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Real Wages of the Federal Government Employees: Trends from 1977-78 to 1991-92

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This paper examines the trends in aggregate emoluments of the Federal Government Employees over the period 1977-78 to 1991-92. Levels of salary and allowances are very important factors in attracting and retaining good-quality human resources in any sector of employment in an economy because they have a direct bearing on the motivation and performance of the employees. In Pakistan, despite the fact that government is still the largest employer, the real wages of the government servants have continuously declined over time; the top five grades are the worst-affected. Despite periodic revision of salaries, the successive pay commissions have failed to acknowledge some very obvious anomalies in the basic pay and allowances structures. These anomalies not only harm the interests of the employees, their cost to the national exchequer is also quite significant. The paper aims to provide greater awareness of the weaknesses of the existing salary structures so that they can be reformed. It makes strong recommendations on the revision of the existing patterns of renumeration, to the advantage of both the employer and the employee.

I. INTRODUCTION

The Government is the largest employer in Pakistan; approximately one-third of the wage-earners are working either in government or serving in organisations falling directly or indirectly under state control.[1] Therefore, the government wage policy is expected to exert considerable influence on the wage structure of the rest of the economy. The government wage policy is also believed to have considerable direct and indirect effects on the general price level.[2]

Two studies using time-series data have analysed the trends in total real earnings (including all allowances) of the federal government employees.[3] The first study covers the period 1959-60 to 1975-76 and includes the only one salary revision of 1972. The second study, covering the period 1970–1984, incorporates the two revisions of 1972 and 1977. The first study shows that over the period 1972–76, there was a massive deterioration in the real salaries of all the federal government employees. However, the second study shows that grades 1 and 17 are exceptions. Furthermore, it shows that as compared to 1972, the revision of salaries in 1977 led to a marginal rise in the real wages of all categories except for grades 11, 16, and the top five grades. Overall, the study shows a decline in real earnings, with the sharpest decline having occurred in grades 18 to 22.

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[1]See [Irfan (1989), p. 52] and [Pakistan National Manpower Commission (1989), p. 13].

[2]See [Guisinger and Irfan (1974), pp. 374-75].

[3][Qureshi and Bilquees (1979); Irfan and Ahmed (1985)].

Apart from significant data lapses in the two studies,[4] a common feature of the two studies is that they estimate aggregate real wages over a period with reference to the year of revision. However, they attribute the earnings over time to the year of revision of salaries. Therefore, the nominal wages are deflated by lower price indices. However, in Pakistan, revision of salaries is not a once-for-all process. The salaries and allowances are continuously adjusted between revisions. Besides *ad hoc* reliefs and partial indexation of salary from time to time, some or all of the regular and grade-specific allowances are revised/adjusted along with the basic pay scale, prior to the revision of pay scales, or any time between any two periods of revision. It is important to point out here that revision of salaries is inevitably preceded/succeeded by an increase in price indices. Similarly, revision of allowances and reliefs are also succeeded by an increase in the price level. However, they are accounted for in the official statistics with a time lag of at least one year. Government servants have never been granted full indexation of salaries in Pakistan because of shortage of resources, and that may also be the reason for not reporting the increases in price indices immediately.

Keeping in view the limitations of the earlier studies and the importance of the issue, the objective of the present study is to measure the adequacy of the wage increases in protecting federal government employees against continuous price increases over a longer period. At the same time, the study aims to highlight the issue of equity and efficiency between the grades and between the government and non-government workers. The significant point of departure between the present study and the earlier studies is that the welfare of the employees is estimated on an annual basis between all periods of revision. The study also aims to highlight the anomalies in the allowance structure, wherever possible, including all grade-specific allowances with the maximum possible accuracy. The salaries of the higher grades are also adjusted for their monthly income tax payments. The time-period chosen for the study is 1977-78 to 1991-92.[5]

The study is structured as follows: Section II briefly describes the historical background of the pay commissions in Pakistan and the underlying objective of their recommendations on the pay scales. This is followed by a critical appraisal of the basic pay and allowance structure admissible to all grades. Section III describes the methodology of the estimation procedures adopted to determine the trends in the real salaries of federal government employees. It also describes the data sources and the major shortcomings of the data. Section IV presents the results of the study, highlighting the trends in the real wages of federal employees, amongst themselves and *vis-à-vis* the public at large. Section V gives the conclusions and some policy recommendations.

