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Faiz Bilquees

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

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*Pakistan Institute of Development Economics, Islamabad*



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ISLAMABAD**

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Pakistan Institute of Development Economics  
Quaid-i-Azam University Campus  
Islamabad 45320, Pakistan

*E-mail:* publications@pide.org.pk  
*Website:* <http://www.pide.org.pk>  
*Fax:* +92-51-9210886

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### **ABSTRACT**

The paper looks at the trends in nominal and real salaries of the Federal Government employees over the period 1990-2006. It examines the structural defects in the existing salary structure and the anomalies in the allowances structure to show that appropriate remuneration for the civil servants requires serious and urgent consideration. The widening gap in the emoluments of government employees versus the public sector corporations and private sector employees has a strong bearing on the motivation and ability to work. The paper makes serious recommendations to overhaul the existing structure of salaries and perks to make the public sector employment competitive and cost-effective.



# Civil Servants' Salary Structure<sup>1</sup>

## I. INTRODUCTION

The civil service in a large part of the world still guarantees security of jobs over the full working life, and this is highly valued by the employees especially in developing countries where employment opportunities are scarce. The salary structure of the civil service deserves special attention because it determines the quality of personal hired. While many other factors also affect the performance of the employees, the financial rewards have a strong bearing on the motivation and performance of the staff. This is particularly so considering the ever-widening gap between the wages of the public and the private sectors in most of the developing countries.

In Pakistan independent pay commissions headed by senior retired civil servants have always fixed the pay scales. The first pay commission of 1948-49 rejected the colonial wage structure because of widespread divergence in the pay scales of high-paid British officials and the lower-grade local officers. It recommended a judicious salary structure. The commission prescribed a living wage (undefined) for the low paid employees, and advised conservatism and wage restraint for the remaining categories. The commission also ruled that men of genius belonged to the private sector and not the public sector. The government however disassociated itself from this viewpoint and the next pay commission of 1970 strongly emphasised the need to provide adequate compensation and due recognition as incentives for persons of highest caliber to seek employment in the public sector.<sup>2</sup> Later the commission also recommended further rationalisation of salary structures. The pay commission of 1972 eventually compressed the 650 pay scales to 22 national pay scales. The subsequent pay commissions of 1977, 1983, 1987, 1991, 1994, 2001 and 2005 have continued with these twenty-two scales with the declared objective of narrowing the gap between the highest paid and the lowest paid. However, this gap remains fixed at 1:9 for the last four salary revisions between 1991 and 2005. This coupled with low real wages, increasing trend towards contract employment, and no motivation to excel makes the government employment least attractive compared to the private sector.<sup>3</sup>

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<sup>1</sup>The paper deals with the salary structure of the Federal Government employees of general services only; special groups/cadres like the Foreign Service, the Prime Minister's Secretariat employees, MP grades, etc., are not covered here.

<sup>2</sup>See Irfan (1989).

<sup>3</sup>See Haque and Kim (1994).



The vibrant private sector growth with attractive salary packages, training opportunities, and modern Human Resource Development (HRD) is the focus of talented individuals. Furthermore, within the government the salary structures of the various public sector corporations are close to those of the private sector while the rest of the government is stuck with 22 grades. Thus the gap between the salaries of civil servants and employees of government corporations as well as the private sector continues to widen.<sup>4</sup> The civil servants therefore, lack the right incentives to perform. This paper examines some of the structural problems underlying the pay scales of the Federal Government employees as well as the trends in salaries and allowances as they have evolved overtime. The lengthy and over lapping pay scales are a disincentive to efficient workers.

The paper is structured as follows: Section II analyses the existing salary structure in the light of recent revisions. Section III analyses the allowance structures and the associated anomalies. Section IV gives an over view of the trends in real salaries of the civil servants for the period 1990-91 to 2005-06, and provides a comparison of public and private sector wages. Finally, Section V concludes the paper with some suggestions/recommendations.

## **II. SALARY STRUCTURE**

### **(a) Determination of Basic Minimum Salary**

Pay Commissions in determining the pay structure fixes the minimum wage as a reference point for the pays and salaries of the other government employees. The minimum wages may be ascertained in a number of ways.<sup>5</sup>

- Firstly, minimum wages of the government employees may be fixed by taking into consideration the market wages of the unskilled workers. However, because market wage rate is itself influenced by the wages set by the government, such an approach is not very useful. Besides, market wages may or may not be sufficiently high to provide for the basic necessities of the workers. In view of the social dimension of the wage rate structure to which the government is committed, such an approach does not seem to be very appropriate.
- Secondly, the proposed minimum wages in the new pay structure may be no less than the wages sufficient to purchase the bundle of goods and services which the least paid employees could buy at the time minimum wages were fixed in the previous pay scales. Such an approach implies that nominal wages are adjusted upwards by the rate of inflation over the intervening period.

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<sup>4</sup>For a comprehensive analysis of pay gaps in the public and the private sectors in Pakistan, see Hyder and Reilly (2005).

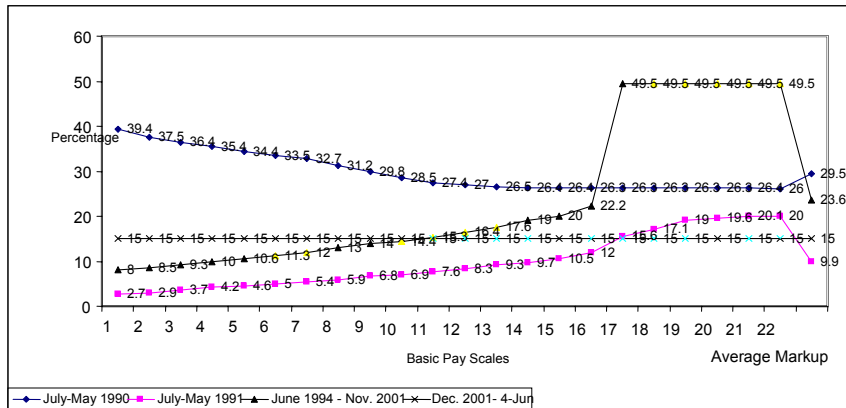
<sup>5</sup>See the Kemal and Billorey (1994) paper prepared for the 1994 Pay Commission.

