

Considerations on the Remuneration System of the Public Administration – an Analysis on Electoral Cycles and Scenarios Development

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***Abstract.** The paper aims to identify trends in the characteristics of the number of employees and the average salary in public administration in the last two election cycles in the period 2000-2008 compared with other sectors and proposes a series of three scenarios for the evolution of salaries in public administration. Within the three scenarios we estimate a number of variables such as average salary in the public administration, the number of employees, the ratio between the number of employees in the public administration and other sectors, the ratio between the average salary in the public administration and other sectors. The results obtained from the analysis of the three scenarios allow us to formulate the hypotheses for the development of a new scenario: the average salary will increase each year by 15% and the number of employees will decrease each year by 9%. At the end of the paper we proposed a series of recommendations to define a new remuneration law for civil servants in the immediately following period.*

Key words: public administration; salaries; remuneration law for public administration.

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JEL Codes: H83, C10.

REL Codes: 13G, 10A.

1. Study objectives

The study has as the starting point for analysis a series of data from the National Statistics Institute (INS), regarding the evolution of the number of employees and average salaries in various sectors. Data refer to the period between 2000 and 2008.

The study mainly aims to achieve two objectives. First one is to identify characteristics of the evolution of the number of employees and the average salary in public administration (PA), compared with other sectors such as industry, agriculture, construction, education and health. Second, using three scenarios we identified a number of possible developments in the PA, if a series of decisions are taken regarding the employment system and wage policy.

2. The evolution of the number of employees in public administration

Reform of the remuneration system of PA should also consider a new resizing of the

number of employees in PA. In this respect it is recommended to make a review of the size of existing structures of PA. The statistical data used in the study highlights a series of features on the evolution of the number of employees in the PA at the last two election cycles:

- In September 2008, in the Public Administration and Defense (PAD) worked a total number of 214.1 thousand people. The increase compared with September of the last year was 1.1 thousand persons, this figure representing a relative growth of 5.5%. In the same period, the number of employees in the economy increased by 2%. The increase of the number of employees in administration and defense accounted for 12.2% of the total increase in the number of employees throughout the economy. In the same period, the number of employees in industry has decreased by 63.8 thousands (4.1%).

- Throughout the analyzed period, with the exception of 2001, the number of PAD employees increased each year. The major growth was recorded in 2007 (13.07% from the previous year) and 2005 (7.9%).

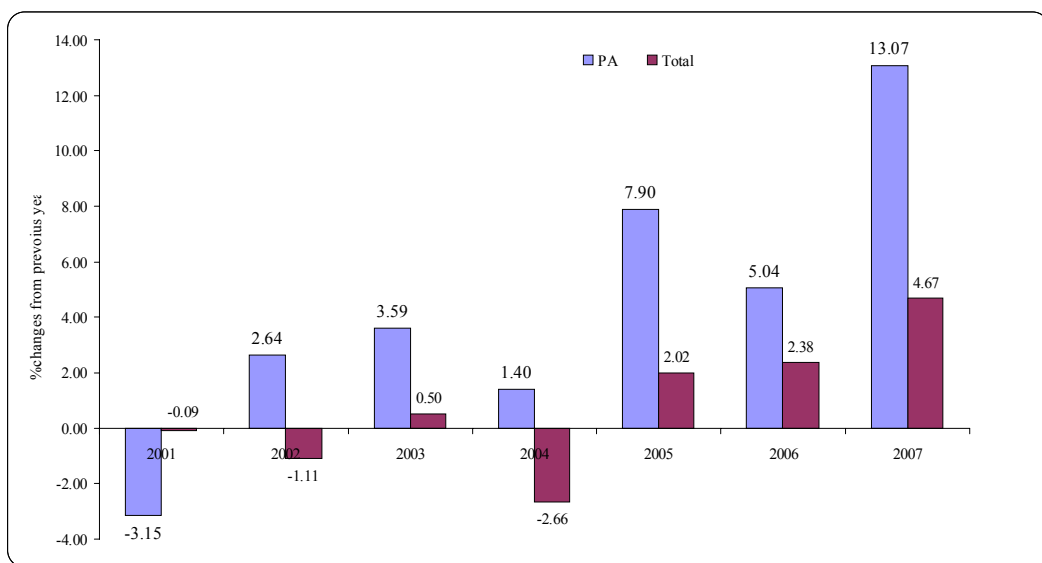


Figure 1. Annual growth in the number of PAD employees and the total number of employees in the period 2000-2007

- Throughout the analyzed period, 2000-2008, the increase was 33.8%.
- With the exception of 2001, during all other years the relative increase in PAD was greater than that of the number of employees

in the total national economy. Over the analyzed period the total number of employees in the economy increased by 262,293, of which 20% are the new employees in PAD.

