Wage Determination in The Irish Economy: An Economist's Perspective on the Benchmarking Report

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1. Introduction

The publication of the report of the Public Sector Benchmarking Body (PSBB) in June 2002 may mark a milestone in the development of wage determination policy in Ireland. Its recommendations, if implemented, are set to have a major impact on the public finances and on the patterns of pay remuneration of public servants of all grades.[1] Historically, the process of national wage determination in Ireland has not been the preserve of economists, but rather the domain of the senior representatives of social partnership. Their approaches seem to be primarily dominated by industrial relations (IR) factors (and memories of decades of earlier centrally-negotiated agreements) rather than by any labour market issues associated with, say, structural changes in the Irish and/or developments in the global economy. This is not to say that economists have ignored issues of national pay determination but rather that their role in the process has been confined for the most part to examining *ex post* whether we can afford what is agreed and what its likely effects will be on employment and the public finances.[2]

In terms of national pay determination, the recent benchmarking exercise in Ireland is quite different. The body was invited to make recommendations for public sector pay, which were "grounded in a coherent and broadly based comparison with jobs and pay rates across the country" (Public Sector Benchmarking Body Report, p. 13). The tone of the document's terms of reference (TOR) implies that its

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[1]Because of the obvious vertical relativities, it seems likely that the PSBB's recommendations will impact at least indirectly on the payment systems for higher civil servants also as covered by the Review Body on Higher Remuneration in the Public Sector.

[2]More recently, the issue is typically formulated in terms of whether the pay agreements are consistent with global competitiveness of the private sector and the funds available for public sector pay.

recommendations were to be based on very thorough research into sectoral and occupational pay rates across the economy, having regard to four main considerations: *to recruit and retain public sector staff, to modernise public sector work practices, to ensure equity between public and private workers, and to underpin Ireland's competitiveness* (paraphrased from Public Sector Benchmarking Body (PSBB) Report, p.14). In principle, the idea of such an exercise should appeal to economists as evidence of the introduction of some economic rationality into national wage agreements. However, careful reading of the report is more likely to leave the average economist in a state of more, rather than less, disquiet!

This paper examines the reasons used to argue that we needed to carry out an economy-wide review of public sector wage structures in the first instance. In particular, in Section 2 it asks: is there evidence that private sector wages have increased much faster than public sector wages in recent years? Is there evidence of recruitment and retention difficulties in the public sector, which we would expect if there had been such a widening in relative earnings? Section 3 it critiques the approach adopted by the PSBB, both in terms of the limitations of its methodology and its deliberate decision not to explain what underlies its recommendations. Section 4 it examines how the benchmarking proposals will reinforce relative salary changes in favour of senior administrative posts within the public sector over the past twenty years changes, despite the fact that there is no evidence of retention problems for these grades and without addressing the issue that parallel positions in the private sector at these levels all have performance related pay elements. Section 5 notes the failure of the report to take competitiveness issues into account, despite the fact that Ireland's relative position in terms of productivity and labour costs has declined sharply in recent years. Even relative pay rates in the public sector across OECD countries, where performance related pay is being introduced, are not included in the analysis. The paper concludes with a summary of the weaknesses in the PSBB's use of the benchmarking exercise, and its failure to specify the implementation of a timetabled modernisation process as part of its proposals.

2. Evidence of Wage Differentials between the Public and Private Sectors

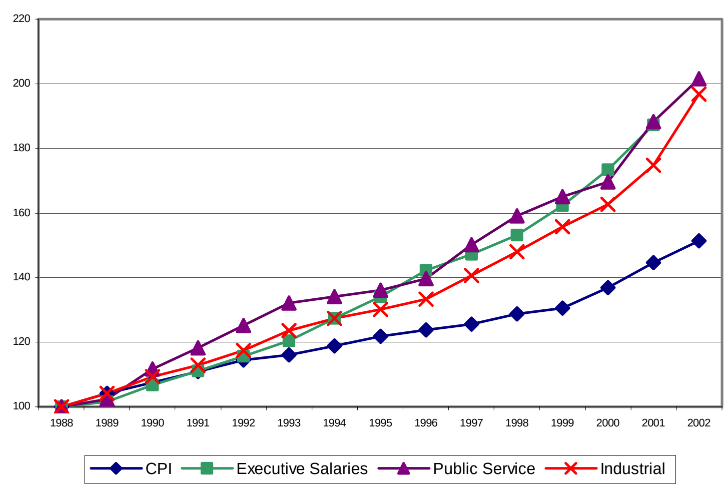
HAVE PUBLIC SECTOR EARNINGS RISEN MORE SLOWLY THAN PRIVATE SECTOR EARNINGS?

