Japanese approach to the civil service can be likened to “bonsai,” the careful grooming and nurturing of a perfectly proportioned and very small system.

A wide array of factual information appears to link Japan’s civil service with its economic development. In brief, Japanese civil servants consist of the best and brightest, working long and hard. The bureaucracy is very small and has been deliberately kept that way. Petty corruption is comparatively minimal. Retirement comes relatively early and smoothly, leaving top positions open to be filled by individuals in their late 40s and early 50s. Meanwhile, many retiring civil servants relocate to new positions, thereby bringing their skills to the service of the private sector (a phenomenon known as *amakudari*, or “descent from heaven”). Competition among agencies is also extensive; this builds an inventiveness and competition throughout the civil service that is often lacking in public-sector agencies in other countries.

Moreover, the legal structure of public administration insulates from politics the civil service as well as the implementation of laws, and assists in maintaining a corps of professional civil servants. Civil service recruitment and advancement are insulated from political patronage, and the career goals of civil servants are harmonized with broader national goals. The Japanese civil service has played a crucial and proactive role in promoting Japan’s catch-up economic and technological strategy. The good performance of the Japanese civil service was facilitated by cooperation, instead of jostling for supremacy, between the civil service and the private sector. (Stiglitz [1996] has identified the cooperation between the public and private sectors as a key factor in the East Asian “economic miracle.”)

WAGE AND INCENTIVE POLICY

General Considerations

Much civil service reform has typically taken place under conditions of fiscal crisis. (There are very few instances where civil service reforms were introduced in the absence of fiscal pressure, and in order to improve public services and civil service performance.) Government responses to fiscal crisis have understandably tended to avoid the harsh requirement of retrenchment, and have instead eroded real government pay, compressed salary structures, and reduced expenditure on complementary inputs. The

short-term fiscal advantage from wage containment is obvious but must not be allowed to drive wage policy. Certainly, in cases where public wages are too high relative to private wages, cutting them improves resource allocation and equity as well. However, in developing countries today public wages are barely competitive or seriously inadequate. In these cases, further reductions in real wages set in motion a vicious circle of demotivation, underperformance, and hence justification for further wage reductions. (The reverse can be true as well: wage improvements, even if insufficient, can set in motion a positive dynamic.)

The bottom of this spiral is well known: a de-skilled labor force, too poorly paid to resist temptation, utterly cowed when faced with pressures from politicians and influential private interests, and unable to perform in minimally adequate ways. Furthermore, because everyone is aware of the problem of inadequate compensation and petty corruption is widely tolerated, society loses its legitimate claim to honest and efficient performance by its public servants. Beyond the direct deterioration in the provision of public goods and services, the result is a worsening economic climate for the private sector, corruption, and an increase in transaction costs. This is the exact opposite of the outcome from technological progress. The general conclusion is to resist the temptation to fix fiscal problems by distorting incentives.

The nexus between monetary compensation and performance is complex, but the consequences of wage erosion are visible everywhere—increased turnover rates and absenteeism, moonlighting and sunlighting, difficulty in recruitment and retention, rise in petty corruption, etc. An oft-quoted passage on the Ugandan situation in the 1980s runs as follows: “The civil servant had either to survive by lowering his standard of ethics, performance and dutifulness or remain upright and perish. He chose to survive.”⁶ Complicating the matter is the frequent lack of evidence on comparable pay in the private sector and the public enterprises. This leads civil servants to believe they are more underpaid than is in fact the case, while the public at large has the opposite misconception that government employees are overpaid.

The classic problem in civil service compensation is how to value the labor that produces the output of civil servants, given that such output is generally not marketable. The general solution is to make compensation comparable (not equal) to that for equivalent marketable skills, i.e., private-sector pay. This is no easy matter. As with everything else in the public

sector, determining civil service compensation is not a purely technical issue but is influenced by the political climate, legislative enactment, and executive rules and regulations, tempered and interpreted by judicial pronouncements and reviews. In addition, a number of public policies impact on civil service compensation—collective bargaining, minimum wage laws, equal pay and antidiscrimination statutes, public service benchmarking, etc.

The Objectives of Compensation Policy

Although in practice there are severe problems in formulating a compensation policy that meets all of its different objectives, the objectives themselves are intuitive and reasonable, within the overall principle of comparability.

- **Objective 1:** *Equal pay should be given for equal work performed under the same conditions.* Empirical evidence shows that this is not always so. First, strong unions have sometimes succeeded in winning for their members higher pay than similarly skilled persons. Second, divergence from the equal-pay-for-equal-work objective may be due to special conditions, such as relating individual earnings to the quantity or quality of production by the unit and differences in location of work. Third, cross-country data show that female employees tend to be paid less than their male counterparts. Finally, personal and political patronage in countries with governance weaknesses results in, among other problems, endemic violations of this basic objective.
- **Objective 2:** *Differences in pay should be based on differences in work performed, responsibilities assigned, and qualifications required.* Graded classification systems (discussed later) are better able to achieve this objective of internal comparability, particularly since they make pay differences *proportional* to work differences.
- **Objective 3:** *Government pay should be comparable to private pay.* Compensation plan design must take account of this external aspect of comparability, in addition to the internal aspect addressed by classification systems (see Box 10.2). Note that “comparable” does not mean equal. In cases where public service demands higher qualifications and prior education investment, government wages higher than their private equivalent might be justified (e.g., in Singapore). In the more typical cases, the greater job security and (sometimes) greater prestige of public service justifies a somewhat lower

compensation package. (As we have seen earlier, in practice the “discount” on government work is between 20 and 30 percent on the average—see Table 10.2.)

Box 10.2
Civil Service Compensation in the UK

One of the most sophisticated efforts at establishing rates of civil service pay by levels of remuneration outside government has been that conducted by Britain’s Civil Service Pay Research Unit. Using the norm of fair comparison with private salaries, regular pay surveys establish key rates of pay in each main grade in the civil service. (Linked to these main grades are a large number of grades—consequentials—containing smaller numbers of employees, so that over the cycle of pay surveys the rates of all nonindustrial civil servants are automatically adjusted. These exercises have led to large civil service pay increases, at times even overtaking levels in the private sector. Staff associations have played a very important role in these pay research exercises. (Salaries of top civil servants in Britain who do not engage in collective bargaining are set by the Top Salaries Review Body.)

- **Objective 4:** *Government compensation structures should be periodically reviewed and systematically revised to assure their continued validity.* Country experience indicates that this is not always the case. In Jamaica, for instance, while the consumer price index rose by 470 percent from 1972 to 1982, the salaries of the three highest grades of civil servants rose by only 40-90 percent. In contrast, salaries of government-employed casual labor rose by 360 percent over the same period. In Guyana, between 1986 and 1991, real wages in the central government fell by almost 20 percent, with even greater deterioration in the managerial, professional, and technical grades. Real salaries in Uganda similarly declined by 20-33 percent *per year* between 1975 and 1983. Real per capita salaries generally declined in Africa during this period, the decline being particularly marked in Ghana, Nigeria, and Zambia. Naturally, the objective of periodic review of compensation can be met effectively only when the compensation structure and level are appropriate to begin with. In the infrequent cases when compensation is higher than warranted, gradual wage erosion through inflation may be the best way to bring compensation levels back into line. But internal comparability of incentives must be preserved during this process, and a well-informed standard is essential to determine when the erosion in real wages must stop.