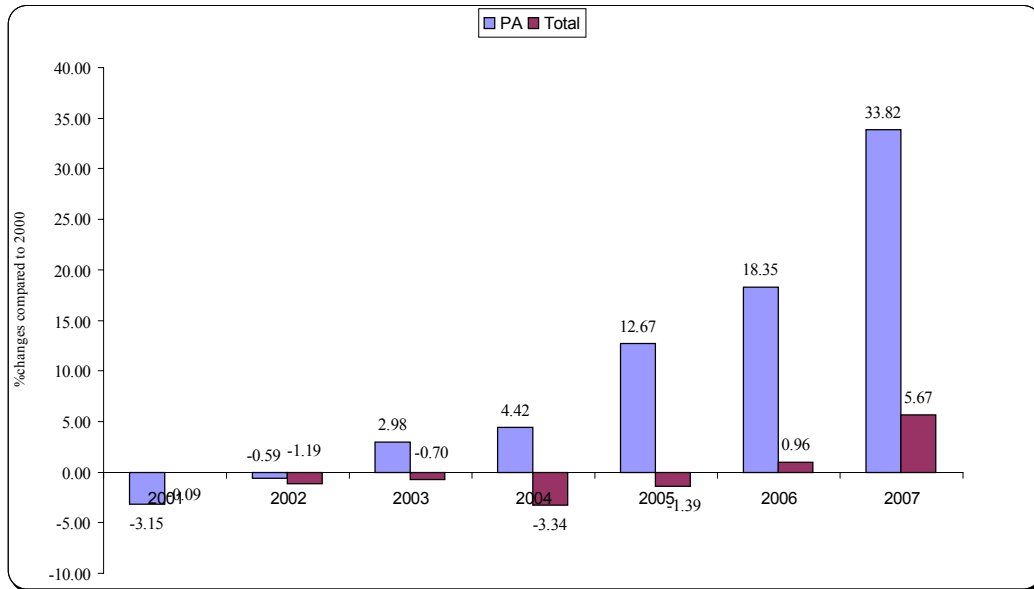


Figure 2. The increase of the number of employees in the PA and in the total economy, in each year during 2001-2007, compared with 2000

- The differences are significant during the two political cycles. Table 1 shows a series of comparative figures in those two periods for the evolution of the number of employees in the economy and the number of employees in the PAD. Based on the obtained results we make the following comments: (i) In both political cycles there was a significant decrease in the number of employees in industry and agriculture; (ii) In the second cycle, there was a more significant increase in the number of employees in constructions, trade and real

estate activities; (iii) In the PAD the evolution was different in the two election cycles. If the first cycle, the increase was only 1% per year, in the second cycle, the average annual increase was almost 9%. During the last election cycle, the number of employees in PAD grew by almost 38.6%, resulting in a corresponding increase in salary costs; (iv) The share of employees in this sector out of the total number of employees increased by almost one percent over the past four years of governance, reaching 4.4%.

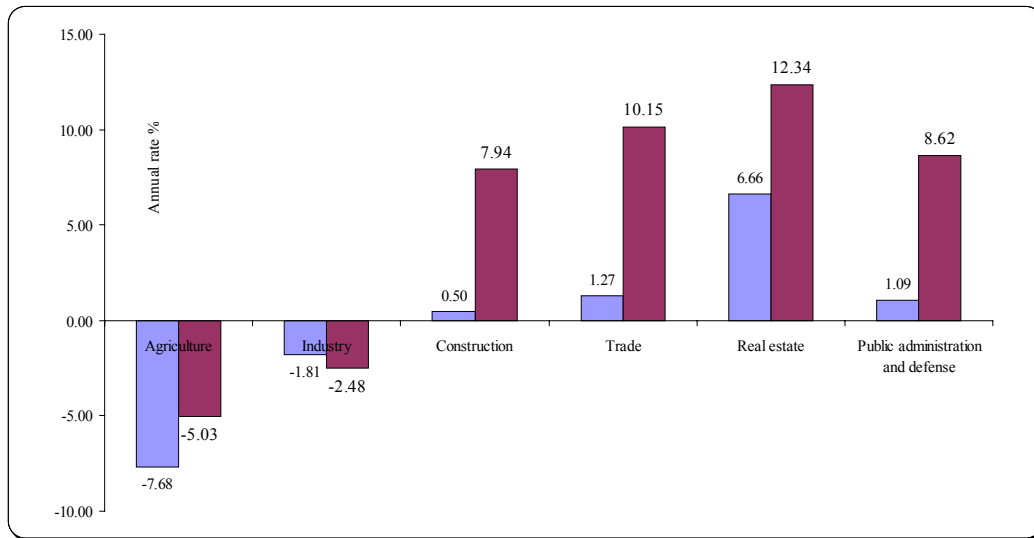


Figure 3. Average annual number of employees on areas of activity during the two election cycles