- Thirdly, the minimum wages may be set at a level which does not result into a deterioration in the economic position of the least paid employee in the society. In order to ensure that, real wages must be increased at a rate equaling to the increase in productivity. Accordingly, the nominal wages have to be adjusted for both the inflation rate as well as the gains in productivity.
- Fourthly, the minimum wages are set in such a way that the expenditure on food out of the income, in accordance with the preference of the consumer for food and non-food consumption, is sufficient to meet the caloric requirements. This approach implies that minimum wages should be at least sufficient to provide the basic needs.

Prior to the last revision of 2005, pay scales have been revised by the various independent pay commissions on the following principle: at every revision of basic salary all relief and indexation granted in the previous period are merged into basic salary of the last period. (This is considered as total basic salary in this paper.) A certain increase on the total basic salary determines the revised basic minimum salary of the next period.

The trends in percentage increases in basic salaries are shown in Appendix Table I, and Figure 1.

**Fig. 1. Percentage Increases in Basic Salaries**



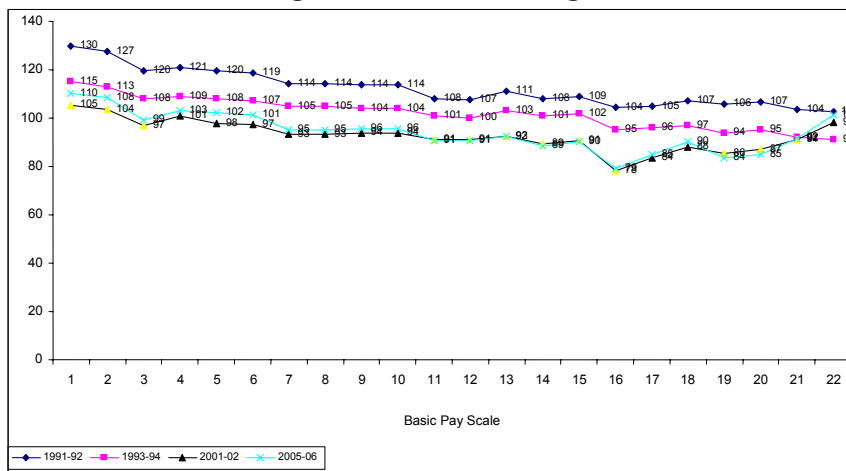
It will be seen that the variations in average markups over the four revisions and between the grades are quite huge. With an inflation rate of 13 percent over the period 1990-91 the new pay scales announced in June 1991 granted a 39.4 percent increase to grade 1, the increase declined gradually to 27 percent for grade 12. All the grades above that received a fixed markup of 26 percent. With an inflation rate of 11.5 percent over the period 1993-94, in the second revision of basic salaries in June 1994 the grant of markups was

reversed: it varied from 2.7 percent for grade 1 to 20 percent for grade 22. After a gap of six years the next revision in December 2001 saw a shift in the policy: it froze the maximum relief allowance—the Special Additional Allowance—it was not included to the computation of the total basic salary. With the exclusion of this allowance, the markups for grades 1 to 17 increased in ascending order from 8 to 22.2 percent, and were constant at 49.5 for the remaining five grades in December 2001. For the last revision of July 2005 the revised scales were determined as follows: all the three relief allowances granted between December 2001 and July 2005 were frozen for all the grades, and the basic minimum salaries of all grades in 2001 were increased by 15 percent to arrive at the new pay scales. The ratio of the highest to the lowest paid remained 1:9 over the four revisions.

Since the pay commission reports are “confidential” it is not possible to ascertain the reasons for the shift in methodology. However, the shift raises an important issue: how does one account for the erosion of the real value of these allowances considering inflation rates of 9.3 percent in 2004-05 and 6.6 percent in 2005-06? Does the 15 percent increase in the basic salary of 2001 compensate for the loss due to exclusion of allowances and the erosion in their real value overtime in July 2005?

To sum up, the average nominal increases fluctuated widely from 29.5 percent in 1991 to 9.9 percent 1994, 23.6 percent in 2001, and 15 percent in 2005.<sup>6</sup> However the real wages continued to decline overtime as shown in Figure 2.

**Fig. 2. Indices of Real Wages**



<sup>6</sup>Average markups during the previous revisions over the period 1978-91 ranged between 12.3 to 13.7 percent only [see Bilquees (1994)].

**(b) Length of the Pay Scales<sup>7</sup>**

The length of the pay scales refers to the number of stages (number of increments to be earned) to reach the maximum of the scale as shown in Table 1. The distribution of the stages between the gazetted and non-gazetted scales is biased in favour of higher grades. Compared to the nineties, these stages have doubled from 15 to 30 for grades 1 to 16. For grades 17 to 19 the stages are increased by more than half (12 to 20 stages), and for grades 20 to 22 they have increased by less than half (10 to 14 stages) since 2001.

Table 1

<i>Number of Stages between the Minimum and the Maximum of a Scale</i>					
	1-16	17	17-19	18-22	20-22
Years/Grades	No. of Stages Required to Reach the Maximum of a Scale				
1991	15	12	–	10	–
1994	15	12	–	10	–
2001	30	–	20	–	14
2005	30	–	20	–	14

These extremely long pay scales have their pros and cons: they are undesirable because they are both inefficient and uneconomic. The inefficiency arises due to unhindered payment of increments to all irrespective of their work input. This rules out the difference between efficient and non-efficient workers, hence there is no incentive to perform. They are uneconomical because inefficient employees continue to receive increments until they reach the maximum of the scale. The lengthy scales are desirable compared to the shorter scales only because the latter would require rapid promotions. In other words, the limited availability of posts in each scale, or the prospects for promotion would affect the length of scale.