One of the main justifications for the benchmarking exercise was the perception that public sector earnings had decreased, relative to private sector earnings, during the period of the late 1990s, when GDP and GDP per capita were increasing rapidly. The argument was one of horizontal equity: the perception existed amongst the public sector unions that workers doing similar jobs in the private and public sectors had experienced a change in relative wealth (as measured by income), and consequently public sector employees were being "underpaid". This perception was taken into the negotiations of the Programme for Prosperity and Fairness (PPF), Ireland's most recent social partnership deal, and the result was the commissioning of the PSBB to undertake a substantial review of public sector pay, with reference to private sector pay. While the intention was that the results of such an exercise would be taken into account in the next round of national pay negotiations, it was agreed as part of the revised PPF that 25 per cent of what was recommended would be paid as part of the present round and backdated to 2001.

Because the perception that the public sector had fallen behind was so widely held, the PSBB appeared not to believe that there was any need to publish supporting analysis or basic statistics in its final report to detail the foundation for the claim of a growth in public-private wage differentials. This is somewhat surprising, as one would expect that such research would be essential to validating the awards the PSBB was expected to give. The report does draw selectively on its interim *Research Update* (published in September 2001) for some context-setting arguments.

Using CSO statistics, the interim report shows that over the period 1988 to 2000, public servants remained on average better paid than industry, distribution, business services and construction employees, and steadily improved their position relative to employees in banking, insurance and building societies, earning 3 per cent more on average than such workers by 2000. Perhaps not surprisingly, these data are not reproduced in the final report, although the interim report does caution against the use of these data, as they do not take account of differences between workforces in these sectors in terms of factors such as age and education. The interim report also points to the faster growth rates of earnings in certain sections of the private sector in recent years.

Figure 1: Earnings Indices and Inflation, 1988-2002



Source: CPI data: CSO (2002); Tansey (1998); Executive salaries data: Tansey (1998); IMI (2001); Public Service data: CSO (2002); Industrial sector data: Tansey (1998); CSO (2002). For further discussion of these data, see Tansey (1998).

Figure 1 shows changes in the Consumer Price Index (CPI) compared with growth in the earnings of three different groups, namely public servants, executives and industrial workers, with 1988 the base of the index. As can be seen, the growth in average earnings of all categories has been faster than the CPI since 1988; also, since tax burdens have fallen over the same period, it is clear that real post-tax incomes have increased even faster. Increases in public sector earnings have matched those of executive salaries and exceeded those of average industrial earnings over this period. These data confirm what the PSBB's *Research Update* Report had found, namely considerable differences in year-on-year changes in relative earnings and no significant gap emerged in the earnings growth rates between the public servants, managers and industrial workers over the 1990s.[3]

In effect these aggregate data provide no strong *prima facie* case for a major exercise to adjust the horizontal relationships between public and private sector workers. However, as the *Research Update* points out, this does not mean that there is no case at all to be made regarding sector-relative earnings. It may be the case that, correcting for differences in skill, education and other factors, public servants are being paid less. In this case, there may be a basis, on equity grounds, for further consideration of the merits of awarding additional pay increases to the public sector, over and above what is being paid currently in the price sector – but this remains to be demonstrated.

The standard method used in economics to establish whether there are such unexplained earnings differentials between two groups or sectors is to estimate earning equations based on panel data on workers in both groups/sectors. These methodologies are long established, having been developed to deal with equity issues arising in the context of gender and ethnicity considerations, as well as public and private sector comparisons.[4] They require data on the *annual earnings* (detailing gross and net salaries, plus bonus payments, overtime and other allowances) for employees of both groups/sectors as well as the *hours worked* by each worker, in order to determine average hourly earnings, as the dependent variable. The independent variables require data on the *characteristics* of both the jobs and those who hold these jobs: type and responsibilities of job, educational attainment required and actual attainment level, gender, family status, age/labour market experience and location of employment. Equations are estimated for these samples, from which it is then possible to compute how similarly qualified persons would be treated, if they were to hold a similar job in the other sector.[5]

The next stage involves the grouping of workers together based upon the characteristics of their jobs, in order to identify comparable sectors. As Bender and Elliott (1999) point out, for some jobs, such as defence forces, teachers and nurses, there may be very little to compare between the public and private sectors. However, researchers have generally found large enough occupational groups to compare between sectors; for example, "manual workers, clerks, intermediate workers, highly qualified employees and management" or "clerical, secretarial, managerial, construction and drivers".