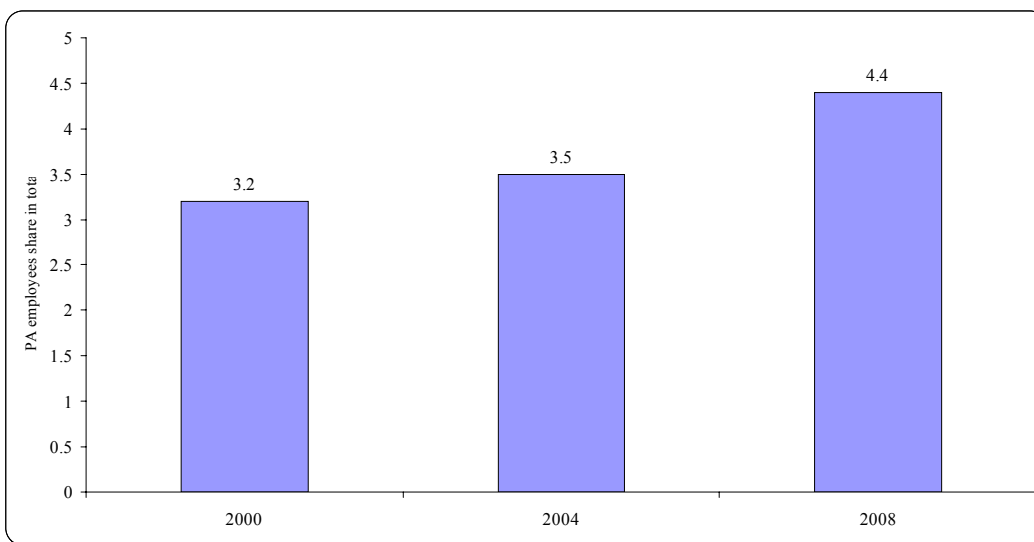


Figure 4. Evolution of PA employees share in total number of employees during the period 2000-2008

The elaboration of the new remuneration law must be preceded by a realistic and transparent analysis of the public administration and local authorities structures in the purpose to identify reserves of personnel at the system level. This will allow:

- A more flexible definition of the structures of the institutions of the central and local public administration;

- Identification of reserves to be used to provide salary increases for employees;

- The introduction of modern management in the civil service, based on performance and quality services.

Features on the changes in the number of personal during the electoral cycles

Table 1

Total changes, absolute values (number of persons)							
	Total	Agriculture	Industry	Construction	Trade	Real estate	Public administration
2000-2004	-154,189	-40,045	-131,828	6,385	29,360	52,022	6,544
2004-2007	416,482	-15,267	-126,308	83,102	200,937	95,653	43,492
Annual growth rate during both periods							
2000-2004	0.84	-7.68	-1.81	0.50	1.27	6.66	1.09
2004-2007	3.01	-5.03	-2.48	7.94	10.15	12.34	8.62

Source: own computations with data provided by INSSE, Bucharest, 2008

3. The evolution of salaries in the public administration

The statistical data reported by the INS allow us to analyze the trends over the time and to make comparisons between wages in this sector of activity and the other branches and sectors of national economy.

The evolution of the rate between the salaries in the PA and other sectors for the period 2000-2007

Table 2

	2000	2001	2002	2003	2004	2005	2006	2007
PA/Total	1.42	1.39	1.35	1.43	1.41	1.56	1.82	1.92
AP/AG	1.99	1.95	1.87	2.02	1.90	2.37	2.66	2.79
AP/IND	1.37	1.35	1.33	1.42	1.41	1.58	1.91	2.05
AP/EDU	1.49	1.46	1.35	1.45	1.30	1.40	1.48	1.70
AP/HLH	1.16	1.10	1.19	1.16	1.24	1.23	1.30	1.24

Source: own computations with data provided by INSSE, Bucharest, 2008.

Following the results in the Table 2 we make the following comments:

- The average salary in PA is higher than the average salary in the economy. Comparisons made with agriculture, industry, education and health emphasize the higher values of the salary in administration.
- The salary in PAD increased at a higher rate over the period, compared with those in sectors taken as a basis for comparison. We show in this sense the relationship for years 2000, 2004 and 2007 in the Figure 5.

- There were significant differences in salary policy during the two political cycles. If in the first cycle the ratio between the salary of the PAD and other sectors remained relatively constant, in the second cycle the growth in PAD salary was stimulated far more than in other sectors.

- Average salaries in PAD were greater than that of health and education. Moreover, during the past four years differences have increased in the favor of the PAD.

- Data from the first nine months of 2008 highlight a number of adjustments to the salary of PAD related with other sectors. Thus, the ratio between the salary of PAD and the average nominal salary at the national level decreased in the last nine months, reaching the value of 1.59.

Average salary and the rate between PA and the other sectors

Table 3

Activity sector	Nominal average salary (lei)	The rate PA - other sectors
Public administration and defence	2,066	1.00
The whole national economy	1,296	1.59
Agriculture	889	2.32
Industry	1,243	1.66
Education	1,385	1.49
Health	1,235	1.67

Source: own computations with data provided by INSSE, Bucharest, 2008.

- Average hourly salary in the public administration is greater than the national average, according to statistical data published by the INS Monthly Statistical Bulletin nr. 9/2008. The chart in Figure 5 shows rate between the values of this indicator from the PAD and other sectors of the national economy. Comparing with the national average, the cost in PA zone is over 60% higher. Hourly wage costs in the PA are 50% higher than those of education and 70% higher compared with those of health.

