

BUDGET RETRENCHMENT IN THE PUBLIC SECTOR – CHALLENGES AGAINST THE BACKGROUND OF THE FINANCIAL CRISIS

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Romania’s entry to the “select” club of the E.U. generate new challenges that overlap against the background of a financial and economic crisis with dramatic repercussions that differ from one country to another. At the end of the year, Romania concluded by experiencing a budget deficit of 5.2% of the GDP, exceeding by far the standards of the E.U. (maximum of 3%). The present paper aims at performing an analysis of the evolution of the number of occupied posts versus wages granted, the percentage thereof of the GDP and the measures that must be taken in order to diminish this component of the public expenditure for the purpose of reducing the budget deficit to a maximum percentage of 3% of the GDP. The analysis was performed on various occupied staff categories of administration, tackling the analysis of the total structure (basic wage + in-kind components: bonuses, benefits, allowances and percentages thereof).

Keywords: staff expenditure, budget expenditure, challenges of the financial crisis, budget deficit.

Code JEL: G10, H11

1. Introduction

Romania’s entry to the “select” club of the European Union Countries has generated and continues to generate new economic and financial challenges. The economic and financial crisis has spread to the European countries as well and has had dramatic repercussions differentiated from one country to another. Romania has been “caught” quite unprepared by the wave of the crisis within an unfavourable political context (local elections and parliamentary elections of 2008, followed by the elections for the European Union Parliament and by the presidential elections of 2009) against the background of compressing the economy as of the fourth quarter of 2008.

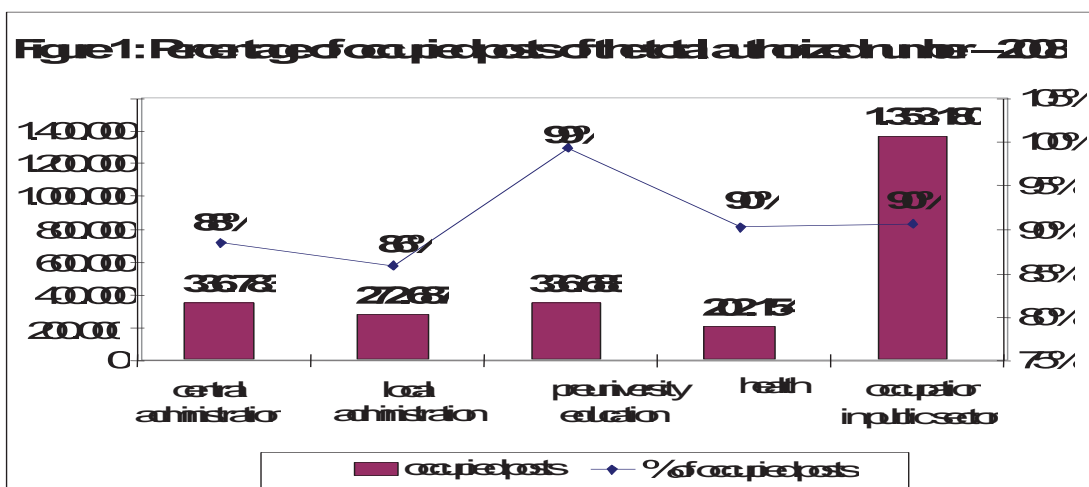
In addition to compressing the economy as of the fourth quarter of 2008, Romania has entered this whirlpool quite unprepared, having a budget deficit at the end of 2008 amounting to 5.2% of the GDP, exceeding by far the maximum level admitted by the standards of the European Union that reach a maximum of 3% of the GDP. One of the main causes that have led to this budget deficit is the increase of budget expenditure related to wages.

The present article aims at carrying out an analysis of the current wage practices in the public sector and suggests some recommendations that may be used for the future wage system.

2. General situation of the evolution of the wage system in the public sector

In the Romanian public sector, including the central administration and the local administration, approximately 1,333,000 people were employed in 2007, accounting for approximately 30% of the number of employees at national level (of all the sectors). The staff expenditure account for 19.2% of the total public expenditure.

The degree of occupation of the number of budgeted posts in 2008 is indicated in Figure 1.



Source: Ministry of Economy and Finance.

The number of occupied posts is smaller, differentiated according to sectors, than the number of approved posts. The budgets earmarked for unoccupied posts have generally become sources of several purposes. The staff fluctuation over the course of the year is covered through the payment of overtime; various bonuses are granted (bonuses of 10% of the wage fund of public servants; 2% of the wage fund of the contractual staff and health staff; 5% of the wage fund for military men).