Several major international case studies that adopt this approach are reviewed in Elliott, Lucifora and Meurs (1999). In France, research at INSEE that controls for human capital, family and job variables establishes that manual workers were better paid in the public than in the

[3] The index for construction rose faster than for the public sector but this is not surprising given the huge pressure on that sector over the past five years and the longer average hours worked by those in the sector.

[4] See, for example, Ruane and Dobson (1990) the determination of salaries differentials in the Irish academic labour market in the mid 1980s.

[5] It transpires that it is very difficulty to account econometrically for the effect of "devoted human capital", e.g., training undergone for a period of time that equates to a sunk cost invested in aspiring to a certain kind of job which is not of value for other kinds of jobs. This is consistent with the difficulties for senior staff in many countries in moving between the public and private sectors.

private sector. For management level workers, the opposite was the case, with the age/earnings profile being relatively flatter in the public sector.

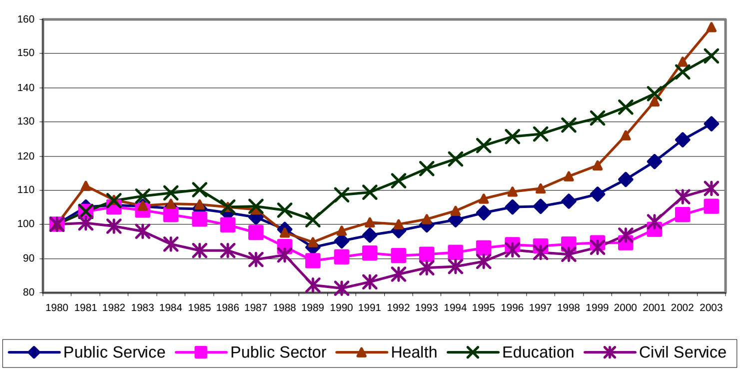
In Spain, the remuneration effect is found to account for higher hourly earnings of up to 40 per cent for all employees (up to 63 per cent for women) in the public sector. In the case of Germany, Dustmann and van Soest (1999) find that men are better paid in the private sector than in the public, while women, especially the better educated, are paid relatively more in the public sector.[6] In the UK, Bender and Elliott find that there was a steady increase in private sector pay in the period 1980-95, but did not reach any conclusions about public/private sector wage differentials.

If this approach had been taken in the Irish case, it might have been possible to establish in a systematic way the nature of the differences, if any, between public and private sector pay. This could then have been developed to establish in what manner are public sector pay rates needed to change to deal with equity and market-related issues. It would have been an expensive research project, given that such data are not readily available. However, this approach was not adopted and the use of economics failed to feature in the report other than in a context-setting manner – instead a Human Resource Management (HRM) approach to wage differentials was adopted, as discussed in Section 3 below.

IS THERE EVIDENCE OF RECRUITMENT AND RETENTION PROBLEMS IN THE IRISH PUBLIC SERVICE?

The PSBB report cites recruitment and retention as an issue in its deliberations. If public sector salaries moved out of line with private sector salaries during the late 1990s, then one would have expected the public sector to face serious recruitment and retention issues. However, Figure 2 shows a sustained increase in public sector employment throughout the growth period, an increase projected to continue into 2003. While there may be some issues with labour quality not evident from these data, there is no empirical evidence to support the view that the quality of labour recruited by the public sector was worse than that in the private sector.

Figure 2: Public Sector Employment Indices, 1980-2003



Source: Department of Finance.

6 They note that 'the negotiated results of large private sector unions are taken as *the benchmark for the public sector*' (emphasis added).

What about retention problems? Information from the Department of Finance suggests that the anecdotal evidence purporting to relate to retention and recruitment difficulties in the Civil Service is misleading and that no such difficulties were evident in 1999/2000 and that the situation in the current slower-growth environment is, not surprisingly, even less difficult for retention. Some limited data on retention in the Civil Service are available, although they were not used by the PSBB. They show that staff turnover in 2000 increased to 8.5 per cent, from 6.4 per cent in 1999. At first glance, these may seem to suggest that there might be a problem, and this is perhaps the source of the misinformation on civil service retention rates. However, these turnover data include individuals who are moving between departments, who are retiring or moving to different contracts (e.g. job sharing) and as such do not capture the concept of retention at all. Table A1 in the Appendix shows that approximately one-third of turnover in 2000 was due to resignations, one-third to staff redeployment (promotions, transfers, secondments) and the remaining third due to changed participation by individuals (retirements, job sharing and career breaks).