Lengthy pay scales are indeed a very regressive feature of the civil service salary structure. An employee stuck on the same job for 15 to 30 years earning annual increments only, with no prospects of improvement in his living insight is bound to lose all motivation to work over the coming years.

**(c) Overlapping of Pay Scales**

Another important issue related to the salary structure is that by how much salary scales should overlap? Scales overlap when the maximum of one scale is higher than the minimum of the next higher scale(s). In the advanced industrialised countries, civil service salary scales do not overlap by more than two higher scales. In Pakistan however overlapping of grades is a serious issue as shown in Table 2 below.

<sup>7</sup>Sections IIb, IIc, and II d are based on Chew (1992).

Table 2  
*Overlapping of Pay Scales*

Years of Salary Revision	Grades with Zero Overlap	Grades with 3 Overlaps	Grades with 4-9 Overlaps	Grades with 10-14 Overlaps
1991	22	14-21	7-13	1-6
1994	22	14-21	7-13	1-6
2001	22	15-17 19-21	7-14 18	1-6
2005	22	15-17 19-21	7-14 18	1-6
1991-94		38.1%	33.3%	28.6%
2001-05		28.6%	42.8%	28.6%

Excluding grade 22 with zero overlap, of the remaining 21 grades overlapping of up to three grades has declined from 38.1 percent to 28.6 percent between 1991 and 2005. However the grades with 4 to 9 overlaps increased from 33.3 percent to 42.8 percent over the same period. The lowest six scales overlap by 10 to 14 grades in all the four revisions. Overall, the proportion of grades overlapping by more than three grades increased from 62 percent during the 1990s to 71 percent during 2001-05. Overlapping of scales permits staff in lower grades to earn the same salary as those in higher grades. For example, a senior clerk in scale six in the 2005 pay scales has an overlap of 10 grades, therefore overtime employees in grade 1 to 7 could all earn the initial salary of grade-8 (see Appendix Table II). Thus, overlapping of scales undermines the linkage between pay and work.

#### **(d) Increments**

In the civil services of the developed countries, an increment is always “earned” by way of crossing some efficiency bar. In Pakistan until 1981 an efficiency bar always had to be crossed in the form of satisfactory special report on performance to receive the larger sum (see Appendix Table III). The 1983 Pay Commission observed that the efficiency bars were crossed almost automatically and hence were discarded. This automatic grant of the increments without consideration to performance would obviously have adverse effects on motivation and efficiency compared to when it is “earned”. The lengthy pay scales and extreme overlapping, with continued payments of increments results in a decline in efficiency and dis-incentives to be a productive worker. A rational choice would have been to ensure the enforcement, rather than abolition of the clause of efficiency bar.

To sum up, lengthy scales, extensive overlapping and unconditional grant of increments weaken the linkage between pay and work, and contribute to unequal levels of work within one grade. Overlapping of grades makes it worse among the grades, and the linkage between work content and salary vanishes or becomes more inequitable.

### III. PERKS

#### (a) Housing Allowance

The accommodation facility/allowance provided to the federal government employees falls into three categories: (i) those who make their own living arrangements instead of renting house on government account, they receive fifty percent of the basic salary as housing subsidy; (ii) those who requisite houses in the open market at the official rental ceiling; and (iii) those who are provided government accommodation. The last two categories pay 5 percent of gross salary as house rent recovery (or partial tax on the allowance) that also provides towards maintenance of houses on government account.<sup>8</sup> All categories of this allowance are highly valued by the employees. However it is important to note that employees hiring houses in the open market face serious hardships due to the failure of the government to impose rent control in the federal capital.

In Table 3, we see that house rents have been increased before or after each salary revision. However, grades up to 18 have been lumped in to six groups for the allocation of house rent. The rationale behind this policy is not known, but it raises a serious anomaly: the higher salary results in lower house rent entitlement up to grade 18 (see section c of the table). This erosion has serious implications for the very poor households in the lower grades, indeed it looks very awkward even for grades seventeen and eighteen as shown in Figure 3.

Although house rent is the most valuable cash allowance for employees renting houses, this facility pales in comparison to the physical government housing. It is rather awkward if we compare a secretary renting his own house or a portion in any house at the official entitlement in Islamabad (that is what one can get at the market rate), with a colleague living in government built accommodation. While the former gets monthly house rent amounting to Rs 16,962 the government accommodation carries an imputed rental value of more than Rs 100,000 since it is independent occupancy, is built on a larger space, and has all amenities like servant quarters, porch, modern kitchen facilities etc. Furthermore, it is an open secret that many people in top positions live in government housing while their own houses (generally in the name of spouses) are rented out at market rates.

