BENCHMARKING THE BENCHMARKERS

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1. Introduction

The main pay increases recommended by the Public Service Benchmarking Body (PSBB) are summarised in Table 1 below. Full implementation of these recommendations would cost the Exchequer an estimated €1.1bn per annum in gross terms. Since publication of the PSBB's report, the question of whether and how the awards should be delivered has been addressed in the context of the state of the public finances and couched principally in terms of affordability. My own view is that the affordability question has been given too much prominence. If the state needs to significantly increase pay rates in order to deliver public services to an acceptable standard, then I think it is perfectly in order to do so and raise the requisite money by levying higher taxes.

Table 1: The Principal Pay Increases Awarded by the PSBB

Teachers	13%
Nurses	8-16%
Gardai	5-16%
Army	4-13%
Civil Servants	8.5-13.8%
Paramedics	12-25%

There is however a more fundamental issue, one which is anterior in logic to the affordability question, namely, the underlying justification for the awards. The question that I intend addressing in this paper therefore, is the following. What warrants an average increase of 9 per cent in public sector rates of pay over and above the "normal" round of pay increases and at a cost of €1.1bn gross per annum?

2. Background/ Context

The PSBB was set up in July 2000. Its establishment was provided for in the *Programme for Prosperity and Fairness (PPF)*. As such, it was a creature of the PPF and was regarded as the property of the social partners. Indeed, the "ownership" of the benchmarking process was drawn more tightly than that. The principal parties to its establishment were the public sector employers on the one hand and the public sector unions on the other. These parties were consulted regularly throughout the process.

Part of the reason for establishing the PSBB was the high degree of dissatisfaction on the part of unions and employers with the existing system of pay determination. This is a system that theoretically provides for the extensive benchmarking of public sector pay against the private sector, with internal and cross-sectoral relativities supposedly playing a

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modest role. In practice, however, the system has evolved in such a away that there are relatively few grades whose pay is determined with reference to the private sector and a great number of grades where relativities and analogues are the main determinants. The deficiencies of the current system are serious and well known. In particular, it is extremely rigid and inflexible, it militates against discrete treatment of individual grades and sectors, and it has a tendency to generate wage-wage spirals.

Another important aspect of the institutional backdrop to the setting up of the PSBB was the fall-out from the so-called PCW "restructuring clause". This was a clause of the *Programme for Competitiveness and Work* that provided for pay increases conditional on efficiency-enhancing changes being agreed by the grades concerned. Most of the groups who settled early under this clause settled for 6 per cent or less, but those who settled late got considerably more. Nurses extracted a 25 per cent increase under the clause, while Gardai achieved 16 per cent and prison officers got 13 per cent. The paramedic grades got 13 per cent along with the establishment of a pay review group that delivered them further substantial adjustments.

The early settlers felt aggrieved by their relatively poor performance under PCW restructuring, and their sense of grievance was only partially assuaged by the special 3 per cent award they secured by way of compensation under the terms of the PPF. It is fair to suppose therefore, that the early settlers, who comprise that vast majority of public servants, and include the teachers, brought a strong sense of "unfinished business" to their expectations of what the benchmarking process might hold for them.

Of course, the economic background to the PSBB's establishment is also important to note. It took place at a time when labour market tightness was nearing its zenith. By mid-2000, economy-wide employment was growing at an annual rate of almost 90,000 and the unemployment rate had fallen to not much more than 4 per cent, from over 10 per cent barely three years earlier. Wage inflation had started to accelerate, although it was still comfortably in single-digit territory in all sectors except construction, where labour shortages were most acute.

The labour market situation had in turn created a number of widespread and strongly-held perceptions. One was that pay was rising much more quickly in the private than in the public sector and that the public sector was being "left behind". The other was the related perception that public sector employers were finding it increasingly difficult to recruit and retain suitably qualified staff and, in particular, that problems on this front were becoming relatively more acute for them than for their private sector counterparts.

Inevitably, with perceptions like these taking root, expectations of what the benchmarking exercise would deliver were correspondingly high. This is perhaps best exemplified by the demands for 30 per cent-plus pay increases from the teachers' unions, although they were by no means the only ones pitching for substantial two-digit awards. Nonetheless, the teachers' demands were the most high-profile and to that extent set a headline for others. Moreover, the political response to the teachers' case, especially the interventions of the then Minister for Education, reinforced their high expectations and the high expectations of other groups, who reasoned that if teachers obtained a big two-digit award they would too.

