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1994 SERIES No. 2

PUBLIC SERVICE PAY DETERMINATION AND PAY SYSTEMS IN OECD COUNTRIES

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris 1994

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
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Publié en français sous le titre :
LA DÉTERMINATION DES RÉMUNÉRATIONS ET LES SYSTÈMES DE RÉMUNÉRATION
DANS LA FONCTION PUBLIQUE DES PAYS DE L'OCDE

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FOREWORD

This report provides an overview and analysis of public service pay determination and pay systems in OECD countries and explores the reforms that are being pursued in different countries. Although pay setting arrangements and pay systems for public employees vary greatly across the OECD, governments face a number of common problems, notably those of controlling pay costs and of promoting a more efficient and more responsive public service. The report seeks to show how current systems and institutional structures have helped to shape pay reforms in ways that are specific to each country. At the same time, it identifies broad reform strategies that are evident across countries.

The report is based on responses to a questionnaire sent to OECD countries in 1992, additional information and documentary material gathered in 1993, and some interviews with national officials responsible for public service pay.

The Secretariat wishes to *thank* the national authorities which contributed to the report and provided comments on an earlier draft. Although every effort has been made to ensure that the information is correct at the time of writing, any errors or omissions which remain are the responsibility of the Secretariat.

The report has been prepared by Dr. David Marsden of the London School of Economics in his capacity as consultant to the Secretariat. It is published on the responsibility of the Secretary-General of the OECD, following agreement by the Public Management Committee to its derestriction.

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SUMMARY

Public sectors vary greatly in scope and organisation among countries. In some countries, public utilities, transport, telecommunications, and significant parts of health and education are integral parts of the public sector. In others, either they never have been, or they are now privatised. In some countries, the whole of the public sector is subject to a single system for pay fixing and pay methods, while in others the provisions are very heterogeneous. The main focus of this paper is on the core public service, particularly national public administration. It therefore excludes nationalised industries, transport and, for the most part, also education, health, and local government. However, where examples of particular problems of policies arise outside the core public service, they have been included if relevant to the general discussion. The descriptions of pay systems and pay determination practices contained in the appendix cover, where possible, the public sector as a whole.

The survey of OECD countries on which this paper is based reveals an enormous variety of pay systems and pay determination methods. Some countries rely heavily upon collective bargaining; others on pay review mechanisms. Some rely on unilateral determination of pay by the state, without predetermined rules, and others set pay unilaterally but according to fixed rules. Principles of public service pay also vary greatly. In some countries, the official doctrine is that public servants receive a means of subsistence to enable them to serve the state. In others, official acceptance of market relations is more explicit.

Nor does there seem to be any sign of convergence towards a common model. It is no longer possible to look upon collective bargaining as the rising norm that will eventually sweep the board. Indeed, the retreat of collective bargaining in the private sector in many countries has removed some of the external pressure for change in that direction. However, the retreat has not been universal, Collective bargaining as a method of pay fixing remains strong in many countries. Free employer determination remains a minority procedure in the public service except for management and particularly higher management. In a number of countries, there have been moves to make the employment conditions of such staff more like those of their private sector counterparts. These changes have to be seen in the context of major changes in the style and structure of public service management.

In most countries, the prevailing mode of pay determination in the private sector has been influential on arrangements in the public sector. Most of those with well developed collective bargaining in the public services also have well developed private sector collective bargaining. Equally, weakness or absence of collective bargaining seems to coincide with weak private sector collective bargaining in a number of countries. In some cases, institutional reforms in the private sector have paved the way for similar changes in the public sector. There, are, however, a number of exceptions that do not fit into his picture. Moreover, as union bargaining power and collective bargaining have receded in the private sectors of many countries during the 1980s, the public sector has come to represent one of the remaining bastions of union strength. Because of the influence of national industrial relations patterns on those in the public services, public service employers are effectively constrained in their choice of policies. As one of the actors in public service industrial relations they have some influence, but it is hedged in by the expectations of their employees and their unions, and by what those outside the public services regard as appropriate.

Having mapped the current state of public service pay determination and pay systems, the paper goes on to explore the different paths of reform that are being followed in different countries. The evidence reviewed gives some hints as to how different countries have sought to tackle a number of common problems, notably those of budgetary control and of promoting a more efficient and more responsive public service. There is no deterministic link between the structure of a country's public services and the types of reform that have been sought, but current systems nevertheless have helped to shape the way in which the underlying problems of pay management have been identified and defined.

It is possible to identify two broad strategies of reform, one placing stronger emphasis on the need for cost control, and the other stressing greater efficiency. The first strategy has been to maintain relatively centralised systems of pay determination and pay administration, and to seek flexibility by other means. The second strategy has sought to break up large employment units into smaller ones, and to devolve some management and pay decisions to individual government departments or agencies. In this context, there has been pressure for changes in pay systems involving, in particular, more use of performance-related pay of one kind or another.

Although there is no direct casual link between the strategic emphasis on budgetary control versus efficiency, **and** the patterns of unilateral or joint pay fixing, there are good reasons to believe that unilateral pay fixing favours budgetary control because of the greater central control it provides. In contrast, joint pay fixing opens **up** greater uncertainty, but it can provide more structural flexibility because of the more flexible means for legitimating change. When control over public service pay **is shared,** either through collective bargaining, or through the use of independent pay bodies, some control over the budgetary impact is surrendered. The maintenance of a single public service pay system also tends to be more fragile than under unilateral employer action. However, moves to decentralise pay setting to ministries, agencies or other organisational groupings should be easier because of the framework for consent and it may also be easier for public service employers to move **towards** more differentiated pay systems because the presence of local negotiators provides employees with a means of monitoring the application of pay criteria.

In the final section of the paper, the focus shifts to the problem of revising pay systems in line with new objectives for public services, and new thinking about the appropriate types of management. Pay systems are an important part of the structure of incentives open to public servants. Different types of pay system reward different types of behaviour and provide different signals both to public servants and their employers. Reform of public service **pay** systems involves altering the terms of the "implicit contracts" into which people entered on joining the public service. The problem for the employer then is how to renegotiate these implicit contracts without destroying such positive modvational content as they have.

An important part of the implicit contracts surrounding career employment ***is*** the framework provided by job classifications and the rules linking these to pay rates, and providing for progression between job categories. The predominant rule for pay progression within grades **has** been until recently that of length-of-service pay increments up ***to*** the maximum for the grade in question. In most countries it remains the dominant criterion. A number of countries have, however, sought to reduce the power of length-of-service and also to move away from the principle of making pay dependent on the job by increasing the element of individual or group performance in pay. Most of the countries that have introduced performance-related pay in their public services have done so in the context of other management changes. There appears to have been greater experimentation in pay system reforms among those countries with joint regulation, and especially among those seeking to decentralise. The countries that have moved furthest in breaking away from the philosophy of a "rate for the job" were those seeking the greatest degree of devolution of management authority. This is not to say that those countries with a more centralised approach have remained static, **A** number have sought other means of improving efficiency while still maintaining the integrity of their centralised pay systems.

The extreme diversity of pay setting arrangements and pay systems for public servants across the OECD warns against recommendation of one particular type of policy or one reform strategy that could be applicable to all. The organisation of the state, the degree of use of collective bargaining in the rest of the economy, and the types of alternative employment available to public servants are all major constraints on the options open to public service management in different countries. It is also clear that reforms, more often than not, are designed to tackle problems that have arisen in specific institutional contexts. Any attempts to draw wider lessons from the experience of a particular country have to take this factor into account.

INTRODUCTION

The work of public servants makes an important contribution to the economic and social infrastructure of OECD countries, contributing both to the quality of life and of government, and to the competitiveness of firms located in each country. Yet what governments and the public services can offer the citizens of their respective countries is constrained by the overall size of the budget available and the efficiency with which their resources are used.

Public service pay represents a major component of government spending in all OECD countries. By virtue of its size, the pay bill for public services can have a major effect upon the macro-economic balance of an economy, and influence private sector pay movements. A desire to maintain control over these side-effects has led many governments to seek to maintain a high degree of centralisation in pay determination, and consequently, also in pay systems.

There have been occasions when the maintenance of strong central control and efficient use of resources went hand in hand. In some countries, tackling external threats, or dealing with internal political instability, have been reasons why a strong central state administration was developed. In others, eliminating political patronage and establishing a politically neutral civil service have led to the adoption of centrally determined standards of organisation.

In recent years, there has been increasing concern that common features of public service employment, such as centralised control, and the personnel policies which accompany it, are often an obstacle to increased efficiency. A number of the features of public service pay determination and pay systems, it is argued, have serious economic side-effects, and are hard to reconcile with modern managemenl systems that havc developed in the private sector during the 1970s and 1980s. During that decade, many large firms in the advanced industrial countries experienced the major shocks of competition from the newly industrialised countries, and rapid technical change, and were forced to abandon management and administrative systems which often bore close resemblance to key features of national public services. In the private sector, many began to question the semi-automatic promotion for reasonable performance, annual pay increments, and bureaucratic pay scales spanning several local labour markets.

They also questioned whether the number of levels of management, and the amount of detailed control of decisions by lower levels of management were really necessary, and asked whether these employment systems had become an obstacle to more efficient and more flexible organisations. At the same time, there was an effort to devise monitoring systems that would allow more autonomy to lower levels of management while at the same time ensuring that overall co-ordination and cost control were achieved. Reviewing thc American and British personnel management literature, Guest (1987) has argued that there has been a shift away from formalised procedures as a means of control, and pluralism as a means of gaining consent, towards an integration of personnel policy into wider management strategies (personnel management as a tool to help firms achieve their commercial objectives rather than as an element in good industrial governance), and towards consent based on employee commitment to management's goals. He identified this as a recasting of "personnel management" as "human resource management".

If private firms have been able to develop management systems which make them more able to respond to changes in market demand, and better able to control costs, could one not ask public management to achieve the same, or at least to see what can be learned? Could it not be argued that public sector services are now facing equivalent changes in economic conditions to those which have affected the private sector? Thc budgetary constraint on public services is now very severe, and likely to remain so. Private citizens are demanding services which are more tailored to their needs, and available at times and

in a form convenient to them. Similarly, public employees themselves often demand forms of work that allow them to exercise more autonomy and independent judgement in their work. Public service pay levels have a direct effect upon public spending, and its pay systems are critical aids for management in seeking to recruit, retain and motivate staff. Pay is also a central feature of labour market exchange, and a vital input into public servants' living standards. It lies therefore at a critical intersection between a large number of the pressures on public services.

The aim of this report is to attempt to map the current state of public service pay determination and pay systems in OECD countries, and to explore the different paths of reform that are being followed in different countries. Although there are a number of common features in public service employment systems across the OECD area, there is a great diversity of public service pay systems, and in order to understand some of the reforms, it is necessary to develop a clear idea of the starting point for individual countries. There is no deterministic link between the structure of a country's public services and the types of reform that have been sought, but current systems nevertheless have helped to shape the way in which the underlying problems of pay management have been identified and defined. Government economic philosophy has also been an important influence, as has knowledge gained of the experience in other countries.

On the basis of the research behind this report, it is nevertheless possible to identify two broad strategies of reform, one placing stronger emphasis on the need for cost control, and the other stressing greater efficiency. The fist strategy has been to maintain relatively centralised systems of pay determination and pay administration, and to seek flexibility by other means. For example, changes in grading systems, reform of pay scales, greater use of allowances, and changes in working time arrangements have been used. The second strategy has sought to break up large employment units into smaller ones, and to devolve some management and pay decisions to individual government departments, or to agencies. In this context, there has been pressure for changes in pay systems involving, in particular, more use of performance-related pay of one kind or another.

The first strategy arguably keeps a stronger control over costs, and avoids the danger of competitive pay fixing among public sector employers, [1] but runs the risk of stifling attempts to promote greater flexibility. The second strategy perhaps gives greater freedom to local management to devise its own solutions, and thus opens up more scope for local creativity, but it faces the difficult problem of maintaining cost control as the decentralised managers are mostly not supplying competitive markets.

The research for this report is based on a questionnaire sent to OECD countries concerning public service pay determination and pay systems, analysis of documentary material, and some interviews with those responsible for public service management.

The report starts by looking at the diversity of pay determination systems and pay rules to illustrate the range of different starting points from which different countries' public services approach current problems. It then looks at the structure of public service pay regulation and at some of the recent changes, and then at pay systems and performance-related pay.

For the purposes of this report, the term "public sector" is used to denote the whole set of activities owned by the state; "public services" denotes the narrower service and administration activities; and "public administration", the purely administrative and policy activities.

PUBLIC SERVICE PAY DETERMINATION

Diversity of systems and procedures

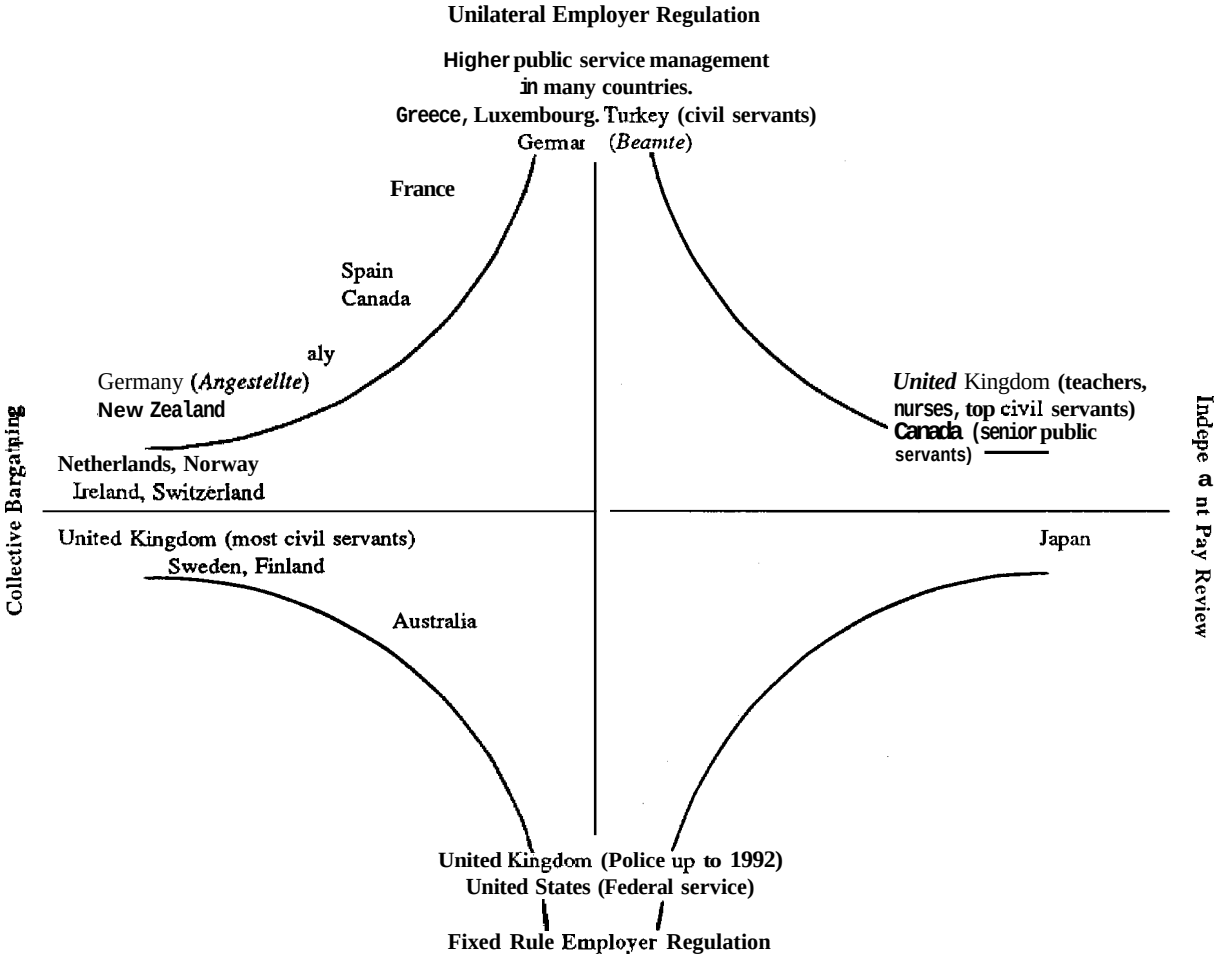
However diverse, public service employment systems bear many common features that can be found in most **OECD** countries. These arise partly from the nature of the functions to **be** carried out, and partly are a product of the history and organisation of the state in individual countries. They include a general tendency to organise employment of public servants on the basis of long-term jobs with a presumption of relative job security, some form of career, especially for those in "core" jobs, uniform pay scales and, very often, age-related or service-related incremental pay scales. Often such employment systems were developed as a means of ensuring the political independence of national civil services, and to promote efficiency by making entry subject to open competition rather than political patronage or other criteria.

The growth of collective bargaining in the private sector during much of **this** century brought pressures to set the pay of public servants by similar means, although the presence of a single employer or, at least, of a single paymaster, and the absence of a competitive market for the output have favoured a strong degree of central control on the employer's side, This reinforced the tendency **in** many countries towards centralised systems of uniform pay scales intended to strengthen the idea of a national service and to facilitate inter-regional deployment of public servants.

Nevertheless, there is considerable diversity in the approach to public service management, and the pay systems and status of public servants, among OECD countries. To illustrate **this** diversity it may be helpful to situate the various countries on a map. For the private sector it has been common to locate fiims on a scale **running** from full collective bargaining to unilateral employer regulation. **This** is not possible in the public sector because of the peculiar position of the state as an employer providing services which are not paid for at the point of consumption, and its need, in democratic countries, to account for its decisions publicly. The map therefore needs to take stock of the widespread practice of **fixing** public sector pay by means of laws and with the help of fact-finding bodies, and on the basis **of** recommendations of independent bodies.

To **do** justice to these different approaches to public service pay determination, it is better to *think* of two separate axes, **as** shown in Figure 1: one contrasting collective bargaining with recommendations by independent pay bodies to which both parties may present evidence; and the other contrasting unilateral employer decisions taken in each pay cycle with those in which the employer sets pay by following criteria that have **been** fixed in advance. The fist axis then refers to the nature of the employees' input into pay fixing jointly with the employer; and the second refers to cases where the employer alone fixes pay, where it is "non-negotiable". **As** will be argued later, the public employer's position on these two **axes** will affect the kind of pay strategy it can develop.

Figure I. **Predominant patterns of public service pay determination in selected countries**



Collective bargaining

Few countries allow completely unfettered collective bargaining for public servants. Ireland, New Zealand, the Netherlands and Sweden are among the countries allowing a relatively high degree of freedom. In New Zealand, for example, government determines the policy parameters and the State Services Commission and employees[2] devise particular strategies to fulfil these. Ministers are kept informed of the process and outcomes but have no direct operational role. In Australia, the independence of collective bargaining settlements from government veto is sustained by the system of legally binding awards arbitrated by independent tribunals.

In contrast, France has developed pay bargaining in the public service, especially since the reforms of 1983[3] but the agreement is only a recommendation (*relevé de conclusions*) to the government, and which it may choose not to implement, as it did immediately after the law came into force in 1983 on account of a public sector pay freeze. In subsequent years, the government has scrupulously applied the agreements that have been reached. France would therefore be situated towards the north-west quadrant of Figure 1: collective bargaining but subject to unilateral veto by the government. Another example of this type of system would be Canada, where the government may intervene to impose wage controls. Such reserve powers may appear paradoxical when the state is represented at the bargaining table. However, they highlight the degree of separation between the functions of management and overall budgetary control in most states.

Independent pay commissions

The second pole on the joint regulation axis is the use of independent pay commissions. These collect information and receive evidence before making recommendations to the government of the day and are quite widespread, especially for the more senior levels of the public service. Particularly important in these arrangements is the evidence presented by the main interested parties; this is why they are on the same axis as collective bargaining. In Japan, the independent National Personnel Authority, under the Cabinet, conducts pay surveys of private and public employees and of living costs and, most important, collects the opinions and demands of the various parties. It then makes recommendations to the Parliament (the Diet) which have, in most years, been accepted. In the United Kingdom, independent pay review bodies, which report to the Prime Minister, similarly collect evidence and the views of interested parties before making detailed recommendations.

It might seem that such independent bodies deprive public service unions of much of their power over pay issues. However, a number of public service unions in the United Kingdom have recently been pressing for their use in the place of collective bargaining. This again reflects the special environment of bargaining in the public services, as compared with the private sector, because industrial action usually hurts the consumer rather than the employer. Enlisting public support may often be more critical to the success of a particular claim than the power to disrupt.