Design of a Compensation Plan

There are two main approaches to determining civil service compensation in actual practice. One is *trial and error*—ascertaining what salaries will attract and retain employees with the appropriate skills. By its very nature, this is an ex-post method and therefore effective only at the margin. The second approach, more widely used, is *comparison with the private sector*. These approaches are not mutually exclusive; on the contrary, each can improve the other.

The starting point for designing a compensation plan is usually a *job classification* exercise, in which the positions are described and systematically arranged. As noted, a sound compensation system should provide equal pay for equal work, and equal pay for comparable jobs. This in turn involves acquiring and analyzing large amounts of information, such as the skill and responsibility attached to each job; the specific duties; the degree of supervision needed; and the difficulty, hazards, or other characteristics of the job. On the basis of such information, similar jobs are grouped into *classes* (e.g., roofer); classes involving similar work at different levels of difficulty and responsibility are grouped into *occupations* (e.g., carpenter); and occupations are grouped into major *occupational categories* (e.g., construction worker).

Many kinds of classification plans exist, but the most important distinction is between “graded” and “ungraded” plans. *Graded classification plans* are complex and costly to formulate well, and have the following characteristics:

- A formalized procedure for measuring the level of difficulty, effort, and responsibility of each class of positions. Techniques used to measure the degree of difficulty, effort, and responsibility of each class of jobs include factor ranking, point rating, factor comparison, and hybrid comparisons.
- Identification of grades (also called skill levels), each constituting a specified level of difficulty and responsibility. All classes in each grade are supposed to require essentially the same level of difficulty, effort, and responsibility, regardless of the occupation to which the class belongs.
- A single pay range for all positions in classes assigned to each grade, without duplication: no other grade in the same pay structure uses that pay range (although the maximum salary for one grade is normally higher than the minimum salary for the next higher grade).

Graded classification plans provide equal pay for equal work within each occupation and *among different occupations*. They also have the advantage of being administratively stable, and suitable for large establishments with hundreds of job classes, since pay levels need to be set for only a small number of grades. In contrast, ungraded classifications provide equal pay for equal work *only in the same occupation*. Their principal advantage is simplicity; they are therefore easily designed and installed. Under ungraded classifications, pay changes for individual classes can be made whenever the need arises, without having to change the entire pay schedule.

Both classifications present advantages as well as disadvantages. In general, the trade-off is between the flexibility of ungraded compensation plans versus the equity of graded classification—or, to put it differently, between short-term and long-term efficiency. Also, *graded classifications are superior only when they are correct*. If the exercise instead produces phony or self-serving job classifications (as is sometimes the case in practice, especially when supply-driven by donors or international consultants), the greater cost is not even justified by a better outcome. On balance, developing countries might consider operating on an ungraded system while a graded classification plan is gradually and realistically developed and piloted successfully.

Content of a Compensation Plan

Any compensation plan for public employees should cover, more or less in the following order:

- An identification of the kinds of positions and employees to which it is applicable;
- A statement of the basic pay policy—for example, the relationship to private compensation or the kinds of compensation encompassed (base salary, allowances, and benefits);
- The pay schedule, showing the classes of jobs and the pay range assigned to each;
- Schedules of premium pay rates and rules, covering, for example, overtime pay and holiday and weekend pay;
- Rules for determining pay on promotion, transfer, demotion, etc.;
- Rules of pay under special conditions, e.g., dual jobs in the same jurisdiction, military and jury duty, or weather emergencies;
- Rules regarding special pay rates, e.g., to alleviate recruitment difficulties for a specific class of positions;

- Rules regarding pay on different kinds of leave, e.g. maternity leave; and
- Rules for resolving anomalies and discrepancies and redressing employee grievances regarding pay decisions.

Treatment of Nonwage Benefits

Identifying and quantifying nonsalary benefits is a major problem in comparing private- and public-sector compensation and the erosive impact of inflation on real wages. Nonsalary benefits take such myriad forms as spouse and dependency allowances, pensions, health and liability insurance, free or subsidized housing and social services, free or subsidized meals, transportation allowances, leave with pay, and others too numerous and varied to mention. In the former Soviet Union, for example, employees are often given free housing by the entities for which they work. In rural France, municipalities are still responsible for housing public school teachers. (The salary of rural teachers is considerably lower than that of teachers in large cities.) In India, too, civil servants are given subsidized housing, and some posts, such as superintendent of jails, carry free housing. Free education and health care are widespread means of compensating public employees, both in Eastern Europe and Central Asia (where state-owned enterprises used to provide such services) and elsewhere in the world. Direct or indirect food subsidies, from subsidized food shops and employee restaurants to direct handouts, are also common. In Afghanistan, for example, civil servants are given vegetable oil and wheat flour at no charge, along with a free meal per day, instead of an increase in salary. In former colonies, such benefits are a colonial legacy, having been designed for the colonial administrators but kept after independence.

It should be recalled that fringe benefits are certainly not unknown in the private sector either—from company cars to club memberships, etc.

While some nonwage benefits can have a positive role in a well-designed compensation package, others are inefficient and can weaken work motivation and distort incentives. (A particularly inefficient allowance is the meeting allowance used in some countries, e.g., until recently, Tanzania. Not surprisingly, aside from its cost the allowance results in maximizing the number of administrative meetings and minimizing their substance, which is a perfect way to interfere with administrative efficiency.)

The case for scrutiny of nonwage benefits is stronger the more precipitous the decline in real wages. In-kind benefits tend to proliferate as

the real salary declines, because the short-term cost is usually very small although the fiscal impact balloons later. Greater diligence in probing fringe benefits is, however, no guarantee of success in uncovering them, since they are often specific to the country, region, organization, or service, and lodged in the nooks and crannies of the budget documents. Some, like free housing or transportation, may be off-budget altogether. Indeed, a proliferation of extrabudgetary funds, besides weakening the integrity of the public expenditure management process (Schiavo-Campo and Tommasi 1999), also distorts the civil service compensation system in practice. The fact that such giveaways are rarely subject to outside knowledge or review is convenient for both the granters and the beneficiaries.

Countries such as Botswana, Indonesia, and Liberia have adopted reforms by replacing some in-kind benefits with a compensatory adjustment in pay. Guinea eliminated rice rations, Cameroon reduced housing allowances, and Bolivia abolished special performance premiums in the effort to monetize and rationalize remuneration. However, the impact of these measures appears to be negligible so far. In any case, effective measures must be taken to prevent the reemergence of the very same in-kind benefits that have been monetized and added to basic pay. Frequently, a rationalized compensation system has reverted in time to the earlier complex and opaque system, with higher base wages to boot.