3. Terms of Reference

Before evaluating the report of the PSBB it is necessary to examine its terms of reference. These were agreed between the public service employers and the public service trade unions/associations (the "parties").

The PSBB's terms of reference were divided into five sections entitled respectively: (i) General; (ii) Role review and pay research; (iii) Relativities; (iv) Public service modernisation, and (v) Approach.

The first section specified that the body would produce a single report and set a deadline for publication of that report (30th June 2002), dealt in general terms with the range of grades that the Body was being required to examine, and outlined the context in which the Body's recommendations would be discussed and implemented.

The section entitled "Role review and pay research" spoke of the Body's recommendations being "grounded in a coherent and broadly-based comparison with jobs and pay rates across the economy" which would require an examination of "existing roles, duties, responsibilities etc. in the public service and across the economy, and not just the pay rates applicable in the private sector to jobs with similar titles to and superficially similar roles as jobs in the public service". It also envisaged that this research would have regard to "differences in working conditions…and other relevant benefits including security of tenure and superannuation benefits". The purpose of this section was to outline the scope and nature of the analysis upon which the recommendations were to be based.

The section on relativities makes two main points. The first is that cross-sectoral relativities (e.g. a relativity between nurses and Gardai) are incompatible with the operation of benchmarking. The second is that internal relativities (e.g. a relativity between a clerical officer and an executive officer in the Civil Service) are relevant, but that their existence should not prevent the PSBB from altering them if deemed appropriate.

The section on public service modernisation stipulates that the benchmarking exercise should be undertaken "within the context of the provisions on public service modernisation in the PPF" and briefly elaborates on this. My interpretation of this section and the previous one is that they are essentially clarificatory in purpose, though that is not to deprecate their importance.

I believe that the last section, the one entitled "Approach", is the critical section in so far as it sets out the key concerns that the recommendations should address. As such, it is worth quoting in full:

In reaching its recommendations the Benchmarking Body is to have regard to the following considerations:

- *the need to recruit, retain and motivate staff with the qualifications, skills and flexibility required to exercise their different responsibilities;*
- *the need to ensure ongoing modernisation of the public service so that the public service can continue to adapt to necessary changes and to achieve greater efficiency and effectiveness;*
- *the need to ensure equity between employees in the public service and the private sector, and*
- *the need to underpin Ireland's competitiveness and develop our economic prosperity on a sustainable basis.*

For the most part, the import of this passage seems clear enough. However, some exegesis is necessary. In particular, why did the parties find it necessary to separately advert to the need to underpin competitiveness? Would not a set of recommendations that adequately addressed the recruitment, retention and motivation agenda and the issue of ongoing modernisation, also adequately address the competitiveness issue?

The most plausible answer to this question is that the inclusion of this clause reflects a concern that the Body take account of the implications of its recommendations for pay in the private sector. If so, this clause captures not so much an objective of the exercise (in the same way as the other three do) as a constraint.

Interpreting the terms of reference in this way would suggest that the task that was set for the PSBB was in the nature of a constrained optimisation exercise. On the one hand, we have an objective function consisting of the need to recruit, retain and motivate, the need to ensure ongoing modernisation and the need to ensure equity. On the other hand, the constraint is that these needs be met in a way that is not injurious to the competitiveness of the exposed sectors of the economy.

In what follows, I will explore the degree to which the recommendations of the Benchmarking Body advance the objectives set out in the terms of reference.

4. Recruitment and Retention

A perception that was widespread at the time the PSBB was established was that rates of pay in the private sector had increased greatly relative to their public sector equivalents. A related perception was that public service employers were experiencing growing problems in relation to recruitment and retention of staff. How valid were these perceptions? What evidence of recruitment and retention problems in the public service exists? In particular, is there evidence to indicate that recruitment and retention problems have become more acute for public service than for private sector employers in recent years?

Data from the Quarterly National Household Survey (QNHS) are instructive in this regard and are set out in Table 2.

Table 2: Employment Growth 1999-2002*

(change, 000s)	1999	2000	2001	2002	1999-2002
Agriculture	0.9	-5.0	-10.8	0.6	-14.3
Private Non-Ag.	78.5	66.9	43.4	2.3	191.1
Public Service	17.2	17.7	13.2	30.5	78.6
Total	96.6	79.6	45.8	33.4	255.4
(change, % pa)	**1999**	**2000**	**2001**	**2002**	**1999-2002**
Agriculture	0.7	-3.7	-8.3	0.5	-2.8
Private Non-Ag.	7.3	5.8	3.5	0.2	4.2
Public Service	6.2	6.0	4.2	9.4	6.4
Total	6.5	5.0	2.7	1.9	4.0

* The data relate to Q2 of each year. The Public Service is defined as the sum of the QNHS sectors Public Administration and Defence, Education, and Health.