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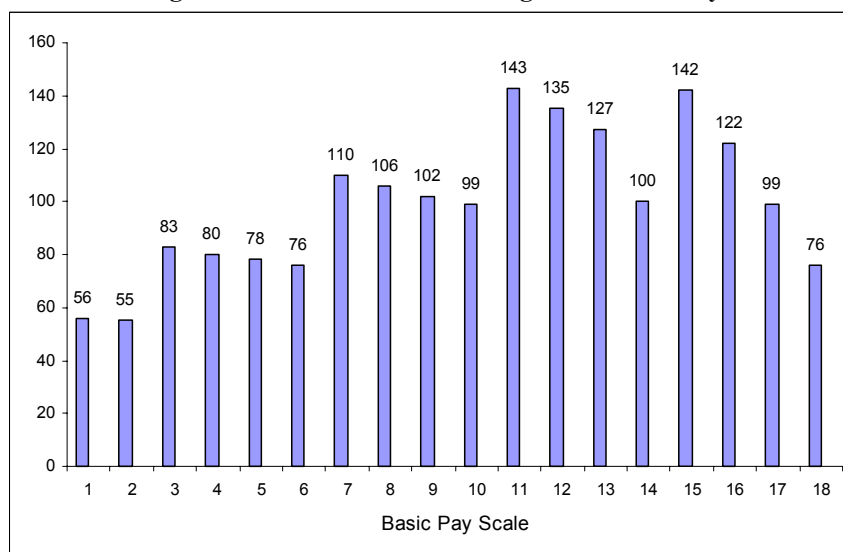
<sup>8</sup>The employees of semi-government organisations are not entitled to the maintenance facility despite the 5 percent deduction.

Table 3

*Adjusted Rental Ceilings and Percentage Changes by Grades*

Grade	a. Absolute Amount (Rs/Month)					b. Percent Increase			
	1990-91	1993-94	1996-97	2000-01	2003-04	1993-94	1996-97	2000-01	2003-04
1-2	594	760	912	1049	1207	25	20	15	15
3-6	950	1188	1425	1639	1886	25	20	15	15
7-10	1425	1781	2138	2459	2826	25	20	15	15
11-13	2138	2684	3221	3704	4261	25	20	15	15
14-16	2684	3373	4047	4654	5353	26	20	15	15
17-18	3563	4465	5358	6162	7087	25	20	15	15
19	4750	5938	7125	8194	9424	25	20	15	15
20	5938	7458	8949	10291	11837	25	20	15	15
21	7125	8930	10716	12323	14174	25	20	15	15
22	8550	10688	12825	14749	16962	25	20	15	15

c. House Rent as a Percent of Basic Salary																		
Grades	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
H.R. % of Basic Salary	56	55	83	80	78	76	110	106	102	99	143	135	127	100	142	122	99	76

**Fig. 3. House Rent as a Percentage of Basic Salary**

A fair and objective policy would be the provision of government accommodation to all employees, or to no one.

In the current budget house rent has been declared a part of the taxable income. This can be simplified by monetising this cash/in-kind benefit. It will also help government to get rid of the huge infrastructure maintained to run this facility. Alternatively, all employees at all levels be provided government built accommodation.

**(b) Conveyance Allowance**

Whether an employee owns a vehicle or not all employees upto grade 20 are paid conveyance allowance in-cash while the two highest grades are provided fully maintained staff cars for official and private use. For the purpose of this study it is assumed that all employees below grade 18 do not maintain a car. Therefore the employees in grade 18-20 receive a car maintenance allowance.

The absolute amounts of conveyance allowance, its rate of increase over time, and the allowance as percentage of basic salary for all grades are reported in Table 4 (a, b, c). The employees up to grade 19 are lumped in to five broad groups for the payment of conveyance allowance. Therefore as in case of house rent, when calculated as a percent of the basic salary this practice results in losses to employees of higher grades. The loss, is particularly more pronounced between grades 16 to 20 (see Section-c Table 4, and Figure 4). This practice of lumping grades for house rent and conveyance allowances is rather ambiguous.

Table 4

*Absolute and Percent Increases in the Conveyance Allowance, by  
Groups of Employees*

Grades	a. Absolute Conveyance Allowance				b. Percent Increase			
	1-Jul-91	1-Jul-94	1-Jul-01	1-Jul-05	1-Jul-91	1-Jul-94	1-Jul-01	1-Jul-05
1-4	96	96	170	340	26	0	77	100
5-10	96	96	170	460	26	0	77	171
11-15	193	193	340	680	154	0	76	100
16-19	193	355	620	1240	20	84	75	100
20	355	355	620	1240	120	0	75	100

c. Absolute Conveyance Allowance as a Percent of Basic Salary																						
C. Grades	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
CA as % of Basic Salary	16	15	15	14	19	18	18	17	16	16	23	21	20	19	18	28	17	13	9	7		

The conveyance facility of grade 21 and 22 for official and private use includes tax-free cars of 1000 and 1300cc respectively; fully indexed fuel of 180 and 360 litres (Petrol) per month, full maintenance and repairs, as well as uniformed drivers. It will be seen from Table 5 that in 2005-06 only the fuel payment of grade 21 amounts to 51 percent of the basic salary while that of grade-22 constitutes 94 percent of the basic salary of the grade. Conservative estimates of maintenance of official cars are shown in Table 5. The current budget also includes a rather complicated procedure to tax this privilege, however the simple solution again would be to monetise this facility and make it a part of the salary package, and do away with the vast network of maintaining/running of official transport.



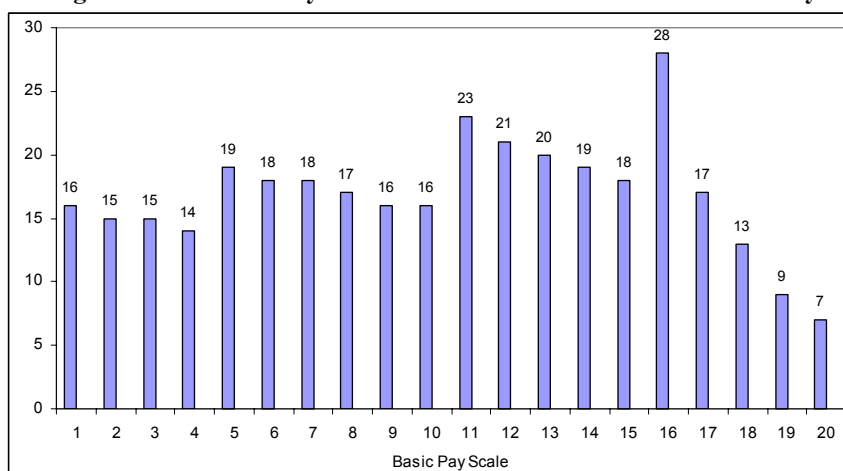
**Fig. 4. Absolute Conveyance Allowance as a Percent of Basic Salary**

