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## Mountain Tops or Iceberg Tips? Some Comparative Data on RHPOs

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### Six Simple Questions

Chapter 1 argued that RHPOs do not deserve the neglect which they receive in modern political science and discussed some of the central analytic questions which they raise. In this chapter, we look at some comparative RHPO data in the light of those issues. Our cases are 10 wealthy OECD countries (and also the rewards for EC officials)<sup>1</sup>, and the time-period which we examine covers the two decades from the early 1970s to the early 1990s. Subsequent chapters discuss the politics which lie behind the numbers and explore associated analytic issues.

This chapter explores six apparently simple questions:

- Who gets what, in terms of basic pay, in high public office in these 11 cases?
- How has the picture changed, for HPOs' base salaries, over the past two decades?
- Is there any apparent relationship between RHPOs and the wealth or macroeconomic performance of different countries?
- What is the relationship between RHPOs and institutional arrangements – the nature of the political system generally, and the method for deciding RHPOs specifically?
- How do RHPOs compare to rewards in the private sector? Is a 'public service pay discount' at the top a universal feature?
- How large is the 'iceberg' (the whole reward pattern of HPOs) compared with the 'tip' (HPOs' base salaries)? It will be recalled from Chapter 1 that the 'visibility' of RHPOs is central to our analytic interests, and, as we shall see, the tip of the iceberg, although it is more easily measured, is only part of the story in most cases.

We shall explore these six questions *seriatim*, but of course they are closely interrelated. As we shall see, as we move from the ‘tips’ to the ‘icebergs’, the simple questions become progressively harder to answer and the available data more fragmentary and anecdotal.

### **RHPO Levels: Who Gets What?**

First, we simply ask ‘who gets what?’ (in base salary terms) for high public office cross-nationally. Figure 2.1 gives some simple answers for the year 1991. The cases are roughly arranged from the ‘poorest’ HPOs on the left-hand side to the ‘richest’ on the right-hand side. The HPOs considered are the chief executive (Prime Minister or President if the President is an ‘active’ chief executive), the highest-paid judge at constitutional court level or its equivalent, the most senior group or grade of public servant in the core public bureaucracy, MPs and Cabinet Ministers.

Some of these cases seem to be true to stereotype. For instance, Norway, Sweden and Denmark, in line with their image as egalitarian societies with ‘bicycling monarchs’, have fairly modest RHPOs overall. And some of the roundest stomachs, again conforming to stereotype, are to be found tucked behind desks in Brussels and Luxembourg, since HPOs within the EC Commission and the European Court of Justice are amongst the highest, topped only by the German Chancellor.

However, some of the cases do not fit common perceptions. For instance, UK HPOs do not look badly off in comparative perspective, in spite of recurring reports from UK top salary bodies and consultants arguing that there is a crisis in RHPOs – indeed, UK HPOs actually look rather ‘overpaid’ relative to the UK’s GDP level, as we will explain below. Similarly, US HPOs still look relatively well-paid in comparative perspective, even though the domestic perception seems to be that they are on the poverty line, as discussed by Desmond King and Guy Peters in Chapter 9.

When it comes to differentials between the lowest- and highest-paid RHPOs in this group, Figure 2.1 shows that MPs are the ‘poor relation’ HPOs in base salary terms, with the significant exception of the USA, whose congresspersons get more than Cabinet Officers. Perhaps this unusual pattern reflects the greater importance of the legislature in public policy in the USA as against the other nine cases. In most of our countries, the ‘richest’ HPO is the chief executive, but in two, Norway and the UK, the topmost judge is markedly better paid than the chief executive; and the UK is also unusual in that the Prime Minister’s base salary is now topped by that of the most senior civil servant.

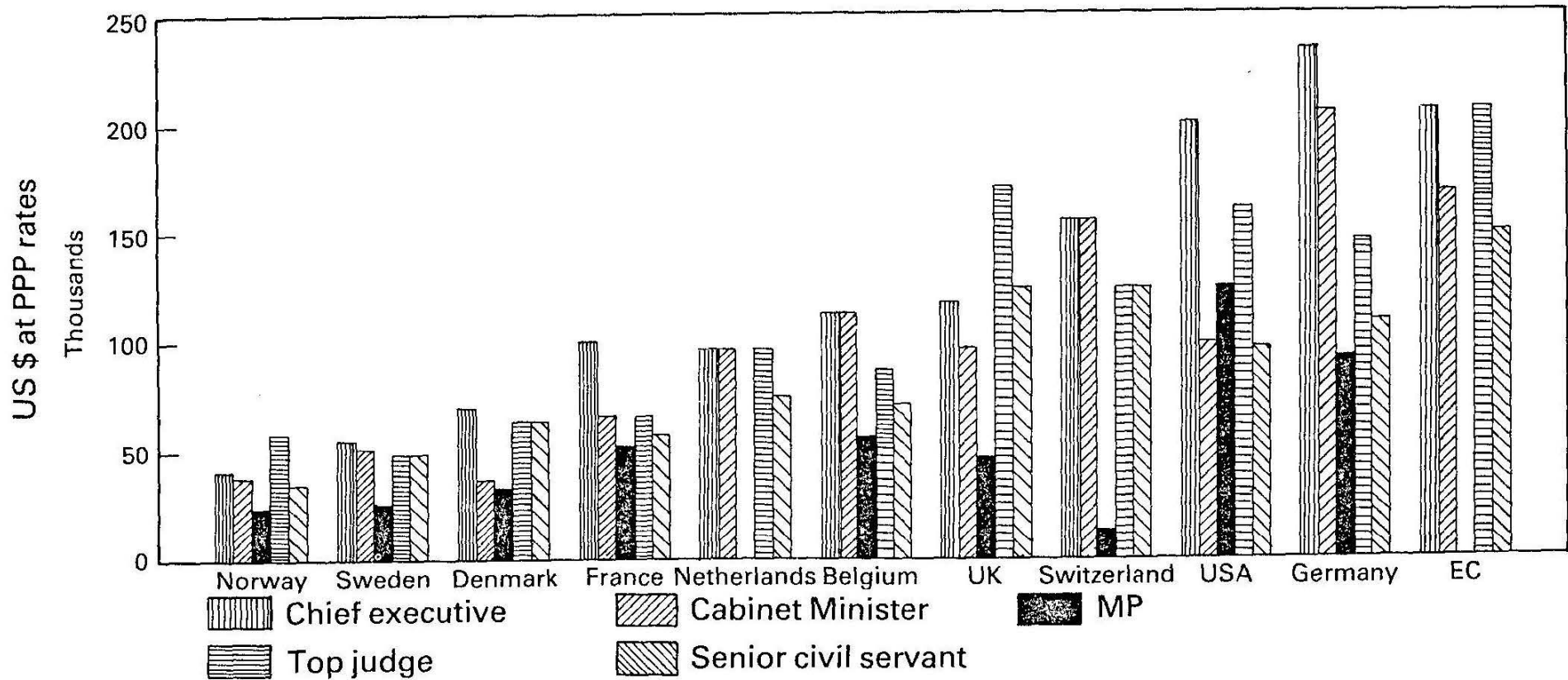


Figure 2.1 *Who gets what? Top public sector base salaries in 1991, in US \$ at PPP rates*

Note: 1991 base salary figures for Dutch MPs are unavailable. MEPs are paid differently depending on their nationality. PPPs for Private Consumption were obtained from the OECD. For further information on the data presented here, see the Appendix.