Having lagged somewhat behind in 1999, the rate of increase in public sector employment has outstripped that of the private sector in each of the last three years. In the latest twelve–month period for which data are available virtually the entire increase in economy-wide employment was concentrated in the public service, most of that in turn being concentrated in the health and education sectors. Taking the 1999-2002 period as a whole, the public sector has managed to increase employment by a cumulative 28 per cent. This compares with a cumulative 18 per cent increase in private sector non-farm employment over the same period.

These data cannot of course be taken as conclusive evidence that the public sector has not experienced recruitment and retention problems. It may be that the numbers employed have been expanding less rapidly than demand and that the number of vacancies has been rising. It may also be that the quality of recruits to the public service has been declining. However, the data strongly suggest that, for the public service as a whole, problems of recruitment and retention have not been any more acute than for the private sector. They also suggest that what problems public service employers had been experiencing in this regard have receded with the loosening of overall labour market conditions.

None of this is to deny the possibility that problems have been and remain acute in certain areas of the public service. But, in which areas? And, what are the causes of such problems? More importantly, how susceptible are such problems as exist to a remuneration-based remedy?

One will search in vain for an answer to these and related questions from the Benchmarking Body. Its report, which runs to over 280 pages, devotes just four paragraphs to recruitment, retention and motivation, and there is no discussion whatever of these issues on a grade-by-grade basis.

Why has the Body so little to say about recruitment and retention, matters that appear to be central to its terms of reference? Perhaps the answer is to be found in the few general remarks that the report contains on the subject.

> *High standards of performance require robust strategies to enable public sector employers to recruit and retain staff who are appropriately and suitably qualified. All such strategies need to be founded on accurate information about the labour market…The Body was concerned at the inability of some public service employers to provide adequate information about vacancy levels and the effect of their recruitment policies over time. Such information gaps must be filled in order to enable the public service to compete in a tightening labour market. Anecdotal information, while important, is not a suitable basis for planning future personnel needs and associated pay levels. (PSBB,* p.55*).*

5. Equity Between the Public and Private Sectors

Why does the question of equity between the public and private sectors feature in the terms of reference in the first place? It might be argued that the labour market looks after equity in the sense that if people feel inequitably rewarded for the work they do in the public sector they are free to move to the private sector. If wage rates adjust to such supply shifts, an equitable equilibrium will result.

This argument presumes a degree of mobility between public and private sectors that does not exist. For all sorts of reasons, there is actually very little movement between the two sectors above the basic recruitment grades. One of the reasons, of course, is that many public servants have skills and/or pursue vocations that are public service specific (teachers, for example). Accordingly, if their sense of distributive justice is grievously offended by their level of remuneration, they cannot readily seek redress by moving job. So, although it may not sit comfortably with the instincts of economists, equity is a valid consideration in relation to rates of pay in the public service.

Public servants' sense of distributive justice seems to have become agitated in recent years. A perception that their pay had fallen behind that of their private sector counterparts formed an influential part of the background against which the Benchmarking Body was established. How valid is this perception?

There are several strands of evidence available on this issue. The first is the sectoral earnings data published by the CSO. Some relevant figures are set out in the table below. What they show is that average public sector earnings have grown at almost precisely the same rate as average earnings in banking and in industry since 1997. Average earnings growth in the construction sector has been a good deal more rapid see Table 3.

Somewhat more refined analysis, which tries to match broadly similar occupational groupings, indicates that the pay of administrative civil servants and local authority workers has increased at roughly the same rate as that of clerical and managerial employees in industry and construction over the same period.

Table 3: Average Weekly Earnings Growth, 1997-2002

Sectors	**(% pa)**
- Public Service	6.2
- Banking, Insurance etc.	6.1
- Industry	6.1
- Construction	9.5
Occupational	
- Admin civil servants	6.1
- Admin (local authorities)	7.2
- Clerical & managerial (industry)	6.5
- Clerical & managerial (construction)	6.5

These aggregate data therefore show public and private sector pay rates moving in step with each other in recent years. What this suggests in turn is that, if overall levels of pay in the public sector are currently lagging behind the private sector, then this is a long-standing problem or at least one that dates back to 1997 or before. In other words, it is a problem that predates the sharp labour market tightening of the late Celtic Tiger years.