Only the data on resignations from the public sector are relevant. Goldsmith Fitzgerald's *Civil Service Commission Staff Retention Survey* of October 1999 (taken before the PPSB started its work) investigated the resignations from the civil service throughout the late 1990s. They find, based on a survey of several departments, a general upward trend in resignations overall, but these are driven particularly by higher resignation rates for clerical (up to 2.5 per cent) and specialist (up to 1.8 per cent) staff. For example, the rates for grades from Assistant Principal Officer (APO) and above (amongst whom one might expect to find the "best and brightest") are extremely low, never rising above 0.5 per cent. More recent Department of Finance data presented in Table 1 confirm these results. While the overall resignation rate rose between 1999 and 2000, it is less than 3 per cent and the rate of departure for the supposedly sunnier private sector pastures is less than 1.5 per cent at the peak of a private sector boom. (Table A2 in the Appendix summarises the stated reasons for their resignations given by those who resigned from the civil service in 2000.)

Table 1: Civil Service Figures on Turnover, Resignations and Flight to the Private Sector

Year	Turnover		Resignations		to Private Sector	
	Number	%	Number	%	Number	%
1999	1995	6.4	608	1.95	165	0.53
2000	2624	8.5	890	2.88	417	1.35

Source: Department of Finance.

But these data continue to overstate the problem since most of the resignations are at clerical level, involving mostly young people who are at a "job shopping" stage. Table 2 breaks down the 417 departures to the private sector by the grade from which the employee departed. It shows that clerical officers account for almost 60 per cent of departures, with workers in *all* grades above CO only comprising 14.8 per cent. Coupled with the increasing size of the civil service, as has been discussed in Section 2, these data suggest that if there is an attractive differential in public-private pay and conditions, very few experienced civil servants seem to know about it!

Table 2: Breakdown of Resignations to Private Sector, 2000

	Numbers	Percentage
Total	417	100
AP above	5	1.2
HEO, AO	20	4.8
EO, SO	35	8.4
CO	248	59.5
Specialist	48	11.5

Note: Specialist denotes: medical, legal and "other professional".
Source: Department of Finance.

On the basis of these data it is difficult to argue that there was any serious justification for initiating a benchmarking exercise on the basis of public/private sector comparisons in the first instance. There may, of course, have been reasons to wish to review earnings structures within the public sector. In other words, while it is perfectly possible that there may be no argument for generally raising public relative to private sector salaries, there may be very good arguments for relative salary changes internally within the public sector. Indeed, there is very little reason to believe *a priori* that the general pattern of vertical relativities set within the public sector in the 1950s, which were linked explicitly to contemporaneous private sector relativities, are appropriate today. At that time, Ireland was a highly protected economy, with little competition in a private sector that produced relatively low skill-intensive products. Compared with a highly open economy, with manufacturing dominated by multinationals and with services becoming more highly skilled and increasingly subject to competitive pressures, the world of the 1950s is very different.

In fact, one of the few ways in which this world is still similar to the 1950s is in the way in which much of the public sector labour market operates – as an asymmetrically segmented sector, with entry (in most instances) possible only at the lowest grades for much of its employment, and a reward structure that reflects individual effort in only a very limited way. Despite a decade of SMI, PMDS, Good Government, etc., it would appear that little has really changed on the ground.[7] Notwithstanding the obvious changes in vertical relativities within the public sector that would inevitably result from its methodology, the PPBS report is explicit that its method is concerned with horizontal and not vertical relativities and adopts an approach that completely ignores them. We now turn to look at this approach.

[7] See, for example, John Murray (2001).

3. The HRM Approach to Public/Private Sector Wage Differentials

The PSBB adopted a Human Resource Management (HRM) approach to differentials, which involved comparing a range of similar jobs between the public and private sectors, entirely independently of market conditions in either of these different job markets. In effect the approach is centred on horizontal relativities, with the key focus being on the determination of what are *similar jobs*.[8] It has several difficulties, even taken in its own terms. It represents comparisons at a point in time, and that point, in the case of the Irish benchmarking exercise, represented a unique period (full employment) in the past fifty years. Thus, it compared public and private sectors earnings in a most atypical period, and one can only hazard a guess but that the relativities taken at the end of 2002 would be somewhat different.[9] This criticism is all the more serious, given that implicit in the report of the PSBB is the idea that its recommendations, and more importantly the new relativities they suggest, are what will prevail well into the future.

