

Rightsizing the Government Wage Bill

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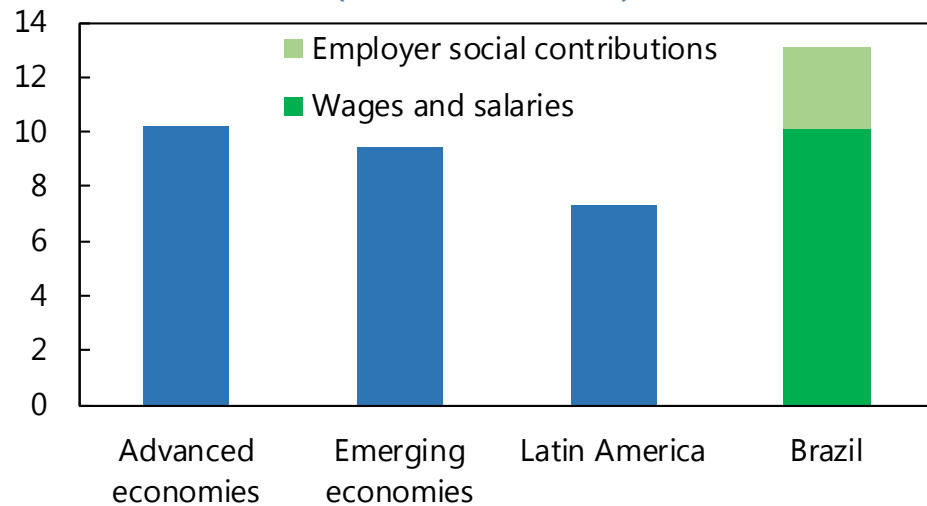
November, 2018

Rightsizing personnel expenditure is coming to the fore of the fiscal reform agenda

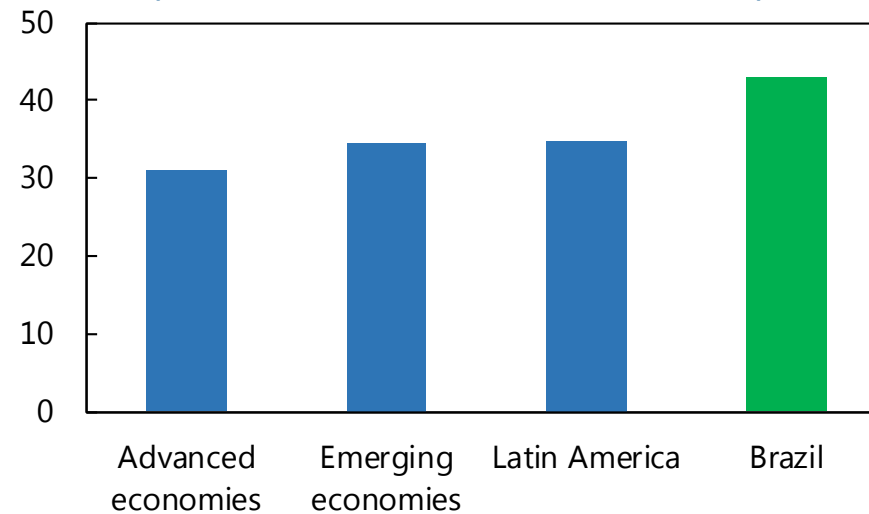
- ▶ Containing wage bill is essential to comply with fiscal rules and ensure fiscal sustainability
- ▶ Moderating civil servants wages would contribute to a more equitable fiscal adjustment
- ▶ Reviewing government compensation can have productivity spillovers

The wage bill is high relative to peers

Compensation of Employees, 2016
(Percent of GDP)