Table 5

*Monthly Cost of Fully Maintained Cars*

	Litres of Fuel	Cost of Fuel (Rs)	Driver's Salary Excluding Overtime	Token Tax	Maintenance	Total	Fuel as % of Basic Salary
BPS-21	144	1698	1769	10	1000	4477	31
1990-91							
2005-06	180	9482	5673	29	3000	18184	51
BPS-22	192	2264	1769	10	1200	5243	39
1990-91							
2005-06	360	18965	5673	29	3500	28167	94

**(c) Grade-specific Allowances<sup>9</sup>**

The grade-specific allowances include washing allowance for employees in Grades 1 to 4; and entertainment allowance, senior post allowance, and orderly allowance for Grades 20 to 22. Washing Allowance is granted for the maintenance of the uniform provided to the employees. This allowance has increased from Rs 65.00 in 1990-91 to Rs 85 in 1994 and finally to Rs 150 in 2005.

Entertainment allowance now admissible to grade 19 also, is granted to senior officials for the entertainment of official guests at office or residence.

<sup>9</sup>Telephone facility and medical allowance are not included here in. The unlimited telephone entitlement to the highest grade makes it very difficult to account for it. Similarly, in case of health care known but unaccountable privileges at the higher levels cannot be quantified.

These include in-office meetings and/or special assignments requiring subordinates to consult the officials at residence.

Senior Post Allowance is presumably meant to maintain a certain minimum gap between the highest-paid and the lowest-paid.

Orderly Allowance was introduced in 1985-86 and was initially admissible only if an orderly for domestic duties was actually hired. This was meant to promote employment of lower-income groups. However, this condition was waived later and it is now part of the salary. All the allowances for the highest grades are reported in Table 6.

Table 6

*Grade-specific Allowances for the Three Highest Grades*

Years	1990-91	1994-95	1996-97	2002-03	2003-04	2005-06
	<b>Grades</b>					
	Grade 20					
Allowances						
Entertainment	400	400	400	450	450	600
Special P. Allow.	200	600	800	850	850	1100
Orderly Allow.	800	1000	1000	1900	2375	2375
	Grade 21					
Entertainment	450	450	450	525	525	700
Special P. Allow.	400	800	800	925	925	1200
Orderly Allow.	800	1000	1000	1900	2375	2375
	Grade 22					
Entertainment	650	650	650	725	725	975
Special P. Allow.	600	1000	1000	1200	1200	1600
Orderly Allow	800	1000	1000	2375	2375	2375

To summarise, the practice to club together various grades arbitrarily for the allowances makes the allowances structure very inequitable. The housing allowance versus the government housing is a serious anomaly to be resolved. Similarly the distribution of conveyance allowance between grades 1 to 20 and between grade 21 and 22 has serious implications for the distribution of income. The regular allowances granted to groups of grades tend to favour the lower grades in these groups. The grade-specific allowances of the highest income groups apparently make the salary structures look very inequitable.

**IV. WELFARE OF THE FEDERAL EMPLOYEES: 1990-91–2005-06**

Trends in the real salaries of federal government employees are analysed with reference to: (a) indices of real wages indicating the increase or decrease in welfare of the employees in each grade and between different grades; and (b) the proportional gains in the welfare of the federal employees *vis-à-vis* the rest of the public in terms of GNP per capita.

**(a) Indices of Real Wages**

The trends in the indices of real wages as shown in Table 7 are analysed with reference to the increases in salaries granted overtime.<sup>10</sup>

The first revision of salaries effective June 1991, granted a maximum markup of 39 percent to grade 1, decreasing gradually to 27 percent for grade 12, the remaining grades were granted a uniform increase of 26 percent. Consequently, the real wages of all grades increased ranging from 30 percent for grade 1 to only 3 percent for grade 22 in one year. However due to the rise in inflation rate from 9.3 percent in 1991-92 to 11 percent in 1992-93 only grades 1 to 10 and grade 13 sustained positive real wages. Grades 11 and 12 may have been affected negatively due to the pairing of grades for the allowances. The further increase in inflation rate to 11.5 percent in the fiscal year 1993-94 led to the second revision of June 1994. This revision reversed the markup in basic salaries in favour of higher grades—it increased from 2.7 percent for grade 1 to 20 percent for the two highest grades. However this revision failed to mitigate fully the effects of erosion due to double digit inflation: real wages for grades 16 to 22 remained negative, while grades 1 to 15 earned a positive but declining real wage. For both the revisions the ratio of the highest paid to the lowest paid remained 1:9.

Contrary to the policy of salary revisions every three years, the next revision was delayed for six years when Pakistan faced serious fiscal constraints under the IMF's Structural Adjustment Programmes.<sup>11</sup> This delay however had serious implications for real earnings of the civil servants for the three years 1995-1997. Double digit inflation persisted until 1996-97 resulting in negative real wage for all grades except for grades 1, 2 and 4.

In the following two years between July 1997 to June 1999 inflation declined to single digits (7.4 and 5.7), but in the absence of any salary adjustments real wages were negative for all the 22 grades during 1997-8 and 1998-9. This outcome was repeated in the following year.