Second, it totally neglects the inevitable changes in vertical relativities that result and of the broad economic impact of any recommendations made. Third, no attempt is made in the report to explain or justify such changes in relativities and ask what they mean for career structures within the public sector and indeed for the internal labour market within the public sector. On the contrary, there almost seems to be a strong desire within the whole industrial relations (IR) framework that it is best that no one knows exactly how the recommendations were reached. Eithne Fitzgerald reports on her experience in seeking information from the Department of Finance under the Freedom of Information (FOI) Act on (a) why the Benchmarking Body was excluded from designation under the Act, and (b) details of background research conducted by the body. Fitz Gerald (2002) concludes:

> *These papers are illuminating. A senior official argues "it would be undesirable in an industrial relations and pay determination context that any party should seek to look behind the published reports, reasonings and findings of the bodies". "Any party" clearly includes the Department of Finance itself. In a further memo, the official goes on to argue that it would be inappropriate for the records of the Body to revert to the Department at any subsequent date (where as records held by the Department they would be open to disclosure under FOI). In other words, the Department does not want to know, either now or in the future, the reasoning behind proposals to spend €1,000m a year in additional public money.*

The absence of any discussion of what lies behind the recommendations flies in the face of the research-based approach which this €3million exercise appeared to be attempting, i.e., to evaluate the vast body of material obtained from an in-depth comparison of the two sectors. Those involved in the process should have realised that unless a blanket public sector increase of fixed percentage were granted, increases in public sector wages were going to inevitably lead to changes in relative wages within the public sector. It is untenable that public sector employees would only compare themselves to "private sector counterparts", particularly when the basis for comparison with such counterparts is not

[8] See O'Leary 2002.

[9] This is especially so since the methodology is supposed to take account of differences in employment conditions.

explained in the Report.[10] We now turn to look at how the benchmarking exercise impacted on relativities.

4. Benchmarking and Relative Earnings

Benchmarking was designed to eliminate the gap between the earnings profiles of public and private sectors, on the assumption that such a gap existed. In Ireland, as elsewhere, the range of private sector salaries has increased, as markets have become more competitive and salary payments are increasingly performance related, especially at middle and senior management levels. Given this, a system that seeks to mirror the private sector would inevitably involve a relative shift in favour of senior compared with junior posts, even if there were no sectoral differentials. Thus, we find in the report local authority senior engineers being awarded an increase of 10.5 per cent, while assistant engineers are only awarded 4.3 per cent, and Assistant Principal Officers (APO) get 13.8 per cent while Administrative Officers (AO) get 10-10.2 per cent. This pattern reinforces and amplifies the incremental changes in the relative scales of civil service grades since the late 1970s. Table 3 below traces the increase in maximum pay levels of various Civil Service grades over the period 1978-2002.[11] As such, the increases do nothing to address the issue of retention in those few parts of the public service that seemed to be experiencing some modest retention difficulties, namely clerical officers and specialists.

Table 3. Nominal and Real Increases in Maximum Pay Levels in the Civil Service, 1978 - 2002

	Maximum Pay Levels (€)		Nominal	Real
Job Title	**1978**	**2002**	**Increase**	**Increase**
Secretary General	18,057	157,413	871.76	219.31
Asst. Secretary	14,344	106,441	742.06	186.68
Principal Officer	11,919	76,393	640.93	161.24
Assistant Principal	9,771	58,054	594.15	149.47
Higher Exec. Officer	8,741	42,934	491.18	123.57
Executive Officer	7,130	35,303	495.13	124.56
Clerical Officer	5,339	27,732	519.42	130.67

Note: The adjustment for inflation is based on the CPI figure.
Source: Department of Finance.

What effect do the proposed recommended relative changes have, assuming that they are implemented? It could be argued that they create an incentive for better performance, to the extent that promotion is seen to depend on performance. However, this argument is difficult to sustain since the current reward system is almost entirely time- rather than performance-related. It does nothing to deal with the motivation issue that is noted as a reference point by the PSBB (along with recruitment and retention). To the extent that the PSBB believed that public sector salaries should be increased, and that motivation was an issue, there would have been considerable merit in increasing the length of scales rather than up-

[10] The report documents the efforts made at comprehensiveness in coverage, though absence of interviews with private sector employees may have understated the greater qualitative differences than may have been apparent from the survey questionnaire data used.

[11] This scale does not include the highest levels of seniority in either sector, as the PSBB Report does not cover those levels covered by the Buckley Reports.

rating all scales. This would have allowed for more flexibility and less costly implementation and it would have better mirrored the reward system in the private sector, which the interim *Research Update* acknowledges as being much more responsive to performance.

The report itself is replete with details of the rates of increase proposed for different groups, ranging from 4 per cent to 25 per cent. Since it is not possible to look at all grades, we consider a sample of current and proposed earnings for some graduate entry grades: a mainline civil servant who enters at Administrative Officer (AO) level and is promoted onto Assistant Principle (APO) and may subsequently reach Principle Officer (PO) level; an engineer who enters at Grade 3 level and rises through Grade 2 to Grade 1 level; a teacher who stays a mainstream teacher without any post of responsibility; and a staff nurse who rises to Clinical Nurse Manager III level.

