



Pathfinder Economic Alert

From a Bloated Public Service to Higher Productivity and Incomes for Public Servants

Historical Legacy

Since the mid-60s, the public service has been subject to a high degree of politicization under successive regimes. During the 70s and 80s, the public service cadre and recruitment procedures went through many changes primarily to serve the partisan objectives. Even during the so-called economic liberalization phase, our political leaders continued to appoint increasing numbers of party supporters, friends and even relatives disregarding well-known and accepted management practices. Since 2005, the country has experienced a dramatic increase of the public service from 600,000 to 1.4 mn.

Pros and Cons of the Ballooning Public Service.

An exercise, undertaken shortly after the dawn of the new millennium, concluded that the public sector should ideally be no more than 400,000 persons. However, a number of reasons may be given to justify increasing the public service personnel. First, there was the need to strengthen the armed forces in countering the menace of terrorism, particularly during the last stages of the war. Second, the need arose to appoint health and education sector employees to hitherto underserved areas, especially in the Northern, Eastern and Uva provinces. Despite this, it is hard to justify a doubling of the public service which was considered already over-sized.

Those, who justify the vast expansion of the public service, put forward a third reason involving the concept of using public service employment as a 'safety net'. In almost all the developed market economies, there is some form of an unemployment benefit entitlement-though now becoming increasingly time-bound. In the absence of the "dole," employment in the public service has become a substitute for it. Fourthly, there is a 'Keynesian' argument that the salaries of the excess public servants are not only a 'safety net' but also function as a demand enhancing mechanism which will trigger or boost economic activities. Finally, taking into consideration the youth uprisings in 1971 and 1988/89, it may also be argued that absorbing unemployed youths to the public service beyond the rationally required numbers constitutes a safety valve that is a necessary public good for Sri Lankan society.

Those, who argue against an over-bloated public service, point out the following. One, the absorption of vast amounts of public funds and human resources to low or zero value added activities is clearly unsustainable at a time when the prudent economic policy option is to

reduce the budget deficit by cutting down unproductive expenditures. Two, the over-sized public service creates inefficiencies and increases ancillary expenditures. Three, unproductive public service employment is not a sustainable solution to the lack of employment opportunities for the youth. Ultimately, short-term political and social harmony created by such opportunistic measures will in the-medium and long-term result in generating explosive forces which will destabilize the entire socio-political fabric as the real incomes of public servants continue to decline.

Excessive numbers inevitably lead to relatively poor pay. The problem becomes exacerbated in the current context of necessary fiscal consolidation. The priority the authorities have attached to much needed capital expenditure has meant that the brunt of the fiscal adjustment has fallen on recurrent expenditure.

In such a context, it is inevitable that the quality of service delivery will be compromised. Key services, such as education, health and welfare are confronted with adverse consequences. The effects will be felt disproportionately by the more vulnerable sections of the population for whom access to privately provided services is not a viable alternative.

Past Remedial Action

During the early 1990s, a World Bank-funded Voluntary Redundancy Scheme (VRS) was implemented and resulted in many middle-level public officers with over 20 year service retiring with pension entitlements. This had a negative impact on the public service because many qualified and talented officers opted for retirement seeking employment in the private sector or overseas. Subsequently, successive governments have gone on filling the vacancies created by the VRS. Another round of public service reforms initiated a little over a decade ago was short-lived and aborted quickly. The upshot has been the emergence of a cadre which is one of the largest in the world on a per capita basis. Furthermore, in recent years the size of the public service has continued to increase despite labour shortages in other more productive sectors of the economy. This labour scarcity also has a serious negative impact on attracting much sought after local and foreign investment.

Non-sustainability of a Bloated Public Service

Although the excessive public service recruitment is justified as a welfare measure for unemployed youths and a Keynesian-type demand creation mechanism, particularly in the rural communities, there is no way that such policies could be continued without having extremely adverse repercussions for fiscal consolidation; labour availability for other more productive sectors of the economy; and the competitiveness of the Sri Lankan economy for local and foreign investment. At the same time, a gift of 'employment' or 'dole money' will create a culture of dependence and wasteful behavior among the youths of Sri Lanka. These are the lessons learnt by even highly developed economies, such as Australia. Even if productive employment at a higher salary is offered to such "dole-bludgers," they refuse to accept such opportunities. They are not ashamed to depend on the dole.

What can be done now?

The challenge is to find ways and means of optimizing the scarce labour available in the country. In order to do this, the Pathfinder Foundation recommends that a comprehensive study is undertaken to determine the required cadre for all government entities. Once such a study is completed, it would be possible to gain an understanding of the scope for utilizing valuable human resources currently available in the public service to create greater value for both the individuals concerned and the economy as a whole. A scheme can be devised to enable those who opt to do so to continue to be in the public service while being encouraged to undertake other forms of economic activities. These could involve agriculture, entrepreneurial activity or social services (this could become increasingly important in an aging society.) Another component of this program could be training/re-training in activities chosen by those who have voluntarily participated in this program.

Such an initiative would serve not only to increase personal incomes and improve the living standards of families but also generate budgetary savings. Electricity bills, office space and the cost of commuting / congestion will be reduced.

Historically, the public service has tended to be the “employer of first resort” for several decades in this country. Our political culture is such that it is not possible to bring about change without taking into account the political and social context that characterizes our society. Large-scale redundancies, even on a voluntary basis, are not likely to find favour. The proposed scheme seeks to initiate a discussion on the way forward on this development issue within a politically feasible framework.

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