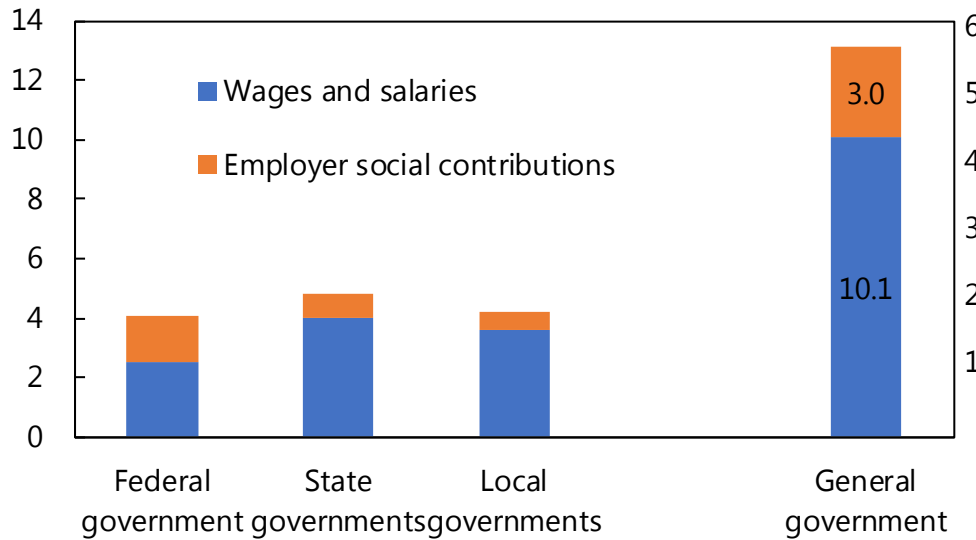


Compensation of Employees, 2016
(Percent of Government Revenue)

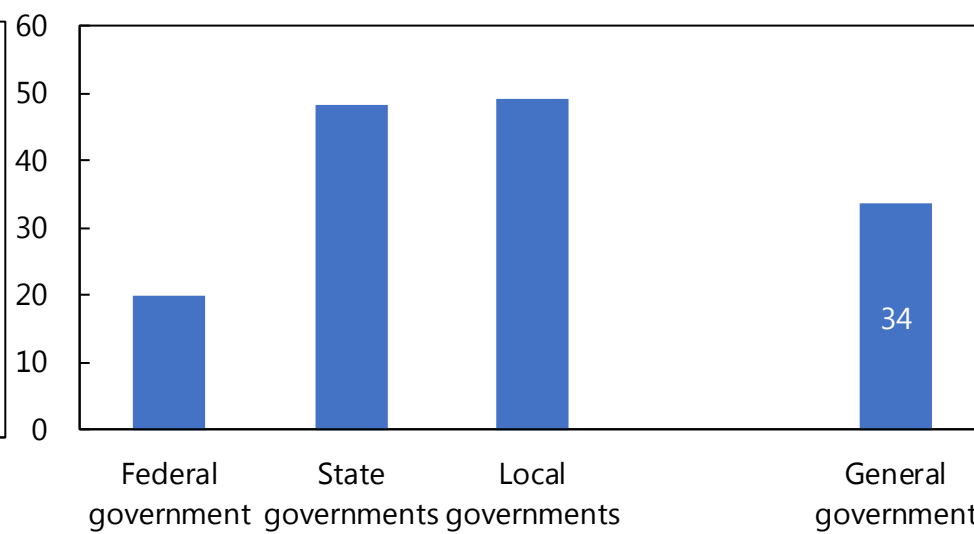


The government spends 13 percent of GDP in compensation of employees

Compensation of Employees, 2016
(Percent of GDP)