Figure 4 shows that all graduates currently start off at salaries between €20,000 and €30,000. The gap between top and bottom widens to €34,000 after 25 years service. The civil servant who reaches the APO grade (the absolute minimum grade that a graduate entering at AO would expect to achieve and most would expect to reach PO) earns more in his/her first year than a basic teacher/nurse would after 25 years of service, and the PO earns significantly more than the engineer. Both comparisons seem to point to an approach that gives preferential treatment to generalists rather than specialists in the public service, even though the difficulties of retaining specialists seems to be a far greater problem.

Figure 4: Sample of Current Public Sector Salary Scales

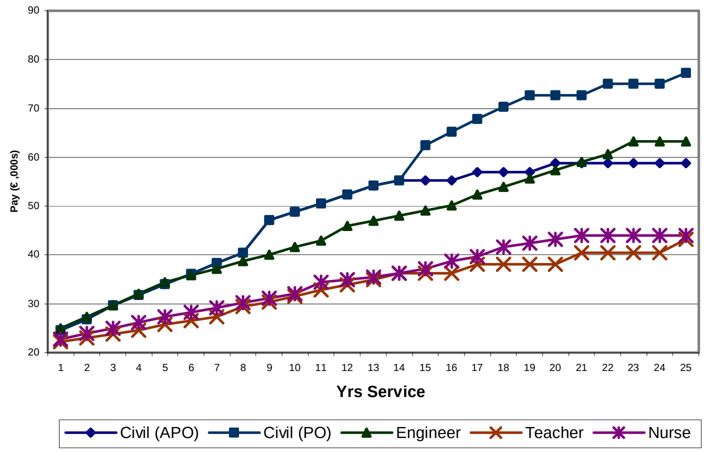


Figure 5: PSBB Proposed Sample of Public Sector Salary Scales

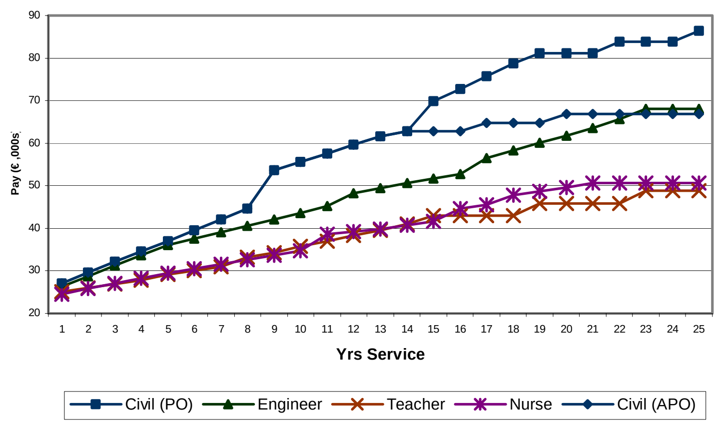


Figure 5 shows the post-benchmarking situation, with the top-bottom gap widening to about €45,000. The evidence above showed that within the Civil Service, the greater retention problems, such as they were, at graduate levels were within the specialist grades. Yet in terms of recommendations we find that engineers, typical of the specialist grades did worse than the AO/APO/PO grades in terms of salary increases. Similarly, one might expect that the shortage of nurses, which is clearly documented and recognised in our immigration policy, would be reflected in their treatment by the PSBB. Yet here again we find that nurses at the lower levels are awarded an increase of 8 per cent, compared with a minimum increase in the graduate entry grades in the general civil service, where there is no evidence of retention problems, of 10 per cent.[12] It is difficult to understand just what drove such a proposed increase for the civil service graduate entry grades, unless labour market conditions were

[12] Further down the hierarchy again, Clerical Officers, where there was the greatest evidence of retention problems, were awarded 8.5 per cent, less still.

being entirely ignored, or some unspecified IR factors influenced the views of the PSBB.

In considering the PSBB report, we are forced to conclude that the PSBB deliberately chose to ignore labour market conditions and specific performance incentives in making its recommendations. Its evasion of any discussion on the introduction of performance-related pay (PRP), by now an integral component in a growing number of remuneration systems in public sectors throughout the OECD,[13] is all the more remarkable, especially as the report cites "motivation" as an issue. This is particularly so for the upper-middle levels in the public sector, whose counterparts in the private sector have on average a larger part of their annual earnings that varies and based on performance than any other group of workers.