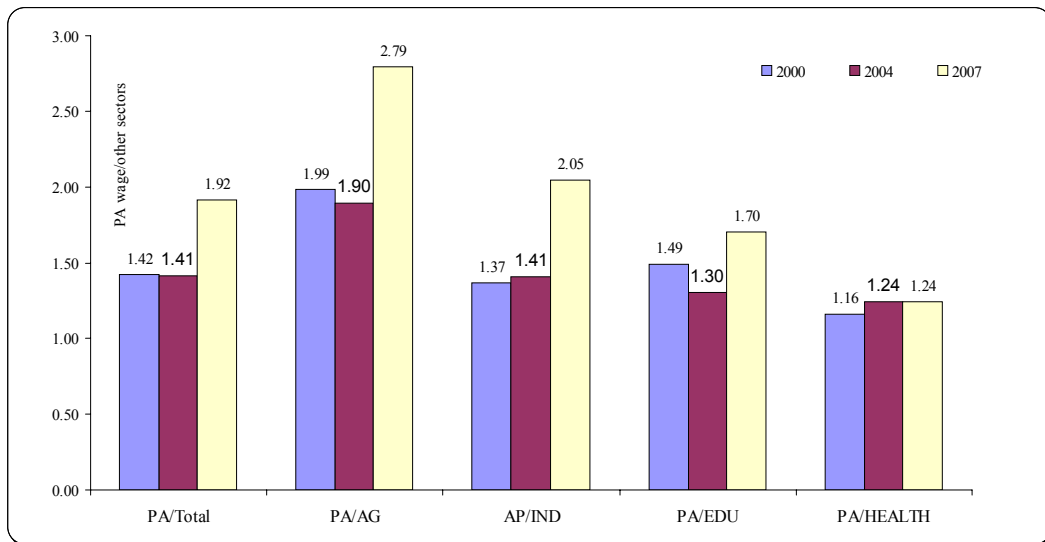


Figure 5. The evolution of the average salary in PA and other sectors during the period 2000-2007

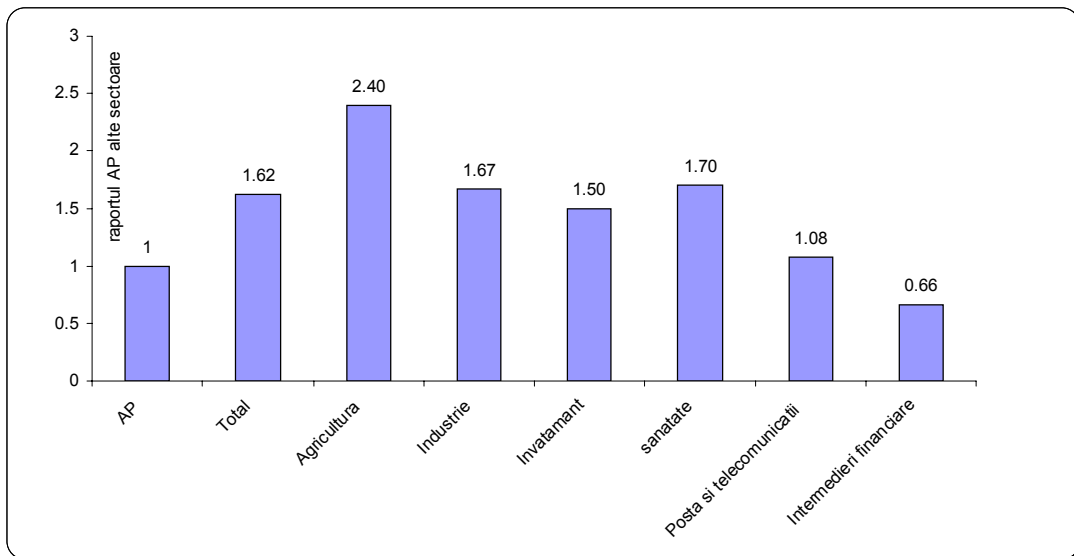


Figure 6. The ratio of average hourly salaries in the PA and other sectors of the economy

- Reforming the remuneration system of the public administration should also consider and evolution of the average salary in health and education.

The rate between the nominal average salary in the health system and the other activity sectors

Table 4

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	0.83	0.87	0.84	0.85	0.87	0.91	0.95	0.91	0.95
Agriculture	1.99	1.95	1.87	2.02	1.90	2.37	2.66	2.79	2.32
Industry	0.79	0.84	0.83	0.85	0.87	0.92	1.00	0.97	0.99
Construction	0.95	1.00	0.98	0.97	0.99	1.08	1.16	1.08	1.12
Education	0.86	0.91	0.84	0.87	0.80	0.82	0.77	0.81	0.89
Administration	0.58	0.63	0.62	0.60	0.62	0.58	0.52	0.47	0.60

Source: Own computations based on the data in the Monthly Statistical Bulletin, 9/2008, INS, Bucharest.