Part of the unoccupied posts may be used to cover the unforeseen staff demand at the level of the central administration (upon creating new structures, agencies, etc.).

The expenditure of the GDP account for 6.5%. The largest amounts are expended by the special sector (2.4% of the GDP). The military staff represent one quarter of the amount, while the remainder is divided between the Police Station, Fire Brigade and the legal system. Public servants and the contractual staff together account for 2.0% of the GDP. Preuniversity education staff account for 1.7% of the GDP. At the end of 2008, expenditure of the GDP accounted for 8.3%.

Table number 1 indicates the percentage of budget costs according to staff categories for 2007.

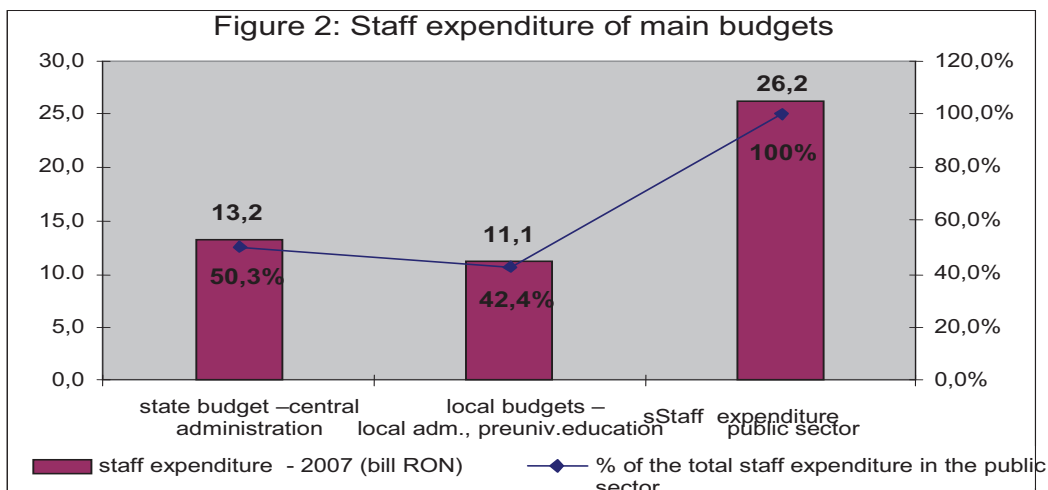
Table 1: Percentage of budget costs according to staff categories – 2007

Staff category	% of the total staff expenditure in the public sector	Staff expenditure according to authorised position	Total monthly expenditure according to individual	Total monthly expenditure for wages and in-kind benefits
Public servants & contracted staff – central administration	13%	30,193	2,516	2,019
Military men	9%	34,707	2,892	2,502
Police Station, Fire Brigade, legal system	28%	46,073	3,839	3,546
Public servants & contracted staff – local administration	17%	14,052	1,171	921
Preuniversity education	26%	19,699	1,642	1,277

Source: Ministry of Labour, Social Solidarity and Family.

Public servants and contractual staff encompass approximately 41% of the total number of approved posts, but account for only 30% of the costs. In contrast, the special sector accounts for 31% of the costs, having only 25% of the number of posts.

By analysing the costs of occupation in the public sector, one may notice a division that is almost equal between the state budget and the local budget, although the higher number of posts is in favour of the local budget (Figure number 2).



Source: Ministry of Economy and Finance.

State budget covers half of almost all staff expenditure, while the local budget pays 42% (including preuniversity education).

The structure of staff costs in the public sector includes three large budget components (Table number 2).

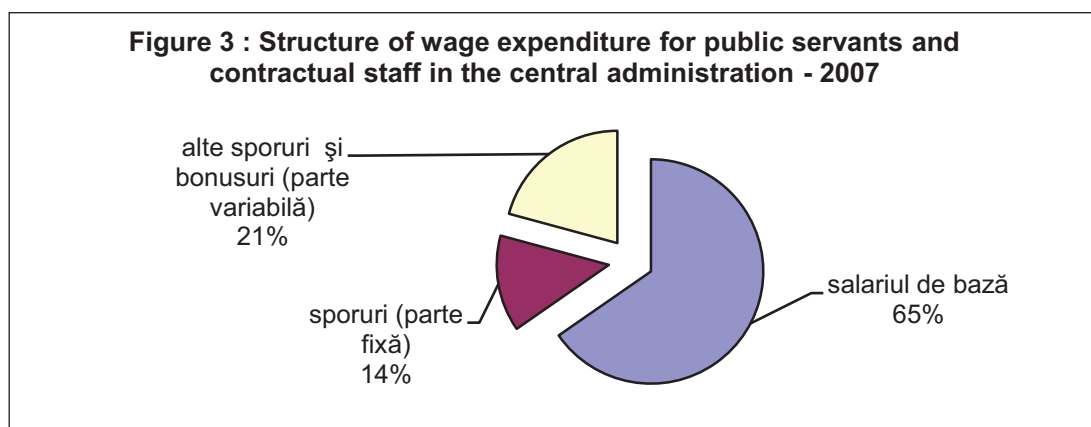
Table 2: Structure of staff expenditure for all main staff categories