In exploring reasons why people have left the Civil Service, Goldsmith Fitzgerald's *Retention Survey* finds that lack of recognition and of reward for personal effort are two of the main factors. Two-fifths of all staff place reward and recognition as a major aspiration. Ironically, this could be seen as implying that retention could be improved by PRP systems rather than by undifferentiated pay awards. This leaves one asking the obvious question of motivation noted in the Report: what are the incentives for people at junior and middle levels?[14] As mentioned above, the PSBB gives no consideration to increasing incentives by lengthening the pay scales rather than shifting them, with a promotional system that allows for acceleration based on ability/effort. The HRM approach adopted places emphasis entirely on jobs and not on performance, and the underlying model is one of a bureaucracy, where over time one moves up into jobs requiring increased administrative responsibility. Thus teachers, whose basic job specification does not change, get small increments but have no chance of advancement unless they take up a post of responsibility, which is effectively another job. The total rejection by teachers' unions of performance-related pay works against those teachers who wish to make an additional commitment to their careers, as they simply cannot earn more by working harder! They simply get the same reward each year independently of the quality of what they do, and face a pay cap after 25 years. This system is one entirely bereft of economic incentives.

[13] See OECD (1993,1994).

[14] The example of what has happened in Singapore, reported in Colclough (1997) may provide some relevant challenges for Irish policy makers. During the boom years of the early 1980s, there was concern that there was a flight from the public sector to the private sector. Public sector salaries rose to increase retention, until recession hit in 1986. A new system was designed to allow enough flexibility to reward good performance. Public sector remuneration would have four components, with only one component of four, namely the base salary, being fixed. The other three components, National Wage Council increases, the payment of a 13th month's salary, and a year-end variable bonus (in line with Singaporean economic growth) all allow flexibility of pay linked to performance. The author notes the potential free-rider problem with the latter incentive, because individual performance makes an infinitesimal contribution to economic growth. He favours its replacement with a bonus in line with group, team, branch, department or managerial output in relation to goals in order to incentivise and reward optimum performance.

5. The Role of International Competitiveness

International competitiveness is regarded as being crucial in Ireland's economic growth, and hence to improved standard of living, in the economy. Competitiveness is a mix of many factors, but in particular, for a given exchange rate, productivity in relation to labour costs largely determines international competitiveness. Ireland's effective exchange rate fell over the period 1995 to 2000, which, coupled with increasing productivity, helped to maintain Ireland's competitiveness at a time when real wages were rising quickly. More recently, Ireland's effective exchange rate has risen, making exports more expensive on non-euro markets. Therefore, productivity and labour costs are even more critical to Ireland's continuing economic growth. In the 2001 Annual Competitiveness Report (ACR), Ireland is ranked 11th of 16 developed economies in terms of productivity and labour costs. This is down from 7th in 2000, reflecting the recent rapid acceleration in wages. Now, more than ever, Ireland's competitiveness needs to have top priority on policymakers' agenda.

The ACR goes on to say that "the efficiency and effectiveness of government, both in the levying of taxation and in the provision of public goods, are fundamental aspects of national competitiveness" (2001, p.45). The PSBB report cites competitiveness as a relevant consideration in undertaking its review. Despite this, it manifestly fails to relate the pay increases to any market conditions, either local or global. For example, no mention is made anywhere of comparisons with public service wages elsewhere in the OECD. This omission is perhaps not surprising when one considers that the interim *Research Update*, which devoted considerable space to examining trends in other OECD countries, found little international evidence of public sector "underpayment"; indeed often quite the opposite was found.

Even in the context of the HRM approach adopted, the opportunity to take account of the international dimension was overlooked. A possible system for international comparison would be to look at the spectra of earnings for a range of public sector jobs across relevant economies. While it would not make sense to compare directly the earnings of, say, teachers or police officers in Ireland with their European counterparts, due to differences in tax burdens, house prices and costs of living, education systems and so forth, it would be relevant to examine the spread of average earnings in the Irish public sector with those of countries against which we benchmark ourselves in the ACR. These comparisons could provide evidence to support or question the changes in relativities discussed above and link to the PSBB's understanding of the complexity of the public sector labour market. Given the array of consultants employed, many of whom are part of international consortia, such comparisons could, and indeed should, have been made to give value and substance to the exercise. While conditions in public services everywhere are not identical, in many instances they are more similar across countries than they are between public and private sectors within individual countries.

6. Conclusions

Benchmarking, in the business context, is traditionally associated with checking one's performance against an organisational or industry standard, with a view to seeing how one can improve what one does.[15] Its application in this instance to matters of pay, rather than performance, has perhaps served to confuse the subsequent research and has led to recommendations that do little to address the rigidities and problems facing the public sector labour market in Ireland. Its application to pay relativities at a time when the labour market generally in Ireland was at full employment is particularly unfortunate, as it has set expectations that do not take account of the volatility of the private compared with the public sector, in terms of employment and conditions. This is particularly evident when we recall Figure 1, which showed very dramatically the independence of public sector employment from the present global recession. Indeed the recent performance of income tax receipts seems also to reflect the changed income circumstances of those in the private sector.