The third revision of pay scales in December 2001 saw a shift in the existing methodology of salary revision. The Special Additional Allowance was frozen in the calculation of Total Basic Salary. The salary revision resulted in positive real wage for grades 1, 2 and 4 by increases of 5, 4 and 1 percent respectively in 2001-02, and only grade 1 registered an increase of 2 percent despite the decline in inflation rate to only 2.9 percent in 2002-03. Inflation rate increased to 9.3 percent in 2004-05 and the real wages were negative for all grades except for grades 1 and 2. Thus the severe erosion of the salaries in the nineties could not be recouped despite the continued decline in inflation from

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<sup>10</sup>An important caveat may be noted here: the trends in real wages do not reflect the market value of the perks granted to the federal government employees particularly at the level of four highest grades.

<sup>11</sup>This aspect is also studied by Kraay, Aart and Van Rijckeghem (1996).

Table 7

*Indices of Real Wages as a Percent of GNP: 1991-92 to 2005-06*

BPS	Index Number															
	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
22	100	103	93	91	91	87	85	79	79	90	92	98	95	97	99	101
21	100	104	94	92	92	88	86	80	79	82	84	91	88	89	90	92
20	100	107	97	95	92	88	85	79	74	77	78	87	85	85	83	85
19	100	106	96	94	91	85	81	75	71	75	76	86	83	81	80	84
18	100	107	98	97	93	87	84	78	74	77	79	88	85	89	88	90
17	100	105	96	96	91	85	83	77	73	75	77	84	81	85	83	85
16	100	104	95	95	90	83	84	78	74	78	80	78	76	79	76	79
15	100	109	99	102	94	87	90	84	79	84	87	91	88	92	89	90
14	100	108	98	101	92	86	89	83	78	83	86	89	87	90	87	89
13	100	111	101	103	95	88	92	85	80	85	88	92	90	93	90	93
12	100	107	98	100	93	87	91	84	80	84	87	91	88	92	89	91
11	100	108	98	101	94	87	91	85	80	85	88	91	88	92	89	91
10	100	114	104	104	95	88	93	86	82	88	90	94	91	95	93	96
9	100	114	104	104	95	88	94	87	82	89	91	94	91	95	93	96
8	100	114	104	105	95	88	94	87	82	89	91	93	91	94	92	95
7	100	114	104	105	95	88	94	87	82	89	91	93	91	94	92	95
6	100	119	108	107	97	91	96	89	85	93	94	97	94	98	96	101
5	100	120	109	108	98	91	97	90	85	94	95	98	95	99	97	102
4	100	121	110	109	102	95	101	94	89	97	98	101	98	101	99	103
3	100	120	109	108	98	91	97	90	85	93	94	97	94	97	95	99
2	100	127	116	113	103	96	103	96	90	100	100	104	100	104	103	108
1	100	130	118	115	104	98	105	97	92	102	102	105	102	105	104	110

12.5 percent in 1996-97 to 2.9 percent in 2002-03. This outcome can be directly attributed to the delay of six years in the revision of salaries without due consideration to the inflation rate and its consequences.

The final revision of salaries in 2005, as described earlier was based purely on a 15 percent increase of the basic salary of 2001 while all the relief allowances were frozen. The decline in inflation to 6.6 percent in 2005-06 led to an increase in real wages of grades 1, 2, 4, 5 and 6 by 10, 8, 3, 2 and 1 percent respectively. The highest grade also registered a 1 percent increase for once. The latter may be explained by the exceptionally high increase in the senior post and entertainment allowance for the highest grade. Overall the position of almost all grades deteriorated after 1993-94 with minor exceptions.

### **(b) Nominal Salaries as Percent of GNP Per Capita**

To ascertain the gains in welfare of the government employees compared to the rest of the public we estimate their salaries as a percentage of GNP per capita as:

$$\{(TNS/DPE)*12\}/GNPc*100\}$$

where TNS is the total nominal salary of a grade including all allowances.

DPE is the dependents per earner in that income group. The ratio TNS/DPE is multiplied by 12 to the nominal income per year because the GNP statistics are not available on monthly basis.

This ratio is divided by the GNP per capita (GNPc) and multiplied by 100 to get the salaries of employees in different grades as a percent of the GNP per capita. This shows the income differential of the government employees *vis-à-vis* the employees in similar income groups. It measures the gains and losses of the federal employees over and above the GNP per capita earned by the non-government sector.<sup>12</sup>

All the statistics related to salaries and allowances used in this study are taken from government notifications issued over time. Statistics on dependents per person according to income groups is taken from the *Household Income and Expenditure Surveys* (various issues). It is derived by dividing the family members by the number of earners in a household. The GNP figures are taken from the *Pakistan Economic Survey* (various issues).

Estimates of nominal salary as a percent of the GNP per capita reported in Table 8 confirm that the civil servants are at the lowest rung of the per capita earnings. Furthermore, only employees in grades 1-10 earned more than the GNP per capita until 1993-94. The table shows a declining trend in the gains of all the employees overtime while GNP per capita increased throughout the

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<sup>12</sup>See Haque and Sahay (1995).