The recommendations of independent pay commissions or pay review bodies may be rejected by the government. This has occurred several times in Canada: since 1981, the recommendations of the Advisory Group on Executive Compensation for senior civil servants have been accepted only twice. In the United Kingdom, the government scaled down the proposals of the Top Salaries Review Body for 1992. For the groups of employees concerned then, Canada and the United Kingdom could be placed in the north-east quadrant of Figure 1: pay review subject to government modification.

Employer pay fixing without predetermined rules

As may be seen from Figure 1, unilateral regulation of pay by the employer is the preferred method of pay determination in only a minority of countries except in the case of management, especially higher management, for whom it is quite a common approach. In such systems, public service employers set pay unilaterally for each pay cycle. In doing so, in theory, the state should be free to strike its own balance between its budgetary, public management, and labour market needs, much like a private sector employer acting unilaterally.

There are, however, some important differences vis-à-vis private sector employers. The Executive is accountable to the Legislature and ultimately also the public. This inevitably pushes it towards explaining increases in terms of certain general principles, among which "ability to pay" is hardest *to* gain acceptance for because it is essentially a political decision. Secondly, it has become increasingly common in some countries for public service employees to be well represented in state and national legislatures as many members of parliament are themselves former public servants; this is the case, for example, in Germany (Keller **1981).** These pressures may diminish some of the advantages of the greater flexibility governments may obtain from unilateral decisions on pay.

In Germany, Greece, Luxembourg and Turkey, for example, the pay of white-collar civil servants is decided by the government, although there is collective bargaining for blue-collar state employees. Pay determination for German civil servants (*Beamte*) recognises their right to an appropriate standard of living for their service (*Alimentierungsprinzip*), but the criteria for deciding this leave the state with a good deal of freedom. They include changes in general living standards, but also the state's ability to pay, although in practice the state often takes its agreements with the other white-collar public servants (*Angestellte*) as a point of reference for decisions about pay for *Beamte*.

In a number of countries, there have been moves to make the employment conditions of managerial staff, especially senior managers more like those of their private sector counterparts. For example, in New Zealand, Chief Executives of government departments and agencies now have individual, fixed-term contracts, with associated performance agreements setting out specified objectives[4], as do Chief Executives of the new agencies in the United Kingdom. Top managers (heads of government agencies) in Norway and Sweden are also employed on individual contracts specifying objectives, results required and pay. These changes have occurred in the context of major changes in the style and structure of public service management.

Employer pay fixing according to set rules

Public employers may also set pay unilaterally, but according to certain predetermined rules and procedures. A commitment to indexation of public service pay on consumer prices or on average earnings would be one example which was quite common in the 1970s and 1980s, but not so now. As many public servants do not have the right to strike, indexation affords some protection against their pay falling behind that of the rest of the economy, and avoids the need for more conflictual methods of updating pay. The advantage of a predetermined rule over deciding on a year-to-year basis is that the value of public service pay is protected from annual budgetary pressures which have, in many countries, caused public sector pay to fall periodically behind that in the private sector. As many public service jobs are long-term, the effect of such lags is usually a gradual decline in the quality of staff the service can attract rather than dramatic staff shortages.

The United States federal civil service provides an example of unilateral pay fixing by the government, but according to a set of rules that are fixed in advance by law. The law states that federal

public servants should have comparable pay to that in the private sector[5]. In practice, however, as a result of pay freezes and Presidential discretion to limit annual pay increases, federal pay had fallen substantially behind private sector pay levels by 1990. The 1990 Federal Employees Pay Comparability Act, scheduled for implementation in 1994, specifies that federal pay changes for those on the white-collar General Schedule should be linked to changes in the Bureau of Labor Statistics' (BLS) Employment Cost Index minus half a percentage point[6]. In addition there should be locality-based comparability adjustments to be phased in gradually, also based on BLS pay surveys. The government has the power to overrule this only under certain types of national emergency or economic crisis, the nature of which is again specified.

Unilateral employer public service pay systems are likely to be centralised because the state is the single employer, and because the state generally is expected to treat all citizens alike. **Unless** there is some difference in the level of education or skill, or in the nature of the work involved, it is hard for the state to discriminate. This is particularly difficult **when** the framework of public service pay is set out in law. In contrast, collective bargaining, in theory at least, admits greater variation among different groups because it opens up the possibility of differentiation based on consent. Hence, unilaterally fixed public service pay systems will tend to be more centralised than those where there is collective bargaining or some kind of independent assessment.

Thus, there is a great deal of diversity in the approach to fixing the pay of public servants. Nor does there seem to be any sign of convergence towards a common model. It is no longer possible to look upon collective bargaining as the rising norm that will eventually sweep the board. Indeed, the retreat of collective bargaining in the private sector in a number of countries has removed some of the external pressure to increase its use in the public services. The scale of the investment in improving and adapting the BLS pay surveys in the United States **as** an instrument for General Schedule employee pay fixing indicates a strong commitment to the current system there, and in the United Kingdom a gradual increase in the use of independent review bodies (the most recent *are* the School Teachers Review Body -- 1991, and the Nurses Review Body -- 1983) has been at the expense of collective bargaining. **In** France, the 1983 law was intended to extend collective bargaining to pay; but since 1983 it has been difficult to reach agreements on pay because a change in the method of calculating increases in the pay bill was initially opposed by the unions'.

However, the retreat from collective bargaining as a method of pay fixing has not been universal. It remains strong in many countries including Australia, Canada, Germany (for non-*Beamte*), Ireland, Italy, New Zealand, and the Nordic countries to cite just a few, and in the Netherlands collective bargaining was introduced in 1989. It should be noted that in New Zealand, the Employment Contracts Act of 1991 crcatcd a new legal and institutional framework for the practice of industrial relations **(applying to** both the public and private sectors). The Act removes the special **status** in law of registered trade unions and allows employees the choice of whether or not to belong to any form of employee's organisations. Previous union rights of automatic industrial representation have hecn abolished and employers and employees are free to negotiate about whether to have individual or collective contracts.

The influence of national industrial relation systems

Public service employers are largely constrained in their approach to pay by existing institutional arrangements, Even though the law might seem to be one of the factors determining the special status of public servants' pay, and thus something in the control of the state as an employer, (e.g. in countries such as Germany, Greece, Turkey and the United States}, in most countries the prevailing mode of pay determination in the private sector has been at least as influential on arrangements in the public sector.

In view of the large numbers employed, the often large size of employment units, and the relatively stable nature of the employment, the public services are promising grounds for the development of unionisation and of collective bargaining. Such features have been commonly cited by studies of unionisation as favouring the development of membership. Indeed, the decline of such characteristics of private sector employment has been seen as a cause of the decline of union membership. Research on union density has also highlighted the importance of employer attitudes towards unionisation as a key factor in its development (e.g. Bain and Price 1980). Periods during which socialist and social democratic governments have held power have presented opportunities for unions to take advantage of friendly parties being in government to assist public service unionisation and the extension of collective bargaining from the private to the public sector.

There are, therefore, strong reasons to expect the pattern of pay determination in the public services to be strongly influenced by the development of private sector industrial relations. This is borne out in many of the countries shown in Figure 1. Most of those with well developed collective bargaining in the public services also have well developed private sector collective bargaining. This is true of the Nordic countries, Australia, Canada, Germany (for non-*Beamte*), Ireland, the Netherlands and the United Kingdom, for example*. Equally, weakness or absence of collective bargaining seems to coincide with weak private sector collective bargaining in a number of countries. The federal civil service in the United States would be a good example of this, as would be Greece, Turkey, and, in most countries, higher management levels in the public service.

In some cases, institutional reforms in the private sector have paved the way for similar changes in the public sector. In the Netherlands, from 1982, the social partners in the private sector agreed with the government that private sector bargaining should be decentralised in order to reflect the position of individual firms and sectors. This was seen as the best way to achieve common goals in the area of active labour market policy, wage moderation and improved industrial competitiveness, In 1993, bargaining in the public sector was likewise decentralised into eight groupings'. In addition, since 1989, the bargaining process in the public sector has followed the same methods as in the private sector.

There are, however, a number of exceptions that do not fit into this picture. Germany has one of the strongest systems of private sector collective bargaining in Europe, yet civil servants (*Beamte*) have no bargaining rights over pay. Similarly, the Japanese unions have developed a very effective form of co-ordinated bargaining in the private sector "spring offensive" (*Shunto*), yet public servants have no pay bargaining rights. Moreover, as union bargaining power and collective bargaining have receded in the private sectors of many countries during the 1980s, the public sector has come to represent one of the remaining bastions of union strength.

Because of the influence of national industrial relations patterns on those in the public services, public service employers are effectively constrained in their choice of policies. As one of the actors in public service industrial relations they have some influence, but it is hedged in by the expectations of their employees and their unions, and by what those outside the public services regard as appropriate. As will be seen in the course of this report, the pay systems based on employer control have given more emphasis to budgets, to the maintenance of a national salary system, and to search for non-pay forms of flexibility, whereas many of those that rely more on collective bargaining have sought to adapt their systems to the needs of more decentralised management.

TWO STRATEGIES FOR ADAPTATION OF PUBLIC SECTOR PAY SYSTEMS

Although there is no direct causal link between the decision on whether to place the strategic emphasis on budgetary control rather than public service management, and the patterns of unilateral or joint pay fixing, there are good reasons to believe that unilateral pay fixing favours budgetary control because of the greater central control it provides. In contrast, joint pay fixing opens up greater uncertainty, but it can provide greater structural flexibility because of the more flexible means for legitimating change.

Unilateral pay fixing gives governments the opportunity to tie the growth of public service pay bills to wider budgetary targets more effectively than under joint arrangements involving employees. It also tends to favour centralised pay systems. Although one might think that unilateral control could be carried out on a decentralised basis, a number of factors prevent this from being the case. First, the state has often sought to foster the idea of a national public service, and it has also the commitment to treat its citizens equally, and impartially. These principles work against differentiation among public servants on other grounds than the demands of their work. The need to encourage a service that is independent of the party in power, and one which treats all citizens equally, also militates in favour of administration according to certain general principles. As performance criteria are very hard to define in a way that will attract widespread consent, it becomes easier for the state as an employer to adopt uniform criteria for rewarding staff.

Finally, organisational pressures may push the state as employer to adopt a uniform system of pay scales for its employees. Given the difficulty of defining performance criteria, there is a danger that employees would suspect that differentiation of pay scales was being used as a means of cutting the pay of selected public servants. Particularly where employees did not have clear information on the criteria for pay differentiation and their application by managers, there would be pressure for uniformity of treatment, and uniform sets of pay scales since these can be easily monitored. Even without the right to strike, feelings of unfair treatment can reduce work motivation and engender a generally hostile management environment.

It is therefore not surprising that many countries which either have, or have had until the recent past, systems based on unilateral employer pay fixing should also have centralised systems which treat their staff in a uniform fashion. Thus, unilateralism reinforces centralisation.

Both unilateralism and centralisation favour budgetary control. When control over public service pay is shared, either through collective bargaining, or through the use of independent pay bodies, some control over the budgetary impact is surrendered. If the budgetary objectives are to be achieved, then the public service managers, staff, and unions have to be persuaded of the need to do this.

If collective bargaining is to be in good faith, then there is necessarily some unpredictability in the final budgetary consequences. Similarly, if public servants are to regard independent pay review bodies as giving their aspirations genuine consideration, then here too there must be some budgetary uncertainty. The potential gain on the employer side is that employee involvement will bring greater consent to the final outcome, and thus, a more cooperative working environment.

Collective bargaining may focus on achieving a single central agreement, as has been the case in some of the Nordic countries notably. In contrast to the private sector in these countries, the content of the state sector agreements tends to be in a form that is directly applicable (subject to parliamentary approval) rather than setting a framework for further negotiations at the sectoral and enterprise levels. Sweden is an exception in that there is provision for local negotiations in each government agency within the centrally negotiated framework. In the other Nordic countries also, elements of local negotiation are being developed.

The arguments in favour of centralised agreements tend to differ under collective bargaining as compared with unilateral employer regulation, and to reflect different pressures. Several writers have argued that a small number of central bargains, or even better a single bargain, is an effective way of resolving the problems of competitive pay bargaining between different groups of employees. Olson (1982) and Visser (1988), for example, have stressed the contribution of "encompassing"[10] groups to orderly pay bargaining. Such groups, they argue, are large enough to exert a direct influence on the average rate of pay increase, and to hold influence over small groups that might be tempted to try and do better. As a result, encompassing groups are able to take the first step towards pay moderation without facing the risks that would apply to a much smaller group. In the latter case, there is little incentive to opt for a moderate settlement because of the small direct impact on overall inflation, and because of the likelihood that other groups bargaining subsequently would lodge larger claims. Paloheimo (1990) assembled broad empirical support for this thesis, reviewing the relationship between co-ordination in bargaining and better inflation performance.

The state sector has a great advantage over private employers in that the channels for intra-employer co-ordination are well established. In many countries, the finance ministry co-ordinates negotiations on the employer side. On the employee side too, the number of unions tends to be fairly small, and their membership fairly large.

Under central bargaining, maintaining a central agreement is harder than maintaining a single pay system under unilateral employer pay fixing. The main reason is that central bargaining rests upon an alliance of different groups of employees all of whom have to feel they gain some long term benefit from pooling their respective strengths. Without that, the advantages of encompassing groups are much harder to maintain. Public service industrial relations in France, and especially Italy, during the late 1980s, provide some particularly interesting examples of such attempts to break-away by different occupational groups, such as nurses in France, and teachers and magistrates in Italy.

Thus, under collective bargaining, the maintenance of a single public service pay system tends to be more fragile than under unilateral employer action, However, under collective bargaining, moves to decentralisepay setting to ministries, agencies, or to other organisational groupings should be easier because of the framework for consent. It will be remembered that one of the reasons pushing unilaterally determined systems towards common, uniform, pay scales was the pressure on the state to treat all its citizens equally, and the difficulty of dictating unilaterally what principles should differentiate employees beyond the type of work they are doing. In contrast, collective bargaining, and arguably to a lesser extent, independent pay bodies, provide a means by which such differentiation can be agreed. Indeed, under collective bargaining it may be easier for public service employers to move towards more differentiated pay systems because the presence of local negotiators provides employees with a means of monitoring the appljcation of pay criteria.

The maintenance **of** national **salary systems**

Employer determined national salary systems provide public service employers with a more predictable means of budgetary control than do more decentralised bargained systems. Nevertheless, even centrally fixed systems of pay rules tend to take on their own life under the pressure of employee expectations and management needs. The nature of the problems and attempts at reform are well illustrated by the cases of the United States federal civil service and the French public service, both of which have highly centralised pay scales covering most grades of public servant across the nation. The United States federal service provides an example of a system with unilateral employer pay fixing according to predetermined rules. The French case provides an interesting example of a **system in** transition from unilateral employer pay fixing according to a customary predetermined rule towards one based on collective bargaining but where the objective of budgetary control **has** remained very strict.

The pay determination systems of both countries are highly centralised. In the United States, the General Schedule establishes a single pay grid for about 1.5 million federal employees across the whole of the country, although the 1990 Federal Employees Pay Comparability Act, beginning in 1994, phases in local variations in federal pay rates. The system of pay scales for French public servants covers 4.7 million employees (and 3 million retired public servants) directly and, indirectly, a **further** 1 million, representing in all 35 per cent of employees in that country (Guilhamon 1988)''.

Variation for local labour market conditions

A first problem with national salary scales is that of adaptation to regional labour market pressures. Where there is a great deal of inter-regional diversity of labour market conditions. as in the United States, **a** uniform national pay scale leads to pay rates that are unattractive for either recruitment or retention in tight labour markets or where living costs are high. They may also lead to pay well in excess of what is needed on local labour market criteria in depressed regions, thus contributing to budgetary problems (Katz and Krueger, 1993).

The **United** States federal civil service found that its basic pay scales were, **by** the late 1980s, more than enough to recruit and retain staff in some regions, but totally inadequate in areas such as Los Angeles and New York. **As** result, there grew up **a** series of special allowances and adjustments to ease the problems in tight labour market areas, but these generated tensions because some areas got them, and others **did** not[12] (Ingraham, 1993).

For similar reasons, many countries with national salary scales for public servants have developed systems of special allowances for recruitment problems, and to encourage staff to go *to* less popular or less attractive regions. Switzerland gives allowances **by** zone of residence. In Turkey, work in certain regions attracts allowances because of less developed living facilities available to staff. In theory, such allowances provide public employers with the flexibility they desire, but in practice such payment of allowances is not always easy to control.

Special allowances to attract staff in short supply and to compensate for differences in living costs often cannot be withdrawn when management judges that conditions have changed. In the minds of the staff receiving them, they become part of the basic remuneration package[13]. **A** second problem is that special allowances often have the appearance of having been conceded by the centre under pressure fi-om staff, unions, and local management. It then seems to other areas, where the staff feel equally deserving, that the extra money went to those who shouted loudest, and so it can generate feelings of unfair treatment. Thus although special allowances for shortage and high cost areas may have **the** advantage of enabling

management to maintain the flexibility of deployment that comes with a uniform set of basic pay scales, they generate other problems.

It is difficult to measure labour shortages even for purposes of scientific studies. It is even more difficult to devise a measure which would satisfy employees when the employer has a financial incentive to increase workloads of current staff in older to minimise vacancies. For grades in which the public services compete for labour directly with the private sector, and for which it is known that recruitment and retention are sensitive to pay opportunities elsewhere, a less controversial measure is to take the gap between public and private sector pay. This has the advantage of being directly observable by both the employer and employee representatives, and the information can be gathered and checked independently.

Clearly, this kind of solution is of less relevance to categories where there is no obvious private sector counterpart, and where retention is insensitive to relative pay. Studies of engineers' pay in the United States (Freeman 1971), and of teachers' pay in the United Kingdom (Zabalza et al. 1979), have shown that for such professional categories, starting rates of pay exert a strong influence on recruitment and retention of new entrants, particularly for males, but a weaker influence thereafter.

The 1990 Federal Employees Pay Comparability Act links federal pay to movements in the Employment Cost Index (less 0.5 of a percentage point). The same employment cost survey is being extended to provide local area pay comparability measures so that federal pay can vary in response to local conditions, but without the ad hoc appearance of special allowances. With systematic employee organisation involvement in the Federal Salary Council which fixes and revises the pay localities, the new system should be able to avoid the appearance of making concessions under duress. However, it will only begin to be introduced in January 1994, and will not be fully implemented until 2004, so its effects cannot yet be judged[14].

Updating national pay scales

A major problem in maintaining national salary scales for all public servants lies in finding a suitable means of updating them in line with changes in general labour market conditions and other economic conditions. It is very difficult for the state to do nothing, but at the same time, any action is likely to be interpreted as a signal of how the employer is likely to behave in the future. This problem is not confined to unilateral, centralised systems, but it is more acute since the same rule, more or less, has to apply to all public servants, with obvious budgetary and labour market consequences.

The French case is interesting because it retains much of the heritage of unilateral employer pay fixing despite the official recognition of collective bargaining since 1983. It remains highly centralised with a common set of pay scales for all public servants, and common rules for rewarding seniority and for promotion. The power of this heritage was illustrated in the Guilhamon (1988) report. It described the situation up to 1983 as follows: "having neither the right to discuss the political decisions of the state, nor the power to question agreements relating to specific categories reached at other levels[15], nor the opportunity to renegotiate the statutory rules governing career development, national negotiators were able to discuss only the general increase in salary scales and other general measures, and even that was confined within very narrow margins" (Guilhamon 1988, p.3).

Faced with such narrow margins for settlement, and given the desire of successive governments to develop collective bargaining, it was difficult to offer less than the protection of living standards. It would have been hard for the unions to agree to anything less, particularly in view of their political fragmentation and strong inter-union competition. Thus there developed a customary indexation of pay scales on *the* cost of living which held sway until the early 1980s.

However, guaranteeing the value of pay scales meant that the overall pay bill would increase at a faster rate as a result of length of service increments, promotions and other upgrading measures, unless they were offset by a sufficient number of new recruits.

These problems have been widely discussed in France since 1982/3 when the government began to maintain a very tight rein on public sector salary bills as a part of its policy of competitive disinflation. Indexation of basic salaries, which had been customary until 1982, was suspended, and since then the government has sought other indicators that would meet both sides' aims (Guilhamon 1988). Because of reduced recruitment and consequent upward drift of length of service, and the growing qualification level of employees, the unions were quick to recognise that indexing pay bills, rather than basic salaries, would lead to a fall in the value of salary scales. The government sought a compromise solution, taking as reference point a measure of changes in employees' gross pay, including any positive net effect of changes in the age and qualification structure of the work force (known as positive net GVT -- *glissement vieillesse technicité*), but excluding the effect of changes in the structure of employment.

The measurement of GVT, however, is not straightforward, and has not proved convincing to individual staff (Guilhamon 1988). Defence of basic scales is easy to understand, and many public servants feel that pay and job advancement are part of the "implicit contract" of public service employment (see below), and that accepting GVT adjustments is somehow allowing the employer to backslide on this contract.