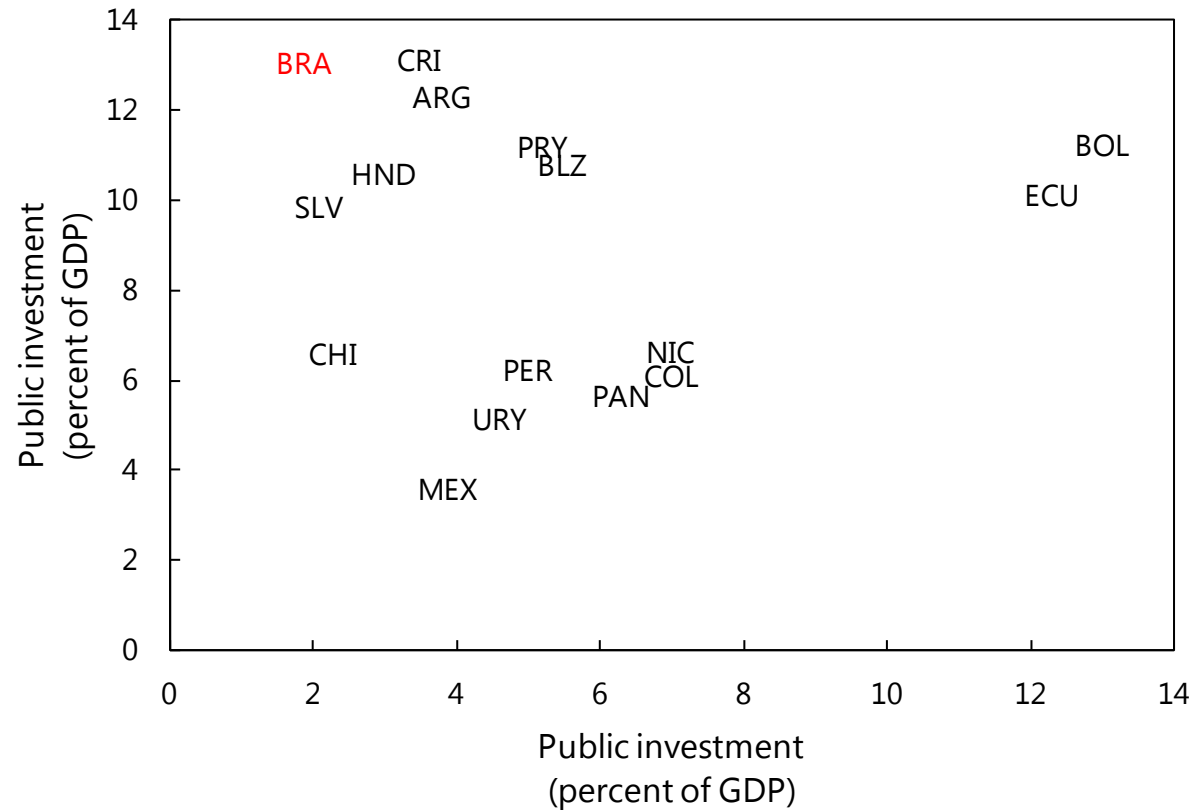


Compensation of Employees, 2016
(Percent of Primary Spending)



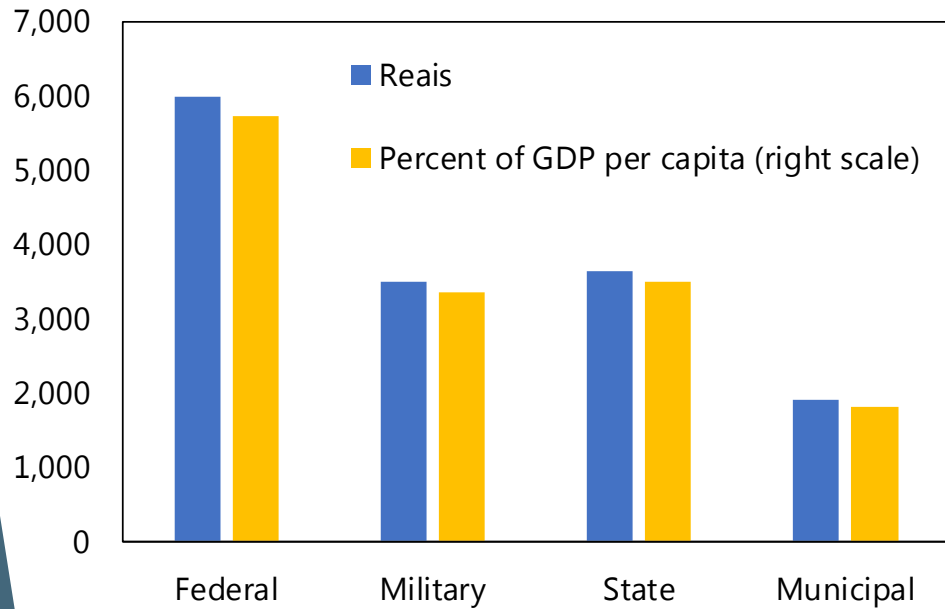
The considerable space taken by the wage bill limits other productive spending

