

An Assessment of the Government Wage and Employment Policies

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1/ Represents the views of the author and does not necessarily represent those of the IMF.



Introduction

- In the Philippines, the fiscal consolidation effort is focused appropriately on raising the (low) revenue-GDP ratio.
- At the same time, building inclusive growth calls for a reorientation of expenditure toward priority areas (education, health, safety net, infrastructure).
- The wage bill is the most costly item in the economic classification of the budget.
- Keeping the wage bill in check will be an important part of the reorientation efforts. This could help to create space for hiring more teachers.

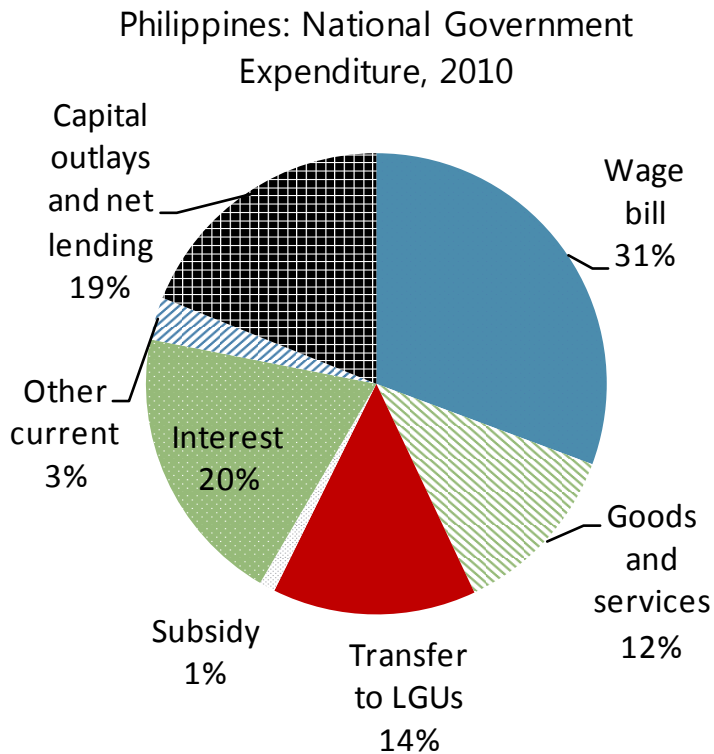
Outline

- Recent developments
- Cross-country comparisons
- Competitiveness of salaries for government employees
- Policy options

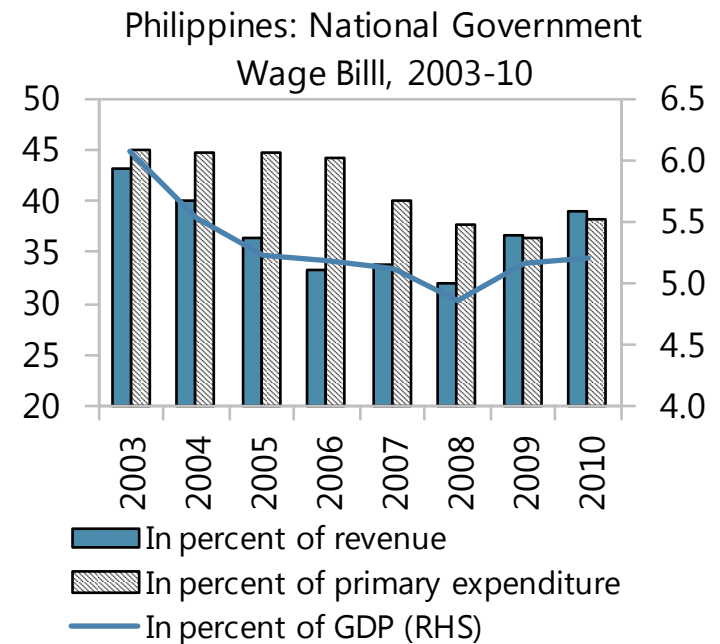


RECENT DEVELOPMENTS

The national government wage bill as a percent of GDP has increased since 2009, comprising 32 percent of total government outlays in 2010.