Joint regulation and structural change

Central agreements and pay scales may also exist under collective bargaining and independent pay review systems, but, as argued earlier, these systems appear to facilitate decentralisation of pay determination and management reform more readily than do unilateral systems. Thus, some of the most striking examples of attempts to achieve a radical decentralisation in recent years are to be found in the Netherlands, New Zealand, Sweden, and the United Kingdom, all countries with established systems of negotiation.

With the 1988 State Sector Act, the New Zealand government sought to introduce progressively an "employer culture" in its public services, in particular restructuring collective bargaining around ministries, agencies and public enterprises. Previously, negotiation had been by occupation, but with the employer's side represented by a single body, the State Services Commission (SSC). With the 1988 legislation, the government sought to give greater local management autonomy, including over pay, with agencies leading the way and acting as independent employers.

If the New Zealand reforms owed very much to a determined shift of policy by the government, those in the Netherlands, which came into force in 1993, involved an equally radical restructuring, abandoning central negotiations in favour of bargaining in eight major groupings, but being introduced with greater discussion with the social partners.

In Sweden, where collective bargaining was introduced for central government employees in 1966, and run on very centralised lines, moves to decentralise control began in the late 1970s. In 1989/90, the National Agency for Government Employers (SAV) and the unions agreed a new system of individual and differentiated pay modeled on that in the private sector[16]. Although implementation was delayed by the 1991-92 economic stabilisation agreement, which reintroduced some of the former centralised features, the aim was to follow the private sector practice of agreeing an increase in the wage bill at the central level, and then leaving its precise distribution to lower levels of bargaining (Schager, 1993). The aim of the reforms was to compromise between devolving power and maintaining some central budgetary control. The

same system for private sector pay has long experienced problems of wage drift, and Schager reported the development of drift in the public services, but without estimating whether it has reached comparable levels with the private sector.

In the United Kingdom, decentralisation has been more piecemeal and more gradual through the 1980s and into the 1990s. As in New Zealand, a number of sections of the public services have either been given agency status, or been prepared for this, with a view to giving management greater independence from the centre, and to possible transfer into the private sector. The argument of the British government's Next Steps Report was that civil service management needed to be focused more on the particular services it was intended to provide and improving their effectiveness rather than on general administration (Efficiency Unit, 1988). The resulting changes in employment conditions have been introduced through collective bargaining, although the unions often only accepted them under very strong employer pressure.

Decentralisation implies greater autonomy in pay fixing, and therefore the possibility of competing pay settlements between the new public service units. Thus, in New Zealand, the State Services Commission has retained the power to monitor agency pay settlements. In the Netherlands, the new Council for the Terms of Employment in the public sector was set up with public sector employers and unions to advise the government and bargaining sectors, and to provide a means of co-ordinating pay developments. In the United Kingdom, the Treasury maintains overall co-ordination of public service pay settlements. In contrast, Schager's (1993) evidence suggests that in Sweden decentralisation has been associated with pay drift.

The problem of control is further underlined by Ireland's move away from free collective bargaining to more corporatist arrangements in an effort to control national pay developments under the 1987 Programme for National Recovery and subsequent agreements. During the period of free collective bargaining in the middle 1980s, the focus had been on negotiations by different services, with the framework of the various public service pay agreements determined and managed centrally, and the presence of a single arbitrator for all agreements to ensure some consistency. Among the difficult questions to be resolved were whether the arbitrator had too much influence on the government pay bill, and how far the arbitrator should consider the government's ability to pay in assessing public service pay disputes.

Decentralisation of public service pay determination on geographical lines is rare for central government, although in many federal states there is some geographical variation as the individual states or provinces usually are responsible for the pay of their employees (for example, Canada and the United States, but not Germany). Geographical decentralisation has formed a smaller part of the decentralisation process than the moves towards organisation around particular services. Although there has been a good deal of discussion of leaving more scope for the action of regional labour markets, relatively little progress has been made in this direction in OECD countries.

One strong reason for not decentralising pay determination on geographical Lines is that competition among public service employers would be likely to prove more intense than along service lines. Regionally-based employers would End that many of their regional boundaries cut through local labour market areas. Before Germany unified its federal and state civil service pay scales in 1957, there had been many instances of qualified staff such as teachers (who are civil servants in Germany) being able to apply for work in the higher paying of two neighbouring states (Blenk, 1987).

At the federal levels in both Canada and the United States, there is very little decentralisation of pay fixing on geographical lines. An interesting exception in Canada is provided by the small number of occupations that have labour markets that are geographically very distinct. Nevertheless, at the state level in both countries, there is a good deal of interstate variation in both procedures and pay levels and

structures. There is some evidence for nurses **in** Canada, whose pay is set at the provincial **level,** of leapfrogging pay agreements between some **provinces** (Meltz 1994).

Hence the difficulty of containing such pressures provides a very plausible reason for the small amount **of** devolution of public service pay determination on regional lines. However, there remains a strong need for careful evaluation of the degree of control of public service pay bills under different management and pay fixing regimes. Until then, drawing conclusions is inevitably very tentative.

PUBLIC SERVICE PAY AND JOB CLASSIFICATION SYSTEMS

The emphasis of the paper so far has been on the control of public service pay growth, and the problems of introducing a degree of flexibility into this process in different OECD countries. In this section, the focus shifts to the problem of pay and efficiency, and the difficulties of revising pay systems in line with new objectives for public services, and new thinking about the appropriate types of management. Although pay systems for public servants have generally remained more strictly an area of management prerogative than pay levels, it will be argued that negotiation has a very important contribution to make towards obtaining consent for change. It will also become apparent that the structure of pay determination examined in the previous sections imposes certain constraints on the kinds of changes in pay systems that can be obtained.

Pay systems are an important part of the structure of incentives open to public servants. All of the OECD countries share the practice of providing a career service for an important part of their public service workforce. Different types of pay system reward different types of behaviour and provide different signals both to public servants and their employers. The United States civil service reforms of 1883 and subsequent decades established the principles that there should be fair and open competition for federal jobs; admission to the competitive service only on the basis of neutral examination, and protection of those in service from political pressures (Milkovitch and Wigdor, *eds.* 1991). Cutting back political patronage meant making the criteria for entry and advancement more transparent. Greater transparency implied more standardised rules whose application could be monitored, and so favoured the development of a uniform system across the country. In the 1920s, the introduction of taylorist principles of scientific management provided a further boost to uniformity, and the establishment of the service as a system of work posts organised into complex grading systems.

Civil service reforms occurred on broadly similar lines in a number of the older industrial countries over the same period, and many countries have competitive or other kinds of examinations for the recruitment of certain groups; career progression is also often based on further examinations, as is the practice, for example, in France. In France, internal competitive examinations account for 30-50 per cent of the recruitment into the main career groups *("corps")*. They are based upon a major investment in continuous training (3.5 per cent of the pay bill) and thus enable a high degree of vertical mobility. However, this is not universal. A common means of vertical mobility is promotion based on open, merit-based selection, with some access to review mechanisms. In the United Kingdom, the civil service has its own special, rigorous selection process and, thereafter, promotion is based on management decision. However, the political neutrality of the process is maintained.

Transparency is also favoured by the use of externally validated educational diplomas which can play a greater or lesser role in deciding the grade at which a person is recruited, and thus influence the pattern of internal promotion. In France, such diplomas are used to divide public service jobs into four large categories ranging from those requiring only very basic education to those requiring higher education. Similar principles apply in Spain.

Despite these similarities, there are nevertheless important differences of emphasis among countries. In their survey of the merit pay system in the United States federal service, Milkovitch and

Wigdor (1991) stress that unlike the creation of elitist civil service systems in many European countries, the United States initially sought to build a more practical body of "neutral competents". There have also been major differences in the types of reforms sought in pay systems, and notably in the extent to which countries have thought it necessary to supplement career progression with other forms of reward for good performance. These too reflect underlying differences in the nature of the types of management reform under way, and in the nature of the understanding or "implicit contract", between public servants and their employers as to the kinds of performance which are valued.

"Implicit contracts" and public service pay systems

One Framework for thinking about public service pay systems is provided by recent developments in labour economics in the general field of contract theory. These theories shift the emphasis away from the exchange of a wage against a given amount of effort in the current time period towards a process of exchange which takes place over many years, and the kinds of incentives which can be used in such an environment. Given the prevalence of long term employment for a large core of public servants, these theories potentially have a great deal to offer in helping to understand the reasons for certain types of pay system, and the conditions under which they might work.

The basic intuitions underlying these theories are very simple. They take account of the impossibility of specifying all the tasks to be included in an employment contract, and the way these tasks may evolve over time within the framework of a single employment relationship, They also seek to take account of the difficulty of monitoring the execution of work which requires any degree of judgement, and when substandard performance only becomes apparent much later on. Although many of the basic rules for work, and the procedures for promotion and career development are set down in personnel regulations, much necessarily remains unwritten. The employer therefore faces a very difficult task of ensuring the salary system provides the appropriate signals concerning performance. If one assumes that people are mainly self-interested, at least as far as their work is concerned, and that the work environment is not one of mutual "high trust", then difficulties of monitoring performance give employees an incentive to provide short measure. If, in addition, employees have skills they can easily offer to another employer, and so can obtain similar rates of pay, then the threat of dismissal for poor performance is relatively weak. This is often the case in markets for casual labour. So the question contract theorists ask is how can the pay system be designed so as to encourage regular, conscientious performance by employees.

One simplistic solution is to pay above the market-clearing rate for labour of a given quality to ensure that those hired have something to lose if they are dismissed. The wage premium offered, according to the theory, should be self-financing as it induces correspondingly higher performance. Clearly, the theory does not work if all employers follow this practice, but it is fair to suppose that it might be adopted for those jobs where good performance is critical. Akerlof (1982) has argued that instead of reinforcing the dismissal threat, such pay practices could induce a more positive motivation as employees feel under an obligation to reciprocate the employer's actions which he compares to a partial "gift exchange".

On the whole, the evidence from several countries suggests that public service pay operates with a compressed pay dispersion as compared with the private sector. Often, less skilled workers are better paid in the public sector, whereas highly qualified employees and top managers are often considerably less well paid than their private sector counterparts (for evidence on the United States see Volker 1989 and Katz and Krueger 1993; for Sweden see Schager 1993). Hence, the simplistic version of these theories seems to be applicable only to the less qualified. But it might nevertheless be the case that their performance is critical to the overall public perception of public services.

For highly qualified senior public servants it is possible that non-pecuniary rewards, such as social prestige or simply service to the community, are sufficient. However, there are also many private sector jobs which offer a large degree of intrinsic satisfaction. A more plausible line of argument is that the pay systems for middle and higher public servants play an important role. Instead of focusing just on wage differentials between alternative areas of employment, one could consider career and earnings profiles over time. Lazear (1981) has argued that employers may encourage job candidates seeking career jobs to apply by offering a pay profile that *starts* at a low level, and rises through the person's career in a particular organisation. "his would both discourage sub-standard performance and positively encourage good performance. The dismissal threat grows more costly to the employee with length of service, and the career employment means that the employee is likely to remain sufficiently long with his or her current employer to reap the benefits of good performance. For employers, this kind of relationship is particularly important when sub-standard performance may not become apparent for some time.

Under such incentive systems, in their early years, employees are investing by taking a level of pay below the value of their work in exchange for pay above the value of their work later in their careers. As employees become more expensive with length of service, their employer has an increasing incentive to lay them off (perhaps with early retirement). If such incentives are to induce better performance, the employer's offer of long term employment has to be "credible", as do the prospects of pay rising with length of service.

In the public services, no one is offered a contract stating that they will receive such and such a promotion, but there is an implicit understanding as to the nature of the career likely to be offered, the pay profiles accompanying it, and the kind of behaviour needed in order to progress. The contract may not be explicit and is not enforceable at law, but it may nevertheless be powerful. The employer's ability to attract labour for career employment with low starting rates depends upon how far those recruited believe they have a fair chance of promotion. Equally, a wave of premature dismissals is likely to make many current employees doubt their employer's sincerity concerning their future pay increments, and so would potentially damage motivation".

The important conclusion from these theories is that reform of public service pay systems involves altering the terms of the "implicit contracts" into which people entered on joining the public service. There may be nothing innately fair or unfair about the patterns of remuneration offered, but people feel that the current system of incentives was what they agreed to when they entered the service. The problem for the employer then is how to renegotiate these implicit contracts without destroying such positive motivational content as they have.

Job classifications and pay scales

An important part of the implicit contracts surrounding career employment is the framework provided by job classifications and the rules linking these to pay rates, and providing for progression between job categories.

The most common principle of classification might be described as that based on "rank in position": that pay for each position should be determined solely by the position description and the qualifications required for it, and not by the personal qualifications of the person occupying that position. In the United States federal service this was endorsed in the 1923 Classification Act (Milkovitch and Wigdor 1991, p. 15). A similar principle can be seen at work in the French system, and indeed, underlies the logic of some of the special measures for different categories of staff which sought to rectify their inappropriate pay level by reclassifying them within the same overall classification system. In Germany,

there is a different emphasis, at least in legal terms, whereby the classification system seeks to give levels of pay which provide an appropriate standard of living for public servants of a particular rank.

In most countries, career advancement, and increasing skill and experience have been recognised by movement between positions in the job and pay classification system. These stress the impersonal element in performance and in remuneration, and clearly provide some protection for public servants against political pressures. In contrast, some of the new systems for senior management, to be discussed later, break with the principle of pay for the grade by introducing a significant element of pay for individual performance.

Establishing a career service requires that there be a sufficiently large pool of jobs into which well qualified staff may be promoted. The demotivating effect of promotion bottlenecks is well known. The probability of a bottleneck occurring is related to the size of the pool. If a public service has a large number of highly self-contained departments, and promotion occurs only within these, then the chances of a local bottleneck occurring are greater, and there is no easy means by which an able, but blocked, employee may move to another, less encumbered service.

Many of the job and pay classification systems of OECD public services spread over very large groups of employees. In the United States, the federal service is the largest single employer, as is the Fonction Publique in France, and both have a single system for most of their employees. In Germany also, the system for *Beamte* covers a very wide range of activities, applying to the educational sector as well as to central and local government. In Japan, the same system of pay scales and pay determination applies across central and local government, and the state educational and medical systems (National Personal Authority 1992).

In the United Kingdom and Italy, job classifications and pay systems vary among different segments of the public service, with administration, education, health, and local government all having their own systems. In the United Kingdom, there is now also an increasing amount of variation among segments of public administration; for example, civil servants employed in the tax service and in government departments now have separate pay systems and pay scales. It remains to be seen how long the principle of a career service in the latter country will be maintained. The civil service remains a very large employer, but a number of the parts which have been separated off are considerably smaller, and have already moved to external recruitment for their top management positions.

Rules for pay progression

Prevalence of length-of service increments

The predominant rule for pay progression within grades has been until recently that of length-of-service pay increments up to the maximum for the grade in question. In most countries it remains the dominant criterion. Some countries report that length-of-service increments may be refused in the event of poor performance, but from what is known of public service employee performance appraisal systems, it is rare for poor marks to be given. This is confirmed by the experience of the United States federal service's performance management system (PMRS 1991); by a recent study of the United Kingdom taxation service where performance appraisal ratings at the "less than fully satisfactory" level were given to only two per cent of staff, (Marsden and Richardson 1992)[18]; and by the French system, where the average performance appraisal mark in many ministries has been found to be above 18 out of a maximum 20 points (Meurs 1992). There is therefore little evidence suggesting that the actual refusal of length-of-service increments would be anything other than very exceptional.

Although there may be a good deal of similarity in principles underlying pay systems among countries, there is less uniformity in terms of the length of pay scales, and the number of subdivisions in them. The number of countries providing information on these aspects was too few to enable a detailed comparison with other information on pay systems, for example, to see whether different methods of pay determination have produced different types of pay system.

The widespread use of length-of-service increments suggests that they are not a result of collective bargaining, or of the structure of pay determination or the level at which it occurs. Length-of-service increments are found under all systems. The fact that the practice is long-standing, and has not until recently been challenged by management, suggests that such increments have enjoyed management approval, and possibly were of managerial origin[19]. Even if this is true, it may not follow that there should be any explicitly understood principle behind them, although it is often asserted that they reward accruing work value as the employee gains skill and experience in a job. A study of salary systems in the public service in the United Kingdom in the 1940s and 1950s showed a great deal of variety in the size and number of length-of-service increments in different parts of the service, without discovering any explicit underlying principle (Kahn 1962). There are, however, a number of reasons that can be inferred from the wider scientific literature.

Economic and organisational reasons for the importance of length-of-service increments

It was recently argued by Tirole (1992) that under certain circumstances employees would favour "low powered" incentives, that is, performance incentives which represent only a small fraction of total earnings. The main reason lies in the difficulty of enforcing the "implicit contracts" of employment because of unequal access to information on performance, and in the public sector, the political nature of "performance". Tirole's argument is that even though employees may wish to have their pay linked to their performance in an ideal world, in reality, in most organisations, employees cannot easily control their own performance because they depend on too many other people in the organisation, and there is too much uncertainty attached to the measurement of performance. Analysing private sector performance pay schemes, Bishop (1987) noted that, according to the experimental evidence, employees' performance ratings by their supervisors were very unreliable (there being a low correlation between ratings of the same employee by different supervisors). Most employees, he argued, would not want much of their income to be subject to such uncertainty, and this accounted for the low percentage of pay tied to performance in most private sector jobs, Tirole argues further, that in the public services, such uncertainty is increased because of the likelihood that the overall performance criteria will be changed, or even manipulated, periodically for political reasons.

There are also a number of reasons from the organisational side as to why length-of-service should be such a widespread principle in public service pay. The first has to do with the problems posed to supervisors themselves, and the second relates to the bargaining power of small groups of employees.

In the administration of performance pay, management has to justify paying different amounts to individual employees doing the same job. In the absence of systematic performance appraisal, first-line managers would have to make their decisions without reliable information, and so would find it hard to justify their decisions to their subordinates. Appearing to act arbitrarily would damage relations between management and staff, hence the reluctance to give bad appraisals, and a preference for length-of-service criteria. In an environment in which staff are strongly unionised, or there is strong group cohesion, small-group bargaining pressures have been known to produce a similar kind of seniority rule (e.g. Gouldner 1954, Crozier 1963). There the seniority rule had the function of limiting managerial power by limiting its control over rewards.

One would, therefore, expect individual performance to play a relatively small part in pay, and that criteria such as length-of-service, because of their predictability, would be preferred by many staff and middle managers. Indeed, similar factors might also favour length-of-service as a factor in promotion, a point mentioned in the replies of a number of countries.

The absence of explicit, systematic, principles behind length-of-service increments noted in Kahn's (1962) study suggests that they have developed out of an accumulation of decisions taken over the years at various levels in organisations. Each new decision adapts the status quo to some new policy demand or problem. This would help to explain the diversity both among and within countries, and the apparent absence of clear principles.

Pay as a "stipend"

Another potential explanation of the importance of length of service, in some countries, is that public service pay is not intended as a wage in return for a specific output. Instead, it is a means of ensuring that those who serve the state should be able to sustain an appropriate standard of living for their rank. Of the countries reviewed, only Germany makes explicit reference to the subsistence principle (*Alimentierungsprinzip*) in relation to the pay of civil servants (*Beamte*), but it may be implicit in the guarantees offered by many other countries to their public servants that they should be paid at an equivalent rate to those in the private sector. The nearest English word to the German term would be a "stipend" (a term commonly used for the pay of the clergy), or an "allowance": a means of appropriate subsistence rather than the fruit of a market exchange. Although one cannot overlook the market-related aspects of pay even in the case of the German *Beamte,* as the state has to compete to recruit and retain them, the logic of the stipend could go some way to explaining the prevalence of length-of-service increments in the public sector, and their lesser influence in private sector employment. Increments for service would reflect the rising status and commitment to public service [20].

Absence of competition

Absence of competition in many public services reduces the incentives for management to explore better ways of working, and also diminishes management's ability to persuade staff of the need for innovation. Faced with the organisational pressures in favour of seniority mentioned early, the temptation of a "quiet life" would be stronger the less the degree of external competition. This could also be a factor behind the prevalence of length-of-service rules.

MOVES AWAY FROM PAY FOR GRADE AND LENGTH OF SERVICE

Despite these pressures, a number of countries have sought to reduce the power of length-of-service, and also to move away from the principle of making pay dependent on the job by increasing the element of individual or group performance in pay. Experimentation in the reform of these pay systems has formed part of the agenda for change in about half of the OECD countries''. There has been some tendency for the countries which have sought to alter the structure of their pay determination and management systems to seek also to change their payment systems at the same time. There is also a tendency, but a rather weaker one, for experimentation with performance-related pay at the same time. Thus, in the forefront of adopting various forms of performance-related pay in recent years have been the Netherlands, New Zealand, and the United Kingdom.