[4]The first study underestimates the House Rent Allowance as a percent of salary and also excludes the Conveyance Allowance for Grades 18 and above. The second study does not give the breakdown of total earnings to evaluate data lapses. Similarly this study reports total nominal and real earnings only on Grades 1, 6 and 11 but does not give any reasons for this aggregation of various grades. This is not desirable, keeping in view the limitations of aggregation in general.

[5]The real wages deteriorated sharply over the period 1971-72 to 1975-76 due to higher rates of inflation. In this period, the rate of inflation in Pakistan ranged between 14 percent to 30 percent due to a massive external price hike, unsettled economic conditions after the political turmoil of 1972, and floods in 1973, 1974 and 1975.

II. NATIONAL PAY COMMISSIONS AND THE SALARY STRUCTURE

The first national pay commission of 1948 rejected the colonial wage structure because of widespread divergence in the pay scales of the higher-grade British officials and the lower-grade local officers. The pay commission recommended a judicious adjustment of the salaries between the higher and the lower ranks. The pay commission of 1970 also recommended further rationalisation of the salary structure. It was the 1972 pay commission which reduced the then existing 650 pay scales to 22 National Pay Scales. The subsequent pay commissions of 1977, 1983, 1987, and 1991 have continued with these 22 pay scales and the salary structure of the 1972 pay commission with the declared objective of narrowing the gap between the highest-paid and the lowest-paid. In this section, we first look at the basic pay and allowance structure. This is followed by an analysis of the determination of the basic pay to give an overview of the existing pay-scale structure recommended by different pay commissions over time.

(a) The Basic Pay-scale Structure

All the basic pay scales indicate a set pattern of scale-to-scale increases. However, the absolute incremental differences in the basic pay scales of the gazetted (17–22) and the non-gazetted staff (1–16) are quite significant as shown in Table 1. Between Grades 1–15, over the entire period, the incremental difference on the minimum side of the scales ranged between Rs 10.00 and Rs 30.00 in 1977. After the revision of scales in 1991, it still did not exceed Rs 100.00. Furthermore, the rates of increase are uniform for a number of grades. Grade 16 is the threshold for rapid increases between the pay scales of the remaining grades. The rates of increase are significantly different for each grade beyond Grade 15. An outstanding though puzzling feature of the incremental differences among higher grades is the maximum increases for Grade 19 throughout the period under review. It is possible that this differential is aimed at compensating Grade 19 in lieu of the grade-specific allowances of the three highest grades.

(b) The Regular Allowance Structure

(i) The House Rent Allowance

Employees can be grouped into three categories according to accommodation availability and requirement: (a) those who are provided government accommodation; (b) those who do not get government accommodation, requisition accommodation in the private sector, and the government pays the rent directly to the landlord; and (c) those who have alternative arrangements of their own.

The absolute house rent entitlement of different grades of employees, which is included as a part of the total emoluments, is reported in Table 2. Employees upto Grade 18 are pooled into six groups by House Rent Allowance. Employees in the first two grades receive equal rent. This is followed by groups of employees in Grades 3–6, 7–10, 11–13, 14–16, and 17-18, each receiving equal house rents. Beyond Grade 18, the House Rent Allowance is different for all the four grades.

All the employees falling in categories (a) and (b) above, irrespective of their grades, have to pay 5 percent of their gross salaries as house rent recovery (or partial tax on the allowance), but the rent is paid directly to the landlord. The third category of employees, (c), however, receives 45 percent of their basic minimum of the scale salary as House Rent Allowance which is tax free.