But how plausible is it to suggest that public servants have been the victims of inequitable pay distribution from at least five years ago? How does this square with the relative ease with which the public service has been able to grow employment in the intervening period? How indeed does it square with the apparent tendency of the existing public service pay determination system to produce relativity-driven wage-wage spirals? And, what does it suggest about the bargaining power of trade unions?

In fact, what it suggests about the role of trade unions is entirely implausible. After all, the unionisation rate is over 60 per cent in the public, but less than 30 per cent in the private sector, and most international research on the subject strongly suggests that union membership boosts pay levels. Recent research in the US, for example, indicates that the "union wage gap" is as much as 16.3 per cent for working men and 15.1 per cent for working women (Hirsch and MacPherson, 1998).

So, the notion that public servants are in general inequitably paid relative to the private sector is not supported by the aggregate data or by *a priori* reasoning. Of course, this does not preclude the possibility that some groups of public servants are poorly paid relative to the private sector and that the gap for some groups has widened in recent years. (One might expect to find such groups in the less unionised areas of the public service.) So, what has the Benchmarking Body to say about all this? What evidence does it offer?

Remarkably, the Benchmarking Body's report offers no evidence whatever on this score. It makes absolutely no observation on the relationship between private sector and public sector pay. Specifically, at no point in the report is there an assertion that public sector pay rates in general, or rates of pay for specific grades, are lower than equivalent rates of pay in the private sector. The nearest the Benchmarking Body comes to making such an observation is in the following passage.

> *The Body's aim has been to achieve an appropriate balance between the provision by public service employers of rewards which are comparable with the private sector whilst ensuring that the public service does not lead the private sector in terms of pay levels. Failure to maintain this balance could have potentially damaging effects on national competitiveness. This conclusion has in turn led the Body to acknowledge the importance of the median value of the comparative private sector data, together with the other significant considerations from its terms of reference, as being important criteria in making its specific recommendations. (PSBB,* p.23).

The Benchmarking Body's reticence on the matter of public sector/private sector pay differentials is in stark contrast to the position adopted by the Buckley Review Body. Buckley was quite explicit on the subject, stating unambiguously:

> *On this occasion, our research revealed that in most cases salary levels are very substantially out of line with those of comparable private sector posts and total remuneration for top level public sector posts is significantly more out of line now than four years ago. (Review Body on Higher Remuneration*, p.16*).*

Moreover, Buckley substantiated this conclusion with a graphical representation of the relevant data, which illustrated how far rates of pay in the public sector lagged behind the private sector in respect of the top echelon of management, and also what impact on such differentials the Buckley recommendations would have.

But Buckley's analysis revealed something else too, namely that the largest differences between private and public sector remuneration existed in respect of the most senior and complex posts. This is not surprising: there is a more egalitarian ethos in the public service, and bargaining power and political leverage there tend to be concentrated in the grades that are numerically strongest. This suggests the intriguing possibility that at some point in the hierarchy of jobs, rates of pay in the private and public sectors are broadly similar, and that below that point rates of pay in the public sector may be higher than for comparable private sector grades.

6. Modernisation and Change

It is not obvious from its report that the Benchmarking Body has properly addressed its terms of reference as far as recruitment and retention and equity between the public and private sectors are concerned. Certainly the case for substantially raising public sector pay on either of these grounds has not been made by the Body, and to that extent taxpayers might be forgiven for thinking that the €1.1bn bill for benchmarking represents extraordinarily bad value for money. Still, an arguable case for paying such a bill might exist if sufficient progress on the modernisation and change agenda were to be delivered in return. So, how does the Benchmarking Body measure up on this score?

The key aspect of the report in this respect is the Body's recommendation that the implementation of 75 per cent of all its pay awards be made conditional "upon agreement on relevant modernisation and change issues at the appropriate local bargaining levels". In this connection, the Body made the point that it expects to see what it calls "real outputs" being delivered. The Body recommends the establishment of an appropriate validation process to ensure that such agreements are respected. However, the Body does not specify what modernisation and change issues should form the agenda for local bargaining. It leaves this to be determined by management and staff at local level.