However, a number of other countries, notably Australia, Denmark, Finland, and Norway have also recently experimented with performance-related pay within the continuing framework of central agreements, but in association with policies to try to make these agreements more adaptable to local management needs. Several countries have had performance-related pay for senior public service officials for a long time, notably Canada for its executive group and the United States for the Senior Executive Service and for middle management. An additional initiative in the Australian public sector is to link pay progression to the acquisition and use of defined job competencies and skills, with the obligation on the employer to provide appropriate training and assessment procedures.

The countries with more centralised pay systems have sought generally to maintain the integrity of their unified salary systems based on pay for grade, while exploring other ways of adapting to new pressures. France and Germany have sought to retain central pay scales, but to revise the classification systems. France engaged in a major renegotiation of its public service job and pay classification system, reaching agreement in 1990 on a number of changes improving the position of the lowest paid groups, but without sacrificing the unity of the pay system. Germany has so far entertained very little change in basic pay scales (except for the extension of the public service of the Federal Republic to the new *Bundesländer*). There, a number of local authorities have experimented with changes in other aspects of employment, notably working time, in order to improve services and efficiency[22]. These have usually been by means of special clauses in sectoral agreements opening the way for local agreements between staff councils and local management, notably on introducing more flexible working time arrangements[23]. With "locality pay", the reforms of the United States federal service system have sought likewise to retain the unity of the General Schedule while establishing new criteria for adapting the pay of different grades to local conditions.

The issues of the integrity of service-wide classification and pay structures were prominent in the Australian public service pay reform agreed in 1992. This agreement moves towards decentralisation of the pay-fixing process, but also contains important protections for service-wide pay structures and some conditions of employment. It is too early to tell what the actual impact of agency-level bargaining will be on central structures and rates.

Performance-related pay and the search for greater efficiency

Attempts to control public spending up to the early 1980s often involved rather crude freezes on staffing levels and non-replacement of those who left, as was the case in Britain (NAO 1989). Such freezes were damaging to efficiency and to staff morale as labour turnover occurs disproportionately in certain grades. Moreover, because they occurred against a background of crisis and **of** feared job losses, staff were often reluctant to cover unfilled posts. Later attempts focused on freezing the pay bill, and leaving management to make its own readjustments. This eliminated some of the worst problems caused by freezing recruitment, but had other shortcomings (see the discussion of the GVT in France above). Since then a number of countries have experimented with changes in management organisation and pay systems aimed at achieving a greater degree of management autonomy and **of** pay flexibility, especially through performance-related pay.

As countries have sought to devolve greater decision-making powers to lower levels of management, a number have sought to reinforce this by giving local management greater powers over pay. On the whole, performance pay appears to have had two purposes. One is **as a** symbol of management change. That is to say, as additional powers have been devolved to lower levels of management, so they have been given more influence over the pay of their subordinates. The other **is** that performance pay has been seen **as** a means of rewarding good performance and more generally of motivating staff. Apart from any direct incentive effect, motivation could be improved because, having to give reasons for not awarding performance-related pay, management has to **think** more clearly about work objectives, and communicating these to their **staff.**

Most of the countries that have introduced performance-related pay in their public services have done so **in** the context of other management changes. This is particularly true of the changes affecting senior management, where many countries reported a shift in the status of senior public servants and **an** attempt to encourage them to think more about managing a service than running an administrative machine or providing policy advice, The British government's "Next Steps" report (Efficiency Unit, 1988) dealt extensively with the problems of adapting the work style of senior civil servants towards a more "business"-oriented approach.

Countries with a significant element of performance-related pay for senior public service managers include Australia, **Canada**[24], Ireland, New Zealand, the United Kingdom, **and** the United States. Conversely, a number of countries do not have performance pay for any grades; for example, France, Germany, **Greece,** Italy[25], Luxembourg, Switzerland, and Turkey. Those that also have performance-related pay for middle management and non-managerial grades are less numerous, mainly Denmark, **New** Zealand, the **Netherlands**[26], the United Kingdom, and the United **States**[27]. Countries without performance-related pay nevertheless generally maintain the principle of promotion on merit.

Among top managers, performance-related pay has often been associated with the negotiation of specific performance targets on whose achievement performance-related pay depends. This appears to have gone furthest with the departments and agencies in New Zealand where the Chief Executives have a performance agreement with their Ministers, and performance-related pay is based on a review of their performance undertaken by the State Services Commissioner, and on a pay policy agreed by the Commissioner with Ministers. Performance-related pay is currently delivered in the form of cash bonuses. Each chief executive's performance is reviewed annually by the State Services Commissioner with input from the minister(s) and the central government agencies (Treasury, State Services Commission, Department of Prime Minister and Cabinet) and referees[28]. Similar reforms have been applied in the British National Health Service, where the regional health managers negotiate their own targets **and** remuneration; pay for chief executives **of** the new executive **agencies** in the United Kingdom is also performance-related.

Generally, in the public services in the United Kingdom, top managers now receive spot salaries, and therefore do not have incremental scales at all.

In view of the large gap between salaries of top managers in the private and public sectors, it is hard to imagine how a sufficient number of private sector managers could be attracted to public service jobs. So some change in salary systems was necessary and indeed performance-related pay has sometimes been used as a means of addressing indirectly the public-private pay gap, particularly when the restrictions of wages policy or other economic considerations constrain the setting of salary levels. Equally, without some special status for such salaries, it is hard to see how they could be insulated from internal comparability pressures. Intuitively it seems reasonable to suppose that clarifying performance targets in the top manager's contract should lead to better, or at least, more appropriate performance. It is less clear whether the pay levels contribute to motivation, although they might still be needed to attract and retain such managers[29].

Further down the managerial hierarchy, reform in New Zealand has taken an equally radical path for senior managers as for top management. For senior public servants, pay is in large part determined by an approach which combines establishing the weight of the job (through the HAY or some other system) based on some evaluation of comparability between private and public sector jobs, with a pay policy that had, at the start in 1989, some close relationship with private sector pay but which has since fallen behind significantly, A number of public servants at senior levels, however, who are not either Chief Executives or in the Senior Executive Service can and probably do receive salaries which are the product of individual negotiation and what the "market" will bear. Individual contracts are the order of the day at the senior level of the public service in New Zealand, and the traditional public service approach has been left behind in favour of ranges of salary rates and performance pay. Changes to senior pay have been part of a comprehensive transformation of remuneration structures, intended to move the public sector away from an incremental pay structure, which reflected a national paid rate system with extensive automatic progression, to a system of ranges of rates, involving minimal progression at the bottom of pay scales and flexibility above the basic grade.

In the United Kingdom, the trend has also been towards abolishing incremental pay scales for senior management. Senior managers (Grade 2 and 3 civil servants) now have pay ranges with progression on the basis of performance only. For middle management and non-managerial grades, the tendency has been for there to be a mixture of length-of-service increments for the fiist few years, and thereafter performance pay.

For managerial and supervisory staff below senior management, the United States federal service had one of the longest running performance pay schemes under its Performance Management and Recognition System (PMRS), established in 1984. This scheme expired in late 1993 and has not been replaced. In common with the recent New Zealand reforms, the PMRS scheme stressed lump-sum cash payments (as indeed does the scheme for members of the United States Senior Executive Service). Like most of the performance-related pay schemes in the United Kingdom for staff other than top management, the PMRS relied upon systematic appraisal of employees' performance.

The impact of these practices on management performance is hard to assess, as is whether performance pay has been successful in facilitating a "performance culture" (OECD, 1993). It is doubtful whether it could do so on its own. Moreover, the gap between top public and private sector salaries must raise the possibility that performance pay will be awarded more in order to overcome labour market pressures than to reward actual achievement.

On the positive side, pay systems which tie rewards to the post held rather than to performance in the post have a number of serious drawbacks. First, promotion becomes the main reward for good

performance, so the reward is effectively retrospective, for past performance. Secondly, the high degree of predictability of public service pay progression is likely to attract people who are risk averse, and these may not be the most suitable ones for introducing a more results-oriented management. Thirdly, if public services wish to recruit people with private sector senior management experience in order to apply some of the new ideas from the private sector, then it is very hard to attract suitable candidates for the pay levels available on standard pay scales.

Thus, despite the lack of evidence, there are plausible reasons for developing more flexible pay systems for higher management in the public service, and it would seem that these have influenced public policy.

Performance-related pay and motivation

Experiments with performance-related pay as a means of motivating staff, especially those outside senior management, have grown in number in recent years, as has general interest in the subject within public service management in many countries. There has so far been little careful evaluation of the effects of performance-related pay, in the public domain at least. The main work has been undertaken on the Australian, United Kingdom, and United States systems. On the whole, the results have highlighted a number of weaknesses of existing schemes, and despite the attractiveness of the principle of rewarding good performance, in practice the schemes so far have had, at best, only limited success (Milkovitch and Wigdor eds., 1991, and OECD, 1993).

The evaluation of the PMRS scheme in the United States (PMRS 1991; Ingraharn, 1991), like that of the United Kingdom Inland Revenue Service scheme (Marsden and Richardson 1992), highlighted the difficulty of obtaining sufficient variation in appraisal ratings. As very few employees are ever given less than satisfactory performance ratings, most of the staff whose performance is fully satisfactory may not receive performance-related pay, and so find it demotivating. The PMRS scheme also highlighted a tendency for ratings to drift upwards over time. The study of the United Kingdom Inland Revenue Service showed that although nearly 60 per cent of staff agreed with the principle of performance-related pay, most were disappointed with the workings of their own scheme (Marsden and Richardson, 1992). They felt that it had been unfair in its operation, and a majority of the employees surveyed reported that it had demotivated staff, caused jealousies, and led staff to question the fairness of the established appraisal system. The managers who had administered the appraisals also replied that performance-related pay had not improved motivation of their staff.

As with all studies of individual schemes, it is never clear whether the schemes failed because of any inherent deficiencies of performance-related pay or because of the failings of those particular schemes (OECD, 1993). Although meeting many of the United Kingdom arbitration service's prescriptions for good practice (ACAS, 1990), the Inland Revenue scheme had a number of deficiencies that might also occur in other similar schemes, but which could in theory be avoided. Because there was a quota on the amounts paid out, many staff suspected there was also a quota on good performance appraisal marks. The union reported a downward drift in appraisal marks, hinting that it is connected with the quota on payments. Management, for its part, did not choose which aspects of performance should be encouraged as twelve performance criteria were set, but with no particular priorities. It is rarely possible for staff to improve every aspect of performance at the same time. Any of these defects could damage the effectiveness of the performance-related pay scheme, although in principle each could be rectified, thus improving the chances of success for performance-related pay. These somewhat disappointing findings are consistent with other evaluations in the United States (Levinson 1989, Milkovitch et al. 1991) and Australia (Wood, 1991).

Performance-related pay and payment drift

One of the major problems with performance-related pay systems, and one shared with many kinds of incentive payment scheme, is that of preventing an escalation of performance ratings and of payments. Managers, under pressure to retain staff in short supply, may be tempted to use better ratings in order to pay some staff not to leave. They might also experience pressure to use them in order enlist the extra effort needed to overcome internal bottlenecks. Once the staff become accustomed to seeing performance-related pay being used in this way, it is a short step to recognising it as negotiable, with effort being withheld unless performance-related pay is awarded. Upward drift of performance ratings and of the associated cost of performance pay during the 1980s has been well documented in the US federal service's PMRS system (PMRS 1991). When the British Chancellor of the Exchequer announced plans for a radical extension of performance-related pay throughout the public service in July 1991, he also warned against the dangers of drift".

Self-financing performance-related pay

As the existence of a ceiling on payments seems to have contributed to the meagre results of the United Kingdom Inland Revenue Service scheme of the late 1980s and early 1990s, one could ask whether performance-related pay could be funded by increased productivity in the way that private sector productivity and flexibility deals sometimes are. During the 1980s and early 1990s such deals in British industry have been associated with a strong overall increase in productivity, and so it is very likely that the payback received by management compensated for any increase in wages.

The measurement of productivity may pose problems in the public service, although there are some areas in which quantitative targets are already well established, particularly for monitoring management performance. So there would seem to be at least some areas in which targets and their improvement can be measured. Although the productivity of individual groups of workers in the private sector is often also extremely hard to measure, performance targets are still widely used, and one presumes with some success.

The agency-level productivity bargaining arrangements currently being put into place in the Australian Public Service under the terms of the 1992 pay agreement recognise that there are likely to be important differences in the capacity of different agencies to generate the productivity-based savings necessary to fund performance-related pay, The arrangements contain provision for "folding back" a portion of agency savings to fund service-wide pay increases. Imposing a cost-neutrality requirement also requires careful management to ensure that service standards to clients are not reduced.

CONCLUSIONS: THE REFORM OF PUBLIC SECTOR PAY

The extreme diversity of pay setting arrangements and pay systems for public servants across the OECD warns against recommendation of one particular type of policy or one reform strategy that could be applicable to all. The organisation of the state, the degree of use of collective bargaining in the rest of the economy, and the types of alternative employment available to public servants are all major constraints on the options open to public service management in different countries. It is also clear from the brief discussion of some of the major reforms that have taken place over the last decade that the reforms, more often than not, are designed to tackle problems that have arisen in specific institutional contexts. Any attempts to draw wider lessons from the experience of a particular country have to take this factor into account.

Nevertheless, the evidence reviewed in this paper does give some hints as to how different countries have sought to tackle a number of common general problems, notably those of budgetary control and of promoting a more efficient and more responsive public service. These two policy objectives, sought by practically all governments, do not always coincide, and may often conflict. Voters expect those they elect to perform well on both, so a balance has to be struck.

It was argued that those countries in which unilateral employer pay determination operated were better placed from the point of view of budgetary control, than were those with decentralised collective bargaining, and there is some evidence of drift emerging in some of the countries which have sought to decentralise. Those countries in which a single central bargain sets a common pay scale are also relatively well placed for budgetary control. However, giving priority to budgetary control makes the other objectives of promoting efficiency and of decentralising management more difficult to attain. Although the survey did not obtain information on comparative performance, the fact that the majority of countries with decentralised public sector pay systems also practice some form of joint pay regulation, and that some of the countries which are decentralising are doing so through joint regulation suggests that some sacrifice of central budgetary control is necessary.

This is not to say that those countries with a more centralised approach have remained static. A number have sought other means of improving efficiency while still maintaining the integrity of their centralised systems. The United States system of "locality pay" is one such illustration. Another is provided by the negotiation of the reform of the central pay and job classification grid in the French public service.

There appears to have been greater experimentation in pay system reforms among those countries with joint regulation, and especially among those seeking to decentralise. The countries that have moved furthest in breaking away from the philosophy of a "rate for the job", were those seeking the greatest degree of devolution of management authority. The cases of the Netherlands, New Zealand, Sweden and the United Kingdom stand out.

Despite the moves to give management more of a focus on delivering a particular service (or business), budgetary control remains a major preoccupation, and one that could retard the reforms. In New Zealand, for example, the State Services Commission has retained powers to monitor pay

developments in departments and agencies, with a view to avoiding possible "leap-frogging" pay deals. In Sweden and the United Kingdom, the current budgetary crisis led to a stalling of the reforms in the first case, and in the second case the imposition of a one-year ceiling on public service pay increases of 1.5 per cent which leaves very little scope for extra payments based on performance.

One puzzle is why countries operating with greater unilateral employer control over pay setting have not led the way in decentralising and moving away from pay-for-grade rules. Indeed, one might expect it to be easier to make such changes in the absence of joint pay-setting institutions. The answer seems to lie in the scope joint regulation provides for renegotiating the "implicit contracts" of public service pay. These cover a much wider range of employment conditions than simply the level of pay including, in particular, basic pay rules, such as the relationship between work posts, the individuals occupying them, and their pay. Pay-for-grade rules, such as have prevailed in most public services, provide a great deal of predictability for employees as concerns pay, Length-of-service increments, although in partial recognition of increasing experience, are likewise an impersonal device that does not vary with respect to the particular occupant of the post. To drive a wedge between the grade and its pay level is a major departure from established pay principles for most countries, and therefore represents a major change in the implicit contracts of public servants. The danger of shifts in the employer's side of the bargain that were seen by the employees as arbitrary, or exploiting their weak position, would be to destroy the motivational force of such payment systems. Hence the importance of joint regulation. However, even where there is collective bargaining, such problems are not always successfully resolved (Marsden and Richardson, 1992).

In practice, even where there is unilateral employer regulation of pay, as in the United States federal service, there is usually a degree of consultation of public service staff representatives over some of the underlying procedures; for example, in the definition of the pay localities. This provides some check on the employer's good faith, and also helps to inform employer decisions.

The conflict between budgetary control and personnel management is also present in private sector firms, but arguably it is less problematic because the benefits of effective personnel management can take the form of higher revenues. Equally, the cost of poor management can be more easily envisaged, for example, as lost orders. In the public sector services, the pay-off of good personnel management is often less easily seen, and the cost of poor management and under-funding may take a long time to become apparent. Two examples, already much discussed in *this* paper, illustrate the problems of budgetary pressures prevailing over personnel management: the decline in the relative pay of public servants in the United States and the upward drift in performance appraisal ratings; and in the United Kingdom Inland Revenue Service, the quota on performance-related payments which, although justifiable on budgetary grounds, appears to have undermined their motivational impact. In competitive markets, informed consumers can make their own choices between price and quality. The more diffuse nature of "consumer" pressures for public sector services arguably makes it harder to detect when too many resources are being devoted to personnel management issues, or when quality is being cut too much in order to keep down costs. Bringing management closer to user needs by focusing public service management more on the delivery of particular services should make it easier to make judgements about cost and quality. However, in most Countries, the experiments are still at an early stage, and a serious evaluation of their outcomes remains to be done.

APPENDIX

Summary of public service pay systems and pay determination practices in **OECD** countries

	Australia	Austria	Canada
1. Pay Determination Mechanisms	Federal level: largely centralised collective bargaining within the federal public service, government business enterprises (GBEs) (e.g. Post Office) and some statutory authorities. All pay negotiations take place within framework of wage fixation principles established by Australian Industrial Relations Commission (AIRC) with outcomes subject to ratification by **AIRC.** Major decisions **of AIRC** are known as National Wage Case decisions. Some general conditions of employment **are** subject of legislation (e.g maternity leave, superannuation); variations negotiated centrally. Statutory Remuneration Tribunal recommends and fixes pay of judges, chief executives of government departments and of GBEs, and certain other groups, subject to Parliamentary disallowance. State level: **state** level bodies and **AIRC.** States follow national wage fixing principles.	**a)** Collective bargaining for civil servants (*Beamte*) and contractual employees in federal government and state governments. Result implemented by law. b) Other groups: collective bargaining between occupational unions and minister concerned (e.g. air traffic control).	Federal level: centralised collective bargaining the norm. Management level pay and **terms** set by Ministers of Treasury Board on recommendation ***of*** impartial advisory body of private sector executives. Fay of excluded non-management employees (c. ***2.5%*** of total federal public service) determined unilaterally; usually matches negotiated awards of other categories. Provincial level: collective bargaining for health, education, etc.
2. Independence from government	Constitutional restrictions limit power of Commonwealth government to regulate industrial relations. Independent industrial tribunals, of which **AIRC** is the principal federal one, make legally binding awards. Central agency (Dept. of Industrial Relations for federal government) and Remuneration Tribunals subject to Parliamentary scrutiny.	**a)** Government takes final decision and implements by **law.** **b)** Minister implements.	Collective bargaining: government may intervene on a service-wide basis to impose wage **controls.** Management levels: government may reject recommendations of advisory group; since 1981 recommendations accepted only twice.
3. Collective Bargaining			
Level at which negotiations take place	Federal level: centralised for federal public service, but workplace bargaining being introduced; agency-based for statutory authorities and GBEs. Similar model at state level.	**a)** Federal level; state level. b) Ministry concerned.	Federal level: centralised negotiations.