(ii) The Conveyance Allowance

Whether an employee owns a vehicle or not, all employees upto Grade 20 are paid Conveyance Allowance in cash. The two highest grades are provided a fully-maintained staff car for official and private use. For the purpose of this study, we assume that all employees below Grade 18 do not maintain a car. Therefore, the employees in Grades 18–20 receive a car maintenance allowance. This allowance is taxable beyond Rs 300.00 per month, while the staff car facility for the two highest grades is tax-free.

Table 1

Differentials of the Basic Minimum Salaries

Years*	1977-78	1983-84	1987-88	1991-92
Grades				
1-2	10	20	25	25
2-3	10	20	25	30
3-4	10	20	25	30
4-5	9	20	25	35
5-6	9	20	25	30
6-7	25	20	25	45
7-8	20	30	40	45
8-9	25	30	40	45
9-10	20	40	40	45
10-11	20	40	40	45
11-12	20	50	60	80
12-13	30	50	65	85
13-14	30	50	65	90
14-15	30	50	65	90
15-16	75	150	195	255
16-17	275	550	715	995
17-18	450	500	845	895
18-19	900	1100	1420	1975
19-20	350	600	770	1070
20-21	400	400	520	725
21-22	250	300	380	540

*Years represent periods of revision.

Table 2

Absolute Amount and Percent Increase in the House Rent Allowance, by Groups of Employees

	Absolute Amount (Rs/Month)						Percent Increase					
Years	1977-78	1979-80	1981-82	1984-85	1988-89	1990-91	1977-78	1979-80	1981-82	1984-85	1988-89	1990-91
Grades												
1-2	160	200	250	375	500	625	160	(25)	(25)	(50)	(33)	(25)
3–6	275	300	400	600	800	1000	275	(9)	(33)	(50)	(33)	(25)
7–10	400	460	600	900	1200	1500	400	(15)	(30)	(50)	(33)	(25)
11–13	650	750	900	1350	1800	2250	650	(15)	(20)	(50)	(33)	(25)
14–16	800	900	1150	1725	2250	2825	800	(12.5)	(28)	(50)	(30)	(25)
17–18	1100	1200	1500	2250	3000	3750	1100	(9)	(25)	(50)	(33)	(25)
19	1450	1600	2000	3000	4000	5000	1450	(10)	(25)	(50)	(33)	(25)
20	1800	2000	2500	3750	5000	6250	1800	(11)	(25)	(50)	(33)	(25)
21	2250	2500	3000	4500	5900	7500	2250	(11)	(20)	(50)	(31)	(27)
22	2500	2750	3750	5500	7200	9000	2500	(10)	(36)	(46)	(31)	(25)

Figures in parentheses represent percentage increases.

The absolute amount of the allowance and its rate of increase over time are reported in Tables 3a and 3b. The employees are grouped by Grades 1–16, 17, 18–20, and 21-22, by the amount of Conveyance Allowance. Over the 15-year period, the Conveyance Allowance of Grades 1–20 increased only three times, in 1978-79, 1983-84, and 1990-91. During 1986-87, the Conveyance Allowance of employees in Grades 1–20 was indexed by 2.8 percent as compared to a 6 percent increase in the transport and communication index of the government employees. In absolute terms, it resulted in a nominal increase of Rs 2.00 for employees in Grades 1–16, Rs 4.00 for Grade 17, and Rs 6.00 for Grades 18–20, against a 4 percent increase in the price index. Again in 1987-88, it was further indexed by 5.5 percent as compared to an increase of 3.5 percent in the transport index. However, the absolute nominal increases were Rs 4.00, 9.00, and 19.00 for the three groups of Grades 1–16, 17, and18–20, against a 9 percent increase in the price index. This is in sharp contrast to the large amounts spent on the conveyance of the two highest grades which have been increasing constantly over time.[6]