Expenditure item	Public servants and contracted staff – central administration	Public servants and contracted staff – local administration	Pre-university education staff	Police Station Fire Brigade, legal system	Army
Staff expenditure	100%	100%	100%	100%	100%
Wage expenditure	80%	78%	78%	69%	67%
Basic wages	43%	47%	50%	29%	26%
Benefits (fixed part) ²⁴⁰	9%	8%	12%	4%	8%
Other benefits and bonuses (variable part)	13%	17%	11%	32%	29%
Other wage expenditure	14%	7%	4%	4%	5%
In-kind benefits	0.6%	0.1%	0.1%	15%	24%
Social contributions	20%	21%	22%	8%	9%

²⁴⁰ Benefits, such as seniority benefits and management benefits, when they are added to the basic wage, are deemed to be part of the “fixed” wage.

Source: Ministry of Labour, Social Solidarity and Family.

The table indicates that the current wages represent by far the most important category of staff expenditure and that the real percentage varies between civil employees and special sector. The wages of the first category amount to 80% of the total remuneration, while the remainder is earmarked for social contributions. As far as the special sector is concerned, the percentage of the wage drops to 67%, while the social contributions amount to 8%. In-kind benefits amount to more than 15% of the remuneration corresponding to the Police Station and more than 24% of the remuneration corresponding to military men. It is much more important to notice that within the wage expenditure, benefits play a variable, but substantial role. First of all, basic wages of civil employees account for approximately 2/3 of the total wage expenditure. For the special sector they account for 45%. Secondly, the percentage of special benefits that are part of the basic wage is variable: for public servants and contractual staff it ranges from 11% to 14% of the total wage expenditure for seniority benefits; in the case of professors, it amounts to 17%; approximately 22% of the wage expenditure of public servants relates to benefits. Figure number 3 presents the structure of wage expenditure for public servants and contractual staff in the central administration.



Source: Ministry of Economy and Finance.

Table number 3 shows the occupation in the public sector according to staff categories for the period comprised between 2005 and 2008.

Table 3: Occupation in the public sector for main staff categories 2005-2008

Category / Employer	2005 (authorised)	2006 (authorised)	2007 (authorised)	2008 (authorised)	2008 (occupied)	% occupied 2008	Increase 2008-2005
Total for the public sector	1,317,916	1,405,609	1,453,617	1,495,597	1,353,180	90%	13%
% of the total labour	28.9%	30.1%	30.1%	-	-	-	-

Source: Ministry of Economy and Finance.

3. Trends of occupation in the public field and staff expenditure (2005-2008)

Total posts have increased by 13% during the last four years. In the central and local administration they have increased by 25% for each. In the health sector they have increased by 16%, while in the preuniversity education they have remained approximately the same.

One of the most important increase trends is that of the number of posts for the public office at the level of the local administration (41%).

Until 2004, the approval of the number of posts in the local administration was carried out through an ordinance passed by the Government. After 2004, the number of posts has been approved by means of resolutions passed by the local (or county) councils according to the demands. The constant increase of income (by means of the balancing formula between the central and the local administration) has granted enough resources in order to allow this to happen.

The long-term increases of the number of posts was due to the extension of services or to the improvement of the quality of the public service. Currently there is no mechanism that checks whether this is happening (Table 5).

Table 5: Total number of approved posts 2005-2008

Staff category	2005	2006	2007	2008	2008 / 2005
Special sector (military, police station, legal system, fire brigade, information)	199,117	221,425	244,154	263,325	32%
Public servants – central administration	65,314	70,232	-	78,153	20%
Contracted staff – central administration	37,981	41,595	-	37,535	-1%
Public servants – local administration	55,417	58,282	-	78,002	41%
Contracted staff – local administration	202,262	227,784	-	240,289	19%

Source: National Agency of Public Servants.

Another source of increase of the number of occupied posts was the special sector and the central administration.