Hourly average salary

Table 5

	Total	Agriculture	Industry	Construction	Education	Administration	Health
Average hourly salaries (lei/hour)	7.80	5.52	8.29	6.43	8.43	12.63	7.42
The rate health/other sectors	1.05	0.74	1.12	0.87	1.14	1.70	1.00

Source: Own computations based on the data in the Monthly Statistical Bulletin, 9/2008, INS, Bucharest.

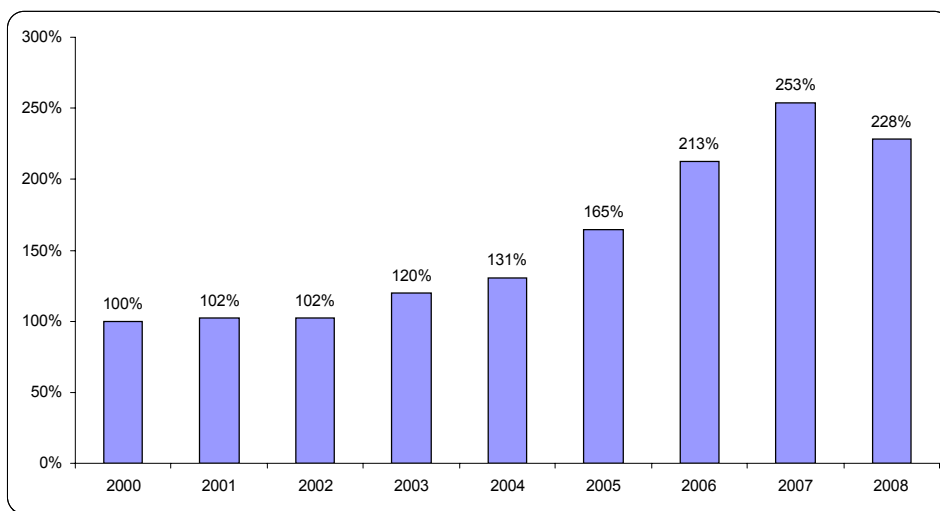


Figure 7. The evolution of real salary in PA during each year compared with 2000

Figure 7 highlights an increase in the average nominal wages in public administration in September 2008, compared with 2000 almost 2.3 times. Wage increases are different on the two election cycles:

- For the first period the increase was 6.9% per year;
- For the second period the increase

was 15%.

- For the whole analyzed period, the average annual growth was 10.9%. For Social assistance (SAS) the value was 16.6%.
- Figure 8 shows the evolution of wages in parallel with the PA, Health and Social assistance (SAS). The gap has narrowed since 2008.

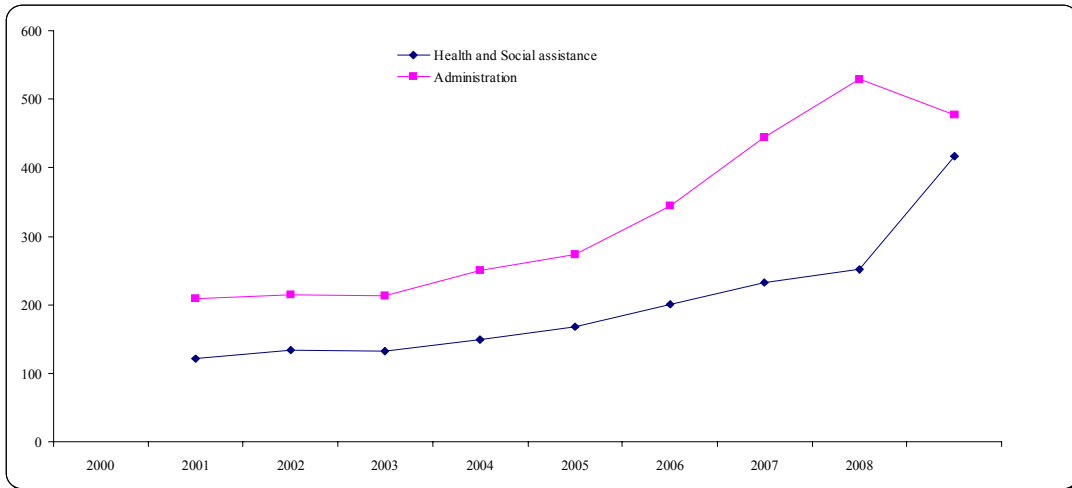


Figure 8. Evolution of real wage (1999 prices) of the Public Administration, Health and Social assistance in 2000-2004

4. Scenarios regarding the evolution of the remuneration system in the public administration

Rules and principles

Developing a new remuneration law will have to consider several issues:

- Define a remuneration strategy and law for the employees in the PA that take into account a set of principles that are accepted by the whole system.
- Linking the remuneration law in PA with a new remuneration system of all employees in the public sector.
- Redefining the functions of the state, from the perspective of reducing the bureaucracy and increasing the quality of the services that the state assumes.
- Linking the new remuneration law with other processes taking place in PA, such as continuing the process of decentralization, better formulation of public policies, the strategy of continuous training of civil servants, etc.