A constant or uniform Conveyance Allowance for a number of grades becomes discriminatory as we go up the grade levels. Estimates of Conveyance Allowance as a percent of total nominal salaries between grades 16, 17, and 18–20, reported in Table 3c, show that the higher grades in the group always receive the lowest increase in Conveyance Allowance. While the Conveyance Allowance comprises 6–9 percent of the total salary for Grades 1 and 2; it is 2-3 percent for Grades 15 and 16. Similarly, for Grade 18, it is 4–6 percent of the salary, and for Grade 20 it is 2-3 percent of the total salary. Thus, we see that the grouping of employees compresses the differential in the gains of the higher grades as compared to the lower grades in the group. This policy needs to the rectified, by allowing grade-specific Conveyance Allowance or by increasing the wage differential among the grades in the groups. Besides these nominal differ-

Table 3a

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

Grades Years	1–16	17	18–22
1977-78	30	60	100
1978-79	45(50)	100(66)	150(50)
1983-84	70(55)	160(60)	280(86)
1985-86	72(2.8)	164(2.8)	286(2.8)
1986-87	76(5.5)	173(5.5)	305(7)
1990-91	92(21)	193(11)	355(16)

Figures in the parentheses are percentage increases.

[6]The two highest grades are provided fully maintained staff cars without any tax. The total maintenance costs of these staff cars estimated for 1991-92 are reported in Appendix Table A.

Table 3b

The Conveyance Allowance of the Two Highest Grades

Years	1977-78	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91*	1991-92
21	3300	3502	3750	4380	5040	5370	6124	6546	6836	7044	7420	9659
		(6)	(7)	(9)	(15)	(7)	(14)	(7)	(4)	(3)	(5)	(30)
22	3700	3931	4197	4568	5274	5620	6409	6851	7156	7371	7722	10077
		(6)	(7)	(9)	(15)	(7)	(14)	(7)	(4)	(3)	(5)	(30)

Figures in parentheses represent percentage increases. This table is based on the Appendix Table.

* In 1990-91 the petrol limits were reduced but the price of petrol was increased from Rs 8.94 per litre to Rs 12.79 per litre. This was an exceptional year due to the impact of the Gulf War.

Table 3c

The Conveyance Allowance as a Percent of Salary

Years	1977-78	1978-79	1983-84	1986-87	1987-88	1990-91
Grades						
1-2	6	10	9	7	7	6
11–16	2	3	3	2	2	2
18	4	6	4	6	6	5
20	2	3	2	3	3	2

Grades 1–16 receive uniform Conveyance Allowance.
Grades 18–20 receive uniform Conveyance Allowance.

entials, a common anomaly of the Conveyance Allowance structure is that it is not fixed with reference to the increase in public transport fares, nor the distance travelled by the employees at any level.

(c) Grade-specific Allowances

The grade-specific allowances include Washing Allowance for employees in Grades 1–4; and Entertainment Allowance, Senior Post Allowance, and Orderly Allowance for Grades 20–22. Washing Allowance is granted for the maintenance of the uniform provided to the employees. This allowance has increased from Rs 5.00 in 1977-78 to Rs 25.00 and Rs 65.00 in 1979-80 and 1990-91, respectively. However, it has remained constant since then.

Entertainment Allowance is granted to senior officials for the entertainment of official guests at office or residence. 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 without any explanation and Orderly Allowance is now part of the salary. All the allowances for the highest grades are reported in Table 4. They are included as a part of the salary.

To summarise, the basic salary structure shows high incremental differentials between the salaries of the gazetted and the non-gazetted employees. 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. We shall look into this when we estimate aggregate real salaries in Section IV.