The Gender Gap

Salary inequalities between men and women are persistent. Although these mirror compensation inequities in the larger society, government employment has typically failed to provide the model and the leadership for putting into practice the elementary fairness and efficiency principle of “equal pay for equal work.” It should be a continuing priority for government and external donors alike to plan for increasingly greater convergence in pay equity for men and women in government service—albeit in a manner that is mindful of the social structure and norms of the country. The gender gap is widest in developing countries, but the problem persists even in highly industrialized economies (see Box 10.3).

Box 10.3 The Gender Gap

Although most countries now explicitly prohibit discrimination on the basis of gender, there remains a difference between women's wages and men's wages—referred to as the “gender pay gap”—in many areas of civil service compensation. The gender gap is especially large in developing countries. But even in developed countries, the following points are worth noting:

- Women's jobs have traditionally been undervalued and thus compensated less than men's jobs, leading to situations such as the one in Denver, Colorado, where nurses were paid less than tree trimmers.
- In the US, figures for the period 1960–1990 from the Department of Commerce indicate that median earnings of women have fluctuated between 57 percent and 70 percent of the median earnings of men.
- In Australia, it was not until 1972 that the principle of equal pay for equal work was adopted. Indeed, a landmark judicial decision in a 1912 case justified lower wages for women because, unlike men, they did not generally support a family. The judge began the practice of fixing the female pay rate as a percentage of the basic male wage rate. That rate was officially fixed at 54 percent until 1949, when it was increased to 75 percent. By the end of the 1970s, the base pay for women had risen from 74 percent to 94 percent of that of men.
- New Zealand officially sanctioned different wage rates for men and women in 1903, and legislatively authorized them in 1934 and 1945. Only in 1972 was the Equal Pay Act passed. The hourly earnings of females rose from 71.3 percent of male earnings in 1973 to 78.5 percent in 1977.
- Britain, too, explicitly countenanced gender-based pay discrimination until 1975, when the Equal Pay Act of 1970 came into effect.

Salary Compression

The issue

In addition to erosion in pay, salary compression has been another chronic problem of civil service pay structures in many countries. Internationally, the *compression ratio* (the ratio of the midpoint of the highest salary grade to the midpoint of the lowest) varies widely, from highs of 30:1 or more to lows of 2:1—with a mode of around 6 or 7 to 1. (Note that an

increase in the ratio means decompression of the salary structure.) Wage reduction in practice has entailed larger proportionate cuts at higher levels (or salary caps or both). Although such an approach is understandable from a short-term equity point of view, its longer-term impact has been inimical to both efficiency and equity. In particular, salary compression eventually leads to the loss of the employees with outside options, i.e., the better employees. As a result, particularly in Africa, decompression of the wage structure is an important objective of civil service reform. The compression ratio for selected countries in the late 1970s and early 1990s is shown in Table 10.4.

Table 10.4
Wage Compression Ratios for Selected Countries

Country	Early 1990s	Late 1970s
Central African Republic	9 : 1	9 : 1
Gambia	8 : 1	6 : 1
Ghana	6 : 1	10 : 1
Guinea	9 : 1	5 : 1
Guinea-Bissau	5 : 1	4 : 1
Lao PDR	3 : 1	7 : 1
Malawi	33 : 1	30 : 1
Mauritania	7 : 1	3 : 1
Mozambique	2 : 1	9 : 1
Niger	18 : 1	15 : 1
Nigeria	18 : 1	9 : 1
Senegal	8 : 1	6 : 1
Sudan	13 : 1	9 : 1
Turks and Caicos	7 : 1	4 : 1
Uganda	6 : 1	8 : 1
Zambia	14 : 1	7 : 1

Source: Lindauer and Numberg, eds. (1994).

The decompressions in salary structure seen in the cases of Ghana, Lao People's Democratic Republic (Lao PDR), Mozambique, and Uganda were due to specific decompression objectives forming part of pay reform programs. In the absence of civil service reform programs, the economic difficulties and more stringent fiscal constraints of the 1980s have tended to cause government wages in most developing countries to become more compressed, and incentives to suffer as a result.

Measuring “compression”

It is important when looking into the internal structure of salaries to pay attention to methodological issues. First, changes in the compression ratio of highest to lowest salary midpoints may not indicate changes in the structure as a whole. For example, placing a cap on the highest salary will reduce the index and will indeed weaken incentives at the highest level (as in the case of the United States (US), where it has adversely affected the logic and working of the senior executive service system—see Chapter 11), but has no effect on the remainder of the salary structure. Second, international comparisons based on compression ratios are difficult, because the ratio is necessarily higher where there is a greater number of salary grades, other things being equal, even though the internal relativities may be identical. Thus, a government could easily demonstrate an “improvement” in incentives by simply doubling the number of salary grades without changing the compensation structure at all. Ideally, the best measure of salary “compression” would be the coefficient of variation—the standard deviation of salary grade midpoints divided by the overall mean salary—divided in turn by the number of salary grades. Although this calculation is much too demanding to be practical for large-scale international comparisons, it should be a requirement of any serious effort at reforming the salary structure in a given country. In any case, the imperfections of the usual compression ratio should be kept in mind when interpreting the data. Of course, if the specific issue is one of monetary incentives for one particular grade or occupation, the appropriate measure is the ratio of the salary midpoint for *that* grade to the mean salary for the ministry or sector or civil service as a whole—depending on the purposes of the analysis.

Grade Inflation and Ad Hoc Remedies: The Worst Response to Inadequate Incentives

A public sector manager, confronted with deserving but poorly paid staff, is understandably tempted to promote them to levels for which they are not qualified, or to provide special ad hoc remedies as a way to prevent further deterioration in their real salary. However, in a very short period, grade inflation (or ad hoc remedies) produces all the disadvantages of inadequate incentives and *in addition* destroys the capacity of the government to manage its human resources. Examples abound in the developing world. Thus, in Trinidad and Tobago, disguised pay increases were given by filling upper and middle professional vacancies with underqualified staff in an acting capacity, causing severe imbalances in employment. Guyana, too, suffered from grade inflation

after filling vacancies with unqualified persons in an acting capacity. Furthermore, the payment of special salaries and allowances to staff in some ministries but not in others caused resentment and loss of morale among civil servants, and unapproved recruitment and temporary hiring at higher rates and through contracts produced distortions in structured pay systems. In Yemen, the practice of bringing in unqualified outsiders to fill high-level positions for which they were totally unsuited was widespread, especially after unification in 1990, and was a major factor in the degradation of the civil service since 1992 (see Box 10.4). These ad hoc partial responses to the problem of inadequate base compensation ruined the very system onto which more adequate incentives could be built in the future.