- Defining the new remuneration law must start out with critical analysis of the reform of civil service that was undertaken during 2004-2008. A special attention should be given to a critical analysis of some important documents that have supported the conduct of civil service reform in the last period. We regard in this respect: (i) The strategy for public administration reform. This document sets out explicitly the creation and implementation of a uniform system of salaries for public servants. In this document there have been explicitly specified the steps needed to implement a new philosophy of the remuneration system of the civil servants, (ii) The PAL Programme of the World Bank, (iii) Phare projects that were conducted to support the reform in the Reform Strategy of PA, on the component of the reform of the civil service.

General considerations regarding the proposed scenarios

In the definition of the scenarios on the salaries evolution in PA we start with the

formulation of the hypotheses. We propose in the following three scenarios. We present the assumptions that the scenarios are based on and the variables to be estimated.

I. Scenarios hypotheses

Variant 1

- The number of employees in PA increases every year with the average percent of the past four years.
- PA average wage increases by the same average annual rate from the past four years.
- The projected values are expressed in 2008 prices.
- To make the calculations we considered the average number of employees in the PAD published the Monthly Statistical Bulletin no. 9/2008.

Variant 2

- The number of employees in PA remains unchanged in time horizon analyzed, at the level of September 2008.
- PA average salary will increase by 50% at the beginning of the first year of the period for which scenario is developed.
- The projected values are expressed in 2008 prices.
- To make the calculations we considered the average number of employees in the PAD published the Monthly Statistical Bulletin no. 9/2008.

Variant 3

- The number of employees in the PA comes back to the number in 2004 following the optimization of the structures in the central and local public administration.
- PA average wage will increase by 10% every year.

- The projected values are expressed in 2008 prices.
- To make the calculations we considered the average number of employees in the PAD published the Monthly Statistical Bulletin no. 9/2008.

II. Estimated variables.

- Average salary in PA.
- The number of employees in PA.
- The rate between the number of employees in PA and other sectors.
- The rate between the average salary in PA and other sectors.

The development of the scenario in variant 1

To develop this scenario we start from the following:

- The number of employees in the PAD in September 2008 was equal to 214.1 thousand people;
- The average annual rate of increase in the number of employees in this sector over the past four years was 9%. If this growth rate is maintained over the next four years, then the number of employees in this sector will follow the data presented in Table 6 for the period 2009-2012.

**Estimated number of employees in PA
(thousands of persons)**

	Table 6			
Year	2009	2010	2011	2012
Estimated number of employees	233.4	254.4	277.3	302.2

This situation is completely ineffective for reforming the PA, at least because of the following reasons: (i) it will lead to an

increase in excessive bureaucracy and central and local public administration; (ii) the costs of salaries of employees creates a great pressure on public budget (iii) increasing the number of employees creates a major difficulty for the introduction of a new remuneration law for civil servants; (iv) The administrative capacity of ANFP and INA would not allow the proper employment and

promotion of the public servants and proper continuous training of the civil servants.

- The average nominal wage increases each year with average growth over the past four years, so with 15%. In those circumstances we obtain the values in the Table 7 for the average nominal salary costs and total salary costs in the PAD. We considered an average exchange rate of 3.8 lei/euro.

Salaries' characteristics under scenario 1

	2008	2009	2010	2011	2012
Average salary (lei/person)	1,662	19,11.3	2,198.0	2,528.0	2,907.0
Average salary (EU/person)	437.4	503.0	578.4	665.2	765.0
Salary costs (thousands lei)	4,270,010	5,353,169	6,710,039	8,411,155	10,541,395
Salary costs (thousands euro)	1,123,687	1,408,729	1,765,800	2,213,462	2,774,051

Source: Computations based on the assumed hypotheses.

Data from the Table 7 emphasize the following:

- The average nominal wage will record an increase by 328 Euro/person over the analyzed period;

- Total annual costs incurred by the PAD in the form of nominal wages will register an increase of 1,650,364 euros in 2012 compared with 2008. Relative growth is 146.9%.

Major risks that arise in this scenario are related to: (i) excessive growth of bureaucracy in the central public and local administration; (ii) pressure from the union to increase wages; (iii) increased dissatisfaction among the employees because the current law does not favors the competition and creates a series of gaps between different categories of employees;

(iv) decrease the quality of services offered to citizens by the central and local public administration; (v) the major difficulties in implementing reform measures from the PA.

The development of the scenario in variant 2

To develop this scenario we start from the following:

- The number of employees in administration is not reduced, rather than through voluntary departures and retirement.

- The wages in this sector will increase by 50% at the beginning of the first year and over the next three is not granted other salary increases. Under these conditions, we obtained values from the Table 8 for the average nominal wage costs and total wage cost for PAD.