Following the accession to the European Union, the supplementation of the number of posts for the border police and for the police unit was needed (by approximately 50,000 posts). Moreover, following the accession to the European Union new specific agencies were created (the most important: Agency for Payment and Intervention in Agriculture – that encompasses approximately 4,500 new posts). Due to the good economic increase of the period, there was no pressure to reduce the number of posts in the central administration. Moreover, the staff norms of the structures were suspended. For example, for office, services, directorates, etc. there was no imposition regarding a minimum number of posts; the 12%-percentage of the number of management positions of the total number of posts was suspended. The increase of the number of posts was paralleled by the increase of wages from 2004 onwards. All basic wages are updated each year by means of the Government ordinances. At the end of 2008 professors, police station and health employees received wages that were almost double compared to 2004.

The largest wage increases were experienced in 2007, when the basic wage increased by 19%, while inflation amounted to 6.8% (Table 6).

Table 6: Annual increases of basic wage for the main staff categories

Staff category	Annual increase rate				Cumulative increase	
	Dec. 05/ Dec. 04	Dec. 06/ Dec. 05	Dec. 07/ Dec. 06	Dec. 08 ²⁴¹ / Dec. 07	Dec. 07/ Dec. 04	Dec. 08 ²⁴² / Dec. 04
Public servants	17%	11%	19%	12%	55%	73%
Contracted staff	20%	11%	19%	12%	59%	78%
Legal system	8%	9%	20%	5%	42%	48%
Military staff	8%	10%	25%	5%	48%	55%
Police Station	30%	10%	25%	5%	78%	86%
Professors in the preuniversity education	14%	12%	29%	12%	64%	84%
Health	20%	11%	22%	12%	63%	83%
Annual inflation	8.6%	4.9%	6.8%	5.9% ²⁴³	22%	29%

Source: National Agency of Public Servants.

Following the evolutions experienced by wages, the staff expenditure in the public sector increased at a higher rate than the total public expenditure or than the GDP.

Staff expenditure, as percentage of the GDP, increased from 5.3% in 2004 to 6.5% in 2007, namely an increase of 23%, and to 8.3% in 2008.

The increase of the staff expenditure was the highest for the state budget and it was followed by the staff expenditure of the local budget during the period comprised between 2005 and 2007. In both cases the increase rates exceeded those of the GDP.

4. Conclusions

During the period analysed the Romanian economy experienced a considerable increase. Following this increase, public expenditure, as percentage of the GDP, also increased: 30% in 2005, 34% in 2007. The number of posts and the wages increased at a higher rate.

The future priority of the Government must be the guarantee that this “generosity” is translated into efficiency. From this point of view there are a series of weak spots for which measures must be undertaken in order to overcome the same in the medium term:

- Criteria and practices of performance assessment must be improved in order to facilitate a better performance of employees.

- There are substantial wage inequities between main staff categories. The annual update of wages is not carried out based on objective criteria (GDP, output, inflation, efficiency, etc.), but based on the negotiation power of trade unions.

- The complexity, the performance at work, are still insufficiently remunerated.

- The wage is completely untransparent. Bonuses, allowances, numerous benefits account for a much too high percentage of the total remuneration.

- The lack of a sole wage well-balanced law led to inequities within the remuneration system of various public servants categories.

- The establishment of bonuses, benefits stipulated by law followed by the suspension of payment thereof through the annual budget law led to the challenge thereof in court, given that gaining and payment disturbed the level of budget allowances granted and grafted the budget deficit.

241 Estimate based in the legislation adopted by the Government in 2007 and at the beginning of 2008.

242 Estimate based in the legislation adopted by the Government in 2007 and at the beginning of 2008.

243 Estimate of Banca Națională a României (National Bank of Romania).

- The relation between wage and work responsibility is quite weak. Positions that have the same requirements and duties have very different levels of payment. For example, a librarian who has graduated from high school receives an income that is four times higher than that received for other positions requiring similar training.

- Compensation policy differs according to various employee categories. Therefore, the basic wage ranges from 68% to 42% as percentage of the gross wage.

In the majority of the European countries, the basic wage accounts for at least 80% of the total gross wage. Maintaining the seniority benefit, a component with a maximum percentage of 25% of the basic wage, without taking into consideration the real performance.

In order to reduce the impact that the staff expenditure has on the budget deficit, rulers need to:

- draw up a sole wage law that encompasses all occupational categories, a well-balanced law that complies with the requirements encountered in the majority of the European countries;

- to perform a strategy of medium term wage reform in order to carry out an increase of future wages for those competences for which recruiting and maintaining in the public sector is a difficult task;

- elimination of special systems approved by special laws (wages, benefits, pensions, etc.) whose percentage lays pressure on the budget.

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