Figure 2.1 also shows that the contours of the 'RHPO valley' vary markedly across the 11 cases. Again, the Nordic cases fit their egalitarian stereotype, in that differentials between positions are not large. At the other extreme, the Swiss 'RHPO valley' is appropriately Alpine, with a very steep increase from the tiny MP's salary, the lowest of all our cases, to the comparatively high rewards available to other Swiss HPOs. Germany, the UK and the EC (where MPs receive base salaries equivalent to those paid to MPs in the member state from which they come) also tend towards an 'Alpine' pattern in these terms.

Before putting a great deal of theoretical weight on these figures, the reader should recall that they refer only to the tip of the iceberg – base salaries. As we shall note on pp. 43–5, 'extras' and 'allowances' of one kind or another are quite substantial for some of these positions. It cannot be taken for granted that the total size of the RHPO iceberg bears any relation to the size of the tip.

In addition, the base salaries shown here are before tax deductions. Differences in tax regimes might change the pattern, although OECD tax regimes seem to have converged in the 1980s (see Peters, 1991). For instance, half of an MP's salary is tax-free in Belgium and Luxembourg, but this is not the case in the UK or the USA. But it is not clear that the effects of taxation would necessarily narrow the differences shown in Figure 2.1; indeed in many cases those effects would reinforce the differences in salary levels. It is true that the relatively low RHPOs shown for France have to be understood in the context of a tradition of indirect rather than direct taxes. On the other hand, the comparatively low RHPOs shown for the Scandinavian countries have to be further discounted by their tradition of heavy progressive income taxation, while the flatter income tax structures of the USA would suggest that US RHPOs would go even further after tax.

Even the simple issue of base salary sizes before tax cannot be addressed without ambiguity. In fact, three kinds of ambiguity intrude even at this level. First, every case is ultimately unique, and needs to be considered in its own terms. That is the role of the chapters which follow. For example, the base salary comparisons shown in Figure 2.1 do not take account of the effect of *cumul des mandats* (where it is common for one individual to hold several salaried posts) in France and Belgium, or of the fact that an American Cabinet Officer, a Swiss Federal Councillor and a British Cabinet Minister undoubtedly do different jobs, and have a different constitutional status. We are dealing here in first approximations.

Second, even with that important caveat, the decision as to which rewards to count as 'base salary' and which as 'add-ons' is not wholly

clear-cut. In most cases, HPOs have developed extremely complex reward structures for themselves over the years, and their rewards are often paid under several different administrative headings. The criterion which we have applied for 'base salary' is that reward which is routinely paid to HPOs in cash, without reference to particular circumstances or production of specific expense claims. Hence for this purpose we exclude benefits in kind (such as houses, travel or cars) and allowances which are paid on a reimbursement basis, but include 'add-ons' such as 'thirteenth-month' payments for those countries, like Germany, which have more than 12 months in the year (for civil service pay). We also include the German 'lump sum' payment, as part of the basic salary package. But these boundaries are of course permeable and debatable. The data appendix at the end of the book gives the figures on which we base our analysis, and details how 'base salary' is defined for this purpose.

Third, to compare these base salaries cross-nationally, we need to look at them through at least one distorting lens. That is, we need to reduce them to a common currency, and here we have used US dollars for the purpose. But a comparison in dollars alone would not in itself tell us very much about how much HPOs can actually *buy* with their salaries, because of the differences in price levels between different countries. For instance, if the equivalent of \$2 can buy the President of the Russian Federation a bottle of champagne in Moscow, but can only buy the President of the US a cup of coffee in Washington, then a comparison of their salaries using ordinary exchange rates would be very misleading. Exchange rate fluctuations would distort the picture still further, by making it appear as if salaries had gone up in one year, or down in another, whereas in actual fact, within the country, their *purchasing power* might have remained the same.

To avoid this difficulty, the salaries shown here have been converted into dollars using *Purchasing Power Parity* exchange rates. PPPs are exchange rates that are intended to equalize the purchasing power of different currencies, taking account differences in price levels for a basket of goods and services.<sup>2</sup> Thus the salary levels shown here are not simply the amount in US dollars which HPOs outside the USA would get if they decided to convert their entire salary into US dollars in an ordinary bank or bureau de change. Rather, we have to imagine them exchanging their salaries at a special bank, which converts those salaries not at the ordinary exchange rate, but at an exchange rate which would allow them to buy the same basket of goods and services with US dollars in the USA as they do with Deutschmarks, francs or guilders in their home countries. The use of PPPs in the conversion of these different base