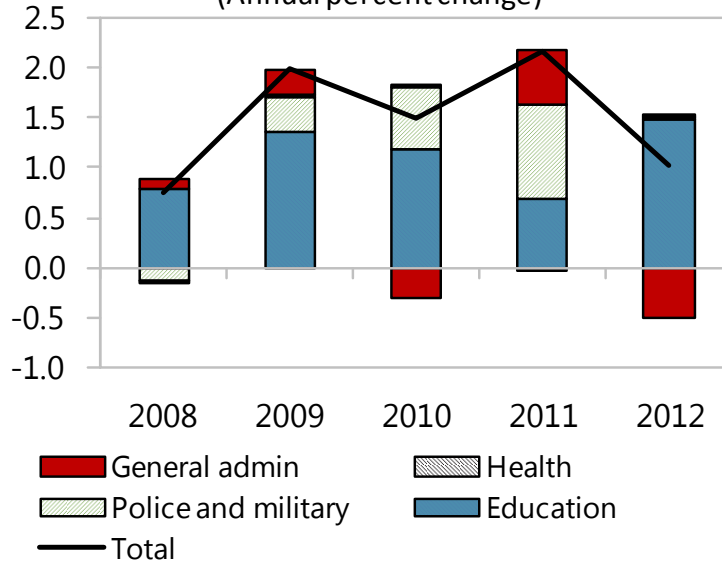
Source: Philippines authorities.



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While national government employment increased moderately during 2009-12, salary levels are being raised significantly, owing to Salary Standardization Law III (SSL III).

Philippines: Contributions to Changes in Government Positions, 2008-12
(Annual percent change)



Source: Department of Budget and Management.

Philippines: Average Salary Increase for Government Employees
(Annual percent change)

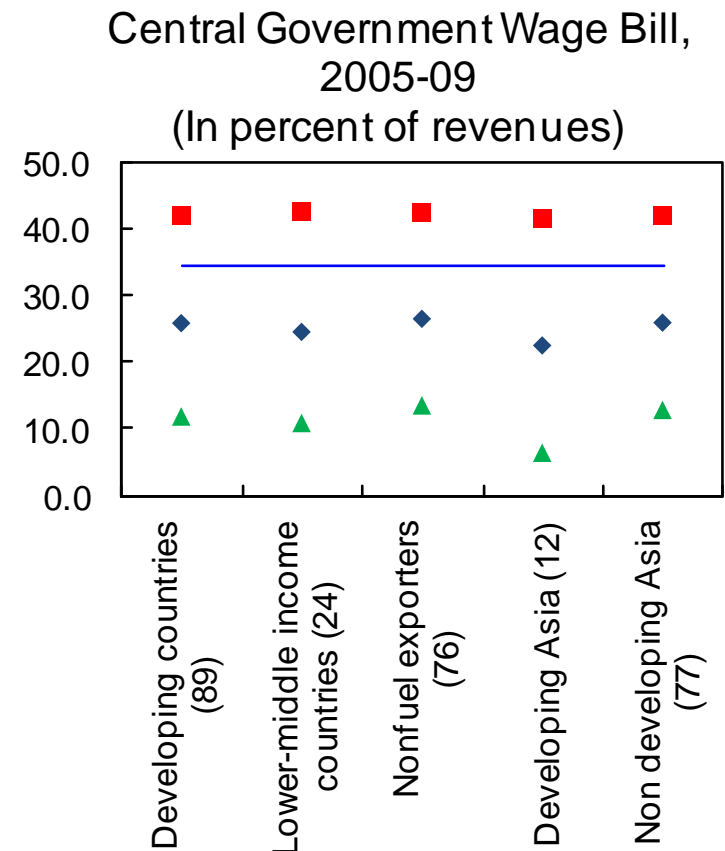
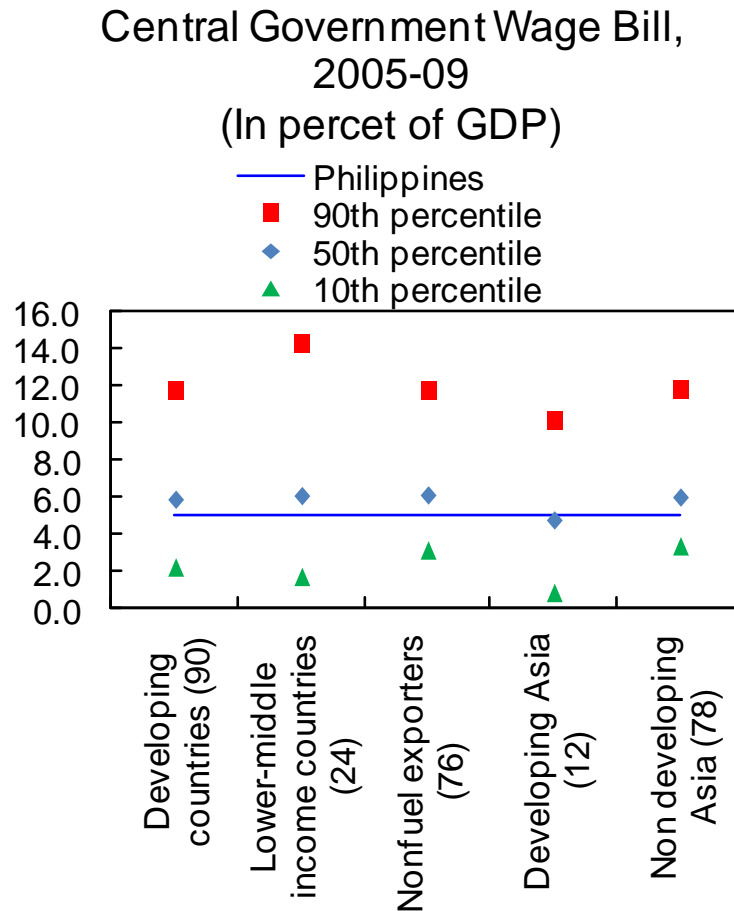
Category of positions	2009	2010	2011	2012
All positions	15	13	11	10
Sub-professional	11	10	9	8
Professional	16	14	12	11
Executive	27	21	17	15