	Australia	Austria	Canada
Status of collective agreements	Agreements subject to ratification by industrial tribunals and outcomes legally binding. May be subject to Parliamentary scrutiny.	a) Recommendation for legislative implementation. b) Collective agreement.	Agreements directly applicable once approved by Ministers of the Treasury.
Participants in collective bargaining	Employer side: Department of Industrial Relations (federal public sector); individual agencies (statutory authorities and GBEs); state authorities (state level). Employee side: Mainly multiple trade unions at federal or state levels. Normally negotiations with individual unions, but trend is towards bargaining co-ordinated by peak-level bodies and to negotiation in a single bargaining unit at each enterprise.	Employer side: federal government/ministers. Employee side: Public Service Trade Union and occupational groups.	Bargaining on group-specific basis for some items, "master" (co-ordinated) bargaining for other matters. Employer represented by Treasury Board Secretariat with help of senior staff relations personnel and line managers from major departments. Negotiations on basis of >70 occupational groups represented by 17 bargaining agents. Agreements separate for each group, but often similar content.
Unionisation level	75% of public sector staff are trade union members, almost all public sector bodies have trade union members.	c. 70%	c. 89% of federal public sector employees represented by bargaining agents. Remainder mostly excluded from bargaining by nature of job (e.g. - members of Executive and Personnel Administration Groups; employees in confidential relationships to management or designated "essential" positions).
Matters covered by collective bargaining	All key terms and conditions of employment excluding superannuation are subject to negotiation.	Pay, duties and tights of employees (e.g. training and appraisal of performance).	Pay, benefits and terms and conditions of employment, working hours, paid holidays, etc.
Indexation	Historically indexation; since mid-1980s stress on efficiency and productivity improvements as basis for pay adjustments.		No indexation to prices. Fay comparisons both inside and outside the public service are used to inform pay setting, but no indexation.
Frequency of collective bargaining	Fixed by National Wage Case principles.	Usually annual for general increase; negotiations on special problems at any time.	Varies with schedule of increases and time-frames negotiated in each group's contract. Current wage controls impose 24 months' duration.

	Australia	Austria	Canada
4. Structure of Pay			
Basic Rates	For majority of staff all pay is within fixed scales (excluding overtime and penalty rates). Most public sector staff paid under awards giving maximum and minimum rates.	Incremental, seniority-based scales.	Nearly all pay on fixed scales, though overtime and other supplementary payments related to basic pay rate. Average value of benefits (pensions, leave, medical insurance, etc.) 20-25% of average base pay.
Flexibility	Some flexibility through salary packages for senior levels (e.g. enabling individual balance between pay and other items such as cars) in some state public sectors, but limited overall. For a few categories (mainly higher levels) pay based on individual skills and performance.	Civil servants: supplements for special services. Contractual employees: pay related to actual services rendered. Supplements for leading positions.	Very little flexibility for employees covered by collective agreements. Poor performance may cause annual increment to be withheld but very rare. Service-wide job evaluation system and collective agreements leave no room to differentiate pay between individuals.
Pay progression	Annual increments subject to satisfactory performance. Promotion on merit. Some provision for accelerated advancement.	Civil servants: seniority and some performance. Contractual employees: advancement.	Employees covered by collective agreements: by seniority up scales and promotion. Excluded employees (including most levels of management) subject to discretionary, performance-related increases.
Performance pay	Being introduced for Senior Executive Service and senior officers in federal public service. Already applied in some states.		c. 7 000 executive and excluded staff subject to performance pay (discretionary in-range increases or bonuses). Performance increases of up to 10% of base salary (more for top executives).
Regional pay variations	National scales for federal public service; agency-specific scales for some statutory authorities; separate scales and structures for small number of particular groups; state-based scales for state public services.	No (except Voralgberg)	National pay rates, except where job's recruitment area is very local. Very little regional pay variation and for very small percentage of federal public sector employees.
Decentralisation	Very limited decentralisation in pay determination in federal and state sectors, but transition to workplace bargaining now main public sector issue.		Federal public sector remains very centralised but provincial governments have own rates giving regional variation within national context.

	Australia	Austria	Canada
5. Pay Policies			
Policy principles	Key feature is regulation of industrial relations (in public and private sectors) through industrial tribunals and machinery of conciliation and arbitration. Industrial tribunal awards cover c. 80% of employees and are legally enforceable. Over time, "wage principles" or guidelines arising from major decisions of industrial tribunals have led to a form of centralised wages policy. Tribunals very independent and shape wage developments in all sectors. State tribunals usually follow AIRC line.	Plans to replace current pay system by a more flexible one, closer to private sector system.	Private 'and other public sector comparability (for reasons of fairness and attracting and retaining employees) main concern. Total compensation comparability (TCC) developed during anti-inflation controls of 1976+. TCC takes pay and benefits and hours into account and aims to equate similar public and private employees (age, sex, etc.)
Public sector pay cost restraint	No formal policy to restrict public sector pay costs: public sector pay policy tied to National Wage Case principles of AIRC.		October 1991 wage controls: 12 months' freeze, then maximum 3% increase for next 12 months. 1981-82 legislated pay increase limits of 6% and 5%.
Factors considered in adjusting pay	Historically, public sector pay comparability important factor so public sector pay is competitive and equitable with respect to private sector. In recent years, shift from prices to productivity as basis for increases. Now move to workplace productivity bargaining.	Although there is no formal system of pay indexation, this is the preponderant factor in pay negotiations. Inflation rates, economic growth rates and private sector pay movements are taken into account.	Comparability with private sector is main factor. Employer's ability to pay is also an important factor.
Data sources	Submissions to AIRC by all principal parties, drawing on wide range of economic and other data. Statistics from Australian Bureau of Statistics and Budget documentation are main sources of data. Occasionally, market surveys may be conducted.	Official statistics.	Market surveys used to establish comparability of total compensation package to averages of other employers. Until 1992 Pay Research Bureau used.

	Australia	Austria	Canada
Principal demands of unions in recent pay negotiations	Initiatives negotiated with unions and introduced in 89-91 include skill-related career paths; multi-skilling; ensuring that working arrangements enhance flexibility and efficiency; creating appropriate wage relativities; eliminating provisions which discriminate against sections of the workforce. Main public service union has given qualified support for workplace bargaining.	Principal demands of unions have been raising lower incomes; particular demands from security Forces and teachers.	Main union grouping wanted integration into basic pay structures of equal pay adjustments awarded to some occupational groups; government wanted to keep as supplements. Job security in event of privatisation or contracting out. Make job classification subject to collective bargaining; management opposes on grounds of loss of freedom to organise employees into work units.
Minimum wage	Technically applies in most states, but not practically applied because has little impact on pay awards.		Federal minimum wage. Public sector not subject to law, but respects it.
6. Dispute Resolution	System of industrial tribunals for resolution of disputes by conciliation and arbitration. More recently? emphasis is shifting to outcomes reached by agreement between employers and unions at local level. AIRC will not arbitrate in such arrangements.	Negotiations within framework of social partnership.	Conciliation/strike or arbitration.
No strike rules	No legal provision in federal jurisdiction for public sector right to strike.	No right to strike for military, security forces and employees of public administration.	Most public sector employees have right to strike once collective agreement terminated and if have not opted for arbitration in advance of bargaining.
Recent conflicts	Reductions in size of public sector and perceived delays in pay negotiations.	Salary demands combined with demands concerning rights and duties (especially police).	1991 strike against government's pay austerity: wage increase up to 3% to be funded by lay-off of full-time employees. 3-week strike, then government froze pay for 12 months followed by 3% maximum on increases for subsequent 12 months.

	Australia	Austria	Canada
7. Interaction Between Budget Cycle **and Pay Determination Cycle**	No formal Linkage of budget and pay cycles. Budget forecasts take account of expected pay increases under National Wage Case principles.	Co-ordination but no formal linkage. No estimation is made of pay bill increase in order not to prejudice negotiations.	Each occupational group agreement **has** own time span and negotiations may be brief or protracted so there **is** no direct link between pay bargaining and budget process. Estimated wage costs built into budget and employer representatives enter negotiations with **cost** framework in mind. **Retro**active agreements often funded **by** budget contingency fund.
8. **Background**	**1983:** bipartite agreement between government **and** Australian Council of Trade Unions on incomes policy. From **1987** emphasis on labour market reform. **1988: AIRC** adopts **Struc**tural Efficiency Principle (SEP) to help economy compete **and** cut inflation. SEP encourages more scope in awards for enterprise-level negotiation **of** non-wage terms to improve efficiency. In public sector key priorities have been reform of job classifications and increased flexibility in pay fixing system, especially a more decentralised system as a catalyst for productivity improvement and workplace reform. **1991:** AIRC accepts move to workplace **bargaining and** this is now being implemented in the public sector.	Current concerns are pay system reform plans and issue of seniority versus job performance in determining **pay**.	Simplification of classification system is underway. Government would like more regional pay though main union **is** opposed and government agreed to reduce pay zones. Some areas bard to recruit and others **too** easy.

	Denmark	Finland	France.
1. Pay Determination Mechanisms	Most public sector staff employed either as civil servants with legal status or under collective agreements. Pay of both groups determined by collective bargaining.	State sector (central government): collective agreements covering 100 - 000 civil servants, teachers, defence and health employees. Collective agreements for 30 00-0 non-established blue- and white-collar employees. Pay of 6 000 - employer-status officials set by Ministry of Finance. Personal agreements for c. 1 000 senior officials and experts. Local authorities: collective agreements for officials and non-established employees: 479 000. State enterprises (post, rail, etc. -- 7 000 employees) have own employer organisation.	Three main public services: State civil service (including education); local government service and state hospital service. System of pay determination comprises extensive consultation machinery. Provision for informal pay negotiations started in 1968; in 1983 principle of negotiation inserted into the general statute for civil servants, but its status still not official. In absence of agreement, government sets pay unilaterally. In several years in 1980s no agreement was reached.
2. Independence from government	Collective agreements are directly applicable.	Agreements not subject to government approval, but Cabinet and Parliament must approve budget before agreements can take force. Ministry of Finance must approve agreements at agency and establishment level and for non-established employees.	Negotiations lead *to* a recommendation to government. Government is not legally obliged to accept the recommendation. Regulation or act of law required to give the recommendation legal force.
3. Collective Bargaining			
Level at which negotiations take place	State (central government) sector: centralised. Regional and local authorities are responsible for own bargaining. In practice, major negotiations tend to be co-ordinated on bath employers' and employees' sides. Central agreements in state and other sectors are framework agreements, with provision for local negotiations on detailed matters. Some ministries/agencies authorised to negotiate collective agreements for special occupational groups within central framework.	State sector: central, office (ministry, national agency) and establishment level negotiations for established officials. Office and establishment level negotiations for non-established officials. Local authorities: separate agreements for established officials and white-collar employees, non-established blue-collar employees and teachers.	Centralised negotiations for entire public service. Consultation at ministry level and also some allowances determined at this level.

	Denmark	Finland	France
Status of collective agreements	Collective agreements are directly applicable.	Central agreements take effect as soon as budget increases accepted by Cabinet and Parliament. Office and establishment-level agreements and agreements for non-established employees subject to approval of Minister for Finance.	Government is not legally bound by results of negotiations; application requires a formal decision by the government.
Participants in collective bargaining	State sector: Employer side: Department of Management and Personnel for Minister for Finance. Employee side: Central Negotiating Committee (CFU) for 4 central trade unions for civil servants and employees under collective agreements. CFU covers 95%+ of state sector jobs. Local authorities: Employer side: National Association of Local Authorities and Association of County Councils negotiate for local and regional government. Employee side: Trade unions of regional and local employees negotiate via KTO cartel.	State sector: Employer side: Ministry of Finance -- State Employers Office -- for central level negotiations; employer-status officials for negotiations at office and establishment level and for non-established officials. Employee side: central trade unions approved by Ministry of Finance for negotiations at central level; for office and establishment level, appropriate levels of same trade unions. For non-established employees, appropriate unions. Local authorities: Employer side represented by Commission for Local Authority Employers. Four unions participate in central level negotiations. Local branches of same unions negotiate at local level.	Employer side: Minister for the Public Service under the authority of the Prime Minister. Employee side: seven trade union organisations.
Unionisation level	Local government c. 901. State sector not known.	State sector and local authorities: c. 80%. Four trade unions for local and central government.	State civil service: Education: 30% Finance: 30% Infrastructure: 30% PTT: 25% Local government: 10% Hospitals: 15%

	Denmark	Finland	France
Matters covered by collective bargaining	Salary rates (determined by collective agreement for two years); distribution of supplements for special groups and of local portions of pay bill for use as part of flexible pay system; pensions; reclassifications; amount allocated for decentralised pay system; simplifications and harmonization of rules; job security; special measures for certain groups.	Salary adjustments; seniority increases and increases based on qualifications, nature of work, working conditions. Working time, annual leave and daily allowances.	Adjustment of pay index (see below); measures for particular categories may be decided either by central negotiation or at the level of the ministry in liaison with the Budget ministry; general working conditions; working time; training; health and safety.
Indexation	Automatic adjustment for 80% of gap between public and private pay increase. Price indexation suspended in 1982.	No direct indexation in state sector, prohibited by law; but periodic adjustment in collective agreements often uses price index. Indexation was included in incomes policy agreements in 1980s.	Customary link between basic pay and prices up to 1982. From 1983. abandonment of indexation on prices.
Frequency of collective bargaining	Every two years.	1-2 times per year as set out in general labour market agreements.	Annual since 1980s then two-yearly.
4. Structure of Pay			
Basic rates	Same pay system for state sector and local public servants: 53 steps and 40 grades with 2 extra grades for top state civil service.	80% of pay based on salary scales; 20% according to qualification, nature of work, conditions, working time, etc. Two different scales for two separate sets of cost-of-living localities. Separate scales for teachers, white-collar employees and blue-collar workers at local authorities level.	A common pay grid applies to the whole public service based on a pay index for the category, grade and length of service of the employee, plus additional allowances. This sets the starting and finishing rates for each grade except top civil servants, and ratios of basic pay rates: 100=base. Reform of grid negotiated in 1990. Pay increases take the form of either an increase int he pay scale, or an increase in premia. Pay increase may be uniform for all, or limited to certain categories (e.g. lower paid).
Flexibility	95% of pay via salary scales, 5% for local pool for allowances and reclassifications. In state sector, individual ministries can negotiate classifications directly for grades 1-36 (i.e. except for management grades).	Agencies can decide on pay increments.	Flexibility by award of extra index points to some grades, premia, and regrading on the basis of responsibility.

	Denmark	Finland	France
Pay progression	Each post classified in a grade or range of grades (2-6 steps); upgrading every 2 years. Increments mostly by seniority. For staff employed under collective agreements, pay sometimes upgraded yearly. Increments also mostly by seniority.	Based on seniority, qualifications, personal performance and work-group performance.	Pay progression based mainly on length-of-service.
Performance pay	1991: Performance-related pay introduced for top state civil servants (grade 40-42); experimental scheme for management grades 37-40.	Experiment with personal performance pay for officials; also work-group performance.	No performance pay.
Regional pay variations	Local allowances for those up to grade 31, according to geographical location.	Two cost-of-living pay classes. Special increases for staff in remote locations. Municipalities: cost-of-living allowances included in pay scales.	Place of residence allowances for young civil servants in Paris region. Allowances better for central administration (Paris) than decentralised services (in provinces). Allowances added to basic scales for region, family and bonuses. Differ greatly between each major service.
Decentralisation	For state sector, decentralisation to ministry level, but no great differentiation yet. Sum reserved for this purpose <1% of pay bill so far.	Local agreements on reclassification within limits set by central agreements.	
5. Pay Policies			
Policy principles	Aim to recruit and retain fully qualified staff and not to exceed private sector pay. Bargaining targets: based on private sector expected pay increase, GNP increase, salary bill, etc.	Most state sector agreements stipulate allowance for pay increases in private sector. National incomes policy agreements have an important influence on public sector pay issues.	1978-82 pay increases aimed to sustain purchasing power of basic rates. Break in 1983 with price and wage freeze. Public sector pay policy then a main weapon against inflation (c. 4.7m workers affected directly by public sector agreements). Shift to focus on growth of pay bill, subject to control of public spending, disinflation and share of growth.

	Denmark	Finland	France
Policy principles (cont'd)			Pay increase to keep pace with government forecast inflation rate. Safeguard clauses in agreements for retrospective adjustments for prices, etc. if greater than government forecast. Used to be automatic, now only at expiry of agreement and not guaranteed.
Public sector pay cost restraint	For several years, government has cut pay budget of ministries by 2% per year to encourage increased productivity.	Target of zero growth for national budget, including pay costs.	
Factors considered in adjusting pay	Automatic adjustment based on (but less than) increase in private sector. Economic developments, total pay costs, etc., also taken into account.	Income adjustment guarantee clauses mean market comparisons play a big role in public sector pay fixing. Indexation in incomes policies of 1980s compensated for loss of purchasing power and agreements had provisions for later adjustments. Specific criteria for adjustments vary according to sub-sector and group of employees.	See above.
Data sources	Every 2 years public employers provide pay data for collective bargaining.	Incomes Policy Information Commission makes annual labour market surveys of pay and prices, income distribution and effects of taxation. Both sides at bargaining round have statistics supplied by employers' side but compiled on basis accepted by both sides.	Use of government inflation forecast and INSEE price data.
Principal demands of unions in recent pay negotiations	Overall pay increase and improvement of pension scheme.	Central level trade unions demand steady increase of real pay and to catch up with parts of private sector.	Trade unions unhappy that growth of basic rates less than prices since 1983. 1990 reform agreement stressed: raising pay of lowest grades; improved career progression; take account of new skills and qualifications.
Minimum wage	No minimum wage	No legal minimum wage and none set in state sector agreements. State pay levels aimed to be competitive with other sectors.	Index of minimum salaries; when this minimum is less than the national minimum wage an additional allowance is paid.

	Denmark	Finland	France
6. Dispute Resolution	Staff employed under collective agreements: Conciliation Board mediates; conciliation offer can be rejected only if at least 5% of staff vote against. Peace obligation during conciliation and after conclusion of collective agreement. Civil servants: If agreement cannot be reached, pay adjustment is decided by act of Parliament. Similar procedure for local and regional authorities.	State system of conciliation and agreements for dispute resolution in public sector agreements. Ministry of Labour has power to defer industrial action up to 21 days in public *sector* for conciliation. Labour court deals with disputes arising out of interpretation of collective agreements.	Public service: law of 19.10.82 states negotiations must continue after strike notice has been given.
No strike rules	Civil servants: strikes prohibited. Strike permitted for employees subject to collective agreements if conciliation procedures unsuccessful.	All strikes and lockouts prohibited while collective agreement in force. If a threat to public interest, bipartite board of officials may call a stop.	**a) Legal** restrictions: removal of right to strike for certain categories (e.g. - magistrates, police, etc.). Provision of minimum service obligatory (e.g. *air* traffic controllers); ban on certain kinds of action (e.g. wildcat and rotating strikes). **b)** Limited restrictions also possible by administrative regulations.
Recent conflicts	No recent conflict, and no intervention of Conciliation Board or government intervention.	**1986** major ***strike*** by state sector over public-private pay lag. Nurses strike in **1983** and teachers and doctors in 1984 over public sector pay lag.	**In** 1988 and 1989 disputes by individual groups led to improvement of conditions for teachers, health workers, Finance Ministry and PTT.
7. Interaction Between Budget Cycle and Pay Determination Cycle	No formal co-ordination of budget cycle and pay determination. In Spring, Ministry of Finance decides ***size*** of expected pay increase for following year. Amount budgeted for pay adjustment based on technical considerations and wish to signal intended pay adjustments. Budget for pay adjustment cannot be exceeded without Parliament's permission. Trade unions know budget amounts a year ahead; and that higher pay increase may lead to staff reductions.	Budget adjusted annually to take account of collective agreements. Pay costs no longer a separate item in budget. Final decision on pay agreements for established officials by Parliamentary Finance Committee if extra cost to state involved.	Annual adjustments of budget to allow for forecast pay increases, and increases already obtained in case of multi-year agreements. If initial allowance for pay is exceeded, adjusbnent made in Finance **Act.**

	Denmark	Finland	rance
8. Background	Main employer objectives: more flexible pay system; more use of performance-related pay; fewer seniority increments; harmonization and reduction of number of collective agreements, more flexible regulations. In recent years, trend to unite trade unions in central organisations and cartels. Trade unions of civil service and collective agreement staff for regional and local government now united in KTO cartel. Some ministries/agencies negotiate separately, but within conciliation procedure (e.g. defence, rail, and post) with separate agreements for special occupational groups.	Job Evaluation System Working Group has been set up. Development of new pay systems. Plan to shift accent in pay determination from central level to office and establishment levels. Plan to reform pay system to enable offices and establishments to take account of new needs in pay determination more flexibly, especially by reducing linkages and automatic obligations. Gradual shift of emphasis in pay determination from state level to local authority level. Plan to give local authorities more flexibility in pay.	lassification system for ublic service: each "corps" f public servants is ssigned to one of four ategories, A to D, based n prior education. Minis-erial decrees set rules for dvancement, etc. in each orps. 990 Agreement on reform f public service pay grid, o modernise and ationalise changes since rid set up in 1948. eform: Category D: aise skill of jobs and suppress category. Category : make 3 streams: administrative, service, and anual, each with more areer and job enrichment. ategory B: new intermediate indices, e.g. nurses nd higher technicians. ategory A: extension of op of pay scales and creation of improved rates for esponsibility and skill.