The modernisation and change condition is enormously problematical for all sorts of reasons. At the most fundamental level, it raises the question of whether the taxpayer should reasonably be expected to pay for change and, if so, what sort of change. It might be easy, as a general principle, to justify increasing pay rates in circumstances where, for example, the entitlement to substantial overtime earnings is being bought out, or where working conditions are being made demonstrably more onerous. It is not so easy to justify pay increases as compensation for implementing new technology or eliminating restrictive practices.

Therefore, if the Benchmarking Body's pay awards are to be rationalised on the grounds that their implementation will bring desirable change, it is necessary to know, at a minimum, what precisely are the changes in question. This requirement does not just spring from a hard-headed economic perspective. It is suggested by the PPF itself, which says:

> *It is accepted that change is a requirement of a modern high-performing public service and is not, in itself, a basis for claims for improvements in pay and conditions. (PPF,* p.36).

The PPF has a lot more to say about modernisation and change, which highlights another problem with the Benchmarking Body's condition. A significant chunk of the PPF is devoted to setting out in some detail a modernisation agenda for the public service generally and for its main elements – the Civil Service and the health, education and local government sectors. The parties to the PPF committed themselves to this agenda. In this respect, the Benchmarking Body's report offers nothing by way of increment. It seems to be simply increasing the rewards available for doing what has already been committed to.

In this connection it is worth recalling that payment of the third and final phase of the basic increases agreed under the PPF – the 4 per cent to be paid from 1st October 2002 – was to be dependent on a particular subset of the modernisation and change agenda being delivered. This subset included the design and implementation of performance management systems throughout the public service, the implementation of challenging service standards and so on.

The available evidence leaves room for suspicion that these conditions have not been met. Indeed, a recent audit by public service employers of the progress made in the delivery of the modernisation programme agreed under the PPF, found that there are many major issues outstanding and many areas in respect of which progress has been inadequate and/or negligible. Specifically, as far as performance management and development are concerned, the audit found that in some sectors, notably local government and education, systems had either not been implemented at all or implementation needed to be "moved on".

Notwithstanding all this, the final 4 per cent of the PPF has been sanctioned for payment. That it has been sanctioned in the circumstances just outlined does not inspire confidence that the conditions that might attach to pay awards in the future will be fulfilled.

7. A Better System of Pay Determination?

If a case for substantially raising public service pay on any/all of the three grounds examined so far cannot be made, are there perhaps other grounds on which the case can be made? Perhaps, the outlay of €1.1billion per annum might be justified on the grounds that benchmarking is such a vastly superior system of pay determination to what's currently in place.

WHAT IS BENCHMARKING?

This proposition prompts a number of questions. First, what is benchmarking? Second, what are its salient features? Third, in what way is it superior as a pay determination system?

What is benchmarking? On the face of it, the benchmarking exercise carried out by the PSBB was based primarily on a methodology called Job Evaluation or, more specifically, Factor Point Job Evaluation. This methodology involves the following steps.

- The identification of "factors" or components that exist in varying degrees in all jobs, such as knowledge, judgement, leadership, interpersonal skills, emotional demands etc.
- The evaluation of jobs with reference to these factors. This is done by administering questionnaires and/or interviewing job-holders and their supervisors. Scores are awarded to each job in respect of each factor.
- The determination of a weighting scheme for aggregating the scores across the range of factors for each job. The resulting aggregate score is a measure of the job "size".

When this type of exercise is carried out for posts in the private and public sectors, it provides the basis for identifying private sector comparators for each public sector grade that is under review. These private sector comparators in turn provide the basis for benchmarking the pay of the public sector grades in question.

Job Evaluation (JE) is used to a very limited extent in the private sector as a means of benchmarking the pay of some well-defined positions and of adjusting and validating the pay hierarchy within organisations. It has also been used extensively in the US and elsewhere in the policing of comparable pay for comparable work legislation. There is an extensive academic literature on the subject. An excellent critique of JE, or "Comparable Worth" as it is known in the US, is contained in *The Economics of Comparable Worth* by Mark Killingsworth. Interestingly, JE has never been used in respect of a remit as big as that faced by the Benchmarking Body.

WHAT ARE THE KEY FEATURES OF JE SCHEMES?

In order to judge whether benchmarking as purportedly practised by the PSBB provides the basis for a superior system of pay determination to the current one, there are a few key features of JE methodology that need to be drawn out.