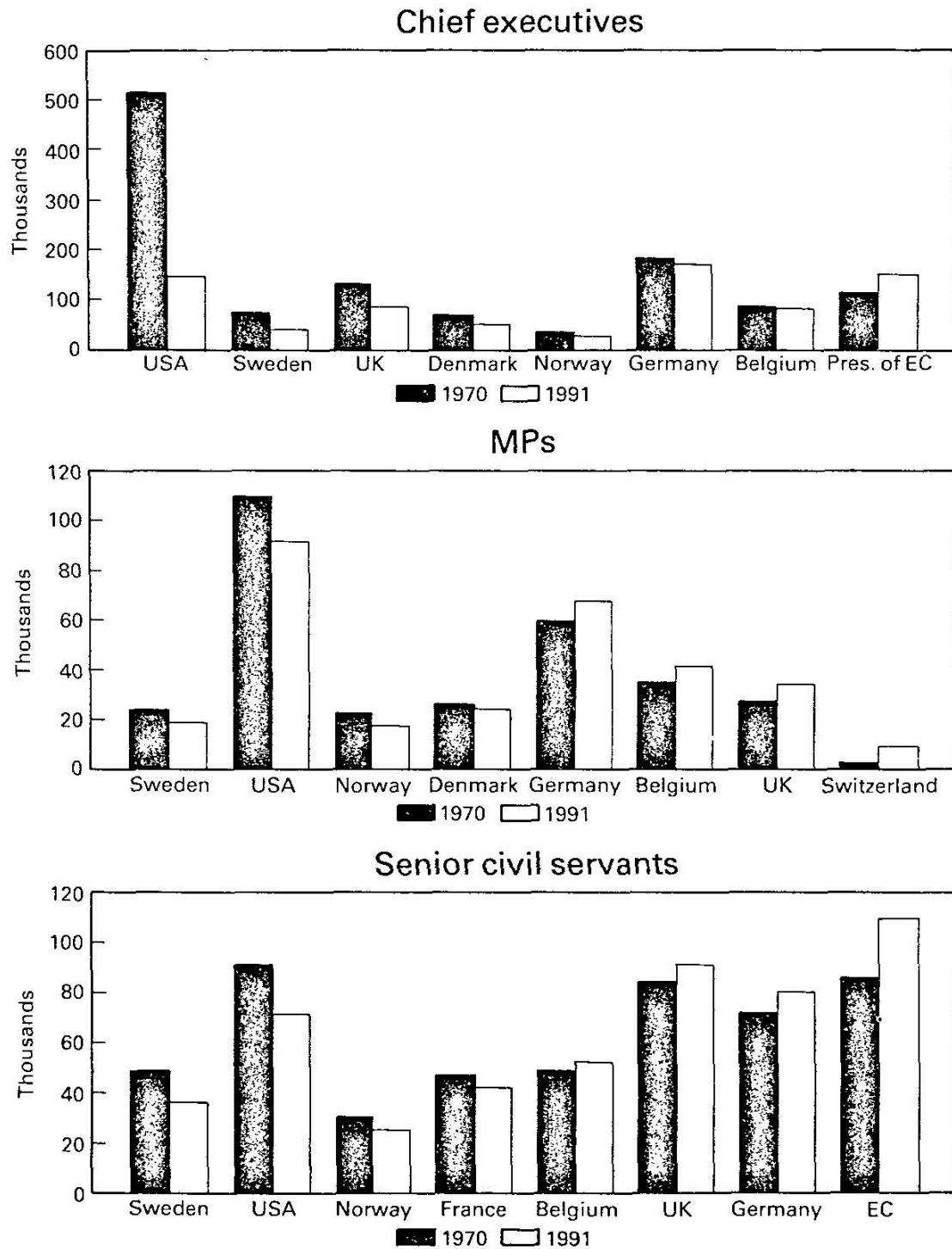


Figure 2.2 *Winners and losers? Changes in base salary, in US\$ at 1982-4 prices*

salaries is intended to give an indication of how much HPOs can really buy with them, in their own country.

**Change over Time: Convergence or Divergence?**

Our second question relates to how RHPOs are changing over time. Are they rising or falling in real terms? Are we seeing a trend towards

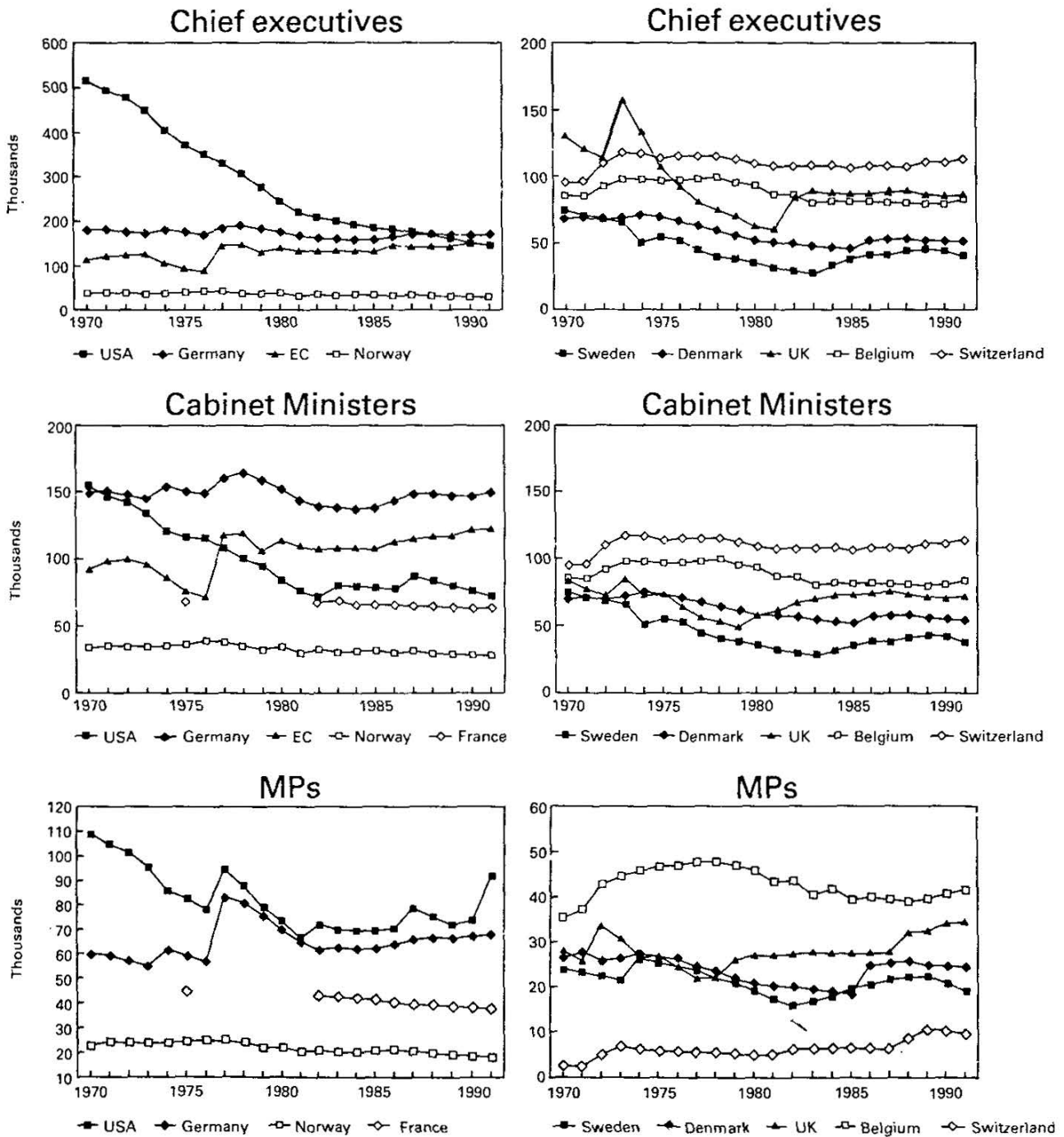


Figure 2.3 Changes in top politicians' base salaries in US\$ using PPP rates, at constant (1982-4) prices

Note: Gaps in series indicate missing data.

convergence or divergence? Is there any evidence of a political rhythm in the timing of pay rises, as followers of the 'political business cycle' approach might expect?

Figure 2.2 shows the way in which the base salaries of selected HPOs changed over two decades. Starting at the top, with the most politically 'visible' HPOs, the base salary levels of eight chief executives in 1970 are shown relative to their salary level in 1991. In