Public Investment and the Wage Bill

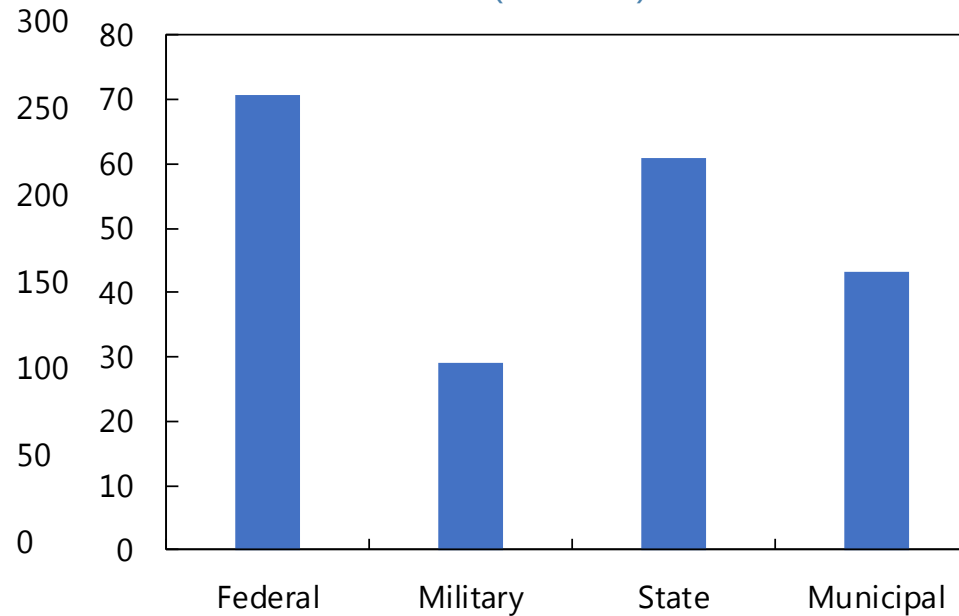


There are substantial disparities in pay across the various levels of government

Government Monthly Pay, 2015

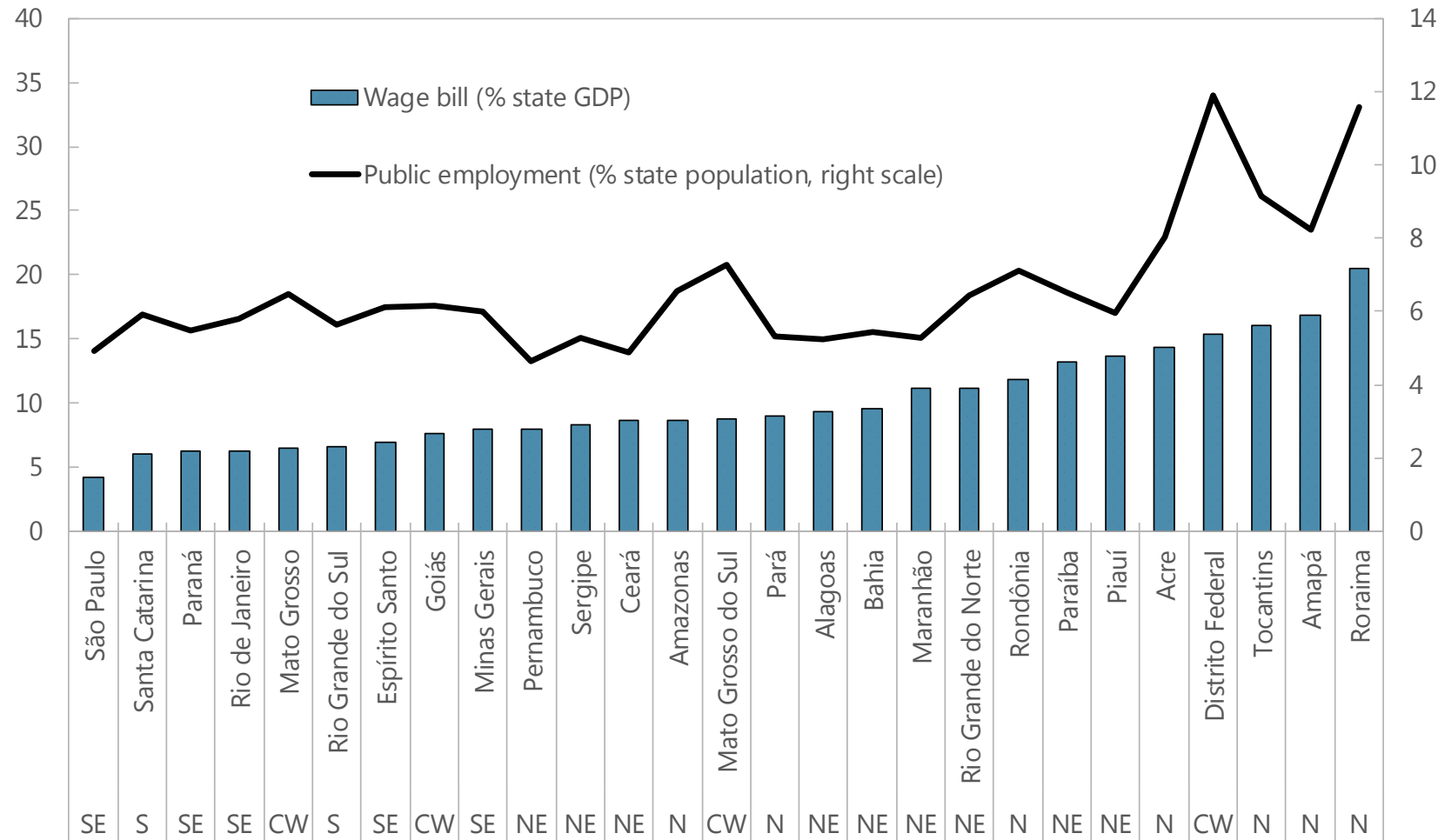