Because it is unreasonable and unrealistic to expect that managers will not behave as normal human beings and try to give favorable treatment to their employees, the adverse outcomes of grade inflation and ad hoc remedies can be averted only by penalizing managers who resort to these devices.

Box 10.4

Yemen: Facing Up to the Administrative Cost of Unification, Civil War, and Patronage

After the unification of North and South Yemen in 1990, the number of civilians employed by the central government in Yemen grew from 65,000 in the North before 1990 to almost half a million, or about 3 percent of the population, compared with an average of 1.4 percent for the Middle East and North Africa region. The initial increase was due to the creation of parallel administrative structures with different traditions and extensive duplication of functions, consequent to the merger with the South. The government also absorbed many former employees of Southern public enterprises, and acted as employer of last resort for new school graduates. Finally, and most damaging of all, the civil service was increasingly used as a source of personal and political patronage. The personnel management system virtually collapsed. An unknown number of persons collect the salaries of deceased persons and in some cases more than one salary under different identities. About half of the government employees reportedly never show up at work or do so for only part of the day. Underqualified people have been hired by the tens of thousands, and ineligible ones have been indiscriminately promoted. Given the fiscal constraints, the bloated government payroll has led to much lower real wage levels and narrowed the difference between the highest and lowest salaries. This erosion of incentives and disregard for qualifications and performance has resulted in general deterioration of employee discipline, morale, and performance. Consequently, the delivery of social services to the population has also been badly affected.

Incentives for What?

Linking incentives with “performance”

In recent years, largely from an understanding of the disadvantages of compressing the wage structure, the question of targeting wage increases to scarce skills or essential functions has moved to the forefront of policy attention.⁷ Similarly, training is now seen more as a focused way to fill selected skill gaps rather than an across-the-board program to lift the general educational level of the workforce (see Chapter 12). This is a valid approach. So is the attempt to create a closer link between employees' performance and their monetary rewards or penalties. In practice, however, such an attempt is fraught with difficulties.

The issues of performance in the public sector are discussed in detail in Chapter 18. A word is in order here because of their direct connection to public wage policy. In some sense, of course, all pay should be for performance. It is therefore intuitively appealing to link monetary incentives to yearly employee achievements in terms of specific quantified measures. Unfortunately, the actual empirical evidence shows that performance pay schemes have been only marginally effective in improving performance (see, for example, Milkovich and Wigdor 1991), especially in the public sector, where outputs remain difficult to quantify or are of limited relevance to the purpose of the activity. Monetary bonuses and similar schemes can also introduce an additional element of political control over the civil service. In developed countries this may or may not be a serious problem; in developing countries it is a central concern. Moreover, in multi-ethnic, multi-religious, or clan-based societies, performance pay schemes can upset the delicate social balance. Even when such schemes are administered fairly and well (which is not likely in such societies) the perception of favoritism is next to impossible to prevent. For example, African-American members of the US Secret Service have alleged that the performance bonus scheme of the Service is implemented in discriminatory fashion. The intent here is not to dismiss performance pay options outright but to interject a strong note of caution.

While performance pay schemes are generally not appropriate in the public sector, meaningful performance *incentives* are a must. First and foremost, the overall salary structure and the recruitment and advancement system must reward good performance and penalize (and improve) underperformance. Nothing demoralizes good public servants and destroys

effectiveness more than favoritism and patronage in recruitment and promotion. In addition, human beings do not live by bread alone: nonmonetary incentives can be very important, especially among the professional ranks. In any case, informed, candid, equitable, and contestable assessment by supervising managers is the cornerstone of any incentive system. Extensive paperwork and detailed performance evaluation forms are far less important than fair and informal judgment.

Promotion policies

An important element in the motivation and morale of employees is the opportunity for promotion to higher levels. Career management involves, among others, assigning the right people to the right jobs and making full use of employee skills. But promotion, with its higher salary and—equally important—enhanced status and responsibility, remains key to motivation and rewards. Both the employees and personnel specialists see two to four promotions in a career as the norm. Promotions should be based on a number of factors including performance, potential, skills, knowledge, and seniority (as a proxy for experience and good judgment). In many countries, promotions are constrained by vacancies in the corresponding grade, and such constraints are normally stricter at higher grades to prevent “grade creep” as a response to inadequate salaries or as a result of weak management, as discussed earlier.

There are differing approaches to the use of seniority and merit as criteria for promotion. Most developed countries and many developing countries use a combination of the two. Some developed countries, e.g., Singapore, consistently promote people entirely according to merit, while most developing countries, e.g., India, give much greater weight to seniority. A seniority-based promotion system tends to produce inefficiency over time and weakens incentives for effort and self-improvement. However, the seniority principle was originally introduced around the end of the 19th century in many developed countries as a necessary *reform*, to professionalize the civil service and insulate it from both the vagaries of politics or the personal connections of individual employees. These risks may have largely disappeared in developed countries but remain a reality in most developing countries, especially in multi-ethnic plural societies or countries with weak governance. On balance, it seems important, therefore, to give a progressively greater role to merit considerations in civil service promotions than is typically the case, but to do so carefully and without discarding the seniority principle. Unlike performance or merit, the number of years of

service is the only criterion that is not subject to interpretation and manipulation by vested interests or personal agendas.

Most countries follow the practice of constituting a committee for promotion within the ministry or agency concerned. This committee prepares the list of persons to be promoted, as vacancies emerge. To be eligible for promotion a candidate often must have served a minimum number of years in the current grade, earned a prescribed performance rating for a number of years, and acquired the qualifications relevant to the higher post. Promotions to higher-level posts and to senior executive services (see Chapter 11) are decided on the basis of in-depth assessments and interviews, which may be undertaken by the public service commission or the central personnel office, in consultation with the ministry concerned. In some countries employees are placed under probation in the higher post for some time before being confirmed in the position. Japan used to assess the eligibility of senior officials for higher posts through a system of peer rating.

Salary increments

Promotion is only one form of reward. Other monetary incentives include salary increases within a grade and “performance” bonuses. Unlike promotion, in-grade salary increases in many countries have traditionally been automatic and have been withheld only as a form of punishment. In other systems, salary increments are expected and standard, but not automatic.

To the extent that monetary incentives are linked with performance, it makes little sense to give a *permanent* increment in the base salary for good performance in a specific year. Bonuses are, in principle, more appropriate, as they reward performance for the relevant period of time without changing the base salary for all future years. One-off bonuses for special achievements are awarded in countries such as the Netherlands and the US. Singapore in 1989 introduced performance bonuses of up to three months’ salary for senior officers, affecting about 1 percent of civil servants. But the bonuses are also tied to the overall performance of the economy: they are not paid in times of poor economic performance. Singapore also gives quality-service awards to staff dealing with the citizens. In the Republic of Korea, incentive bonuses are awarded every three months on the basis of points earned by employees on several parameters. In some countries, cash rewards are given to enforcement staff, e.g., to customs

inspectors and investigators for the seizure of smuggled goods or illicit drugs, as a percentage of the value of the goods. This last is a highly risky practice, as it is most likely to be abused and is vulnerable to collusion.

