



Pathfinder Foundation Economic Alert

Public Service Expansion: Pay without Work or Productive Employment for Youth

Public sector employment in Sri Lanka has been increasing since the 1960's, despite a decline in the size of government. Total public expenditure as a percentage of GDP has declined substantially from 1976 to 2011. There has been a decline in the services provided by the government e.g. the removal of the food subsidy. Over the years, a few attempts have been made to arrest the growth of the public sector, including reductions in new recruitment and voluntary retirement schemes. Such policies were also promoted and supported by the multilateral donor agencies, such as the IMF and WB.

However, there has been a significant shift in policy regarding the public sector during the current administration, which came into being in 2005. Since then, the numbers in the public service has more than doubled reaching 1.3 million as of December 2012. In other words, one in every 15 of the total population is now on the government payroll. Most of the increases have been reported in security forces (army, navy, air force, police and civil defense), education and health services. There are no scientific studies to evaluate the need for and productivity of these public servants other than anecdotal stories. Almost all Sri Lankan governments have tended to be proud to proclaim that they have increased public services and employment therein, despite the fact that this was contributing to a fundamentally flawed fiscal framework which is now becoming increasingly unaffordable.

Unsustainability of the Government Being the Employer of First Resort

There are different ideological positions regarding the size of government and its role as a source of employment. However in Sri Lanka successive administrations have relied on a mixture of pragmatism and opportunism, when it comes to increasing the role and size of government. Our post-colonial history, particularly the separatist conflict and two youth insurrections in the South, provides insights into the commitment of successive governments to public sector employment. It can be argued that the lack of employment opportunities was the primary causal factor for these upheavals that essentially involved young people. When successive governments were unwilling or unable to introduce economic reforms that would increase private sector job creation, they have found the public sector to be a convenient employment creation agency.

However, the macroeconomic instability arising from the current fiscal framework calls for a radical rethink of the traditional approach to the government being the employer of first resort.

In recent years, total public expenditure has been about 22/23% of GDP, while revenue has been 14/15% of GDP. This imbalance between expenditure and revenue was sustained, in the past, due to the large volumes of grants and concessional loans (ODA) that Sri Lanka received when it was classified as a low-income country. Now that Sri Lanka has attained lower-middle-income country status, this deficit has to be financed through either borrowing at commercial interest rates or printing money. This cannot go on indefinitely. The current fiscal framework is, therefore, clearly unsustainable. A combination of increased tax revenue, improved tax administration, reduced recurrent expenditure and moderated public investment is necessary to achieve fiscal sustainability. Special attention needs to be paid to containing recurrent expenditure much of which yields low return in terms of both efficiency and equity. Almost 90% of recurrent expenditure comprises interest payments (35%); public sector emoluments (32%); and subsidies and transfers (21%).

Costs and Benefits of Increased Government Employment: Creating Dole Bludgers?

Expenditure on the public service raises major concerns in terms of productivity and value for money. Under no circumstances should the government be the guarantor of employment for graduates or any other segment of society. If any government employs individuals who have no specific job descriptions, duties or acceptable office accommodation for many years, isn't that similar to providing a dole for the unemployed? Even in countries which have immense natural resources, such as Australia, providing of the dole or unemployment benefit in the long run has only created the so called dole bludgers (i.e. an unemployed person who has no intention of seeking a job, and survives on government funded unemployment benefits).

In pure economic terms, a bloated government bureaucracy will always be a drag on the economy. Such a public service will not only be a burden on the government coffers but also increases the inefficiency of resource use, bureaucratic lethargy, red tape and deprives the private sector, especially small and medium size enterprises, of scarce financial and human resources.

However, there is a school of thought that Sri Lanka, as a country which has experienced two destructive rebellions in the South and 30 years of protracted conflict, needs pragmatic economic policies to avoid destructive socio-political upheavals. With this background, successive governments have introduced a safety-valve against uprisings of the frustrated unemployed youth by increasing the numbers in the government services, particularly as the environment has not existed to promote private sector employment creation.

It has been argued that another benefit of public sector employment has been the increased flow of money into the hands of relatively less privileged families, resulting in increased living standards for hundreds of thousands of people throughout the country. However, the consequence has been low productivity/low income employment. The focus should now shift to

using resources more productively to generate high value/high income employment supported by the necessary education, training and skills development.

In addition, the opportunity cost of increasing unproductive public service recruitment is the loss of access to financial and human resources on the part of the private sector. An assured supply of labour at all levels is necessary in order to get local companies and foreign investors to undertake new ventures or expand existing ones. According to anecdotal stories narrated by entrepreneurs, the country currently faces a scarcity of both skilled and unskilled labour at internationally competitive prices.

What can be done? Problem Solutions or Problem Multipliers

As an old Leftist saying goes ‘theory without practice is barren’ and ‘practice without theory is blind’. Even in finding solutions to the current over-bloated public service in Sri Lanka, the PF believes that the country needs to adopt a pragmatic approach which will not create problems which fuel social discontent or a political backlash. Therefore, no consideration will be given by any sensible political leadership in the present context for retrenchment of government employees even if it is the most ideal or prudent policy. Instead, the government should create a conducive environment for local and foreign private sector investment to generate well remunerated employment which reduces the attractiveness of less productive government jobs. Simultaneously, a Work Study should be undertaken to identify the over-manning in the public service and training and skills development programmes should be formulated to incentivize workers to be gainfully employed elsewhere or venture into entrepreneurial initiatives. This will not only relieve the pressure from the expenditure side of the government budget but will be beneficial to all the stakeholders including employees. An attitudinal change is necessary among both leaders as well as the people.

However, no programme of public service restructuring will be sustainable in this country unless it is supplemented by a package of other reforms that generates rapid expansion of private sector activity. This reinforces the call that PF has been making for structural reforms that improve the investment climate in the country.

This is the Forty First in the series of Economic Alert articles published by the Pathfinder Foundation. Readers’ comments are welcome at www.pathfinderfoundation.org

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