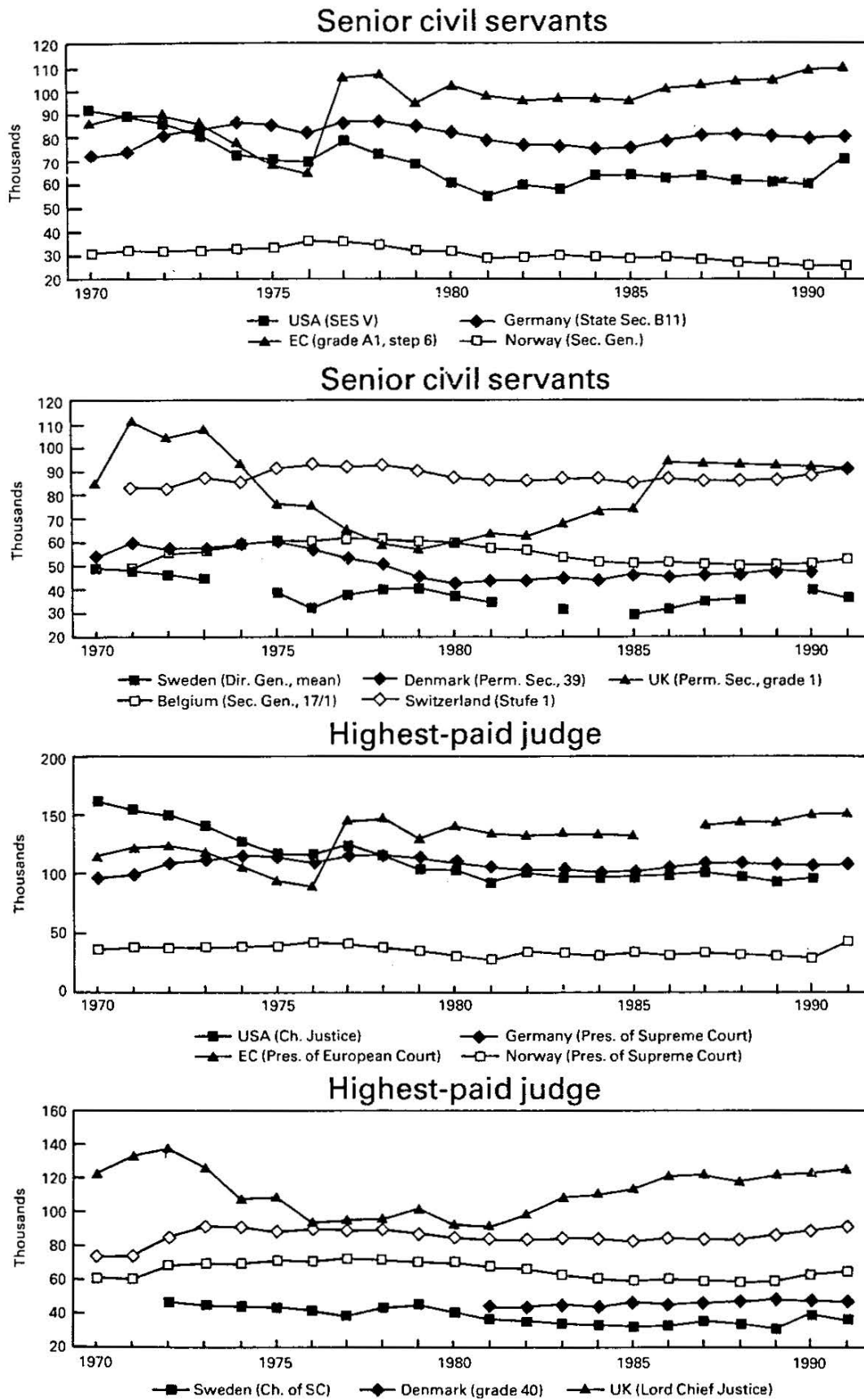


Figure 2.3 *continued*



these terms, there are more losers than gainers over these two decades. The most dramatic relative decreases have taken place in the USA and Sweden, although the UK Prime Minister's base salary has also declined significantly. It is notable that the only 'chief executive' to have made any gain over the period is the one who does not depend on mass voters for continuance in office: the President of the Commission.

Figure 2.3 tells the same story in a slightly different way, showing year-to-year changes for chief executives, MPs, Cabinet Ministers, judges and senior civil servants. We can draw three broad conclusions from these data. First, as mentioned earlier, the general pattern seems to fit Tocqueville's ideas about the effect of democracy on RHPOs, which was discussed in Chapter 1 (in which pay at the top is likely to be eroded by public pressure and the ever-present need to 'set an example' to those down the line). If HPOs aim to fill their wallets at the public expense (as the Chicago theory of government suggests), it seems that they are either surprisingly half-hearted about personal gain, heavily constrained by institutional checks, or exceptionally smart at covering their tracks.

Second, there seems to be very little evidence for a political rhythm or electoral cycle in any of these politicians' salaries. Any changes of that kind seem to be dwarfed by longer-term trends. Some of the patterns are certainly highly irregular over time, notably the UK PM's salary and the salaries of US congresspersons. But in neither case is it clear that it is election dates which explain the irregularities. For the UK PM, none of the changes fits the expected pattern of pre-election 'famine' followed by post-election 'feast'; for US congresspersons only 3 out of 11 election cases fit the expected pattern. The relative German stability is broken by a major increase in 1976–7 when MPs' pay was separated from that of the civil service.

Third, there seem to be processes of international convergence at work in some cases, but the convergence seems to be more downwards than upwards. For instance, convergence is notable in the case of the 'top three' chief executives, as shown in Figure 2.3. The convergence has occurred through the dramatic real-terms decline in the US President's base salary (which remained at US \$200,000 per year throughout the period), falling behind the German Chancellor and EC President in the 1990s. Similarly, the UK PM has 'levelled down' to a base salary roughly similar to that of the Belgian PM over this period, and the Swedish PM ended the period much closer to the Norwegian PM's salary than at the outset.

Although short-term fluctuations are, on the whole, erratic, some longer-term trends are apparent. Each country has its own particularities, and the stories behind these will be told in later chapters. On

a general level, however, three patterns are particularly evident. There are the HPO 'losers', in the USA, Sweden and the UK, who experienced the most erosion in the 1970s, followed by a less rapid decline or even a slight recovery in the 1980s. The 'winners', in Germany and the EC, seem to experience almost the exact reverse of this pattern, with a rapid or in some cases more gradual rise in the mid- to late 1970s, levelling off to a relatively high and even plateau in the 1980s and early 1990s. Finally, there are a few countries which follow more regular, consistent patterns throughout the period, such as Denmark, with a consistent and very gradual decline, and Norway, in which HPO base salaries remain steadily low.

These patterns can be seen clearly in the fate of chief executives' salaries. But politicians at Cabinet Minister rank also seem to have been losing out over the two decades chosen for this study. In terms of base salary, many have suffered a considerable decrease (notably in Sweden and the USA). For the most part, the base salaries of judges and top-rank public servants seem to follow trends similar to those of the politicians (with whom they are clearly bracketed for relativities in many countries), showing little long-term increase in real salary levels; but in one or two cases (such as the UK) their position relative to other HPOs improves over time.

In the case of MPs, we see little evidence of international convergence and few significant 'losers' – suggesting that, in this case at least, there may be some safety in numbers, or, in Tocqueville's analysis, that the numbers standing to benefit are more substantial than in the very top political jobs. It is also interesting to note that the EC is the main exception to the general pattern of RHPO erosion, perhaps because it is hard to class it as a democracy in Tocqueville's sense. Among our other cases, the main exceptions to the long-term pattern are Germany and Switzerland, both of which show increases.

### **The Economy and RHPO: Do Richer Countries Pay Better?**

How do RHPOs relate to a country's wealth and macroeconomic performance? In a business firm, profit levels may be translated into benefits for its directors and managers (although many empirical studies [such as Broom and Cushing, 1977] have found little relationship between top private sector pay and corporate profit levels). Is there any parallel with RHPOs? Who benefits if a country's wealth and economic performance increases (like a business firm which is making a profit)? What share of the rewards goes to the people at the top, and what share goes to those at the bottom? In Chapter 11 Ulrich Klöti discusses this issue in the Swiss context; here, we examine the general pattern.