The first is that the methodology evaluates jobs not people. As such, it is entirely silent on dimensions like productivity and performance. Effectively, it assumes that everyone in the same post is equally productive and performs equally satisfactorily. It is also silent on issues like hours worked and holiday entitlements.

Another feature of JE schemes is their tendency to throw up strange bedfellows. Killingsworth quotes some examples of this that arose from the work of the US National Research Council's Committee on Occupational Classification and Analysis. The JE scheme it used in the early 1980s grouped together such extraordinarily diverse occupations as (i) physicians, athletes and roofers; (ii) university teachers and dishwashers, (iii) gardeners and computer programmers, and (iv) garbage collectors and real estate agents.

This sort of problem can be averted, at least in the kind of extreme form represented by these examples, if a suitable weighting system is applied. But, how to determine the appropriate weights? This can be done on an *a priori* basis or it can be done on the basis of regression analysis. If the former, there is an inevitably large element of arbitrariness involved. How does one set about calibrating the relative worth of interpersonal skills *vis-à-vis* leadership or the relative worth of knowledge *vis-à-vis* accountability.

An obvious answer is to let the market decide and assign the weights on the basis of a statistical analysis of the relationship between factor scores and (private sector) pay. The problem here is that most studies (certainly most of those quoted by Killingsworth) have found no statistically significant relationship between most of the factors used in typical JE schemes and the pay levels attaching to jobs.

It is hardly surprising, therefore, that when one examines the relationship between JE scores and pay levels in the private sector, one makes some most unhelpful discoveries. Amongst the most unhelpful is the discovery that the pay levels that attach to jobs of similar size span enormous ranges. The reason is clear: private sector employers do not use JE schemes to set pay (except in the most limited of contexts). The reason for this in turn is that JE, in so far as it relates at all to what happens in labour market transactions, reflects an exclusively supply-side perspective.

HOW CAN A JE-BASED SYSTEM YIELD SUPERIOR RESULTS?

Can a benchmarking process that leans heavily on JE methodology provide the basis for a superior pay determination system to the current one? The points already made would tilt one towards scepticism. However, it is worth giving a more considered view. Specifically, it is worth asking how a JE-based pay determination system might score in relation to the key concerns identified in the PSBB's terms of reference: (i) recruitment and retention; (ii) equity, and (iii) modernisation and change.

As far as addressing recruitment and retention issues is concerned, JE is of no use. The reason is straightforward: JE is not a market-based methodology. There is no market for jobs that score 1,000 Hay points. To revert to one of Killingsworth's "strange bedfellows" examples: paying gardeners and computer programmers the same, at least in the kind of labour market conditions that have prevailed in Ireland in recent years, would either lead to a huge oversupply of gardeners or a huge shortage of computer programmers.

What about the proposition that the application of JE would lead to greater equity between the public and private sectors? A fundamental problem with this proposition is that the private sector itself is not characterised by pay equity in the sense of equal pay for equal points. Instead, jobs with similar point scores attract a very wide range of pay levels in the private sector. That being the case, the benchmarker must then decide where in the private sector distribution to anchor pay for the relevant public service grade. Should it be the mean, the median, the upper quartile, the lower quartile or some other point in the distribution? Is any one of these points a demonstrably richer repository of equity than another?

However fascinating contemplation of the competing claims of these options may be, consideration of the bigger picture would suggest that there are other equally if not more important dimensions to the public/private equity issue. These include tenure conditions, pension entitlements and access to performance-related pay, issues that the Benchmarking Body's report is virtually silent about.

Moreover, equity is as much about perception as it is about actuality. Equity, like justice, must not only be done but must be seen to be done. To that extent, the use of a JE scheme as the vehicle for determining and delivering pay equity requires that the scheme have a reasonable degree of transparency. This, the Benchmarking Body's report patently lacks.

How might a JE-based pay determination system score in relation to progressing the modernisation and change agenda within the public sector? Here, the critical feature of JE is that it is focused on jobs not jobholders and is, as a result, silent on issues like productivity and performance. Accordingly, a JE-based system provides no incentives to jobholders to adopt changes that boost productivity. In this connection it is worth pointing out that, to the extent that the pay of comparator grades in the private sector is positively correlated with productivity growth over time, public service workers would enjoy a free ride.

On the other hand, a JE-based system would provide an incentive for public service workers to agree to or seek changes that would extend the scope of a post or otherwise boost the size of a job. This might or might not be desirable. It might, for example, encourage the artificial raising of qualification thresholds for posts. In any event, if a JE-based system is to function as a mechanism for cultivating the acceptance of change, the links between pay and job size would need to be made a good deal more transparent than in the Benchmarking report, perhaps to an infeasible degree.