Share of Employees with Education beyond High School (Percent)



The wage bill varies across states largely reflecting differences in per capita income

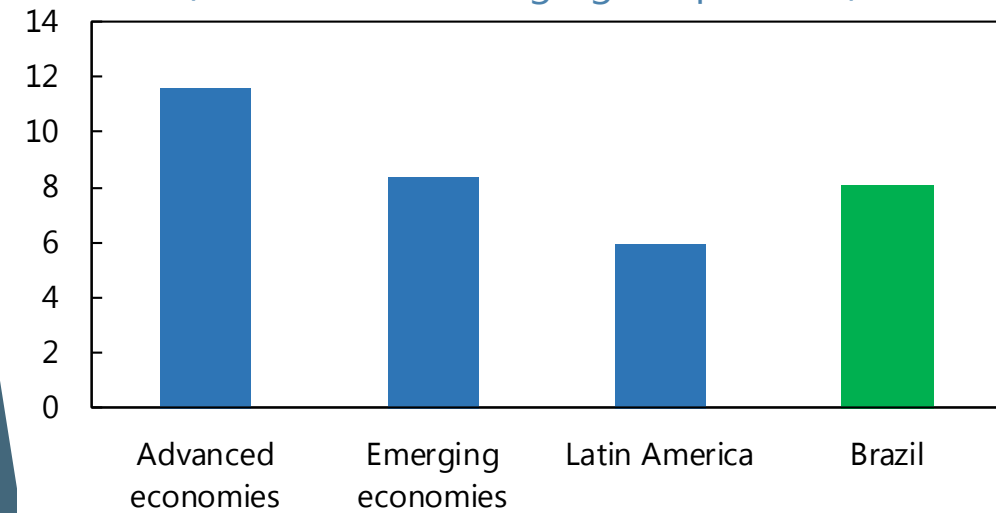
Wage Bill and Employment by State and Region,, 2015