	Germany Civil Servants (*Beamte*)	Germany Public Servants without civil servant status	Greece
1. Pay Determination Mechanisms	Public sector includes direct public sector: Federal, *Land*, communes, rail and post; plus indirect public sector: Labour Office and Social Insurance bodies. Status and pay of civil servants (*Beamte*) regulated by federal law. This applies to *Beamte* at Federal, *Land*, and Commune level, covers also judges and army. Pay of Beamte is fixed by law.	Collective agreements for public servants without civil servant status. 1961 framework agreement, signed by Federal Republic, Federation of *Länder*, and Federation of Commune employers, and by public sector union federations. Does not cover post and rail. Separate agreement for new eastern *Länder* and East Berlin with same rules as for West but pay 60% of western levels.	Civil service pay determined centrally by law. Uniform arrangements for all categories of permanent civil servants, except judiciary, teachers in further and higher education and doctors. Collective bargaining for other public sector workers (e.g. contractual employees in central government, local government organisations, state firms and banks). Where no trade unions, government sets pay. Collective agreements set terms and conditions (excluding pensions), procedures, arbitration, etc. 1990 law imparts right and obligation to bargain.

	Germany Civil Servants (*Beamte*)	Germany Public Servants without civil servant status	Greece
2. Independence from government	See above.	Parties free to bargain and government influence only as bargaining partner. Free collective bargaining guaranteed in constitution article 9.	Staff bodies prohibited from influencing pay decisions but government usually consults trade unions at formulation stage.
3. Collective Bargaining			
Level at which negotiations take place	No collective bargaining, but central organisations for civil service, judges and military discuss pay law with Minister.	Negotiations for a single national pay agreement set pay grid for grades and levels. Various levels of bargaining used depending on the issues dealt with.	Centralised determination for civil servants. For non-civil servants: national-general, sectoral, enterprise, national-occupational and local-occupational agreements.
Status of collective agreements		Agreements bind parties directly, no need for legal implementation.	Agreements have immediate and binding effect.
Participants in collective bargaining		Employers: mainly federal government and associations of *Länder* and Commune employers. Public sector also includes some corporate bodies which negotiate on their own behalf or as an employers' association. Employees: two major union groupings and some small trade unions.	For employers: Minister for Finance or a body authorized by Minister in case of central government employees; Minister for Finance and responsible Minister for local government employees and other public bodies. For employees: national trade union confederations for national level negotiations; most representative trade union in field of application at lower levels. Representativeness decided by number of members at relevant levels.
Unionisation level	c. 50%		
Matters Covered by Collective Bargaining		Negotiations cover all issues, including pay, structural issues, regulation of working conditions, particular occupational issues.	For non-civil servants: pay, conditions of employment, trade union rights and procedures, social security (excluding pensions), issues relating to collective bargaining, mediation and arbitration.
Indexation	*Beamte* pay tends to follow collective agreement for other public sector employees and takes account of pay developments and state finances. No indexation.		Introduced in 1986-7 stabilization programme, suspended in January 1991. Based on prices of previous 4 months.

	Germany Civil Servants (*Beamte*)	Germany Public Servants without civil servant status	Greece
Frequency of collective bargaining		Annual	
4. Structure of Pay			
Basic rates	**4** pay groups: **A** (mostly career positions --incremental scales); **B** (mostly directors -- fixed salaries); C (teachers); R (judges and prosecutors).	Basic pay scales, with salary/wage brackets determined according to job difficulty/importance in case **of** white-collar employees, and training/skills in case of blue-collar workers.	Unified salary system for **permanent** civil servants. 28-point scale; classification in scale depends on levels **of** education and length-of-service: 28-13 elementary education;
Basic rates (cont'd)	In 90% of cases pay consists of basic salary, local allowance and general additional allowance.	Fixed local allowances for white-collar employees based on salary bracket and marital status. Blue-collar workers receive equivalent amount as part of basic pay.	24-9 secondary education; **18-3** technological education; 16-1 university education. Civil servants of central government receive **14** months salary per year.
Flexibility	Special allowances to counteract personnel shortages.	General/special allowances for e.g. night work, hazardous **work;** special requirements/functions of job; competence over an extended period.	Directors and office heads get allowance during office tenure of 25%-8% of point 1 of scale. Directors-general receive basic ***salary*** **plus** 50% and allowances **and** benefits.
Pay progression	Group **A:** 2-yearly increments to scale maximum. Promotion based on aptitude, qualifications and specialist skills.	Increments **linked** to seniority/age but also if employee works at a higher level than grade for a time will be upgraded. Conditions for upgrading laid down in collective agreements.	Seniority main factor, increment every 2 years and salary disconnected from grade. Incentive to retire after **30** years on reaching scale maximum eased **by** creation of special scale "a" above highest point for each category. Allowances for length-of-service.
Performance pay	Performance-related pay introduced in postal service with move to privatisation.		Allowances for overtime, work beyond regular duties.
Regional pay variations	Local premium, one-off payment, to attract and **retain** personnel in congested urban areas.	**No** regional variation in basic pay, except for new Eastern *Länder* where pay ***60%*** of that in West. Local allowances for white-collar employees in relation to basic pay and number of children. Equivalent sum included in base pay of blue-collar workers.	For "less developed regions" but 1992 budget conditions did not allow payment of this.
Decentralisation			

	Germany Civil Servants (*Beamte*)	Germany Public Servants without civil servant status	Greece
5. Pay Policies			
Policy principles	Pay is regarded not as remuneration for work performed or for performance of a function, but as a means of livelihood linked to office. Intended to enable *Beamte* to give full commitment to duty of service to state and to live at appropriate standard for service rank and be independent.	Federal government as bargaining partner balances effectiveness of public sector and general economic and budgetary situation, especially pay trends, prices, productivity.	Public sector pay policy directly related to government incomes policy. Main consideration is economic stabilization targets. Restrictive incomes policy applied.
Public sector pay cost restraint			Public sector pay freeze 1992 but 18 000 drs. increase for all. Expected increase in disposable income via "carry over" from previous year and tax reliefs. No increase for employees in public enterprises, state banks, etc. Pay higher here than in civil service but both less than private sector.
Factors considered in adjusting pay	General revenue situation, budget situation, trends in incomes and prices, etc. Market comparisons used occasionally for structural pay improvements (e.g. reclassifications)	General trend in incomes, cost-of-living index, productivity and unit wage costs, government fiscal policy and public sector borrowing requirement.	Post 1990, economic stabilization plan set public sector pay goals. Since mid-1990 annual wage increases based on total earnings, but still less than inflation.
Data sources		Data of Federal Statistics Office, official economic reports and independent economic forecasts.	Consumer price index of Greek National Statistical Service.
Principal demands of unions in recent pay negotiations	Structural pay improvements (e.g. upgrading of posts) and cost-of-living adjustments. especially for high rents.	For Eastern *Länder*, equalisation of pay levels with West.	Trade unions demand protection of income against inflation.
Minimum wage	No minimum wage.	No minimum wage.	
6. Dispute Resolution	Not applicable. Civil servants have no right to strike.	If one partner declares negotiations broken down, may invoke arbitration procedure, under 1976 agreement. Peace obligation during conciliation and cooling-off period after decision. Conciliation in 1976, 1982, 1983, 1988 and 1992. Strike in 1992.	For those with collective bargaining, conciliation first, then mediation and arbitration. Arbitrators can be called by one or both sides if mediation fails. Arbitrator's decision is binding.

	Germany Civil Servants (*Beamte*)	Germany Public Servants without civil servant status	Greece
No strike rules	Strikes forbidden.	Strikes permitted on expiry of mandatory reconciliation period.	Civil servants have limited right to strike under 1975 Constitution and 1982 law. Other public employees may strike, but only after elapse of 4 days notice.
Recent conflicts		Spring 1992 strike.	Main friction: 1992 incomes policy and new insurance and pension system for civil service.
7. Interaction Between Budget Cycle and Pay Determination Cycle	Expected pay increase for each Ministry budgeted for. If exceeded, covered by supplement.	Pay agreement binds parties; employers required to provide necessary resources to fund agreed increase. Estimates of outcome budgeted. Employer bargaining objectives fixed with budget implication in mind.	Pay and budget cycles aligned and co-ordinated. Payroll allocation computed on data of previous year and according to pay provisions in force. Pay bill may not exceed budgeted credits, though budget law may be modified by a new law.
8. Background	Government due to report to Parliament on future of public service pay. Need felt for greater flexibility in civil service law and in careers and pay structure by development of regional and sectoral flexibility. 1957 law had been undermined by unregulated growth of extra grades, supplements in *Länder*. 1971 and 1975 laws on unification and harmonization of pay across federation and *Länder* for basic scales and allowances. 1975 law: *Land* governments could only issue new pay regulations if authorised by Federal government.	System believed to he flexible and there are no proposals for major reform currently.	Disconnection between salary and job grade criticised as discouraging good performance. Current plans to modernise public administration include restructuring payroll and salary scales and possible introduction of performance-related pay.

	Ireland	Italy	Japan
1. **Pay Determination** Mechanisms	Public service includes civil service, police, education, defence, health, non-commercial state-sponsored bodies, local government. General pay claims negotiated for all groups between government and public service trade unions. Special pay claims for particular groups or grades processed through Labour **Court and** formal conciliation and arbitration schemes. **Health and** local government manuals, direct negotiation and access to Labour Relations, Commission/Labour Court. Pay of higher public servants reviewed periodically by independent review body and set by government. Other groups may also have their pay and conditions examined by special review bodies (e.g. defence forces 1989-1990). Free collective bargaining 1982-1987; centralised pay agreement, for public and private sectors, covering 1988-1990, negotiated in 1987 under Programme for National Recovery. New three-year agreement covering 1991-1993 under **Programme** for Economic and Social Progress.	**1983** Frame Law on the public sector provides for pay setting by collective bargaining in 8 sectors: ministries; non-economic public bodies; public firms; health; research; education; universities. Parliament sets pay for managers, officials, magistrates and university professors.	Non-industrial staff of "Regular Service" of National Public Service: pay set **by** law (National Public Service Law and Law on Remuneration of Employees in the Regular Service). Recommendations for pay law revisions by National **Personnel** Authority (-NPA), **an** independent commission under the Cabinet, to the **Diet** and the Cabinet. Cabinet prepares amendment to public sector pay and Diet votes. 'Separate arrangements for Local Public Service. defence, other public employees.
2. **Indcpendence** from **government**	Claims for general pay increases **ate** negotiated by government, as employer. Arrangements vary between different parts of the public service for special pay claims, but in general there is access to arbitration and the government may only set aside or modify **an** arbitration by vote of Parliament. For health and local authority services, arbitrations are not binding on either side. but are usually accepted. **In** the case of **groups** covered by review bodies, the government is free to accept, reject or modify recommendations.	Government ministers responsible for negotiations and cabinet decides on budget implications of proposed increase. Parliament involved only through Finance Act.	NPA not directed or supervised by Cabinet and status is guaranteed by law.

	Ireland	Italy	Japan
3. Collective Bargaining			
Level at which negotiations take place	Centralised negotiations for general pay increases. For special claims, separate conciliation and arbitration schemes for 7 main areas listed above e.g. civil service health, policy etc.	3 levels: inter-sector, sector and decentralised. Pay fixed in sector arrangements.	Employee organisations can negotiate with the authorities on designated matters; e.g. pay, hours and social and welfare activities, but not management and operations of government administration.
Status of collective agreements	General agreements require ratification but not legislative decision. They are implemented through the various public service conciliation and arbitration schemes. Special settlements: implementation of conciliation recommendations subject to agreement of Minister concerned and Minister for Finance.	Collective agreements must be introduced by Presidential decree.	Negotiations do not lead to collective agreements.
Participants in collective bargaining	For employer: Minister for Finance for general negotiations. Management/government representatives sit on bi-partite Conciliation Councils (chaired by a representative of the Minister) dealing with special claims for various groups (e.g. civil service, health, police, etc.). Since 1994 employer represented by bargaining agency which operates according to guidelines laid down by the Ministry of the Public Service. For employees: National Trade Union Congress (representing both public and private sector employees) fur peak-level agreements; appropriate unions representative bodies for other agreements.	Employer: Department of Public Service, Ministry of Finance: Ministry of Labour and relevant ministries for various sectors. Since 1994 employer represented by bargaining agency which operates according to guidelines laid down by the Ministry of the Public Service Employees: representative national trade unions on basis nf membership and strength in public sector. There are also trade unions for specific groups, e.g. - doctors, managers and teachers.	Union officers of employee organisations and officers of the authorities.
Unionisation level	High.		Non-managerial density 1991: 62%
Matters Covered by Collective Bargaining	Pay adjustments, allowances, conditions of service. Adjustment for individual groups through special institutional mechanistns.	Pay and conditions,but not staffing levels, work organisation, classification, etc.	See above.

	Ireland	Italy	Japan
Matters Covered by Collective Bargaining (cont'd)	1987 and 1991 agreements negotiated in context of national Programmes covering a wide range of economic and social measures in addition to pay.		
Indexation	No, but 1991-93 agreement provided for increases roughly in line with projected rate of inflation.	"Scala mobile" indexation on prices in force until end 1991, now suspended pending search for alternative.	
Frequency of collective bargaining	The most recent agreements are valid for 3 years.	Agreements valid 3 years.	
4. Structure of Pay			
Basic rates	Public servants normally paid on incremental scales. Separate sets of scales for different groups (e.g. civil service, police, teachers, etc.).	Fixed pay scales with 9-11 levels depending on sector. Position of each occupational group is fixed by functional qualifications and occupational profile. Similar number of levels in scale in each sector, but no fixed pay differentials.	Base salary accounts for c. 84% of total monthly remuneration, on average, for national public servants in administrative service. Pay set according to salary schedules (separate schedules according to different categories of duties). Each schedule comprises incremental grades, linked to complexity. difficulty and responsibility of position.
Flexibility	Allowances for performance of higher duties than grade.	Allowances for extra work, risk, difficulty, etc. and project bonuses.	Adjustment for complexity, difficulty, responsibility, intensity, hours, conditions, to a maximum of 25% of base salary. 20+ allowances (family, managerial, housing, recruitment, incentive, hardship, etc.). End-of-tern allowance paid 3 times yearly to all staff.
Pay progression	Fixed incremental scales, annual increments if perfectly satisfactory. Promotion by competition and seniority.	Pay progression on promotion, seniority, qualifications, or merit. Eligibility for promotion on qualifications or seniority.	Progression by promotion or increment step. Regular and special step increases: regular is for length-of-service and special if performance is exceptionally good.
Performance pay	Performance-related pay for Assistant Secretary grade of civil service.		Grade steps according to ability. qualification, experience, etc. Special steps as described above. Diligence allowance paid twice yearly for performance.

	Ireland	Italy	Japan
Regional pay variations		No regional variation in rates.	City allowances in areas of high living costs; remote area allowance.
Decentralisation	1991 general agreement provides for development of local negotiations, with emphasis on measures to improve efficiency and effectiveness.		
5. Pay Policies			
Policy principles	Pay moderation in context of controlling public expenditure. Internal and external comparability have been main influences on pay determination in past. More emphasis on economic factors and ability to pay in recent settlements. Since early 1980s, phasing of award implementation to reduce cost impact. However, growth of pay and pension costs has continued to outstrip inflation.	1988-90 negotiation aims were to reduce/end indexation and seniority payments; divide pay into fixed basic element tied to qualifications and variable element based on set objectives and including skill; make variable part self-financing from productivity gains. Link pay to forecast inflation over duration of agreement.	Civil service pay tied to general conditions in society. NPA surveys pay in public and private sectors annually aiming to balance the two sectors.
Public sector pay cost restraint	Staff reductions in 1980s to control growth of pay bill. Government proposal for local bargaining in 1991 agreement on efficiency measures to offset pay rises. Under these arrangements increases limited to 3% of basic pay costs. Government wants to end practice of passing on pay increases from "marker grades" to other grades whose role and functions are not linked.	Government seeks to link public sector pay to anticipated inflation and to block renewal of posts and seniority pay.	No policy currently directly aimed at reducing administrative expenditure.
Factors considered in adjusting pay	Pay movements in economy generally, level of inflation and public finances. Government to raise with public sector unions how to resolve budgetary problems, including: issue of arbitration influencing too much the size of the pay and pensions bill; possible provision for obligation on arbitrator to consider "ability to pay" of government: need for more transparency in pay determination process.	Anticipated inflation rate over three years of agreement.	NPA recommends on basis of balance of private/public sector pay. Uses survey of job-by-job pay rates in private industry. Takes private offices with more than a certain number of employees nation-wide in similar job categories to those in public service. Compares pay by job category, position, education, level, age, etc.

	Ireland	Italy	Japan
Data sources		Ministry of the Budget and Public Service Observatory (set up in 1986).	NPA survey.
Principal demands of unions in recent pay negotiations		Trade unions want pay compensation for shift from old to new classification principles based on functional skills and restoration of purchasing power.	Method of balancing public and private sector pay and internal distribution of pay.
Minimum wage	No statutory national minimum wage. Proposed by unions in negotiations on 1991 agreemenl, but employers opposed.	No legal minimum wage.	No minimum wage for national public employees.
6. Dispute Resolution	1990 Industrial Relations Act: pre-strike secret ballots, reform of dispute law and facilitation of rationalisation of trade union movement. New Labour Relations Commission, taking over conciliation service formerly provided by Labour Court. Aim to reduce use of Labour Court for conciliation and put responsibility back onto social partners.	By agreement between government and unions, since 1986: cooling off periods.	No collective bargaining for regular non-industrial national public staff over pay, but through NPA recommendations to Diet. This system compensates for restrictions of basic labour rights for public employees.
No strike rules	1991 agreement contained no-strike clause.	1990 law: no limit on right to strike (except army and police) within set procedures (i.e. minimum notice; agreement on essential services).	Non-industrial staff: no right to strike.
Recent conflicts	January 1992: Industrial action threat over government proposals to impose limits on agreed general pay increases and to defer special pay increases.	School sector: pay and structure demands. Restoration of purchasing power of salaries.	
7. Interaction Between Budget Cycle and Pay Determination Cycle	Pay agreements between government and social partners do not need legislative act except for Parliament to vote extra expenditure. Provision in budget for pay decided in context of macroeconomic policy. Aim to end negotiations prior to Budget so expenditure estimates can be made.	Finance Act ensures coordination between budget cycle and pay. Pay estimate used in budget. Total amount available for pay decided by Cabinet for each agreement and must be compatible with resources of Finance Act. Extra money needs a special law.	Supplementary budget if original cannot meet provisions of amended pay law.

	Ireland	Italy	Japan
8. Background	Government is concerned about level of increases in public sector pay costs in recent years and intends to address problem through local bargaining with aim of offsetting future pay increases by improvements in efficiency and effectiveness. Process of pay determination will also be reviewed with unions.		January 1992: three public servant employee organisations join in federation.

	Luxembourg	Netherlands	New Zealand
1. Pay Determination Mechanisms	Law fixes pay for civil service; collective bargaining for manual workers; non-civil service white collar and others by government in council; Grand-Duke for military.	Collective bargaining for all public servants; eight sectors for pay determination -- ministries, education, army, police, municipalities, provinces, water boards, judiciary.	Core state sector comprises departments of the public service, health and education. Wider state sector includes police, defence, Crown agencies and quangos. Employment Contracts Act 1991 and State Sector Act 1988 set basic framework for state sector pay fixing. Under 1988 Act, most employer responsibilities devolved to individual departments/agencies, with similar bargaining and payfixing arrangements as in private sector. 1991 Act removes special status of trade unions; employees and employers may choose who will represent them, individually or collectively, in negotiations and may negotiate on whether to have individual or collective contracts. Every employee's terms and conditions of employment are contained in an individual or a collective employee contract with their employer.
2. Independence from government	See above.	Cabinet has to approve the result of negotiations, as do the trade union members. Parliament cannot influence the result of bargaining, but the department minister who is also the employer is answerable to Parliament for the results of the agreement.	Government sets policy parameters and State Services Commission (SSC) and employers devise particular strategies to fulfil these. Ministers kept informed of process but have no direct role.