(d) Determination of the Basic Minimum Salary

Different pay commissions have revised the salaries but the underlying principle

Table 4

Grade-specific Allowances for the Highest Grades

(Rs/Month)

Years	1977-78			1983-84			1985-86			1990-91			1991-92		
Grades	20	21	22	20	21	22	20	21	22	20	21	22	20	21	22
Allowances															
Entertainment	200	400	600	400	450	650	400	450	650	400	450	650	400	450	650
Senior Post	200	400	600	200	400	600	200	400	600	200	400	600	600	800	1000
Orderly	–	–	–	–	–	–	800	800	800	1000	1000	1000	1000	1000	1000

on the determination of basic minimum salary remains the same.

At the time of revision of basic salary, all the relief and indexation granted in the previous period are merged into the basic salary of the last period. This sum is defined as "total basic salary" for the purposes of this study. The basic minimum salary for the next period is fixed by granting a certain mark-up on the total basic salary of the previous period. This mark-up has ranged between 12–14 percent over the three revisions of pay scale studied here. This is explained by the help of Tables 5 and 6.

In Table 5, Columns 2 and 3 give the basic minimum salary granted in July 1977 and the total basic salary including all the reliefs granted until June 1983, prior to the revision of salaries in July 1983. Similarly, Columns 4 and 5 give the basic minimum salary for July 1983 and the total basic salary in June 1987, prior to the revision of salaries in July 1987. Columns 6 and 7 give the basic minimum salary for July 1987 and the total basic salary until April 1991. Finally, Column 8 gives the basic minimum salary for May 1991 after the revision of pay scales.

The mark-up between the salary revisions is estimated as the percentage change between the total basic salary prior to revision and the basic minimum salary of the revised pay scales. It will be seen from the last row of Table 6 that on the average the basic minimum salaries increased by 12–14 percent after every revision. However, it may be noted that after the revision in July 1983 the mark-up deviates considerably among the different grades. It is top-heavy, with double-digit increases for all the gazetted employees 17–22. The revision in July 1987 appears to be more equal between the lowest-paid and the highest-paid; however, the middle cadres, which do not receive any grade-specific allowances, are not fairly compensated by this revision. Finally, in 1991, the 20 percent mark-up in the basic minimum salaries of the three highest grades, as compared to the 12 percent average for the three lowest grades, favours the higher income groups.

III. METHODOLOGY AND DATA SOURCES

The methodology of the present study differs significantly from that of the earlier studies. First, the wage differentials are measured on an annual basis over the entire period. This makes it possible to capture the welfare gains or losses of the employees in relation to the inflation rates annually. Secondly, the salaries of the higher grades are adjusted for their tax payments. This provides for considerable narrowing of the difference between the salaries of the higher-paid to the lower grades, which are not subject to any income tax. Regarding the estimation procedures, to capture the increases in the welfare of each grade and the gains of government employees *vis-à-vis* the rest of the public, two different estimations are undertaken as described below.

(a) Indices of Real Salaries

Indices of real salaries are prepared with reference to the first year of revision of salaries for this study, i.e., 1977-78. Different grades are grouped together to compare the well-being between different categories of employees. They are then disaggregated to determine the welfare of employees in each grade. These indices measure the well-

Table 5

Basic Minimum Salaries

Grade	Basic Minimum Salary in July '77	Total Basic Salary in June '83 Prior to Revision	Basic Minimum Salary in July '83 after Revision	Total Basic Salary in July '87 Including Indexation Prior to Revision	Basic Minimum Salary in July '87	Total Basic Salary in April '91 Prior to Revision	Basic Minimum Salary in May '91
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	250	425	440	519	600	907	1024
2	260	436	460	543	625	963	1073
3	270	447	480	566	650	966	1086
4	280	458	500	590	675	995	1134
5	290	469	520	614	700	1025	1182
6	315	497	540	637	725	1054	1183
7	335	519	560	661	750	1086	1215
8	370	557	590	696	790	1131	1270
9	390	579	620	732	830	1178	1329
10	410	601	660	779	870	1225	1388
11	430	623	700	826	910	1272	1447
12	460	656	750	885	970	1343	1547
13	490	689	800	944	1035	1419	1547
14	520	722	850	1003	1100	1496	1649
15	550	755	900	1062	1165	1572	1751