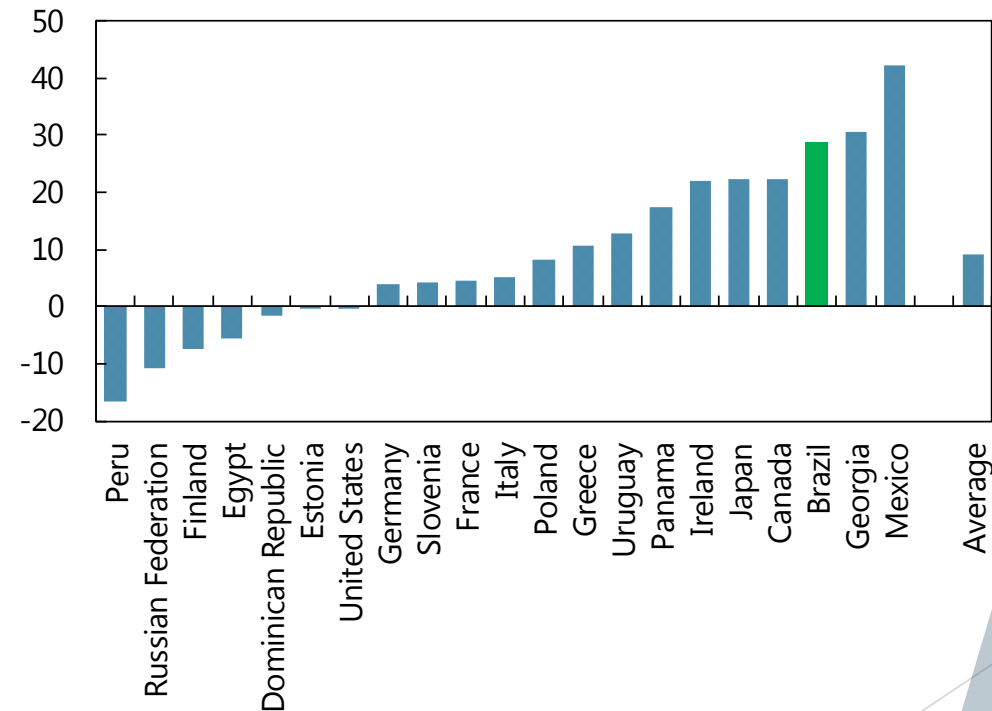
ISSUES

The level of pay is the main factor explaining the relatively high wage bill

Government Employment, 2016
(Percent of Working Age Population)

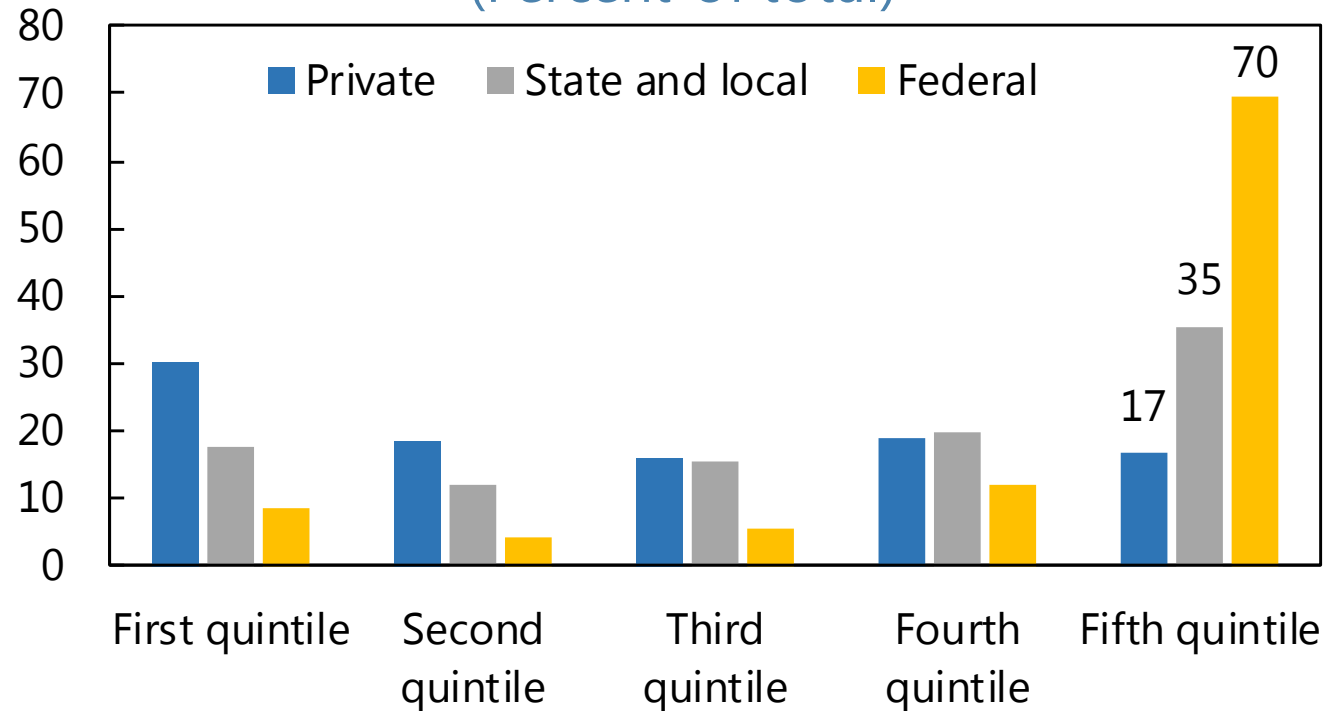


Government Wage Premium
(Percent)