In our review of the Irish data, we failed to find any strong *prima facie* case for a significant differential in private and public sector wages. Such evidence would only have been possible, if the PSBB had taken the standard econometric approaches adopted elsewhere, which distinguish between jobs and job holders, rather than opting for the narrower HRM approach, based on evaluating each job in micro detail, without any regard to market conditions. Given the €3 million spent on the report, it would have been worthwhile ascertaining just what might have been done for the same funding, using an economic rather than a HRM approach.

The PSBB fails to justify the different levels given to various grades of public servants. While recruitment and retention are mentioned in the list of reasons for having benchmarking, no data were presented on the supposed difficulties in recruitment and retention in the public service generally that would explain why one grade would get a larger increase than another. The data, such as are available, show no retention or recruitment difficulties.[16] The awards recommended involve a relative shift away from junior grades to senior grades, and while market forces may validate these in the case of the Civil Service, no evidence is presented to justify that view.

The Report also fails to address the issue of modernisation and reform in the public sector, and the related notion of Performance Related Pay (PRP), a concept not necessarily unpopular with civil servants themselves, but clearly so with their unions. In our view, the exercise represented a rare opportunity to institute an urgently required timetabled reform of the public sector, an opportunity that has been badly missed as we have come through a decade of minimal public sector restructuring. (See Murray, 2001). Even in its banal discussion of modernisation and reform, the PSBB report was disappointing. In this regard, it does not seem to serve the social partnership process well.

Throughout the OECD, increased pay flexibility, with variable components of remuneration, are becoming integral parts of public sector

[15] The *Oxford English Dictionary*, for example, defines benchmarking as a process through which a business evaluates its own operations by detailed comparison with those of another business, *in order to establish best practice and improve performance*. Cf. OED website http//:dictionary.oed.com.

[16] The "anecdotal scare" has had the effect of encouraging the development of systems within the civil service to monitor staff turnover, which has not been done previously in any systematic manner.

pay. In contrast, the PSBB report failed to take these developments into account and simply stressed that the awards it made could not be used to justify pay claims from the private sector. No words of leadership or challenge are to be found regarding PRP or the opening up of middle and senior posts in the public service to outside applicants.[17] The Body did not even take the opportunity to lengthen rather than uniformly increase scales, which would have increased the scope for facilitating modernisation. If this were just part of the usual IR machinery, one would not be surprised. In this instance, however, the exercise purported to be much more, with those involved supposedly committed to contributing to pay determination policy in the national interest and not in the interests of any particular segment of social partnership. This exercise serves to suggest that the role of economics in wage determination policy in Ireland will continue to be negligible, with public sector pay continuing to bear little relationship to market forces.

The present state of the world economy, the deteriorating state of our public finances and the apparent failure of large amounts of public expenditure (both current and capital) to generate real benefits for taxpayers, put the demands of implementing this report in perspective. Instituting the types of reform that can increase productivity of the public service is a task that will prove all the more difficult in the light of the large expansion in public sector employment set out in Figure 2. In our view, no one should be allowed back to the negotiation table without a full understanding of the present economic realities and no further wage increases should be paid to the public sector without prior implementation of much-needed reform.

[17] Ironically, if the present segmentation of the labour market into the public and private sectors did not exist, the need to monitor public/private wage differences would disappear.

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APPENDIX

Breakdown of Turnover, Departures and Resignations from Civil Service Jobs

Table A1: Turnover in Civil Service Jobs, 2000

	Numbers	%
Total	2,624	100
Promotion	309	11.8
Transfer	411	15.7
Secondment	169	6.4
Job-sharing	115	4.4
Retirement	288	11.0
Career Break	392	14.9
Resignations	890	33.9
Other	50	1.9

Table A2: Stated Reasons for Resignations from the Civil Service, 2000

	Number	%
	890	100
Other Job - Public	93	10.4
Other Job - Private	417	46.9
Education	19	2.1
Family/Child Care/Domestic	30	3.4
Emigration	13	1.5
Low Pay	108	12.1
Conditions/Commuting/Cost of Living	18	2.0
Other (job-related)	10	1.1
Other (not job-related)	11	1.2
Unknown	171	19.2

"Other (job-related)" includes: lack of "quality work", promotion and relocation opportunities, and could not transfer.
"Other (not job-related)" includes: pre-empt dismissal, felt harassed, not suited to position, "old dog, new tricks", and self-employment.
Source: Department of Finance.