	Luxembourg	Netherlands	New Zealand
3. Collective Bargaining			
Level at which negotiations take place	Centralised: government and representative trade unions for all state employees.	Central only for pensions and basic social security. Sectoral for other conditions of employment and personnel policy.	Varies: agency/enterprise bargaining is norm for public service; national/-regional level for health and national for education, but trend to decentralise in these sectors also. Shift to departments instead of occupations as basis for bargaining. Company level for state-owned enterprises.
Status of collective agreements	Recommendation.	Results embodied in legislation after completion of collective bargaining.	Employment contracts, once settled, are directly applicable and are enforceable in law under 1991 Employment Contracts Act.
Participants in collective bargaining	Ministry of Public Sector and representative trade unions.	Employer side: Minister of Home Affairs for central level bargaining; various sectoral government employers for sectoral bargaining. Employee side: four major union federations -- General Government Employees Association (ACOP); Protestant Federation of Government Employees and Teachers (CCOP); Civil Servants Centre (AC); Federation of Intermediate and Senior Employees in Government Education, Companies and Institutions (CMHF).	Employer side: SSC is employer party for core public sector employers (c. 40 employers), public health and education (14 Area Health Boards and 2 700 education employers), in consultation with individual employers. From June 1992 pay round, SSC delegated its bargaining authority to public service and health service chief executives. Negotiations conducted with Commission representative present. Employee side: 1991 Employment Contracts Act instituted voluntary union membership and freedom of choice of employee representative in bargaining.
Unionisation level	Not available.	51% overall; higher for manuals.	Figures not available but traditionally high; may be affected by 1991 legislation.
Matters Covered by Collective Bargaining	Pay excluded, except for manual workers. For other state employees civil service trade unions may represent on non-pay issues, e.g. allowances, working conditions, training, health and safety.	General salary trends (by sector since 1993 with the introduction of the sectoral bargaining model); pensions; social security; working hours and other conditions of employment.	All matters negotiable. Collective employment contracts must have defined terms but may be amended during their term by mutual agreement.

	Luxembourg	Netherlands	New Zealand
Indexation	Indexation of pay scale levels on consumer prices. Applies also to civil service pensions and other allowances.	No indexation.	No indexation. Before 1988 annual general adjustment based on anticipated movements in private sector pay, inflation, etc.
Frequency of collective bargaining	Every two years.	Annual negotiations.	This is negotiable. Most common pattern is annual.
4. Structure of Pay			
Basic rates	Fixed pay scales, with premia for demanding posts or those requiring irregular work.	98% of pay fixed by salary scales. Eighteen scales for civil servants. Scale determined by job evaluation and job-rating.	Most salary scales contain provision for ranges of rates as well as some degree of fixed incremental steps. The latter are mast common in public service; less so in health and education.
Flexibility		Market allowances; bonuses to recruit and retain high-calibre staff. Civil servants can be awarded additional increases for excellent work. Annual increase may be refused if work poor.	Ranges of pay rates give employers flexibility to determine rules for progression, to reward performance and to respond to labour market pressures. Pay linked to individual, not post, so that recruitment/retention problems, location, experience, specific skills, can be taken into account in determining initial remuneration and any subsequent increases.
Pay progression	Length-of-service is main factor, but also training courses for reorientation and promotion exams.	Promotion and length-of-service: annual increments may be refused is performance poor.	See above. Most schemes so far mix seniority increase for lower end of range and performance-related pay for higher end.
Performance pay	None.	Performance-related pay (bonuses, temporary allowances, accelerated incremental progression); system covers all civil servants. Departments have some flexibility to determine how they apply this system.	Performance-related pay from 1988 for staff at virtually all levels within most government departmentslagencies. Departmentslagencies free to devise own schemes. From 1988, performance agreements for Chief Executives and senior managers.
Regional pay variations	No regional variation of pay scales.		Not much regional variation of salary scales because. of internal labour market for particular occupational groups and their commonality across individual agencies of the public sector.

	Luxembourg	Netherlands	New Zealand
Decentralisation		Pay determined in 8 sectors; see above.	See above.
5. Pay Policies			
Policy principles	Government revises pay every 2-3 years after negotiations with representative trade unions.	Scale tied to nature and level of job and actual work via job evaluation. No use of private sector salary and job-rating systems.	Pay fixing principles essentially equivalent across public and private sectors -- supply and demand for labour, fiscal constraints, cost and output efficiency, etc.
Public sector pay cost restraint	No policy restricting wage cost increase.	Overspend on pay must be within total budget deficit target.	Expenditure constraints on department budgets and tight wage round strategies, i.e. concessionary bargaining to remove constraints on flexible working practices, remove fixed increments, introduce performance-related pay, reduce employee entitlements to private sector level. SSC co-ordinates decentralised bargaining to keep pay settlements down.
Factors considered in adjusting pay	No private pay comparisons but private pay trends analysed. 1989 government study of private sector pay but no impact on public sector pay. Automatic adjustment for maintenance of purchasing power.	No fixed indexation. Public employers have a responsibility to achieve wage moderation in the economy as a whole. Also take account of Central Planning Bureau (CPB) forecasts.	No specific indexation or legal pay firing criteria. Pay adjustments take account of general fiscal position and objectives of government, labour supply and demand, budgetary position of employing deparbnenf private sector practice, and general economic environment. No formal private sector comparability surveys, though individual employers may use private sector comparisons to assess pay policies for particular occupational groups.
Data sources		Mainly publications of CPB.	Parties to negotiations use whatever data is available to them, including official statistics, private surveys, etc.

	Luxembourg	Netherlands	New Zealand
Principal demands of unions in recent pay negotiations	Pay scale increase and pension increase, reform of non-regular payments, meal allowance increase, increased time off work for holiday and family reasons, study of comparability within public sector, suppression of compulsory payment via postal cheque.	Maintenance of purchasing power and same scope as in private sector for improvement of employment conditions.	"Holding pattern" in union demands in recent negotiations; most common outcome in 1991-92 wage round was no wage increase in return for no change in conditions of employment. Background of high unemployment and low inflation.
Minimum wage	1986 law set up minimum guaranteed income.	Legal minimum (youth) wage in private sector is followed by government.	Minimum Wage Act applies to adults (age 20+).
6. Dispute Resolution	Compulsory conciliation and mediation.	Advisory and Arbitration Committee (AAC) for Central govemment. Gives advice to either party, but binding arbitration only if sought by both sides. Local government (provinces, municipalities, water boards) has own system of advice and arbitration.	1991 Employment Contracts Act governs dispute procedures. If disputes or grievances cannot be resolved by employees and employers concerned they may be submitted to the Employment Tribunal for mediation and/or adjudication. Appeals from decision of the Tribunal may be submitted to Employment Court.
No strike rules	1979 law prohibits strikes for certain categories of civil servants, diplomatic service, judiciary, managers, military and police. Obligatory notice period before strike. Government may order resumption of work to ensure essential services.	In practice, civil servants can strike, though judges have a reserve power. Reserve not effective after judicial rulings of 1983-84 and government has proposed to withdraw it. Only military have no right to strike.	Strikes allowed, but not while collective contracts still in force, and not in relation to coverage of collective contracts, personal grievances, issues of freedom of association covered by Employment Contracts Act; also prohibited in essential industries if required notice not given, and if in contravention of order of Employment Court.
Recent conflicts	None.	1983 strike over proposed 3.5% wage cut for civil servants. Final cut was 3%. Only strikes by individual civil service groups since then.	Over recent pay round and introduction of 1991 Employment Contracts Act. Cost-neutral settlement of 1991 gives public sector trade unions time to adapt to new employment environment under 1991 Act.

	Luxembourg	Netherlands	New Zealand
7. Interaction Between Budget Cycle and Pay Determination Cycle	Ministry of Finance co-ordinates the amount for pay decided by government and limits can be exceeded on approval of Ministry of Finance.	Financial scope for improvement of pay and conditions set in budget. Budget can be exceeded by employers after Cabinet approval. Parliament can judge the outcome, but has no influence on the agreement with the trade unions.	1989 Public Fiance Act: new resource allocation planning cycle for govemment departments, mechanisms for monitoring department performance, and regular reporting of financial performance to Parliament. In theory, pay negotiation in May-June after government has fixed financial parameters for departments. No overall estimate of public sector pay bill is separately identified; instead, personnel costs form part of overall output costs budgeted by govemment.
8. Background		New system of negotiations started in April 1993. Decentralisation of pay determination on basis of 8 sectors with independent negotiations: ministries; education; army; policy; municipalities; provinces; water control boards: and judiciary. Pension and social security negotiations expected to remain central for now. Each sector gets equal percentage scope for improvement of terms of employment. New Council for Terms of Employment in public sector set up with public sector employers and trade unions to advise government and sectors.	State Sector Act 1988: progressive development of "employer culture" in government agencies, with stress on concessional bargaining, bargaining reform and reforms in employment conditions (e.g. excluding management from collective bargaining, enterprise bargaining, end of automatic annual pay increments and use of flexible pay structures for many groups, reduction or removal of special conditions for particular groups, and lower pay settlements in public sector than private sector). Fiscal restraint in 1991 and 1992 -- no compensation to state employers for cost rises. Government aim to cut costs and raise quality and productivity. Process of structural reform: move to "three tier" structure of public sector --advisory/regulatory; main functions, service delivery agencies; operations not needing direct involvement of government agency.

	Luxembourg	Netherlands	New Zealand
8. Background (cont'd)			Employment Contracts Act ends trade unions' automatic right of representation and employees only bound by agreement to which they are party. Government promoting decentralised bargaining in state sector. Current arrangements allow for staged process of delegation to individual employers, on a case-by-case basis (e.g. to Chief Executives of government departments and agencies, health services, etc.).

	Norway	Spain	Sweden
1. Pay Determination Mechanisms	Negotiation for all civil servants in state government, teachers, health, defence, and government enterprises; excluding top officials. Pay of top officials set on basis of individual contracts between each official and his/her superior.	Pay for all sectors and categories (except non-civil servants) set centrally. Pay structure and annual increase set by legislation. Pay Commission can modify job allowances, case by case, to adapt to content of work posts. Increases in pay and job allowances subject to negotiation since law of 1990 and agreement of 1992 [except for managers). For non-civil servants (mostly blue-collar) and employees of agencies, pay is negotiated subject to maximum set in budget. Agency management pay fixed by each Agency, under control of Pay Commission. Regional and local government similar but independent, free to set pay within limits set by law on pay increases.	Collective bargaining. Central level agreement sets minima for pay increases, and amount of pay funds for distribution at local level, but not rates of pay. All groups of public sector employees, except senior officials, covered by collective bargaining. Pay of top officials set by government Pay of other senior officials set by special Board/Chief executives of agencies.
2. Independence from government	Government and Ministry of Finance set financial framework for negotiations; government has consultative role with ministries which negotiate; Parliament approves recommendations of negotiating parties.	Pay Commission not independent of government; has representatives of Ministry of Finance and Ministry of Public Administration. Sets job allowances and ensures pay increases of Agencies and non-civil service staff within limits set by law.	For national civil service, government confirms agreements reached by National Agency for Government Employers.

	Norway	Spain	Sweden
3. Collective Bargaining			
Level at which negotiations take place	Centralised negotiations mainly, but small amount of wage bill set aside for local bargaining.	For non-civil servants, negotiation at level of department and agency. Pay setting for civil servants centralised for all grades. Separate negotiations for autonomous communities and local government. Separate negotiating bureaux for teachers, post, health, justice, universities and some civil service groups (prisons, detectives).	Collective bargaining at central level (3 separate agreements for civil service, public utilities, defence) for framework agreements on general increase in pay funds. Distribution of pay funds in terms of increases by individual employers set by local negotiations in each agency.
Status of collective agreements	Basic Collective Agreement directly applicable after parliamentary approval.	Agreements must be ratified by government and Parliament if their cost exceeds that allowed in budget.	Central agreements confirmed by government; agency agreements directly applicable.
Participants in collective bargaining	Employer side: Ministry of Labour and Government Administration. Employee side: Four main trade unions: National Federation of State Employees (20 associations): National Confederation of Professional Associations (40 associations); Confederation of Professional Unions (10 associations); National Union of Teachers.	Employer side: Responsible Minister/Director General for the sector concerned and, for annual increase, Ministers of Finance and Public Administration. Local Government similar in structure. Employee side: Nationally representative trade unions and with at least 10% in staff representative elections.	Employer side: National Agency for Government Employers. For employees: 3 central trade unions, one blue-collar and two white-collar.
Unionisation level	c. 90%	Estimated to be low, except for some sectors (education, PTT).	Public sector: c. 94%
Matters Covered by Collective Bargaining	General pay adjustments; adjustments for particular positions or occupational groups; compensation for price inflation and private sector wage developments; working time, allowances, in-service training, pensions, etc.	Central negotiation sets annual pay increase and departmental negotiations set supplements as specified in central agreement. Various employment issues are dealt with de facto.	Central agreements: total increase in pay funds plus general conditions of employment. Local agreements: individual pay increases; negotiations on some employment conditions being decentralised.
Indexation	Compensation for price inflation and private sector wage developments may be a subject of negotiations.	Government forecast of inflation is taken into account in negotiations.	No indexation clauses except those copied from private sector agreements. General trend away from indexation.
Frequency of collective bargaining	Main agreement is revised every 2 years. Minor revisions in between.	Usually annual. Universities now on 5-year agreement.	Mostly annual, but some agreements every 2-3 years.

	Norway	Spain	Sweden
4. Structure of Pay			
Basic rates	Single salary scale with 35 steps covers all government employees.	Basic scales set for each of five classification grades (based on education required) and applies to all sectors. 14-months salary paid per annum. For blue-collar and contractual employees, pay structure set in collective agreements in each department.	Uniform system of pay grades abolished 1989. Only a few centrally-agreed pay scales. In general, the pattern is individual and differentiated pay, as in private sector. Agencies can agree own scales. Position classification system being introduced.
Flexibility	Pay frame for each job determined in basic collective agreement, but pay for individual employees determined locally. Each salary category has 5 salary levels, providing for some local flexibility. New pay system provides for individual pay differentiation based on performance, results achieved, etc., within range of pay step. Government working to develop local pay policies and other policies for differentiation.	Employment allowances: for type and difficulty of work and based on job evaluation by Pay Commission. Gives some flexibility. Productivity pay: quite flexible, for performance, initiative, etc.	Agencies free to set own salary system. Elements in determining pay can include experience, skills, performance, market considerations, etc. More market-oriented pay system being promoted.
Pay progression	New 1991 civil service pay system provides for progression on basis of seniority (for lower paid) performance (for all) and promotion (based on competence and performance).	Progression for promotion (by competition) and length-of-service pay every three years.	Agencies decide criteria for pay progression. Typical pattern is that one part of pay fund is for general increase and rest is set aside for individual distribution in local negotiations.
Performance pay	1991 introduction of performance-related pay. Policy is to develop pay differentiation based on performance.	Pay increments based on performance evaluation, output and initiative (productivity bonus).	Agencies can introduce bonus system but no general system of performance pay.
Regional pay variations	To date, no significant pay variations between regions, agencies, etc., but government agencies working to develop local policies.	No regional pay variations for civil service, but residence allowances for a few locations. Autonomous communities and local government have own pay scales. Local variation, but overall increase and structure must be set by law and be the same.	Centrally-agreed scales do not vary by region, but these are few.

	Norway	Spain	Sweden
Decentralisation	See above.	For civil servants the only element set locally (in departments) is productivity bonus. Differences between departments can be up to 15%. Same for non-civil servant pay in departments.	Strong trend to decentralisation. Exceptionally, Stabilization Agreement in 1991-92 reintroduced some centralised features.
5. Pay Policies			
Policy principles	Common nation-wide pay system; same for all government employees; same system for males and females; same pay for same kind of work; minimum wage for adults (age 18+)	Current policy to reduce share of public expenditure in GDP. Aim to sustain purchasing power and internal equity of civil service pay and current ratio with private sector (civil service pay is 10-30% less than private sector pay). For agencies and public enterprises, pay is slightly less than in the private sector.	Public sector pay should follow the private or "competitive" sector. Pay should be adapted to operational needs of agencies.
Public sector pay cost restraint	Public sector should not lead pay bargaining but becoming more market-oriented via goal-directed personnel and pay policy. Government aims to link pay negotiation results to financial frames and budgetary process.	For 1992: limit drift to less than 1% of pay bill; favour modernisation of parts of civil service; zero employment increase: arid cut vacant posts.	Pay costs restrained by informal contacts with government before any agreement is signed and central agreement approved by government. No cash limits yet. Local negotiations within centrally-agreed funds, but drift since introduction of individualised pay.
Factors considered in adjusting pay	Price index a major factor in bargaining process, as are private sector pay rises. Various economic/financial parameters considered, Public/private pay comparisons done, but minor role and focus on structure and development over time, not levels.	Civil service increase affects basic rates; for agencies and manuals, it affects pay bill and there is further decentralised collective bargaining. Forecast of prices, with automatic ex post adjustment if inflation exceeds forecast. Prior to 1990 no such agreement. Exceptionally private sector comparisons used (e.g. for IT staff) for information.	No systematic indexation and tendency is away from index clauses. General aim is to target central increases on private sector, not to undertake formal procedures of comparison. Increases set as a pay fund to be distributed by local negotiation by each agency according to central guidelines.
Data sources	Joint work by negotiating parties on statistical preparation using report of Technical Committee and official statistics.	Official price indices.	Official statistics on prices, etc.

	Norway	Spain	Sweden
Principal demands of unions in recent pay negotiations	1992 negotiations: compensation for loss of purchasing power for lower and middle level groups; compensation for loss compared to private sector; lower retirement age and improved pension provisions; job security guarantee when restructuring.	Main trade union aim is for increase 2 percentage points above forecast inflation. Also demands in relation to salary revision clause, content of collective agreements and employment security.	Current general Stabilization Agreement for the whole labour market leaves little room for special demands. Trade unions demanding compensation for changes in tax and social security system but final agreement was a compromise.
Minimum wage	Yes, for those over 18.	National minimum wage. Lowest public sector pay c. 25% above minimum.	No minimum wage based on law or collective bargaining. There are minima for different agreement areas by age and skill.
6. Dispute Resolution	Public Service Disputes Act: compulsory mediation before strike. lock-out or arbitration.	Use of mediator allowed by law, but never yet used.	For central bargaining, government may appoint a mediator. For local level disputes, central level may resolve. Labour Court mav resolve some disoutes.
No strike rules	No strike for duration of agreement and none for military and police.	Strikes allowed as in private sector (excluding only military, police and judges). Ten days notice required. In case of health, transport and other essential services a minimum service must be maintained.	Right to strike if no collective agreement reached. No right to strike far Cabinet Office, Ministries and senior agency staff.
Recent conflicts	1986: over wage gap between public sector teachers and university graduates and private sector equivalents. This was during period of full employment and strong pressure on wages. Subsequently, labour market has changed and economic and financial relations are more balanced.	Mostly by individual categories, e.g. manual staff in universities, for an increase above the general one. Public sector strikes in 1992 over salary revision and other matters.	Teachers in 1989: government decided to group teachers with municipal employees for bargaining purposes. Teachers wished to remain with National Agency for Government Employers.
7. Interaction Between Budget Cycle and Pay Determination Cycle	Pay round 1 May to 30 - April. Budget cycle 1 January to 31 December. Pay bill passed by Parliament beginning June. Ministry responsible for pay negotiations estimates budgetary consequences. Budget cannot normally be exceeded. When settlement exceeds government limits excess is deducted from next settlement.	Central negotiation in parallel with budget process and agreement is usually reached when budget goes to Parliament. After adoption of budget, negotiations start for manual staff and pay supplements for civil service. Each negotiation is bound by fixed pay bill. If the central agreement is more than the budget there may be a supplementary budget, as in 1990 pay revision.	No co-ordination of budget and collective bargaining cycles. Budget has rough estimates of pay trend and is increased if these are exceeded.

	Norway	Spain	Sweden
8. Background	Problems with sector restructuring (e.g. defence, telecommunications, railways, etc.). New wage system requires further development (e.g. of criteria for local pay flexibility). No moves at present to restructure trade unions for purpose of pay negotiations.		General stabilization agreement leaves Little room for individual pay adjustments, with consequence that trend to decentralisation has stopped for time being. Growing acceptance of **decentralised** system by unions. New position classification system being introduced as basis for individual pay setting.

	Switzerland (Confederation level)	Turkey	United Kingdom
1. Fay Determination Mechanisms	Federation and cantons each have their own pay system. Pay in federal civil service (including administration, PTT, CFF, research and education), set by law, after negotiations.	Pay of civil servants set by law: central determination for civil service, temporary employees and contract staff. Collective bargaining for manual workers.	Public sector includes mainly civil service, local government, national health service (NHS), armed forces, police, other emergency/security services, post office, and teachers in schools/ colleges/universities. Pay set mainly by collective bargaining. Pay review bodies set pay for top civil servants, judiciary, armed forces, NHS medical staff, school teachers. Firefighters and police have automatic pay setting formula, with collective bargaining; managers in NHS, senior managers in Post Office, some chief/principal officers in local government and some civil service agency staff are on personal contracts, with no collective bargaining.
2. Independence from **government**	See above.	Civil service pay fixed unilaterally by government. Arbitration for manual workers only.	Government takes final decision on pay offers and settlements in civil service, prison officers. secretary of State must approve pay settlements for NHS, police. Government can accept, reject or modify recommendations of pay review bodies.

