Rightsizing the Government Wage Bill

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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
The government spends 13 percent of GDP in compensation of employees.
The considerable space taken by the wage bill limits other productive spending.
There are substantial disparities in pay across the various levels of government.
The wage bill varies across states largely reflecting differences in per capita income.
ISSUES
The level of pay is the main factor explaining the relatively high wage bill.
Government workers are among the better off in the earnings distribution.
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.