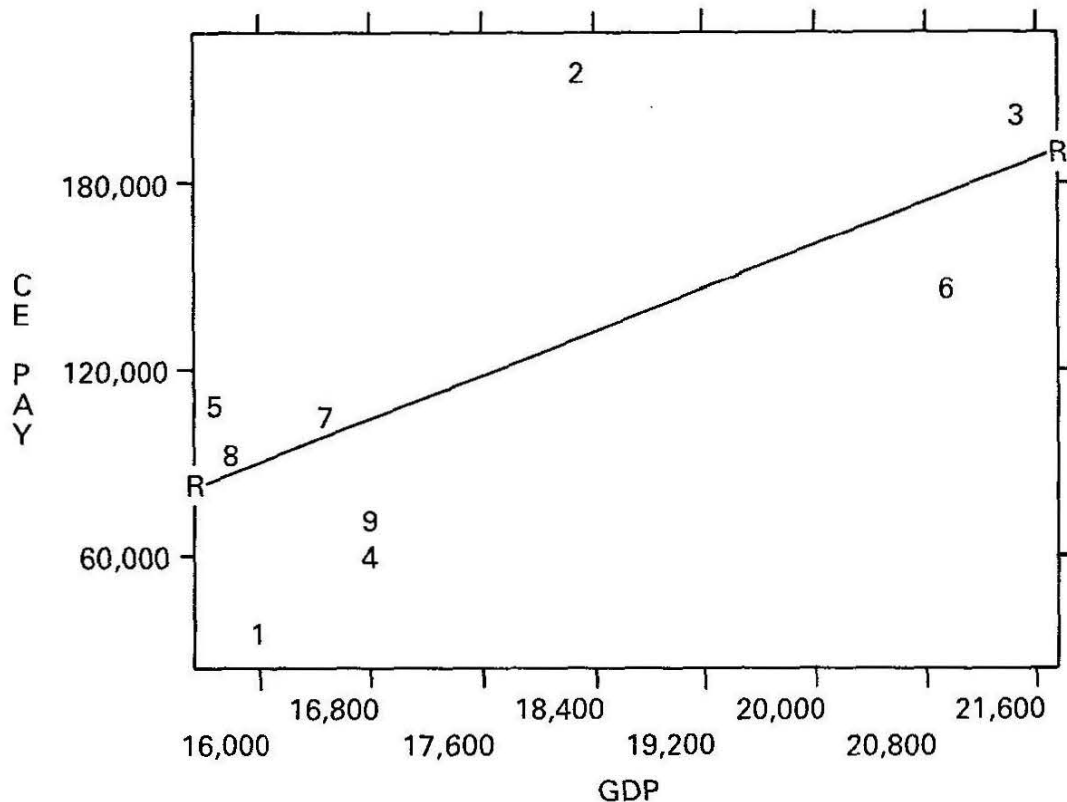


Figure 2.4 Plot of chief executive's pay against GDP per head by country, 1990

Key:

- 1 Norway
- 2 Germany
- 3 USA
- 4 Sweden
- 5 UK
- 6 Switzerland
- 7 Belgium
- 8 Netherlands
- 9 Denmark

If we look cross-sectionally at RHPOs against GDP per head, there does seem to be some relationship between a country's ranking in terms of wealth (as expressed by GDP per head) and the comparative ranking of its RHPOs. Broadly speaking, the richest countries (out of our cases, the USA, Germany and Switzerland) pay the most to the people at the top. Figure 2.4 shows the relationship between GDP per head and the base salary of the chief executive for nine cases in 1990. The regression line shows where the countries would lie if there were a precise linear relationship between GDP per head and the chief executive's salary.

But GDP levels clearly are *not* the whole story. In Figure 2.4, which only relates to chief executives, some countries are quite far from the line. If we were to extend the analysis to include other

HPOs, then some (for instance, UK Ministers) would look 'overpaid', while others (for instance, Swedish Ministers, Swiss MPs) would look 'underpaid', in terms of what we might expect from their GDP levels. US Cabinet Officers fell out of the 'big league' of RHPO internationally by the late 1970s, to a level lower than US GDP per head would lead us to expect. To explain such deviations, we clearly need to depart from the simple 'company profits' analogy.

Moreover, when we turn from cross-sectional comparisons to changes over time, the 'company profits' analogy becomes even less plausible. GDP changes are clearly not reflected by corresponding changes in RHPOs. As 'profits' rise (in terms of growth in GDP per head) the salaries of the 'directors' (HPOs) do not rise in proportion. For the most part, HPOs have not benefited at all in direct salary terms from rises in GDP. The flat or declining base salaries discussed earlier contrast markedly with the substantial real growth in GDP per head which has taken place in the OECD countries over the past two decades. But nor has the real value of those salaries tended to fall when the economies have been in recession, for instance in the mid-1970s and early 1980s in many of our cases.

This lack of correspondence between changes in RHPOs and changes in GDP per head is of more than passing interest. After all, it goes clean counter to the now orthodox precepts of principal-agent theory in institutional economics which hold that managers' rewards should be designed so as to be related to performance (cf. Holstrom and Tirole, 1989: 87), a tradition of thought which goes back at least as far back as Spinoza in its application to RHPOs. As it is, the experience shown in Figures 2.2 and 2.3 suggests that HPOs have little to gain from rising GDP per head and little to lose in salary terms from a recession (though of course re-election for some of them may be threatened in those circumstances). Such an incentive structure ensures that HPOs themselves are well insulated from some of the 'New Public Management' concepts to which other levels in the public sector have increasingly been exposed, in a number of countries.

Apart from GDP changes, the other two conventional indices of macroeconomic performance are levels of unemployment and inflation. Again, there appears to be little direct correspondence between RHPO levels and these aspects of macroeconomic performance (as recorded in unemployment levels and CPI levels in OECD's *Historical Statistics*), either cross-sectionally or over time. And again this outcome runs counter to the utilitarian fashion of relating pay to performance.

We can conclude that the absolute levels of GDP per head can go some way towards explaining comparative RHPO levels. But RHPO levels do not seem to vary with changes in GDP, or with changes in other macroeconomic management variables. Just as many private sector studies have suggested that top pay levels bear little relation to company profits, so in the case of high public office, rewards seem to show no clear relation to the changing health of the economy. RHPO levels cannot be fully explained either by what a country can 'afford' (in terms of its GDP per head) or by how well it is performing on conventional macroeconomic indicators.

### **RHPO and Institutional Structure: Who Decides?**

If comparative RHPOs cannot be fully explained by an analogy with 'company profits', can they be related to the rules and procedures according to which RHPOs are decided, as 'institutionalists' might expect? Most of the chapters which follow give in-depth attention to the institutional arrangements for deciding upon RHPOs in each of our 11 cases. But can we detect any general patterns?

In Chapter 1 we sketched out some of the possible variations within RHPO decision-making. Here, we can consider three particular influences.

The first influence concerns the extent to which decisions about RHPO are 'democratized'. By that we mean the extent to which the 'voice of the people' is heard on the issue of RHPOs. Tocqueville indicated that democratization was likely to be a negative influence on the level of RHPOs, and the evidence which we have seen so far appears, on the whole, to prove him correct. At the lowest extreme is the case where direct democracy impinges on the decision (for Swiss MPs); at the other, with the highest RHPOs, are the cases where decisions are made with relatively little recourse to legislatures, or where legislative decision power is attenuated, for example by delegation to 'expert' bodies or by restrictive decision rules (for instance for EC HPOs). As discussed in the following chapters, the 'big league' top salaries in the public service and the most dramatic pay rises have in many of our cases gone to those who have escaped from the ordinary public service pay matrix and whose salary levels are removed from parliamentary scrutiny (as with heads of public enterprises or new-look 'corporatized' enterprises), not to those who are at the traditional centre of executive power.