	Switzerland (Confederation level)	Turkey	United Kingdom
3. Collective Bargaining			
Level at which negotiations take place	Central for all categories.	At agency level (manual workers only).	National level bargaining for civil service; 4 separate sets of negotiations with different unions. Departments and agencies to have delegated bargaining powers from April 1994. National negotiations (Whitely Council system) for NHS, but elements of local flexibility being developed. Decentralised bargaining for colleges of further education and polytechnics; national bargaining for universities. Mainly national bargaining for local govemment, but some authorities have left national agreements. Devolved pay bargaining in Post Office.
Status of collective agreements	Outcomes of negotiations binding when applied by law or by Federal Council directives.	Directly applicable.	Civil service agreements basis for instructions to government departments on pay rates, Only legal force is through individual contract of employment. NHS agreements legally binding once approved by Secretary of State. Agreements for higher education not binding on individual institutions. Local govemment agreements not binding on individual authorities.
Participants in collective bargaining	For employer; Federal Personnel Office and Department of Finance. For employees: Peak staff associations (for PTT, military, CFF, customs and higher civil service). Many trade unions at national level.	Employer side: agency and employer's union. Employee side: decentralised trade unions bargain separately.	Civil service: Treasury (for government) and recognised national trade unions. Civil service manuals: Treasury and main employing departments for govemment; multiple unions at national level.

	Switzerland (Confederation level)	Turkey	United Kingdom
Participants in collective bargaining (cont'd)			Prisons: Treasury, Home office, Scottish Office and multiple unions at national level. NHS: for staff not covered by review bodies, national councils with management side appointed by Secretary of State for Health, from among members and officers of health authorities; trade unions, professional organisations and trade associations for employee side. Education: central union and employer sides. Local authorities: representatives of local authority associations and several unions. Police: representatives of Secretary of State and local authority associations for employer side; multiple unions at national level for employee side. Fire service: representatives of fire authorities (employers) and fire service trade unions.
Unionisation level	c. 75%	Very high for manual workers only. Constitution forbids civil servants to join trade unions.	Civil service non-manuals: 60-70%. Civil service manuals: 50%. Prisons: virtually 100%. Education: significant. Local authorities: c. 90%. Armed forces not unionised.
Matters covered by collective bargaining	Pay adjustments, allowances (family, travel, overtime, etc.).	Pay adjustments. Relative adjustments for some groups. Working hours, working conditions, social benefits.	Civil service: pay scales, rules for progression up scales and rules for pay on starting or promotion. NHS, civil service manuals, prisons, education: pay and conditions of service. Local authorities: pay and allowances. Police: pay
Indexation	Annual cost of living adjustment. Adjustment also for productivity, private sector, and competition on labour market.	Inflation rate, budget limits and overtime working (by agency).	Pay rises of firefighters automatically linked to national earnings distribution for manual workers. Police pay rises related to overall movement in national earnings each year. Otherwise no indexation.

	Switzerland (Confederation level)	Turkey	United Kingdom
Frequency of collective bargaining	Periodic.	Minimum 1 year and maximum 3 years.	Annual
4. Structure of Pay			
Basic rates	31 incremental pay classes each with minimum and maximum. 7 top grades have spot salaries. Mostly 8 years from minimum to maximum, less for lower pay classes. Each function assigned to a class.	Civil service: 10-30% of pay according to grades and posts.	Civil service: 95% of non-manual pay bill is basic pay scales. Incremental scales except for top 3 grades. Pay ranges for grades 2, 3; spot salary grade 1, Allowances for overtime, shift, locality, special skills and retention. Civil service manuals: 76% of pay bill is basic scales. Mainly fixed scales for education, also for police, armed forces. NHS: national pay rates, scales or ranges for each grade.
Flexibility	PTT has rapid pay advancement for computer specialists to remain competitive.	Fixed salary for all categories with flexibility by allowances (set centrally). Market rates taken into account for scarce groups: e.g. data processing. Special supplements for job difficulty, risk, etc.	Civil service: long-km agreements allow for moving jobs and groups of posts up pay spine for recruitment and retention. Flexibility to set salary on appointment, No flexibility for civil service manuals, prison officers, police, firefighters. NHS: employers can adjust pay and conditions to alleviate recruitment and retention problems or to recognise special skills and responsibilities. Education: some flexibility to vary starting salaries, scales. accelerate progression. No fixed scales for local authorities. Armed forces: additional pay for some specialist groups and bonus payments to solve staff shortages.
Pay progression	Annual seniority increase within pay classes; may be refused for unsatisfactory performance. Exceptional increase on promotion to new pay class.	Promotion, seniority and performance bonus for some special cases.	Civil service: seniority (annual increments) to scale maximum, then performance-related pay. Top civil servants (Grades 4+) performance increments only.

	Switzerland (Confederation level)	Turkey	United Kingdom
Pay progression (cont'd)			Manuals: basic rate only with no pay progression. NHS: mainly seniority; performance pay for general managers. Education: mainly seniority; performance element in universities and schools. Fire service, police and armed forces: seniority and promotion. Prison officers: seniority, performance, promotion.
Performance pay			Performance-related pay for most civil servants; chief executives of executive agencies; senior and general managers, senior nurse managers, senior medical and dental staff in NHS; heads and deputies in schools; many local authorities. Government advocates expansion of performance pay.
Regional pay variations	Pay varies by region via residential allowances and other allowances. 70% of federal employees get residence allowance by zone of residence and 50% get allowance for place of work.	Regional: all jobs in developing areas. Rental aid, gradually, for all.	London allowance for some civil service grades, NHS. education. prisons. NHS: allowance for high living costs in some areas.
Decentralisation		All salaries fixed centrally, except for manual workers.	Trend is towards devolution of pay determination in many parts of the public sector.
5. Pay Policies			
Policy principles	Comparability the rule for public/private pay. Pay linked to position not to merit.	Public sector pay set by central authorities with relation to balance of professional groups, budget and inflation. Market rates taken into consideration for some jobs where market competition is high (e.g. data processing}.	Pay what is needed to recruit, retain and motivate, subject to affordability.

	Switzerland (Confederation level)	Turkey	United Kingdom
Public sector pay cost restraint	Parliament policy to hold 1991 pay costs constant until 1995, with allowance for cost-of-living.	Pay costs restricted indirectly by Prime Ministry and Finance Ministry vetting new hiring.	Civil service departments have running cost budgets, but no set limits on pay. Pay review body recommendations may be deferred or staged.
Factors considered in adjusting pay	Cost of living (index) and prevent public falling behind private sector.	Pay adjusted twice yearly, takes account of prices, budget, importance of position, etc. Adjustments calculated according to grade, length-of-service, working region, etc. Private sector pay not directly taken into account and no explicit reference to forecast inflation. No formal comparability surveys.	Civil service: salaries negotiated within interquartile range of private sector pay movements. NHS: broad salary/pay data and recruitment/retention data. Retail prices and average earnings indices also used for pay discussions.
Data sources	Official statistics.		Civil service: Annual survey of private sector pay change and 4-yearly survey on pay levels in comparable jobs. Informs collective bargaining. Review bodies: range of pay data, including surveys of private sector. Local authorities: own pay research unit.
Principal demands of unions in recent pay negotiations	No major trade union demands.	Wages and conditions.	Civil service: pay increases in higher part of interquartile range. NHS: additional pay for lowest paid, increased annual leave, reduced working hours, increased London allowances. Local authorities: mainly improved pay for lowest paid.
Minimum wage	No.	Under Labour Act legal minimum set annually by Minimum Wage Commission with government and employee representatives.	No national minimum wage legal or negotiated.

	Switzerland (Confederation level)	Turkey	United Kingdom
6. Dispute Resolution	Individual grievances dealt with by management. Federal Tribunal highest authority.	Conciliation with recourse to arbitration if failure to reach agreement.	Civil service: Long-term pay agreements provide for arbitration if both sides agree. NHS: recommended procedure for employing authorities to adopt. Education: further education and polytechnics -- parties may call on national conciliation service (ACAS); universities --arbitration would need agreement of government. In practice, disputes resolved through employers taking administrative action. Local authorities: conciliation and arbitration by ACAS. Police: police arbitration tribunal.
No strike rules	Strikes not allowed.	Only workers may strike. Civil servants forbidden to strike and to join trade unions under Constitution.	With exception of armed forces and police, no restrictions on freedom to strike.
Recent conflicts	No recent conflicts.	Mainly over inflation and pay adjustments.	Civil service: working conditions and staffing levels. Local authorities: removal of allowances, moves towards performance pay.
7. Interaction Between Budget Cycle and Pay Determination Cycle	Spring estimate of rate of pay and structural change for coming year. Decision in December. Pay estimates for budget based on preceding Spring. Federal Council takes final decision on pay bill. Percentage increase is fixed; budget overrun due to structure improvements needs justification.	Annual budget cycle; pay adjustments twice a year. If pay bill exceeds budget, use of reserve. Parliament votes supplementary appropriation if reserve insufficient.	Public expenditure plans for each civil service department fixed in Autumn with pay settlement April-August of following year. Management side will know pay assumptions in department budget. Public expenditure plans disaggregated by department, function, running and programme costs, but not pay bill. NHS, Education: expected to meet pay increases from within total resources available to them. Local authorities: budgetary provision based on judgements prior to pay agreements.

	Switzerland (Confederation level)	Turkey	**United Kingdom**
8. Background	Study in progress on change of pay system for Federal employees; looking at pay, labour market situation, regional differences.		Government policy is to increase delegation on pay decisions, and to develop performance-related pay and more pay flexibility generally. Government has announced plan to negotiate changes in long-term pay agreements for civil service to delegate pay bargaining to departments and agencies (from April 1994 for larger agencies} and to give greater freedom in pay and grading. ***Aim*** within same pay bill to reduce share of common increase and raise that due to performance-related pay or labour market adjustment.

	United **States** ·· Federal Civil Service
1. Pay Determination Mechanisms	Pay is excluded from collective **bargaining** for most federal employees. Major group whose pay is determined by collective bargaining is Postal Service. There are c. 36 different pay systems. Main ones are: General schedule (GS) covering most white-collar employees and supervisors plus some scientific/technical employees (c. 1.4M); pay fixed by President pursuant to law. Performance Management and Recognition System **(PMRS)**covering white-collar supervisors and management officials (125 000 employees); pay determined by management based on GS increases and performance (discontinued October 1993 and employees covered by PMRS transferred to General Schedule). Senior Executive Service **(SES)**(6 800 employees) covering senior managers and supervisors; pay set by President.
2. Independence from government	***See*** above. For GS, President's decision follows Federal Employees' Pay Comparability Act (FEPCA) (1990) from 1994. After initial year of FEPCA (1994) President will have **full** discretion to reduce Employment **Cost** Index and/or locality adjustments based on a national emergency or serious **economic** conditions.
3. Collective Bargaining/Other pay adjustment Processes	
Level at which negotiations take place	Collective bargaining only for a minority of federal employees. Local or agency level only. No multi-agency collective **bargaining**. GS employees: centrally determined nationwide adjustment plus, from 1994, local comparability payments. **Central** determination by President for SES.
Status of collective agreements	Directly applicable.

	United States -- Federal Civil Service
Participants in collective bargaining	Collective bargaining: Employer side -- agency management; Employee side -- union holding exclusive recognition. GS employees: Federal Salary Council (members appointed by President -- 6 representatives of employee organisations and 3 labour relations experts) recommends to President's Pay Agent establishment and modification of pay localities, coverage of pay surveys, comparability measurement process and level of comparability payments. Pay Agent is currently Secretary of Labour, Director of Office of Personnel Management and Director of Office of Management and Budget. Pay Agent recommends pay area boundaries and level of comparability payment for each area.
Unionisation level	Varies among agencies.
Matters Covered by Collective Bargaining	Pay excluded from collective bargaining for most Federal employees but Federal Labour Relations Act (1978) provides for bargaining on general working conditions. excluding specific rights reserved to management or matters otherwise prescribed in federal statute.
Indexation	GS adjusted annually based on changes in national Employment Cost Index less 0.5 percentage points.
Frequency of collective bargaining	Where permitted, minimum annual.
4. Structure of Pay	
Basic rates	Basic pay on fixed salary schedules or ranges. GS: incremental pay scale; 18 grades; 10 steps each grade. SES: 6 pay levels.
Flexibility	Special salary rates for GS employees for a wide range of reasons, including recruitment and retention. Other flexibilities include recruitment and relocation bonuses and retention allowances of up to 25% of pay: hiring above minimum rates for all grades; up to 800 critical positions with higher base pay; time off as incentive award, etc.
Pay progression	GS: step increase on seniority and acceptable performance and quality step increase for outstanding performance. SES: no automatic or seniority progression.
Performance pay	GS: special step increase and additional lump sum cash and non-monetary awards for performance. SES: performance-related bonuses.
Regional pay variations	GS: FEPCA provides for local area adjustments from 1994 in areas where local non-federal pay is significantly higher (more than 5%) than GS pay for comparable positions.
Decentralisation	Locality pay for GS, as above.
5. Pay Policies	
Policy principles	US Pay code: equal pay for substantially equal work in same local pay area: subject to maintenance of work and performance distinctions; federal pay to be comparable with same locality private sector; elimination of disparities with relation to non-federal employees.

	United States -- Federal Civil Service
Public sector pay cost restraint	Pay rates not allowed to exceed level V of Executive schedule. Resident has power to reduce Employment Cost Index or locality pay adjustments in national emergency or serious economic conditions.
Factors considered in adjusting pay	Market comparisons are main factor for GS. From 1994, GS has nation-wide adjustment based on Employment Cost Index and local comparability adjustment, as above. SES is at President's discretion. Economic conditions are also considered.
Data sources	Employment Cost Index based on surveys by Bureau of Labor Statistics (BLS). Surveys of non-Federal wages in 32 areas by BLS.
Principal demands of unions in recent pay negotiations	Salaries non-negotiable except for employees mentioned above.
Minimum wage	Legal minimum wage but Federal white-collar pay is well above this.
6. Dispute Resolution	Where collective bargaining permitted, dispute resolution mechanisms vary among agencies.
No strike rules	No right to strike.
Recent conflicts	Resident's granting Interim Geographical Adjustments to 3 metropolitan areas (New York, Los Angeles and San Francisco) but not to others. National Federation of Federal Employees filed legal suit claiming President not using his powers consistently.
7. Interaction Between Budget Cycle and Pay Determination Cycle	Employment Cost Index published October, pay comparability report in November, budget introduced in January to Congress and implemented next January. Agencies must often absorb part of cost of pay adjustments. Budget can pay for extra adjustments and there may be supplementary budgets.
8. Background	1990 Federal Employees Pay Comparability Act (FEPCA) for Federal GS and GM workers. To link federal pay to Employment Cost Index and local pay area.

NOTES

1. A good example of this can be found among the state governments in the Federal Republic of Germany during the 1960s when the richer states could attract labour from the poorer neighbouring ones. As a result, the federal government pressed for, and by the late 1960s achieved, the unification of state pay scales (Blenk 1987, p. 50.).

2. The State Services Commission is the employer party for the negotiation of collective employment contracts in the Public, Health and Education Services, in consultation with the employers in each. The level at which collective bargaining occurs varies between sectors: agency/enterprise level bargaining is the norm for the Public Service, national/regional level bargaining for the Wealth Service, and national level bargaining for the Education Service.

3. Law of 13 July 1983.

4. Since 1988. In 1992/93, for the first time, all public service Chief Executives had performance agreements with their portfolio ministers, and all agency Chief Executives had performance agreements with the Chairman of the Board.

5. Under section 5301 of title 5 of the US Code, pay rates for employees under Federal statutory pay systems are fixed according to the following principles: (i) that there be equal pay for substantially equal work; (ii) that pay distinctions be maintained in keeping with work and performance distinctions; (iii) that Federal pay rates be comparable with private enterprise pay rates for the same levels of work; and (iv) that pay levels for the statutory pay systems be interrelated. (US President's Pay Agent, 1990).

6. Excluding the Senior Executive Service (SES), for which there is a separate pay schedule.

7. However, that has not prevented the development of collective bargaining between 1984 and 1992. Three pay agreements were signed covering five out of the nine years, and in 1990, agreement was reached on the complete reorganisation of the job and pay classification system.

8. This influence can also be seen in the substantive issues raised in pay bargaining. The presence of the same unions, or of unions that belong to the same federations as those in the private sector, is an obvious source of influence. In Italy, the unions' gains on indexation for private sector workers in the mid-1970s did spill over into the public sector which adopted the same system of flat-rate increases for percentage increases in the unions' price index. Indeed, many of the public sector demands of the 1970s reflected gains already made in the private sector by the same unions (Cella and Treu, 1982, Ch. 5).

9. These were: government departments, municipalities, provinces, water boards, education, the army, police and the judiciary.

10. An "encompassing" group is one which embraces a large proportion of the people, or groups, in a given population.

11. It covers 2.7m employees in the state civil service (fonction publique d'Etat), 1.2m in regional and local government (fonction publique territoriale), and 0.7m in public hospitals (fonction publiquc hospitalière). It covers in addition 3m retired persons.

12. In 1991, the President granted interim geographical adjustments to three metropolitan areas, Los Angeles, New York, and San Francisco, but not to others. As a result, the National Federation of Federal Employees filed a legal suit on the ground that the President was not using his powers consistently.

13. In the state-owned French car fii, Renault, management has encountered similar problems with fluctuations in pay from profit-sharing schemes, the drop in profit-sharing income being one of the factors behind the strike at Renault in early 1992.

14. On February 17, 1993, President Clinton announced to Congress his plans for dealing with the Federal deficit. These included a plan to freeze Federal pay in 1994, to delay the implementation of locality pay until 1995, and to reduce pay increases for 1995-97 to changes in the Employment Cost Index minus 1.5 percentage points.

15. These would mostly concern the regrading of certain groups of employees within the national pay scales, but their cost was counted against the overall public service pay bill, and so reduced the margin for national negotiations.

16. The process began in 1978 when 1 per cent of the pay bill was set aside for local negotiations. In 1985, the law on Personnel Policy in the Government Sector stated that the only goal for pay and employment policies of government agencies should be the requirements of those agencies (Schager 1993). According to Schager, the decentralisation process has led to a marked increase in the dispersion of pay among government employees between 1985 and 1990, although it remains below that of the private sector.

17. In order to understand why senior public servants remain in the service despite lower levels of pay sometimes, one would need to know not just what are current levels of pay on offer, but also what are their future eamings prospects in both the private and public services, and what would be the probability of gaining the critical promotions. It may also be that such pay systems attract risk averse rather than altruistic employees.

18. Defined as performance that "fully meets the normal requirements of the grade".

19. Max Weber stresses the importance of graded salary scales in his ideal type of bureaucracy, a model that was influenced by his analysis of the nineteenth century Prussian government bureaucracy (Weber, 1947).

20. The increasing value of an employee's human capital would be another potential reason for rewarding length of service, but this would presumably then be as widespread in the private sector as in the public service.

21. They include: Australia, Canada, Denmark, Finland, Ireland, the Netherlands, New Zealand, Norway, Spain, the United Kingdom, and the United States.

22. The town of Offenbach, near Frankfurt, in order to deal with its financial crisis has resorted to a number of measures including putting certain services out to tender, allowing its own staff to share in the gains of not fiiling vacancies when colleagues leave, increasing working time and making working hours more flexible (Die Zeit, 5.3.93). There has, however, been no move so far to break away from national rates of pay (which would be possible for non-*Beamte* staff) despite the number of private firms currently pulling out of industry agreements in the East in response to their own financial crises. I am grateful to Dieter Sadowski for drawing my attention to this case.

23. European Industrial Relations Review, 233, June 1993.

24. The Canadian scheme has, however, not functioned during some periods due to pay restraint measures and is currently suspended for this reason,

25. The recent Decree-Law no. 29/93 envisages that collective agreements should, in addition to setting basic pay scales, set rewards for individual and collective performance, and the objective criteria to be used for its evaluation.

26. In the Netherlands, approximately 2 per cent of the public sector wage bill is spent on performance-related pay, applying to all types of staff in the public services.

21. However, the Performance Management and Recognition System covering middle managers and supervisory grades expired in late 1993 and has not yet been replaced by another system.

28. Introduced with the 1988 reforms.

29. Recent reports on the poor correlation between top private sector managers' rewards and the performance of their companies may give ground for scepticism, although it is not clear that all the appropriate controls on the sample were made, e.g. what the companies' performance would have been otherwise.

30. "Over time, performance will come to determine a larger proportion of the pay bill without performance pay becoming a disguised way of providing unacceptably high increases in the pay bill", reply to a Parliamentary question 24.7.91.

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OECD PUBLICATIONS, 2 rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(42 94 52 1) ISBN 92-64-14159-6 - No. 47311 1994
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