Continued–

Table 5 –(*Continued*)

Grade	Basic Minimum Salary in July '77	Total Basic Salary in June '83 Prior to Revision	Basic Minimum Salary in July '83 after Revision	Total Basic Salary in July '87 Including Indexation Prior to Revision	Basic Minimum Salary in July '87	Total Basic Salary in April '91 Prior to Revision	Basic Minimum Salary in May '91
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
16	625	988	1050	1239	1350	1781	1875
17	900	1290	1600	1816	2065	2515	2870
18	1350	1835	2100	2384	2710	3238	3765
19	2250	2895	3200	3632	4130	4830	5740
20	2600	3250	3800	4313	4900	5693	6810
21	3000	3450	4200	4767	5420	6276	7535
22	3250	3700	4500	5108	5800	6702	8075

Table 6

*Estimation of the Mark-up on Basic Salaries**

Grades	Percent Mark-up[1] on Basic Salary July 1983 Over July-June 1977-78	Percent Mark-up[2] on Basic Salary July 1987 Over July-June 1983-84	Percent Mark-up[3] on Basic Salary May 1991 Over July-June 1987-88
(1)	(2)	(3)	(4)
1	3.5	15.6	12.9
2	5.5	15.1	11.4
3	7.4	14.8	12.4
4	9.2	14.4	14.8
5	10.9	14.0	15.3
6	8.6	13.8	11.3
7	7.9	13.4	12.1
8	5.9	13.5	12.3
9	7.1	13.4	12.8
10	9.8	11.7	13.3
11	12.3	10.1	13.1
12	14.3	9.6	15.0
13	16.1	9.6	9.0
14	17.7	9.7	10.2
15	19.2	9.7	11.4
16	6.3	8.9	5.3
17	24.0	13.7	14.1
18	14.4	13.7	16.3
19	10.5	13.7	18.8
20	16.9	13.6	19.6
21	21.7	13.7	20.1
22	21.6	13.7	21.4
Average Mark-up	12.3	12.7	13.7

*These estimates are based on Table 5.

[1] Basic Minimum Salary in July 1983/Total Basic Salary July 1977–June 1983. × 100. (Col. 4/Col. 2)–1 × 100.

[2] Basic Minimum Salary in July 1987/Total Basic Salary July 1983–June 1987 × 100. (Col. 6/Col. 5)–1 × 100.

[3] Basic Minimum Salary in May 1991/Total Basic Salary July 1987–April 1991. (Col. 8/Col. 7)–1 × 100.

being of employees in each grade and between the employees in different grades.

(b) Nominal Salaries as a Percentage of the GNP Per Capita

Salaries as a percentage of the GNP per capita are calculated 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 get the nominal income per year because the GNP statistics are available only on the annual basis.

This ratio is divided by the GNP per capita (GNP_c) 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* other 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.

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 (HIES–various issues). It is derived by dividing the family members by the number of earners in a household.[7] The GNP figures are taken from the Pakistan Economic Survey (Various Issues).

IV. RESULTS

The 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 the 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 the GNP per capita.

(a) Indices of Real Wages

The indices of real wages are first compared as aggregates of different income groups. These are then disaggregated by 22 grades to compare the trends in the real salaries of all the grades.

On aggregate levels, the employees are grouped into four broad groups as shown in Table 7. The table shows that on aggregate the employees of Grades 1–10 gained over the entire period, with the exception of minimum declines in 1980-81, 1982-83, and 1983-84 with reference to the base year 1977-78. The erosion of real salaries in 1980-81

[7]This adjustment is necessary in the light of definitions of household members and family members in the HIES, and the common phenomenon reported in various sociological and other studies showing a lesser number of dependants at the higher income levels.