The few bonus schemes that have had some success in the public sector have provided for performance bonuses for the entire organization, as well as additional bonuses for successful teams. Awards based on *team effort* are naturally applicable mainly in activities that depend on the collective efforts of many persons in a unit—e.g., immunization or literacy programs in rural areas, or the efficiency of municipal transport. Team-based schemes are less likely, too, to engender resentment and suspicions of favoritism. However, it is important to develop clearly the criteria for group effort, the procedures for obtaining feedback from the user groups, and—in order to avoid the free rider problem—the rules for distributing the cash reward among the members. Unfortunately, whether individual- or team-based, bonuses tend over time to become viewed as *de facto* entitlements (as in India) and an element of wage negotiation, and thus lose any positive influence they may have had on incentives.

Although most countries tend to award increments automatically within the maximum of the salary range, the size of such increments is in part based on an assessment of the employee's diligence and efficiency. When the pay structure is such that employees reach the maximum of their pay scale and stagnate there, any incentive value of salary increments obviously disappears and morale is adversely affected. (As noted, the temptation to "solve" the problem by promoting the person to the higher grade should be resisted.) Some countries have therefore moved to a more nuanced system of salary increases. For example, under Malaysia's new remuneration system (Box 10.5), official panels review job performance and decide on one of four possible types of salary movements or increments. The complexities of job remuneration in government employment are illustrated also by the practices in India (Box 10.6) and in South Africa (Box 10.7).

Box 10.5
Malaysia's New Remuneration System

A new performance appraisal system and a new remuneration system (NRS) were established in Malaysia in 1992 to ensure a high-quality personnel management system. Performance appraisal came to be used for the multiple purposes of salary progression, promotion, placement, and training. The following changes, among others, were introduced:

- Recognition of experience and expertise rather than academic qualifications for certain posts;
- Annual salary progression based on individual performance;
- Horizontal, vertical, and diagonal salary increments according to performance evaluation;
- Salary increases for each service sector, differentiated according to the need and importance of the service; and
- Additional allowances and benefits, such as paternity leave or club membership.

Civil servants could opt to join the NRS or not. Ninety-five percent chose the new system over the old.

Source: Commonwealth Secretariat (1997).

Box 10.6
The Assured Career Progression Scheme in India

Popular personnel schemes in India are the assured career progression (ACP) scheme and flexible complementing scheme (Government of India 1997). The flexible complementing scheme assures the professional and scientific staff of merit-based promotion after they complete a prescribed period of service, regardless of whether or not a vacancy exists in the higher grade. In the ACP, every employee can move to a specified higher pay scale after completing a period of residency in the lower pay scale and fulfilling the usual norms of promotion. However, the employee will continue to perform the original duties until actual promotion to the higher grade.

Box 10.7

Performance-Based Compensation Systems in South Africa

The following performance-based compensation systems are used in the South African public service to grant special recognition to personnel who distinguish themselves from their peers through sustained above-average performance. These systems are expected to stimulate the initiative of personnel and to encourage them to be more efficient and effective.

- **Merit award system** for all public servants, involving a cash award equivalent to 18 percent or 19 percent of basic annual salary, depending on the evaluation of results.
- **Special recognition** through cash payments or commendations for suggestions, inventions, improvements, etc.
- **Department-specific award systems** whereby awards, bonuses, or allowances are given to persons of exceptional ability, those with special qualifications utilized for the employer's benefit, and those who have rendered sustained meritorious service over a long period.

Source: *Commonwealth Secretariat* (1996).

Nonmonetary incentives

In many developing countries, cultural factors and the difficulties involved in quantifying performance make nonmonetary recognition and rewards useful tools for promoting performance—so long as they are used judiciously and gimmickry is avoided. Nonmonetary awards build on the natural desire of public servants for recognition of their efforts, and assume a particular role in countries where social sanction and image do matter, e.g., most Asian countries. These rewards have become more important in times of fiscal restraint and insufficient funds for monetary incentive schemes. Nonmonetary incentives may include, among others:

- Agency-based recognition and awards schemes,
- National honors,
- Career development options,
- Postretirement options, and
- Team-based recognition and awards.

Government personnel can be made eligible for different types of national awards, such as the annual Honors List in the UK, the *Légion d'Honneur* in France, and similar forms of official recognition in other

countries. Agency-based schemes can be annual awards for individual performance, in the form of certificates, plaques, or written commendations, sometimes for special categories (such as client service) or for technical achievement. Awards can be given to encourage and recognize significant productivity and quality improvements, and foster a spirit of excellence and innovation. Long service may be recognized through medals, certificates, or valedictory commendations. Scholarships can be instituted in honor of an outstanding official, or lectures arranged in his or her name. In addition to national awards, ministries and agencies should normally be allowed to operate recognition schemes specific to their organizational culture. Decentralized awards can also be developed for field staff in regional programs, and in departments such as internal revenue, customs, and public assistance. It is important to celebrate recognition in any form in open gatherings, and to publicize it in newsletters and the media.

Career development options are also becoming important in an environment of limited promotion prospects, especially in developed countries. Many governments reward good performance with high-profile career development opportunities (as distinct from specific training) in the form of foreign study fellowships, attendance at international conferences, selection for overseas postings, etc. The Japanese *amakudari* (“descent from heaven”) practice of postretirement assignments in the private sector fosters individual competition for excellence in the bureaucracy. Similar incentives are available after retirement to senior civil servants in developing countries. Where governance systems are weak and accountability is loose, however, postretirement incentives are a very dangerous practice—especially in industries that are heavily dependent on government, such as defense production.

Job rotation: An opportunity and a problem

Job rotation and transfers are an important influence on incentives and efficiency, but carry risks when they are abused. On the one hand, fostering the mobility of government personnel within large ministries and between ministries offers a regular opportunity to develop different skills and experiences. From the government’s standpoint, such mobility helps avoid the stagnation and decline resulting from rigid systems, and can alleviate as well the adjustment and personal costs of needed retrenchment. To the employee, mobility can be a welcome source of new challenges and improved prospects for higher positions. On the other hand, frequent job rotation and arbitrary transfers can lead to poor performance in constantly

changing jobs, reduced morale, and disrupted career development and family life (Box 10.8). The ability of political superiors to transfer personnel to other areas at short notice is a powerful form of pressure, and makes a mockery of the legal protections against arbitrary demotion or dismissal that were designed precisely to insulate civil servants from political pressure or personalistic interventions. Like all other public administration practices, job rotation and transfers, too, must be based on clear and transparent criteria, developed in consultation with the employees and other relevant stakeholders, and contain a mechanism for appeal or arbitrary decisions to an independent entity.