A second, and rather more ambiguous, influence on RHPOs is whether RHPO decisions are 'coupled' to decisions about public

Table 2.1 *RHPO decision structures: selected dimensions and cases*

		Bureaucratic	Democratic
Coupled	EC	Germany France	USA (before 1990)
Uncoupled		UK	Switzerland (MPs)

sector pay as a whole, or whether they are treated as a separate category. It seems that this influence can have a negative or a positive effect on RHPO levels, depending on other factors. In Switzerland, MPs' pay is 'uncoupled' from the rest of the public sector, to their detriment (see Chapter 11). However, 'coupling' (or 'linkage') does not always have a positive effect on reward levels. Although some HPOs, for instance in Germany, have profited from a system which decides their rewards as a unified package, in other systems, such as that of the USA, 'coupling' has not been a successful measure in protecting politicians' pay from erosion, but, rather, has meant that all US HPOs have suffered together (Chapters 9 and 10). At our extremes, it seems that these two influences work in combination, with the highest RHPOs resulting from a combination of low democratic control and a high degree of coupling, while the very lowest result from a high democratic input and a complete absence of coupling (Table 2.1).

A third variable which might influence RHPO decision-making processes is the level of popular trust in, and satisfaction with, the institutions of government. It will be recalled that in Chapter 1 (Table 1.2) it was suggested that the level of visible salaries might relate to the degree of trust among the citizenry. Cell (1), it will be recalled, embodied the conjuncture of trusting citizens and relatively high visible RHPOs, while cell (4) combined low trust and low visible RHPOs. It was suggested that there could be a 'tragic bias' towards cell (4) and away from cell (1).

It is often asserted that citizens' trust and confidence in politicians and the political system is declining. But it is difficult to find clear-cut evidence (to match the anecdotes) of rising cross-national disenchantment with 'politics', because international surveys which probe such matters tend to be episodic and limited in coverage. The 'Eurobarometer' series which records citizen satisfaction with

democracy<sup>3</sup> in the EC countries for every year from 1976 to 1990 (Commission of the EC, 1992: 19–37) does not provide overwhelming evidence for such a conclusion. For each country, satisfaction levels seem to fluctuate considerably from year to year, perhaps displaying a fairly sensitive response to current events, and it is not clear from these data that there is a long-term downturn in citizen satisfaction.

It is true that levels of citizen satisfaction vary considerably among the EC countries according to the ‘Eurobarometer’ data. But it is not clear that citizen satisfaction in such terms is necessarily linked with any particular level of RHPOs. In Germany, comparatively high levels of citizen satisfaction with democracy over 1976–90 coincide with comparatively high HPO base salaries. The Danes also registered comparatively high levels of satisfaction over that period, but Danish RHPOs were relatively low. We can conclude that citizen satisfaction in such terms does not depend on either high or low HPO base salaries. On the other hand, it is notable that none of the ‘Eurobarometer’ countries with medium or low levels of citizen satisfaction with democracy over this period (such as Belgium, the UK and particularly France, where citizen satisfaction tends to be consistently low) had comparatively high HPO base salaries. So perhaps it is hard for HPOs to sustain high base salaries when citizen satisfaction is low, and this observation is consistent with what might be expected from Table 1.2 in Chapter 1. Even if we could put any real weight on such fragmentary data, we would not know which way round the chain of causation ran. Are RHPO levels a reaction to, or a reason for, citizen satisfaction levels? And do low formal RHPO levels tend to mean higher ‘invisible’ rewards, which in turn are themselves the reason for lower public satisfaction?

### **Top Public and Private Sector Pay**

A fourth question, related to questions two and three, concerns the relationship between RHPOs and the rewards to be had in the private sector. It is often asserted that in most countries there is a ‘public sector pay discount’ at the top of the public service, sometimes associated with a public sector pay premium at the bottom, forming a ‘double imbalance’ structure (Sjölund, 1989).

A definitive cross-national study of top private sector pay remains to be carried out, though of course there are many ‘executive remuneration’ studies for managers. However, there are some limited indicators which can be used. One example is a study commissioned by the UK Review Body on Top Salaries in 1992 to look at top-level rewards in the public and private sector in France,

Germany and the UK. The study, carried out by Hay's Management Consultants, used a system of 'point scores' for different posts to assess their importance before making comparisons of pay levels. The pay comparisons took tax and social security contributions into account, as well as making use of purchasing power parities to allow for the effects of different national price levels. The study concluded that 'substantial remuneration discounts for public service exist in France and Germany as well as in the UK' (Cm 2015, 1991–2: 61).

We can also consider the pay of those lower down in the private sector, for whom cross-nationally comparable data is more readily available. The OECD calculate the average income of a production worker in the manufacturing sector for each member country. Figure 2.5 shows the average production worker's income before tax as a percentage of the pre-tax salary of the chief executive (President or PM), as a country's most visible HPO. In Norway, the UK and the USA, the average production worker is gaining ground slightly on the President or PM. In Germany and Belgium, the production worker's salary remains at a more or less constant percentage of the chief executive's – there is no 'catch-up' trend here. And in Sweden, the production worker is losing ground – which reflects the rises in the Swedish PM's base salary in the early 1980s more than the trend over the full two decades discussed in this chapter.

Figure 2.5 also reflects the degree of egalitarianism in the income spreads of these countries. The upper end of the scale shows the more egalitarian countries, with Norway at the top, in which the average production worker now earns an astonishing 40 per cent of the Prime Minister's base salary. The more hierarchical countries, in these terms, are Germany and the USA. Figure 2.5 thus adds an extra dimension to the picture of RHPO inequalities given in Figure 2.1. In other words, it does not seem that *all* salaries in Norway and Sweden, from the top down, are much lower than in the rest of the OECD, or that *all* salaries are much higher in the USA – only that salary differentials in the countries with the lowest RHPOs tend to be more compressed.

Several of the chapters which follow (for example for the USA, France, and the UK) suggest that the top pay discount in the public sector as against the private sector widened over the prosperous 1980s. However, it is not clear that the 'widening gap' occurred in all countries or for all positions to the same degree. For instance, private–public sector data comparisons for Belgium indicate that the pay gap between HPOs and top private sector earnings did not widen markedly over the two decades from the early 1970s to the early 1990s.