Source: Department of Budget and Management.



CROSS-COUNTRY COMPARISONS

Cross-country comparisons of the wage bill

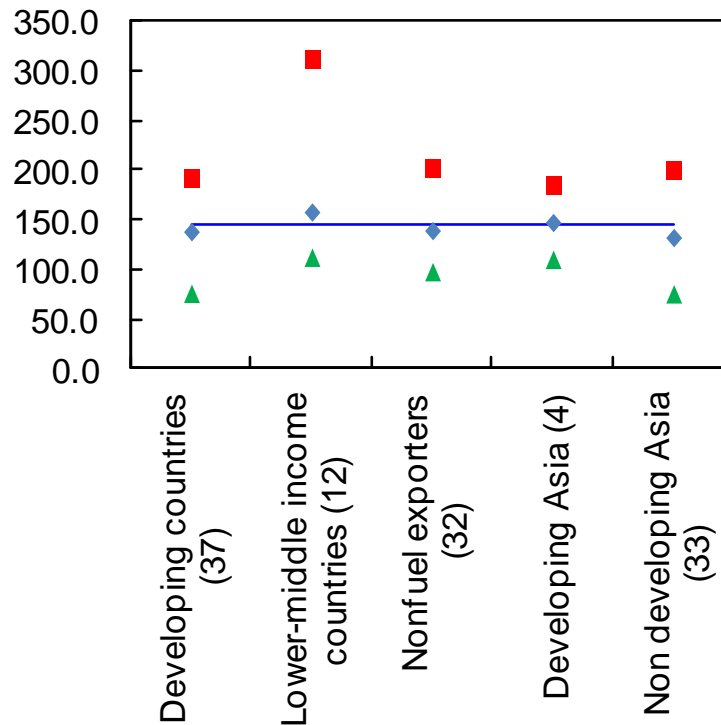


Sources: Government Financial Statistics; World Economic Outlook; International Labor Organization and Philippines authorities.