Box 10.8
Rotation of Civil Servants in Bangladesh and India

A major weakness of the Bangladesh civil service is the frequent rotation of civil servants. The practice erodes accountability, forfeits the benefit of accumulated experience, and weakens commitment to the immediate task. Glaring cases of frequent rotation in key ministries include the transfer of secretaries soon after major credit agreements with donor agencies are signed; the transfer of secretaries in key ministries after a spell of less than six months; the frequent shifting of chief engineers of major spending departments; and the short tenure of members of the Planning Commission. Secretaries with a reputation for managing crises are periodically shifted between departments, and secretaries who fall out of favor with the political leadership are transferred elsewhere. Rotations also occur for lack of seasoned civil servants to fill top positions.

A conference of chief ministers in India noted similar problems of political interference in the transfer of senior officials, and the effect of unstable tenure on the morale and efficiency of field and secretariat officials. In some provinces, massive transfers were ordered with every change of government. In times of short-lived governments, offices could be shuffled every six months or less. With political middlemen entering the fray, transfers are said to have become a productive industry.

Source: World Bank (1996b).

SOME CIVIL SERVICE ISSUES OF LOCAL GOVERNMENTS

Decentralization, discussed in Chapters 5 and 8, calls, among other things, for a better workforce for local governments. Local governments typically face a number of personnel problems in addition to those discussed in earlier sections.⁸

Employment

Local governments face the following specific employment issues, among others:

- The need for specialized personnel, which is partly related to the size of the territory covered by the entity. Below a certain level, it is not cost-effective for similar units to each have technical specialists. This matter is particularly relevant to developing economies, where technically qualified personnel are usually in short supply.
- The extent of recruitment to be done by local entities, a central organization, or intermediate mechanisms.
- Transparency in appointments and recruitment, and uniformity in the classification of posts and qualifications.
- Equality of treatment, and the absence of discrimination, for all persons in similar circumstances in public employment, particularly in areas where race, religion, language, or ethnicity is an issue.
- Special arrangements for personnel management and training, and to ensure accountability of employees and protect them from political and other forms of harassment.

Compensation

Within the wage policy principles discussed above, the compensation issues specific to local governments have to do with such questions as the following:

- Will each local entity have autonomy in designing its compensation package? If so, what action by the national government will be needed to rationalize the resulting differences between local entities?

- Is there to be relativity in compensation between the different tiers of government? If so, what are the best means for arriving at such relativity?
- How will the compensation package address the constraints on career progression deriving from the small size of the entity?
- Will the limited spatial reach of some entities preclude them from paying compensation comparable to that in the local private sector? If so, what offsetting measures can be devised?

Local Accountability

The issue of accountability in local government resolves itself into such concerns as the following:

- Defining, as closely as possible, the frontiers of political and bureaucratic accountability for each tier of decentralization. This is perhaps more important at the lower tiers, where institutions are likely to be undeveloped, policy making and executive roles often unclear, and checks and balances absent.
- Providing quick and inexpensive methods for redressing citizens' grievances against civil servants, as well as similar steps to protect civil servants from undue political and other forms of harassment. Again, this is especially necessary at lower levels of government, since that is where the citizens' interface with government is most direct, and local issues tend to generate controversy and passion.
- Ensuring adequate monitoring and evaluation.
- Improving relations between the local government and the community.
- Strengthening local audit, not necessarily through local institutions, but preferably with the assistance and intervention of the provincial or national government.

Local Capacity Building

Local-government initiatives aimed at improving the civil service are not only complex and of long duration, but also fraught with special uncertainty. This is so not only because of the difficulties inherent in attempting reforms in so many local bodies, but also because organizations tend to be weaker and more undeveloped the lower one goes down the ladder of decentralization. Four main issues can be singled out in this regard:

- Training of civil servants and political executives of local governments can improve performance and lead each side to a better understanding of the other's role. (Joint retreats to discuss gender, environmental, governance, and other issues have been organized to good effect in India.)
- Because the importance of regular, free, and fair elections to local bodies cannot be overstated, a politically neutral and professional civil service is indispensable for the objectivity of the electoral process.
- Legal institutions, too, have a prominent role to play. With specific reference to local government employment, it is worth considering separate tribunals with exclusive jurisdiction over service matters, to prevent a few disgruntled employees from holding the reform process up for ransom through legal obstructionism, as well as to give them legal protection against arbitrary action or political interference.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

The goal of government employment and wage policy is neither to minimize employment nor to compress wages but to achieve a workforce with the size, motivation, professional ethos, and accountability needed to provide quality public services; reduce transaction costs for the private sector; design and implement economic policy; execute budgets and investment projects; and preserve the key assets of society. A skilled, motivated, efficient civil service with a professional ethos is one of the key requirements for good government. While such a civil service is not sufficient to produce good governance, experience shows that a very bad civil service is sufficient to produce bad governance.

Worldwide, general government civilian employment averages around 5 percent of the population. Government employment is relatively largest in industrial countries, and relatively smallest in sub-Saharan Africa and East Asia. During the last two decades, not including teachers and health personnel, local government employment has grown to almost the same size as central government administration (not including education and health workers).

Generally, the size of government employment is positively correlated with per capita income—confirming the so-called Wagner’s Law—and negatively correlated with average wages.

Concerning wages, the central government wage bill absorbs about 5 percent of GDP, and general government about 8 percent of GDP. The heaviest fiscal weight of government wages is in the Middle East and North Africa, which have the highest average public wages. Worldwide, public sector wages are about 70–80 percent of comparable wages in the private sector. This is broadly justified by the greater security of employment. However, vast differences in wage adequacy exist between regions, with Asian government employees at the higher end and civil servants in anglophone African countries at the lowest end of the spectrum.

In the last two decades major changes in employment and wages have occurred:

- Central government employment has contracted by about 40 percent. This reduction was partly offset by growth in local government, primarily in Latin America, but general government employment declined overall.
- A smaller but significant relative decline has occurred in government wages as well.
- Consequently, the weight of the government wage bill has declined on both counts in most countries.

Concerning employment policy, an assessment of the “right size” of government employment must be country-specific and consider the functions assigned to the state, the organizational structure of government, the degree of administrative centralization, the availability of resources and information technology, and the constraints on staff mobility. There is no hard and fast rule on the right size of government, and any staff retrenchment should normally be a part of a comprehensive civil service reform program. When the civil service is badly overstaffed, or the wage bill is unsustainable, retrenchment by itself may be inevitable. Even so, it is essential to design it correctly, to avoid de-skilling the government, demoralizing employees, and risking social conflict. Experience shows that it is cost-effective to take the time and resources needed to tailor severance compensation to employee characteristics, avoid seniority-targeted retrenchment and seniority-weighted compensation, and put in place strong measures to prevent the recurrence of overstaffing.

Concerning wage policy, the key objectives are:

- Equal pay for equal work,
- Differences in pay should be related to differences in responsibilities and qualifications,
- Comparability (not equality) of government pay and private pay, and
- Periodic revision of the government compensation structure.