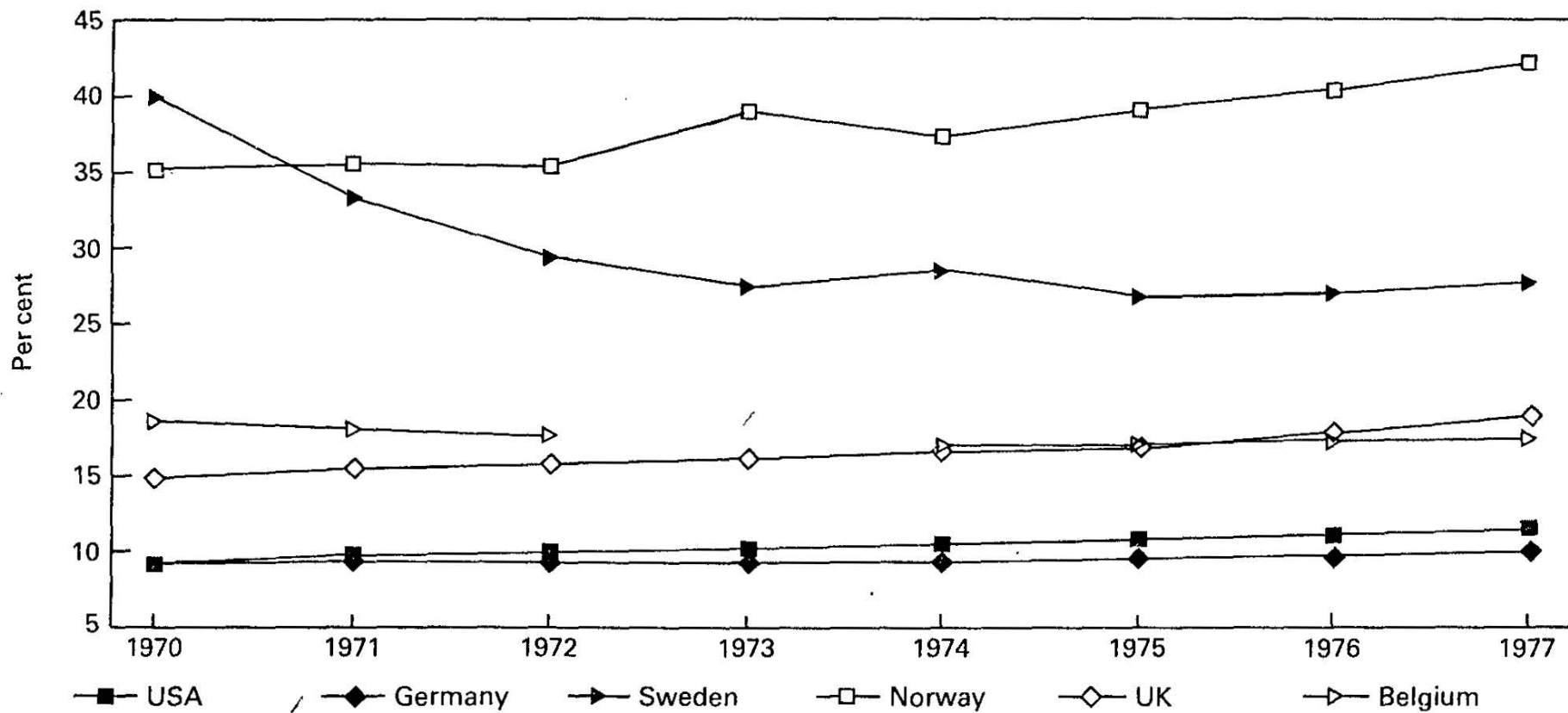


Figure 2.5 *Percentage of chief executive's base salary earned by the average production worker*

Source: Salary data for the average production worker were taken from *The Tax-Benefit Position of Production Workers*, annual (Paris, OECD).

Note: Gaps in series indicate missing data.

Table 2.2 *Base salary supplementation: four classic patterns*

	During period in public office	After period in public office
Public	(1) <i>Cumul des mandats</i> system and less visible 'add-ons' Example: French politicians	(2) 'Post-apprenticeship' system Example: EC Commissioners
Private	(3) 'Profitable sidelines' system Example: British MPs	(4) 'Descent from heaven' system Example: Japanese top civil servants

There are conceptual difficulties in making 'snapshot' public-private sector top pay comparisons because of the methods of income supplementation available to many HPOs, particularly if they are able to operate in both sectors simultaneously or to cash in their public sector experience for later, more lucrative, private sector work. The standard pay consultants' comparisons do not tend to take account of such linkages. Table 2.2 indicates four common ways in which HPOs can 'cope' with low base salary levels by supplementation, with some well-known examples. During their period in office, HPOs may supplement their base salary either with private sector earnings (such as the private sector consultancy fees sometimes paid to British MPs) or with other public sector earnings (for instance, holding more than one post as in France and Belgium, or with 'add-ons' such as those described in the next section). After retirement from a post HPOs can move to a more lucrative public post (perhaps as an EC Commissioner) or they can 'descend from heaven', as top civil servants do in Japan and in other countries, to gain better-paid employment in a private company.

Where such practices are widespread, the conventional idea of a public sector 'top pay discount' may be quite inaccurate in terms of lifetime earnings. If a period in a top public sector job is a prerequisite for a top *private* sector job, the notion of a 'public sector discount' simply means that the same individuals are paid different salaries at different stages of their careers, with the public sector serving to provide a period of apprenticeship at lower pay. And if a public sector post opens up opportunities for simultaneous private sector earnings, then, far from being a financial disadvantage, high public office may be a shrewd career move. It is the countries or HPOs for which none of these well-known supplementation routes is available which are the interesting – but rare – cases. Indeed, it seems likely

that the greater the apparent 'pay gap' between the public and private sector in base salary terms, the greater resort there will be to these methods of salary supplementation, and the more difficulty there will be in establishing whether high public office involves a pay discount or rather a (deferred) pay premium.

### **Visibility: Mountains or Icebergs?**

Discussion of base salary supplementation leads us to our final question. Are RHPOs best represented as 'mountains', in which the whole structure is easily visible from a distance? Or are they better seen as 'icebergs', in which most of the structure is invisible, below the surface?

As we have seen, looking at base salaries alone, HPOs in most of our 11 cases are not exactly laughing all the way to the bank. Many of those base salaries have decreased slightly in real terms (in spite of rises in GDP levels) and those which have increased have, on the whole, done so only modestly. But is that the whole story? How much of HPOs' rewards lie under the surface, not readily visible to those they rule?

Less visible aspects of HPOs' rewards come in several forms. One is corruption, the receipt of illegal kickbacks in cash or kind. We do not deal with hidden rewards in that sense in this study, though we can note that what is counted as 'corruption' varies from one country to another, for example in the extent to which MPs are legally entitled to accept retainers as paid lobbyists. What concerns us here are rewards which are perfectly legal but less visible to citizens than HPOs' base salaries.

Clearly, methods of base salary supplementation such as those shown in Table 2.2 play a part in the RHPO 'disappearing act'. It seems rare for HPOs to have access to more than one or two of these methods, and the patterns seem to vary according to the type of HPO. Chief executives, Ministers and senior public servants are by and large excluded from 'profitable sidelines' (cell (3)) while they are in office; *cumul des mandats* (cell (1)) rarely applies to judges or civil servants, although in some cases such HPOs enjoy substantial 'add-ons' of a less visible kind; judges rarely seem to 'descend from heaven' to much more profitable post-judicial employment in most countries (though it is not unknown in the US, as Desmond King and Guy Peters indicate in Chapter 9).

In addition to such classic income supplementation methods, there are other ways in which HPOs can supplement their base salaries in an attempt to avoid the public attention attracted by a straight-

forward pay increase. For example, some HPOs can gain tax exemption on their income. The British monarch paid no tax at all between 1937 and 1992; EC HPOs, as Edward Page and Linda Wouters show in Chapter 12, are exempt from domestic taxes; and MPs (for example in Belgium, Luxembourg, Greece and France) are sometimes partially exempt from paying tax on their salaries, usually on the grounds that they partially cover expenses associated with public office rather than 'private' remuneration. Politicians' expense allowances are often tax-free in practice, making 'expense account living' a tax-efficient alternative to straight salary and providing an incentive for HPOs to shift their 'remuneration package' to increase the proportion of allowances to income. However, tax exemption for HPOs may make them vulnerable to populist attacks, as in Belgium over the issue of the MPs' 50 per cent tax exemption.