Salaries' characteristics under scenario 2

Table 8

	2008	2009	2010	2011	2012
Average salary (lei/person)	1,662	2,493	2,493	2,493	2,493
Average salary (EU/person)	437.4	656.1	656.1	656.1	656.1
Salary costs (thousands lei)	4,270,010.4	6,405,015.6	6,405,015.6	6,405,015.6	6,405,015.6
Salary costs (thousands euro)	1,123,686.9	1,685,530.4	1,685,530.4	1,685,530.4	1,685,530.4

Source: Computations based on the assumed hypotheses.

Results from the table 8 emphasize the following: (i) the average nominal salary will record an increase by 218.7 Euro/person for the analyzed period; (ii) the total annual costs incurred by the PAD in the form of nominal wages are in amount of 561.843 million Euro starting with the following year; (iii) In whole period under consideration the additional costs incurred by the PAD will 2247373895 thousand Euros.

The major risks of this situation are related mainly to the following: (i) creating a major pressure on the public budget because the amounts allocated to support the wage increase; (ii) the formulation of wage demands from other categories of employees such as higher education. Under this scenario, if the wage increase for the employees in health and education are much lower, it will be an increase in the disparities between the average salaries of PA and other public sectors; (iii) the increase in absolute terms of the gap between largest and smallest wages in the PA; (iv) maintaining an excessive bureaucracy in the public administration and reduced quality of services provided by it.

The development of the scenario in variant 3

To develop this scenario we start from the following:

- The number of employees in the PA and defense in September 2008 was equal to 214.1 thousand people;

- It will be a reduction in the number of employees in this sector by reducing it in the next four years so that in 2012 the number of civil servants will be at the same level as at the end of 2004. Under these conditions we foreseen a reduction in the number of employees each year by 9%.

- Starting from the above assumptions, the number of employees in this sector during the period 2009-2012 will be according to data presented in the Table 9.

Estimated number of employees in PA (thousands of persons)

Table 9

Year	2009	2010	2011	2012
Estimated number of employees	194.8	177.3	161.3	146.8

- To estimate the other two variables we consider an increase of the average salary by 10% each year. Under these circumstances we obtained the results in the table 10 for the evolution of average wage and salary costs for the whole analyzed period.

Salaries' characteristics under scenario 3

Table 10

	2008	2009	2010	2011	2012
Average salary (lei/person)	1,662	1,828	2,011	2,212	2,433
Average salary (EU/person)	437.4	481.1	529.2	582.1	640.4
Salary costs (thousands lei)	4,270,010	4,273,600	4,278,646	4,281,783	4,286,562
Salary costs (thousands euro)	1,123,686.9	1,124,631.7	1,125,959.5	1,126,785.1	1,128,042.5

Source: Computations based on the assumed hypotheses.

The results from the Table 10 emphasize the following:

- The average nominal wage will record an increase by 203 Euro/person for the analyzed period;
- On the whole period under consideration the additional costs incurred by the PAD for salary increases will 17,422.240 thousand Euros.

This situation can be effective if we take into account the following aspects: (i) the increase of the ability of funds absorption recommended that the central and local public administration should have flexible structures, the employees should have a high degree of training and specialization and financial incentives should be an important element for the effective functioning of them; (ii) running diagnostic tests on the short term at the central and local public administration level to know the efficiency of public administration in the current structure; (iii) increasing the salaries

of employees of PA, together with greater responsibility for the work performed; (iv) analyzing the possibility of outsourcing some activities of PA to the private sector; (v) greater harmonization between the civil service reform and decentralization process.

The major risks that arise in this scenario are related to the following: (i) the trade union resistance to maintain the current number of employees; (ii) increase the number of unemployed people in Romania and the costs of payment for unemployment compensation and collateral costs.

Comparative analysis of scenarios

Figures 9, 10 and 11 show the evolution of the important variables of the three analyzed scenarios: the number of employees, and the monthly average salary and the costs with salaries per year for PAD.

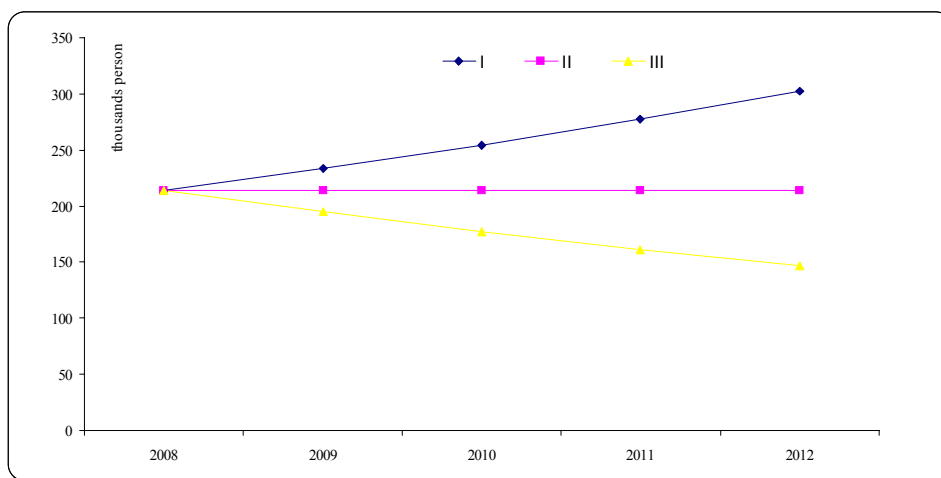


Figure 9. The evolution of the number of employees in the PAD in 2008-2012 in the three scenarios