Identifying nonwage benefits is a major problem, particularly because they tend to proliferate during times of fiscal stringency. Salary inequalities between men and women are also persisting, and are widest in developing countries. Salary compression has been another chronic problem of civil service compensation. Because wage reduction has entailed in practice larger cuts at higher levels, incentives have been eroded, and decompressing the wage structure is a normal component of civil service reform programs. In any event, the worse response to inadequate salaries is grade inflation and ad hoc remedies.

In recent years “performance pay” has been introduced in some countries. The evidence shows that performance pay schemes have been, at best, marginally effective and, at worst, have reintroduced political control over the civil service and heightened ethnic tensions in plural societies. Nevertheless, greater merit orientation in the compensation system is a must, including nonmonetary incentives such as public recognition, national honors, and career development options.

Directions of Improvement

Civil service improvement is often identified with the cost-containment measures of personnel retrenchment and real-wage reduction for fiscal reasons. (This explains much of the suspicion attached to civil service reform in developing countries.) However, while the cost-containment dimension is important in many countries, civil service improvement is a much broader challenge, and should be seen within the general context of public administration and governance practices. The goal of government employment and wage policy is neither to minimize employment nor to compress wages, but to achieve a workforce with the size, skill mix, motivation, professional ethos, and accountability needed to provide quality public services; reduce transaction costs for the private sector; design and implement economic policy; execute budgets and investment projects; preserve key assets of society; and facilitate institutional development throughout the economy.

Unlike firing people and cutting salaries, these structural reforms carry potential social and political gains, in addition to the economic ones. Of course, they are also far more complex and of long gestation, partly from the need to develop a professional ethos, which is as important as technical competence. In this complex task, as in all public administration, improvements must rest on a bedrock of greater accountability. Inefficiency and corruption in the civil service do usually call for measures in both employment and better incentives. However, without improvements in effective accountability, retrenchment and more adequate incentives will simply result in a smaller and well-paid, but still inefficient and corrupt civil service.

As discussed in Chapter 1, accountability (like wage adequacy and overstaffing) is a relative notion. Strengthening civil servants' internal accountability to their administrative superiors may be necessary. But strengthening internal administrative accountability is rarely sufficient to produce an improvement in government efficiency and quality of services to the public because internal controls are often ineffective—especially when the social ethos tolerates collusion between supervisors and subordinates. Stronger outward accountability, therefore, is essential for greater responsiveness to the needs of the public and thus to improved service quality—whether it is the individual civil servant who is directly accountable, or the service unit, or the ministerial department as a whole. Outward accountability can be increased in a variety of ways—user surveys, individual name tags, investigative journalism, media access (e.g., radio talk programs), whistleblower laws, public opinion polling, etc. (see Chapters 13 and 16.)

In trying to move away from an underperforming and underpaid civil service, without massive fiscal implications or immediate wholesale reform, the following transitional measures emerge from recent international practice. It is essential that such measures be a transition to *something*, and hence that they be formulated as part of a coherent and concrete vision of reform and implemented as a step in the sequence leading to that reform. If taken in isolation, such transitional measures would produce little but the institutional enclaves that so richly failed throughout the developing world. To mention a few:

- In the acquisition of new blood for the civil service, it is possible to create a two-tier system (as in Poland) whereby new staff are recruited at the new salary scale and are expected to meet higher standards of qualification. Over time, the new system will expand as the old one

contracts, eventually leading to a unified system with better-qualified, better-paid staff. Like dual exchange-rate systems, this approach will work only if it is transitory.

- Even at the present inadequate salaries, young and better-trained people can be induced to join government service for limited periods if given challenging responsibilities and solid training (as in Estonia). When they leave, others can be recruited. The training requirements within the government sector are semipermanent, but the capacity of the economy as a whole is enhanced; the general understanding of the work of government is improved; the average performance of government employees rises; and positive models are offered to permanent employees for their own betterment.
- Special transitional arrangements for contract employees (higher-skilled, paid above the existing scale) can be workable (as in Lebanon), provided that the allocation of such contractual posts to government bodies is decided at high levels; that each appointment is cleared individually and personally by high authority; and that these arrangements are part of a genuine transition to an overall salary reform.
- Individual negotiations between new staff and ministries (as in Guyana) should never be permitted, as they result in glaring distortions and inequities, and compromise prospects for sustainable improvement.
- Capacity constraints in developing and transitional countries suggest the desirability of unified, classification and pay systems (such as those in France, Japan, the Netherlands, etc.), rather than differentiated classifications for different entities of government.
- All possible encouragement should be given to mobility within government, and obstacles and artificial constraints removed. In particular, the fragmentation of the civil service into a variety of separate professional cadres hampers mobility and fosters rigidity and lack of communications within the civil service. Mobility, transfer provisions, etc., should be formulated transparently and after appropriate consultation with stakeholders.
- Upward feedback, that is, confidential surveys to obtain the views of subordinates, is essential for the evaluation of managers' performance.

Finally, while a coherent vision of the endpoint of civil service reform is essential, it is also necessary to provide guidelines for the transition from “here” to “there.”

Immediate measures could include

- A freeze on recruitment;
- The sequestering of future vacancies arising out of retirement, termination, death, or resignation;
- A temporary halt in promotions except in individual cases expressly approved by high authority; and
- A halt on the absorption of contractual and temporary employees into permanent positions.

Short-term measures would involve

- A simple but complete census of all types of employees;
- The removal of ghost workers and other irregularities from the payroll;
- An improved personnel management information system;
- The completion of studies on job classification, personnel procedures, and salary structure; and

Medium-term measures would include

- The implementation of the recommendations reached in the previous phase;
- The streamlining of personnel regulations;
- A review of the functions, organization, and operational effectiveness of government, starting with the key ministries;
- A mechanism for re-certifying government employees in order to screen out those without adequate qualifications; and
- Implementation of a program for redeploying other employees.

As part of the *long-term measures*, each ministry could be required to submit a concrete restructuring plan consisting of a statement of objectives, strategies for achieving these objectives, a staffing program, a timetable, simple indices of administrative performance, training needs, and financial requirements. Once the plan is approved at the highest level, and irreversible initial steps have been taken, the ministry in question can freely recruit from other ministries; resume normal wage increases and promotions; have its reasonable financial needs met; and move up to the new salary scale

established in the meantime. Such a process would create incentives for all government entities to improve their organization and operations in order to be allowed to move up to the new flexible structure, and for individual employees to move to the more dynamic government entities. In time, all government entities would operate in accordance with the new system, and the coherent vision formulated to begin the process would be fulfilled. (This process, naturally, is an ideal, and carries heavy requirements in terms of consistency, persistence, and political determination and continuity.)

Annex VI

METHODOLOGICAL PROBLEMS IN THE ESTIMATION OF INTERNATIONAL DATA ON GOVERNMENT EMPLOYMENT AND COMPENSATION

However tedious, a summary of the main methodological difficulties is essential to a realistic understanding and use of the results discussed in the text.