Table 8

*Indices of Nominal Wages as a Percent of GNP: 1990-91 to 2004-05*

BPS	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
22	100	99	92	88	85	82	80	76	74	70	70	73	67	65	63	60
21	100	100	93	104	85	82	81	76	74	64	64	68	62	60	57	54
20	100	103	96	107	85	82	80	75	70	60	59	65	60	57	53	50
19	100	102	95	107	85	80	76	72	67	58	57	64	58	55	51	49
18	100	104	96	110	87	82	79	74	69	60	60	66	60	60	56	53
17	100	102	95	109	85	80	78	73	68	59	59	63	57	57	53	50
16	100	101	94	108	84	78	80	75	70	61	61	58	53	53	49	47
15	100	105	98	115	87	81	85	80	74	65	66	67	62	61	56	53
14	100	105	97	115	86	81	84	80	74	64	66	67	61	61	56	52
13	100	107	100	117	88	82	86	81	75	66	67	69	63	62	58	54
12	100	105	97	114	87	82	86	81	75	66	67	68	62	62	57	54
11	100	104	97	114	87	81	86	81	75	66	67	68	62	62	57	54
10	100	109	102	117	88	82	87	82	76	68	68	70	63	63	59	56
9	100	110	102	118	88	82	87	82	77	68	69	70	63	63	59	56
8	100	110	102	118	88	82	88	82	77	68	69	69	63	63	58	56
7	100	110	102	118	88	82	88	83	77	69	69	69	63	63	58	56
6	100	116	108	122	91	86	92	86	80	73	72	73	67	67	62	60
5	100	116	108	123	91	86	92	86	81	73	72	73	67	67	62	60
4	100	116	108	123	94	88	94	89	83	75	74	75	68	68	63	60
3	100	117	108	123	92	86	92	87	81	73	72	73	66	66	61	59
2	100	124	115	129	96	91	98	92	86	79	77	78	71	70	66	64
1	100	125	116	130	97	92	98	93	86	79	78	78	71	71	66	65

period. The declining trend is more pronounced for the higher grades compared to the lower grades.<sup>13</sup>

## V. CONCLUSIONS AND POLICY RECOMMENDATIONS

The pay scales of the civil service in Pakistan is beset with structural defects in terms of length of scales, overlaps, and unhindered payments of increments since 1983. The basic salary structure suffers from a number of anomalies resulting in widening of gaps between work and pay and hence the loss of incentive to work. Revision of salary scales has become a mechanical exercise subject to the fiscal constraint of the federal government. The shift in the methodology of determination of salary revisions for 2005 reflects adversely on the policy-makers considering the loss of real salary due to the freezing of allowances over three revisions, while inflation peaked at 9.3 percent in 2004-05 and stood at 6.6 percent in 2005-06.

Furthermore the grant and allocation of allowances has its own ambiguities leading to serious distortions in remuneration among grades. Indeed this system of perks has many drawbacks: it creates an infrastructure for the maintenance of housing and cars, which at its best is inefficient, and at its worst both inefficient and corrupt, resulting in loss of tax resources. It also insulates the government servants who are in charge of policy from realities of life such as renting houses and paying for cars. Monetisation of house rents will ease the rent situation as the employees would prefer to save by acquiring the minimum required accommodation. Currently they tend to hire houses according to their full entitlements because there is no rebate on the house rent recovery, or in the tax on the allowance if they pay a rent lower than their entitlement. The conveyance facility of the two highest grades defies all sense of proportions compared to the other grades. The unlimited telephone facility is totally against the basic fiscal norm of user charge. Indeed all these factors suggest that the people heading the various pay commissions are prevailed upon to maintain the status-quo.

The erosion of real salaries particularly of the higher grades and the very low nominal salaries of all grades compared to the non-government sector (despite exclusion of tax deductions) reflects the importance government attaches to the living standards of its workers. The indexation of salaries to the inflation rate was granted only once in the eighties. However in the nineties the fiscal constraint is met by the postponement of salary revisions for up to six years, and is substituted by the irregular, piecemeal, token increases in relief and other allowances. The new trend of freezing the relief allowances in the revision of salaries is a serious anomaly with negative consequences for those at the receiving end.

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<sup>13</sup>The caveat in footnote (9) also applies in this case.

In the light of the findings of this study the following recommendations are put forward for consideration.

The lengthy and excessively overlapping pay scales and the unhindered payment of increments need to be revamped significantly to establish a “connect” between pay and work and to promote career advancement. One possibility is to create sub-grades clearly identifying duties and remunerations, coupled with a strict code of conduct. However, a more efficient way out of this maze of existing salary structure is to monetise all the perks at the market rate and add to the basic wage fully indexed. This begs the question: how to determine the salaries thereafter? Governments in industrialised market economies have generally taken the level of pay in other employing sectors as the basic point of reference when determining the remuneration of their employees. It is fair to pay the civil servants at the same rate as private companies and public corporations if the government wishes to attract and retain a motivated work force. Intelligent and motivated managers and administrators are the need of the civil service. Only right people in the right places can help put this distorted, corrupt and inefficient structure back in place.

The issue of monetisation of perks has overtime been brushed aside on the pretext of lack of resources, but as pointed out earlier it is more an issue of maintaining the status quo. The three possible avenues to finance this monetisation include:<sup>14</sup> first, all the donor’s money being offered for the civil service reforms could be considered for this package at some levels at least. Secondly, money received from an auction/sale of all government housing which remains inadequate forever, as well as the auction of official vehicles could be used to help civil servants to purchase their own vehicles on lease, to be run and maintained by themselves, compared to the lengthy procedures announced to tax this facility. Similarly, loans can be provided on easy terms to encourage employees to build own houses. Rationalisation of these two major allowances and their inclusion as part of salary would also help government to get rid of the huge infrastructures established to manage these perks. Finally, the long-run benefits of this policy of rationalising and monetising of all perks including free/subsidised telephones, reimbursement of excessive medical bills, domestic servants, will outweigh the initial costs.

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<sup>14</sup>See World Bank (2004).