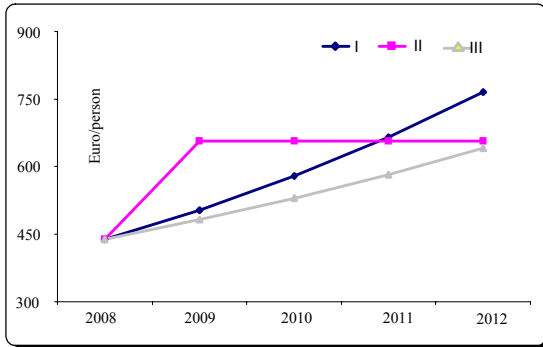


Figure 10. The evolution of average salary per employee for 2008-2012 in the three scenarios

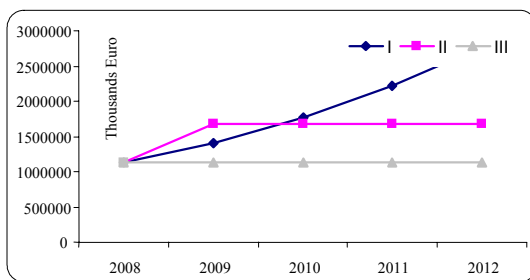


Figure 11. The evolution of the total nominal annual salary for the period 2008-2012 in the three scenarios

The results obtained above allow us to formulate the following preliminary comments:

- The current conditions in the economy and excessive bureaucracy in the public administration do not allow an increase in the number of employees according to the assumptions in scenario 1.
- In contrast, a wage increase for civil servants according with scenario 1 provides the highest salary in the year 2012. This is 17% higher compared with the situation in scenario 2 and by 19% compared to that of scenario 3.
- Wage costs in the year 2012 are the highest in scenario 1. They are 65% higher compared with scenario 2 and 145% higher than those of scenario 3. From this

perspective, this scenario can not be accepted.

Based on the above assumptions we formulate the hypotheses for a new scenario: (1) the average wage will increase each year by 15%; (2) The number of employees decreases each year by 9%. In this reduction will include outputs from the system through retirement and possible firing of the staff.

5. Final comments and recommendations

Taking into account the results of studies that were conducted by various institutions of public administration, but also the approach taken in this study we formulate in the following a series of final conclusions and recommendations for defining a new remuneration law for civil servants in the period immediately following.

1. The macroeconomic approach to reforming the remuneration system in PA. In the approach taken to define a new remuneration law it should be considered the following:
 - i. Make a macro-level analysis to estimate the salary costs of the civil servants covered by the state today.
 - ii. Comparing salaries of civil servants with those of other employees in various public sectors, bearing in mind that large gap between salaries for employees in different sectors generates social convulsions.
 - iii. Critical analysis of the existing administrative structures of central and local public administrations in order to identify possible opportunities to reduce the number of employees.

iv. The analysis of the effectiveness of implementing the reform strategies in PA and Phare projects for 2004-2008.

2. A new approach to the relationship between fixed and variable salaries of the PA. It is recommendable a redefinition of wage benefits and increases, both in number, but also as a share in the wages of civil servants. In the study conducted by the *Hay Group* of the variable part of the salaries is grouped into five categories: (i) Allowances for function, which include benefit for audit and management, (ii) Allowances for activities/projects which consists of compensation for participation in competitions and commissions for settling disputes, compensation for participation in the disciplinary commission, allowance for preventive financial control, compensation for membership of the unit of project implementation, (iii) Allowances that depend on the activity nature, including compensation for activity in toxic or harmful environment, bonus for activity under special conditions, (iv) Allowances for performance that is the merit salary, increases and allowances, (v) Allowances granted for Ph.D. title, increases for age and loyalty/stability.

3. A series of increases that are now given has to be redefined so as to promote and to attract young people in the civil service. For example, within a few years it is recommended to eliminate the increase for age. This situation would create a financial reserve for the stimulation of certain competences at the civil service level.

4. The remuneration system to be proposed is recommended to be as simple as possible to ensure a salary transparency in public administration.

5. The salary of the PA is recommended to be correlated with the salaries of other public sectors such as education and health.

6. Discussing the draft remuneration law of the civil servants in a broader framework, including major players involved in this process.

7. Developing of the rules for implementing the new remuneration law, with it, such that its implementation to be transparent and to assess the consequences of implementation on economic and social level.

8. Creating an appropriate statistical tool at ANFP or INS (National Statistics Institute) to allow the collection of statistical data needed to carry out regular studies of the characteristics of the salary of civil service.

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