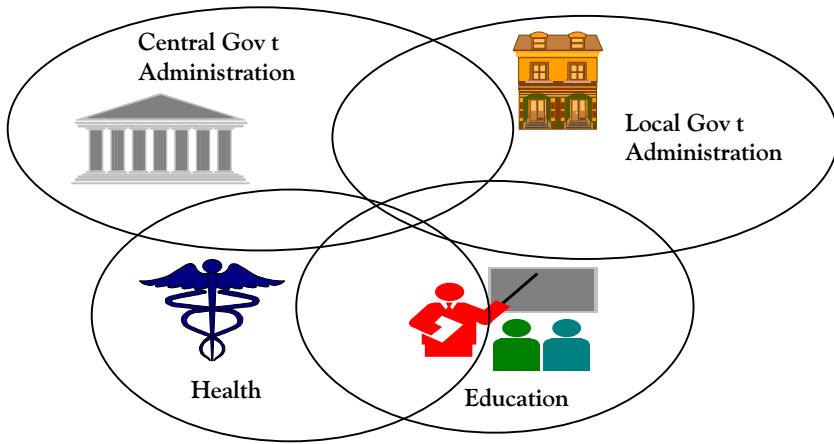
In the first place, statistics of any reliability simply do not exist in many countries. When reasonable data are available, employment comparisons are complicated by the following:

- Some countries include teachers or health workers in the civil service while others don't.
- Some countries include contractual and seasonal (sometimes even daily) workers in government employment while others don't.
- Local government employment may or may not include employees paid out of the central government budget—and accordingly, large numbers of persons may be paid out of the central budget but are not listed among central personnel.
- Paramilitary personnel (gendarmes, etc.) may be included among civilian personnel because of their public order functions, or in the armed forces because of their military status.
- Employees of legislative bodies are sometimes included among government personnel, etc.

And, because the basic social services—education and health—raise policy and practical issues different from those of public administration, it is useful to try to separate out government employment in these sectors.

The overlapping nature of the main components of government employment and the resulting gray definitional areas are shown in the illustration below. The methodological difficulties arise in part because the various components intersect differently in different countries, and the very classification of certain personnel in one or another category has an inevitable arbitrary or country-specific element. In the survey, we have taken care to use clear and uniform definitional criteria, country by country, and to avoid any overlap between the four components. Consequently, the figures in Table 10.1 on central government, local government, education, and health are additive and without duplication.

The Main Components of Civilian Government Employment



International comparisons are even more problematic for government wages than they are for employment. To begin with, the existence of different in-kind benefits in different countries makes it impossible to be sure that differences in monetary compensation adequately reflect differences in total compensation. Moreover, even when comparisons are limited to monetary compensation, serious problems remain. If wage rates are derived from independent surveys or from official information on pay scales, it is impossible to treat nonwage monetary allowances uniformly because certain sources include them in the wage package while others show only the base salary. Fortunately, budgetary figures on the overall wage bill paid through the central government budget are generally reliable because monetary allowances are usually captured in the budget and properly classified under the wages and salaries chapter. For this reason, measuring the relative weight of the government wage bill by defining it as a fraction of GDP or of total expenditure is both reasonable and generally reliable.

Compensation *rates* are a different matter: dividing the central government wage bill by the number of employees listed as working for the central government will always tend to inflate average compensation because, as noted, significant numbers of employees are paid out of the central budget but work for, and are shown as part of, local government entities. It is therefore necessary, country by country and by recourse to different sources of information, to adjust the figures on personnel paid from the central government in order to obtain a good approximation of average monetary compensation.

Assessing wage “adequacy,” or even only ranking countries by relative levels of government wages, presents additional difficulties. Exchange-rate problems make reliable conversion into a single numeraire difficult. Relating public wages in local currency to other meaningful variables, also in local currency, obviates the exchange-rate problem but raises the obvious issue of the appropriate denominator. The only reliable measure of the adequacy of government wages is through a statistically representative survey of public and private salaries—for comparable skills, in a given country and at a given time. Because such surveys are not common (only a few among the World Bank’s private-sector assessment studies contain such information), this is an impossible standard when large-scale international comparisons are at issue. Accordingly, we have used in this survey three measures of relative government wages: average central government wages relative to wages in manufacturing (the only statistic available, from the International Labor Organization (ILO), for a large number of countries on a uniform basis); average wages as a multiple of per capita GDP; and secondary sources that do exist concerning the ratio of government to private wages for a few countries in each region.

Another indicator of relative public wages exists as well: the ratio of public wages to average wages in manufacturing. This indicator permits much broader country coverage because manufacturing wage data are collected and published by the ILO for a large number of countries on a regular basis. However, it gives a statistically misleading comparison, as public wages are generally for white-collar skills, while wages in manufacturing are generally for lower-paid blue-collar jobs. The comparison (which was carried out and is included in Schiavo-Campo, de Tommaso, and Mukherjee 1997) is also misleading from a policy viewpoint—because it produces the false impression of a relatively well-off civil service.

NOTES

- ¹ Quoted in Andic Fuat and Suphan Andic. 1996. *The Last of the Ottoman Grandees: The Life and Political Testament of Ali Pasha*. Istanbul: Isis Press.
- ² Throughout this chapter, the term “civil service” is used interchangeably with “government employment” and “government workforce,” although in many countries certain government employees technically belong to a special regime as “civil servants.” While the distinction is important for personnel management and will be elaborated on in chapter 11, it is not essential for the discussion of the aggregate issues of government employment and pay in this chapter.
- ³ See, for example, Adamolekun (1983) for Africa; Reuveny (1974) and Siedentopf, ed. (1983) for Asia; Hyung-Ki Kim (1994) for Japan; Yoong-Yang Kim (1985) for Korea; Junquera (1986) for European countries; and Ingraham and Rosenbloom, eds. (1992) for the US.
- ⁴ See Schiavo-Campo, et. al. (1997a, b) and Schiavo-Campo (1998). Note that the tables in the statistical appendix list all countries, whether or not reliable and complete data could be found, whereas the regional averages shown in the text tables are based only on countries for which reliable data could be found or estimated for *all* of the following: employees in central government administration, employees in local government administration, teachers, and health personnel.
- ⁵ Schiavo-Campo, et. al. (1997a, b).
- ⁶ Report of the Public Commission of Uganda (1982), cited in Lindauer and Nunberg, eds. (1994), p. 27.
- ⁷ This section has drawn partly on Commonwealth Secretariat (1996); Armstrong (1996); Milkovich, ed. (1997); Lovrich in Perry, ed. (1989); Klingner and Nalbandian (1998); Riley (1993); Corrigan et al. (1999); Pearce and Rich, in Perry, ed. (1989).
- ⁸ We are especially indebted to Amitabha Mukherjee for the substance of this section.