8. Performance Related Pay

Benchmarking is the property of the social partners, a process that was conducted within parameters acceptable to the public sector trade unions and employers. Some recommendations that the Body might have made in valid pursuit of its terms of reference would have fallen outside these parameters and were avoided. Performance related pay (PRP) is probably the most significant example.

PRP has the potential to address at least two of the elements in the Benchmarking Body's terms of reference: motivation and equity. Its role as a motivational tool is obvious; its role in relation to equity may not be. But, there are two dimensions of equity to which PRP is relevant. First the absence of PRP in the public service represents an important and growing difference between the public and private sectors, and to that extent a potential source of inequity between the two.

Second, the absence of PRP is a source of inequity *within* the public service itself. I believe it offends against the sense of distributive justice of many if not most public servants that remuneration levels are independent of performance. A 1999 study of retention issues in the Civil Service by Goldsmith FitzGerald found that the absence of reward for effort and personal recognition were amongst the most powerful factors driving resignations.

Notwithstanding this, the Benchmarking Body made no recommendation on PRP. It explained its failure to do so as follows.

> *The Body notes the commitment of the parties in the PPF to the introduction and subsequent review of systems of performance management in the public service. The Body has taken the view that consideration of the introduction of performance related pay in the public service is premature pending the outcome of that process of review. Accordingly, it makes no recommendation in this regard. (PSBB,* p.10).

I believe the reason advanced is specious. Granted, performance management systems do not yet appear to be fully operational across the public service, despite the fact that the payment of the final phase of the basic pay increases under the PPF was to be conditional on their implementation. However, this in itself would not have prevented the Benchmarking Body from endorsing PRP, advocating its introduction and enjoining the parties to fulfil their PPF commitments in respect of performance management systems.

The truth is that a report setting out this sort of position would have been unacceptable to the public sector trade unions. Incidentally, the latest report of the Buckley Review Body contains an illuminating history of performance related pay in the Irish public service. Some of the comment is refreshingly blunt and worth quoting.

> *We are frustrated by the failure to advance performance related awards at the most senior levels of the public service despite the issue being on the agenda for 13 years. We are concerned at the pace of change, the apparent lack of commitment to the process at a political level…and the failure at the top levels of the public service to show leadership in driving the process forward. It is the clearest possible evidence of how difficult the public service finds it to apply good management practice and move away from the traditional administrative culture…*

The treatment of PRP is but one example of how the benchmarking process was imprisoned by the centralising and homogenising instincts of the public sector trade unions and employers. These instincts are also the ones that animate social partnership. They are difficult to square with the development of a flexible, responsive and efficient public service.

9. Concluding Remarks

There is no gainsaying the message contained in the terms of reference of the Benchmarking Body. Rates of pay in the public service should be set at the levels required to recruit and retain appropriately qualified people. Remuneration packages should also be designed in a manner that motivates public servants to perform to consistently high standards, encourages them to accept modernisation and change, cultivates a sense of equitable treatment (not only between the public and private sectors, but also within the public sector itself), and protects national competitiveness.

If an additional outlay on the public service pay bill of €1.1bn per annum is required to meet these objectives, then so be it. Let us press ahead with identifying how and when it can be paid.

The problem is that the Benchmarking Body has not made this case. It marshals no evidence to suggest that the pay increases it recommends are needed to address recruitment and retention problems or achieve equity objectives. In so far as its recommendations might encourage the acceptance of modernisation and change, they are likely to do no more than increase the pressure on recalcitrant trade unions to deliver on commitments made over two years ago. And as for motivation, the Benchmarking Body chose to ignore the most potent instrument of all – performance related pay.

From the taxpayers' viewpoint therefore, the recommendations of the Benchmarking Body appear to represent extraordinarily poor value for money. But the truly astonishing thing is that there is nobody attempting to dispel this appearance, there is nobody willing to assume accountability for the benchmarking exercise, and what negotiations are taking place about implementation are taking place behind closed doors with no assurance that the outcome will be properly communicated to the public or transparently policed. In other words, taxpayers are being treated as if public sector pay is none of their business.

At the end of the day, the benchmarking exercise tells us a lot more about governance in this country, and about the nature of social partnership in particular, than it tells us about the state of the labour market.

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