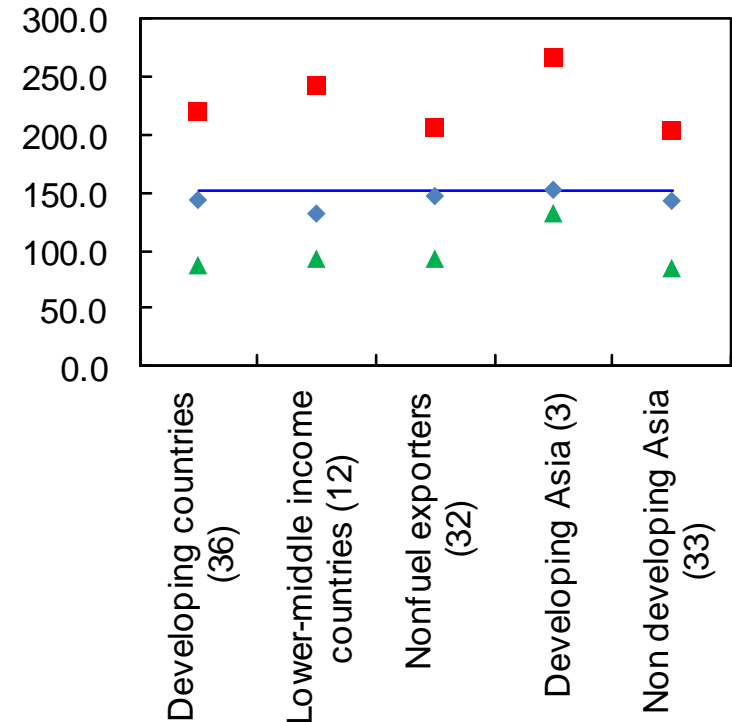
1/ Compares the average of indicators over years indicated by country. Number of countries in a country group is shown in parenthesis.

Cross-country comparisons of the salary level

Public Sector Salary, 2005-08
(In percent of GDP per capita)



Public Sector Salary, 2005-08
(In percent of manufacturing wage)



Sources: Government Financial Statistics; World Economic Outlook; International Labor Organization and Philippines authorities.

1/ Compares the average of indicators over years indicated by country. Number of countries in a country group is shown in parenthesis.

Observations/discussions

- The Philippines' government wage bill as a percent of GDP is comparable to those in other countries.
- However, the wage bill is large relative to total revenue (=the size of the government).
- Higher education spending in future would likely increase the wage bill, highlighting the need to keep the non-education wage bill in check.
- Public sector salaries in the Philippines appear broadly in line with those in other countries.
- Nevertheless, to retain qualified and skilled employees in the government, what ultimately matters is the wage competitiveness against the private sector *within* the country.



COMPETITIVENESS OF SALARIES FOR GOVERNMENT EMPLOYEES

Methodology to estimate wage premium/discount of government vis-à-vis private sector workers

- We use labor force survey (LFS) database (January for each year during 2007-11).
- Focus on workers living in urban areas and in the National Capital Region.
- Regress daily salary (in log) on: dummy variables for government employees and teachers (separately) and worker characteristic variables (educational attainment levels, years of experience, and gender).
- Coefficients on dummy variables for civil servants and teachers measure a wage premium or discount over comparable private sector workers.

Estimates of government wage premium

Philippines: Wage Premium/Discount for Government Employees against Private Sector Workers