Government workers are among the better off in the earnings distribution

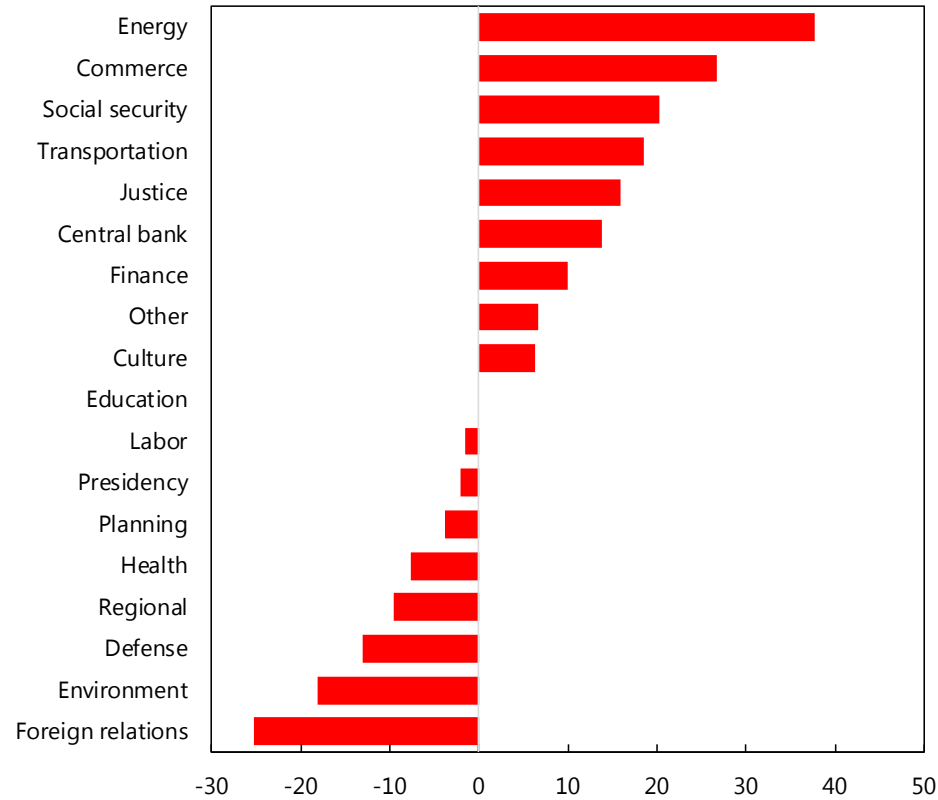
Distribution of Employment, by Sector and Quintile of Earnings
(Percent of total)



Federal Government

The compensation structure depends on career streams that reward seniority contributing to wage drift

The multitude of wage grids introduce disparities for similar jobs across entities contributing to income inequality



REFORM OPTIONS

In the near term, options are limited

- ▶ A multiyear agreement with employees to maintain wage increases below the rate of inflation
- ▶ Differentiate increases by performance, while maintaining the average increase under inflation
- ▶ Review non-salary pay, including existing bonuses and allowances (auxílios)
- ▶ Curtail employment growth, particularly for low-skilled individuals
- ▶ Allow for job movements across the different entities of the federal government

In the long-term, it is necessary to rethink the compensation structure

- ▶ Simplify the multiple wage grids, starting by merging careers for which the wage structure overlaps.
- ▶ Wages should be gradually realigned with the private sector, particularly for low-skilled individuals
- ▶ Seniority increases should be eliminated or reduced, linking them to performance and job responsibility
- ▶ Control allowances, including by setting limits in total remuneration by individual and entity
- ▶ Long-term workforce planning should reflect demographic developments