Indeed, complex bonuses, allowances, expense accounts and 'entertainment' allowances seem to be growing in significance as HPOs' base salaries erode. For example, although the US President's formal salary has remained at the same nominal level over the last two decades, his various allowances have risen. As we will see in Chapters 5 and 6, secret bonuses have been important elements of public service rewards in France and Belgium for many years, with the result that investigation of the bonuses in both countries has been highly controversial, and details still have not been made publicly available. Several other countries, such as Sweden, Norway and Denmark, have more recently moved to similar arrangements, with confidential individualized performance bonuses for top public servants (justified, perhaps paradoxically, in the name of greater accountability). Similarly, there seems to be a widespread shift towards a greater element of allowances and 'add-ons' relative to base salary for politicians, as in the case of the German politicians' pensions described in Chapter 10.

Although Max Weber thought that the separation of private life and public office was a key feature of modern bureaucracy, such a distinction is particularly hard to draw for HPOs. Hence the allowances available for 'public' duty (and the associated noncash 'add-ons', such as official cars and residences) are likely to cover almost every expense which HPOs are likely to encounter. In cases where HPOs are so well provided for, it is sometimes tempting to wonder what remains for them to spend their formal salaries on.

For HPOs' 'add-ons', we could imagine a spectrum of 'visibility' of which the extreme points are indicated in Table 2.3. None of our cases seems to fit clearly into the 'high visibility' end of the spectrum shown here, particularly for politicians, whose elected status makes their rewards particularly sensitive. Indeed, if anything, there seems

Table 2.3 *Salary 'add-ons': extremes of visibility*

	Visible	Invisible
Availability of information	Published in readily available form	Unpublished or semi-published information, difficult for outsiders to obtain
User-friendliness of information	All benefits detailed in a single easy-to-read source	Need to aggregate multiple scattered sources of data to obtain complete picture; data presented in complex form
Distinction between 'private' and 'public' rewards	Clear	Blurred
Degree of discretion over entitlements	Low: entitlements determined 'by rule and rote'	High

to be a drift to the right in these terms, with 'mountains' tending to turn into 'icebergs'.

It is harder to assess the precise degree of cross-national variation in 'visibility' in these terms, or whether there is any overall pattern in such variation. Is the size of the submerged 'base' of the RHPO iceberg inversely related to the size of the visible 'tip', to compensate for low HPO base salaries? Or is the size of the submerged base positively related to the size of the tip?

Such fragmentary evidence as we have would suggest that neither hypothesis seems to fit these data very clearly. For instance, if a large 'base' was a compensation for a small tip, we would expect the Scandinavian RHPOs to include very generous 'add-ons', and the US ones to have much less generous supplements, yet it is not clear that this is the case. If few RHPOs approximate to 'mountain tops', some of the icebergs seem to float lower in the water than others.

### Summary and Conclusion

This chapter began by looking at some descriptive data on HPOs' base salaries, and showed major cross-national variations in these RHPOs. Swiss MPs receive less than 15 per cent of the base salary of their German equivalents, while the Norwegian PM receives less than 20 per cent of the salary of the President of the European Commission. Such differences are open to a range of different

interpretations, but whatever slant they are given, they suggest that different OECD countries put very different monetary values on the HPOs whom they employ.

There is also considerable variation in the pattern of change over time, according to post as well as country. Some HPOs have managed to break even in terms of base salary, and a few have even seen an increase, for instance in Germany and the EC. But on the whole, over the past two decades, a dominant trend has been towards varying degrees of erosion, consistent with the pattern which Tocqueville expected to apply to RHPOs in democracies.

Our third question led us to consider how these reward patterns are to be explained. Differences in GDP per head do appear to bear a relation to cross-national variations in base salary RHPOs. However, while national income levels seem to be important in relation to the size of RHPOs in different countries, *changes* over time in various macroeconomic indicators including GDP per head are not reflected by changes in RHPO. HPOs (in terms of their base salaries) have not shared equally in the increasing prosperity of the countries which they rule. Those at the top of the private sector seem to have been much greater beneficiaries of macroeconomic growth.

In several OECD countries, concern is being expressed about the 'pay discount' at the top of the public sector relative to the private sector. Though there is no systematic cross-national data in this area, there are indications that the gap is growing in at least some countries, increasing the pressure for the methods of salary supplementation illustrated in Table 2.2 above.

Clearly, then, macroeconomic factors do not fully explain RHPO patterns, and political factors have to be considered. On pp. 37–9, we focused on institutional factors – the exposure of RHPO decision-making to popular democratic pressures, and the degree of 'linkage' or 'coupling', determining whether RHPOs are settled separately or as part of an overall package. Finally, we introduced what might be seen as the RHPO 'wild card': an uncertain variable which has the potential to turn all of what we know about the issue on its head – the issue of less visible rewards.

If formal base salary rewards are diminishing for most high public officials, then what are the implications of this change? There are perhaps three possibilities. First, it may be that HPOs are unconcerned by the erosion of their base salaries, and do not seek to increase them, because they are in public office for more altruistic reasons. In this case, it may be that these countries are settled securely in cell (1), in Table 1.2 of the previous chapter, with visible and moderate rewards, and respectful, trusting citizens – a comfortable and stable scenario. Indeed it is possible, although the prospect

seems to require some suspension of disbelief, that we are moving into an age of 'new asceticism' (as discussed by Christopher Hood in Chapter 3), with other-worldly HPOs valuing public service as its own reward, like Beatrice Webb's 'Jesuitical corps' (Barker, 1984: 34).

Alternatively, a second possibility is that HPOs are unconcerned about pay erosion because they increasingly have substantial financial means of their own. Instead of government by ascetics, the trend may be towards 'government by millionaires' (or their friends), with HPO once more becoming an option only for those with access to corporate wealth. If this is indeed a trend, then Tocqueville's concerns about a renewal of *de facto* aristocracy cannot be lightly dismissed.

Finally, a third and equally worrying possibility is that HPOs, faced with salaries that are constrained and eroded by popular democratic pressure, may be increasingly likely to supplement their income in other, less visible ways. In this case, the tendency might be more towards cell (2) or even cell (4) of Table 1.2. In such conditions, the temptations towards corruption may increase, HPOs may use their experience and connections to gain lucrative private sector positions during or after office, or they may adopt some of the other 'less visible' methods of base salary supplementation discussed above, if they feel that this is justified as a valid 'compensation' for their reduced earning power relative to those at the top of the private sector. If so, public scandals may recur more frequently and with greater intensity, testing and defining the acceptable boundaries of such behaviour in each country. This issue deserves our closest attention. Both navigators and passengers alike would be well advised to watch carefully for these RHPO 'icebergs', because if the analysis in Chapter 1 is correct, they are capable of sinking the legitimacy of political systems.

## Notes

1. That is, Belgium, Denmark, France, Germany, the Netherlands, Norway, Sweden, Switzerland, the UK and the USA.

2. OECD (1992: 143) defines PPPs as 'the rates of currency conversion that equalize the purchasing power of different currencies. This means that a given sum of money, when converted into different currencies at the PPP rates, will buy the same basket of goods and services in all countries. Thus PPPs are the rates of currency conversion which eliminate differences in price levels between countries'. The PPPs used in this chapter are Purchasing Power Parities for Private Consumption, drawn from an unpublished OECD databank.

3. The standard question is, for each country: 'On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way that democracy works (in your country)?'

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