Year	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Sample	Urban	Urban	Urban	Urban	Urban	NCR	NCR	NCR	NCR	NCR
D.civil servant	0.008 (0.021)	0.005 (0.019)	0.017 (0.020)	-0.016 (0.021)	0.064*** (0.020)	0.004 (0.042)	-0.011 (0.036)	0.043 (0.036)	-0.040 (0.038)	0.092** (0.037)
D.teacher	0.085*** (0.018)	0.139*** (0.016)	0.164*** (0.015)	0.190*** (0.018)	0.257*** (0.019)	-0.054 (0.037)	0.028 (0.050)	0.038 (0.037)	0.039 (0.040)	0.150*** (0.043)
Experience	0.028*** (0.001)	0.019*** (0.001)	0.019*** (0.001)	0.024*** (0.001)	0.019*** (0.001)	0.020*** (0.002)	0.016*** (0.002)	0.015*** (0.002)	0.022*** (0.002)	0.015*** (0.002)
Experience squared	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
D. gender	-0.313*** (0.010)	-0.268*** (0.009)	-0.283*** (0.009)	-0.307*** (0.010)	-0.286*** (0.009)	-0.318*** (0.016)	-0.263*** (0.015)	-0.286*** (0.015)	-0.285*** (0.016)	-0.270*** (0.014)
D. elementary graduates	0.066*** (0.025)	0.118*** (0.024)	0.147*** (0.024)	0.085*** (0.025)	0.113*** (0.025)	-0.025 (0.061)	0.031 (0.055)	0.024 (0.049)	-0.008 (0.053)	0.095* (0.049)
D. high school undergraduates	0.179*** (0.025)	0.179*** (0.024)	0.232*** (0.024)	0.142*** (0.024)	0.198*** (0.024)	0.170*** (0.058)	0.067 (0.055)	0.087* (0.049)	0.038 (0.050)	0.130*** (0.046)
D. high school graduates	0.417*** (0.023)	0.386*** (0.021)	0.435*** (0.022)	0.383*** (0.022)	0.404*** (0.022)	0.308*** (0.055)	0.222*** (0.050)	0.273*** (0.044)	0.232*** (0.047)	0.265*** (0.041)
D. college undergraduates	0.659*** (0.024)	0.646*** (0.023)	0.676*** (0.023)	0.667*** (0.023)	0.686*** (0.023)	0.627*** (0.056)	0.544*** (0.051)	0.554*** (0.045)	0.596*** (0.049)	0.619*** (0.042)
D. college graduates	1.225*** (0.024)	1.135*** (0.022)	1.200*** (0.023)	1.234*** (0.023)	1.194*** (0.023)	1.197*** (0.057)	0.982*** (0.051)	1.067*** (0.045)	1.149*** (0.048)	1.067*** (0.042)
D. graduate school degree	1.791*** (0.090)	1.570*** (0.047)	1.618*** (0.057)	1.776*** (0.077)	1.664*** (0.066)	2.115*** (0.237)	1.580*** (0.102)	1.491*** (0.115)	1.653*** (0.246)	1.254*** (0.111)
Constant	4.751*** (0.025)	4.886*** (0.024)	4.885*** (0.025)	4.912*** (0.025)	4.973*** (0.024)	5.080*** (0.059)	5.242*** (0.053)	5.265*** (0.047)	5.240*** (0.051)	5.288*** (0.044)
Observations	16,749	16,718	16,654	17,247	17,493	5,192	5,006	5,027	5,523	5,463
R-squared	0.364	0.360	0.374	0.372	0.385	0.410	0.364	0.404	0.401	0.404

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Observations/discussions

- Our result suggests that salary Levels of government employees are competitive now, indicating that the SSLIII helped improve the competitiveness of civil servants' salaries.
- For civil servants, while the wage premium was statistically insignificant in previous years, the premium became significant positive in Jan-2011 (6 percent for urban and 9 percent for the NCR).
- For teachers, the premium is estimated at 26 percent and 15 percent for urban and NCR workers, respectively.
- The estimate should be refined by addressing potential methodological issues (identification of government employees and measurement errors).



POLICY OPTIONS

Summary of findings

- The national government wage bill is on a rise in the Philippines, mainly owing to salary increases.
- Although it is not excessive from an international perspective, it is large relative to revenue (=the size of the government), suggesting potential space for rationalization.
- This could help to create space for hiring more teachers, while keeping the total wage bill in check.
- The salary level of civil servants and teachers appears competitive vis-à-vis private sector wage.

Policy options to rationalize the wage bill

- A functional review of government departments and organizations can spot areas of duplication, and identify non-core functions to be outsourced.
- Strengthening payroll control systems can identify fictitious workers.
- Salary adjustments should be based on a periodical and systematic evaluation of wage competitiveness against the private sector.
- Performance-based pay could enhance incentives for government employees, but performance assessment is inherently difficult in the public sector. Institutional arrangements should be carefully designed and stakeholders consulted from an early stage.