Appendix Table 1

*Estimation of Markup on Basic Salaries*

BPS	%age Increase on Basic Salary of Jun-91 Over “Total Basic Salary” July-May 1990	%age Increase on Basic Salary of June-94 Over “Total Basic Salary” July-May 1991	%age Increase on Basic Salary of Dec. 2001 Over “Total Basic Salary” June 1994– Nov. 2001	%age Increase on Basic Salary Of July-05 “Total Basic Salary” Dec. 2001– June-04
22	26.0	20.0	49.5	15.0
21	26.4	20.1	49.5	15.0
20	26.3	19.6	49.5	15.0
19	26.3	19.0	49.5	15.0
18	26.3	17.1	49.5	15.0
17	26.3	15.6	49.5	15.0
16	26.3	12.0	22.2	15.0
15	26.4	10.5	20.0	15.0
14	26.4	9.7	19.0	15.0
13	26.5	9.3	17.6	15.0
12	27.0	8.3	16.4	15.0
11	27.4	7.6	15.3	15.0
10	28.5	6.9	14.4	15.0
9	29.8	6.8	14.0	15.0
8	31.2	5.9	13.0	15.0
7	32.7	5.4	12.0	15.0
6	33.5	5.0	11.3	15.0
5	34.4	4.6	10.6	15.0
4	35.4	4.2	10.0	15.0
3	36.4	3.7	9.3	15.0
2	37.5	2.9	8.5	15.0
1	39.4	2.7	8.0	15.0
Average Markup	29.5	9.9	23.6	15.0

Appendix Table 2

*Revised Basic Pay Scales with Stages*

BPS	Existing Pay Scales 1/6/1991		Existing Pay Scales 1/6/1994		Existing Pay Scales 1/7/2001		Existing Pay Scales 1/7/2005	
		Stages		Stages		Stages		Stages
22	8075-450-12575	10	10900-610-17000	10	17440-1250-34940	14	20055-1440-40215	14
21	7535-405-11585	10	10190-545-15640	10	16305-1070-31285	14	18750-1230-35970	14
20	6810-325-10060	10	9195-440-13595	10	14710-950-28010	14	16915-1095-32245	14
19	5740-285-8590	10	7750-385-11600	10	12400-615-24700	20	14260-705-28360	20
18	3765-271-6475	10	5085-366-8745	10	8135-585-19835	20	9355-675-22855	20
17	2870-215-5450	12	3880-290-7360	12	6210-465-15510	20	7140-535-17840	20
16	1875-146-4065	15	2535-197-5490	15	3805-295-12655	30	4375-340-14575	30
15	1620-131-3585	15	2190-177-4845	15	3285-265-11235	30	3780-305-12930	30
14	1530-119-3315	15	2065-161-4480	15	3100-240-10300	30	3565-275-11815	30
13	1440-107-3045	15	1950-144-4110	15	2925-215-9375	30	3365-245-10715	30
12	1355-96-2795	15	1830-130-3780	15	2745-195-8595	30	3155-225-9905	30
11	1275-86-2565	15	1725-116-3465	15	2590-175-7840	30	2980-200-8980	30
10	1230-79-2415	15	1660-107-3265	15	2490-160-7290	30	2865-185-8415	30
9	1185-72-2265	15	1605-97-3060	15	2410-145-6760	30	2770-165-7720	30
8	1140-65-2115	15	1540-88-2860	15	2310-130-6210	30	2655-150-7155	30
7	1095-60-1995	15	1480-81-2695	15	2220-120-5820	30	2555-140-6755	30
6	1065-54-1875	15	1440-73-2535	15	2160-110-5460	30	2485-125-6235	30
5	1035-49-1770	15	1400-66-2390	15	2100-100-5100	30	2415-115-5865	30
4	1005-43-1650	15	1360-58-2230	15	2040-85-4590	30	2345-100-5345	30
3	975-37-1530	15	1320-50-2070	15	1980-75-4230	30	2275-85-4825	30
2	945-32-1425	15	1275-44-1935	15	1915-65-3865	30	2200-75-4450	30
1	920-26-1310	15	1245-35-1770	15	1870-55-3520	30	2150-65-4100	30
	1:9		1:9		1:9		1:9	

Appendix Table 3

Grade No.	Scales (1-3-1972)	Revised Scales (1-5-1977)	Revised Scales (1-7-1981)
1	100-2-116/8-140	250-5-280/6-340	250-5-280/6-340-7-375
2	110-3-152/4-160	260-6-302/7-365	260-6-302/7-365-8-405
3	120-3-150/5-180	270-7-326/8-390	270-7-326/8-390-9-435
4	130-4-170/5-200	280-8-352/9-415	280-8-352/9-415-12-475
5	150-6-180/8-220/10-280	290-10-350/12-470	290-10-350/12-470-14-540
6	165-8-205/10-255/10-315	315-12-399/14-525	315-12-399/14-525-16-605
7	180-10-230/10-280/15-370	335-14-447/16-575	335-14-447/16-575-18-665
8	200-12-260/15-335/15-425	370-16-514/18-640	370-16-514/18-640-22-750
9	225-15-300/16-380/20-480	390-20-590/22-700	390-20-590/22-700-24-820
10	250-18-340/20-440/20-540	410-22-520/24-760	410-22-520/24-760-28-900
11	275-20-375/20-475/25-600	430-24-550/28-830	430-24-550/28-830-30-980
12	300-20-400/25-525/25-650	460-28-600/30-900	460-28-600/30-900-32-1060
13	325-25-450/25-575/25-700	490-30-790/32-950	490-30-790/32-950-35-1125
14	350-25-475/25-600/30-750	520-30-730/35-1010	520-30-730/35-1010-40-1210
15	375-25-500/30-650/35-825	550-35-900/40-1100	550-35-900/40-1100-50-1350
16	400-35-750/50-1000	625-40-825/50-1325	625-40-825/50-1325-60-1625
17	500-50-1000/50-1250	900-50-1150/60-1750	900-50-1150/60-1750-100-2250
18	1000-75-1750	1350-75-1650/100-2150	1350-75-1650/100-2650
19	1800-80-2200	2250-100-2750	2250-100-3050
20	2300-100-2600	2600-125-3225	2600-125-3600
21	2750	3000-150-3750	3000-150-4200
22	3000	3250-200-4250	3250-200-4850

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