Table 7

Aggregate Indices of Real Wages
(1977-78–100)

Grades	1–10	11–16	17–19	20–22
1977-78	100	100	100	100
1978-79	101	98	95	94
1979-80	101	97	91	90
1980-81	93	88	85	83
1981-82	101	99	89	84
1982-83	95	93	84	80
1983-84	95	90	90	84
1984-85	109	107	100	92
1985-86	110	107	104	99
1986-87	108	105	103	103
1987-88	109	103	104	102
1988-89	115	111	106	101
1989-90	110	106	99	96
1990-91	128	119	109	102
1991-92	122	112	106	104

(despite the maximum Dearness Allowance increase of 43 percent for these grades, and the increase in Washing Allowance of Grades 1–4) was the result of 13 percent inflation rate in 1980-81.[8] In 1982-83 (July-June), real wages declined due to a 10 percent inflation rate in anticipation of revision of salaries in July 1983.

The position of the second and third groups of employees (Grades 11–16 and 17–19, respectively), deteriorated continuously over the period 1977-78 to 1983-84, despite the second revision of salaries in 1983-84. They recovered in 1984-85 after a substantial revision of 50 percent in the House Rent Allowance. This relief was followed by the partial indexation of salaries in the next two years. However, the gains in welfare of Grades 11–16 were considerably lower than those of the first ten grades. Similarly, the increases in gains for Grades 17–19 were relatively lower than those obtained by Grades 11–16. The position of the three highest grades, however, was the worst when compared to the first nineteen grades, as shown in the last column of the table.

The disaggregated indices are reported in Table 8, and it shows considerable divergences in the gains of employees in the first and last groups.

From amongst the first ten grades, only the first two grades sustained increases in

[8]The increase in the inflation rate has been building up over the period 1978-79 to 1980-81 due to the continuous but minimal increases in the Dearness Allowance over the period, the phenomenon pointed out earlier (p. 2).

Table 8

Disaggregated Indices of Real Wages

Years	1	2	3	4	5	6	7	8	9	10	11
1977-78	100	100	100	100	100	100	100	100	100	100	100
1978-79	105	105	102	102	102	100	100	100	100	100	98
1979-80	108	107	100	100	100	99	100	100	99	99	98
1980-81	102	101	94	94	92	92	92	91	91	90	89
1981-82	107	106	102	102	100	99	100	99	99	99	95
1982-83	101	100	96	96	94	93	94	93	93	93	90
1983-84	101	101	97	98	97	95	94	92	92	92	88
1984-85	111	111	111	111	110	107	110	107	106	106	106
1985-86	113	113	112	112	112	109	111	108	107	107	106
1986-87	112	112	111	111	110	107	108	106	105	105	103
1987-88	115	115	112	112	111	108	108	106	105	105	101
1988-89	117	117	117	117	116	113	116	113	112	111	110
1989-90	113	113	113	113	112	108	111	108	107	107	105
1990-91	136	135	133	132	131	127	129	125	124	122	120
1991-92	121	120	126	125	125	121	121	118	116	115	112

Continued–

Table 8 –(*Continued*)

Years	12	13	14	15	16	17	18	19	20	21	22
1977-78	100	100	100	100	100	100	100	100	100	100	100
1978-79	98	98	98	97	97	96	95	95	95	94	94
1979-80	98	98	96	96	95	90	89	92	93	89	89
1980-81	89	89	87	87	86	84	83	86	86	82	81
1981-82	101	100	100	100	98	91	88	89	88	80	83
1982-83	95	94	94	94	92	86	83	84	83	79	79
1983-84	89	89	90	90	92	93	90	88	89	82	82
1984-85	105	105	109	108	108	108	101	98	99	91	87
1985-86	106	105	109	108	109	107	101	99	108	97	92
1986-87	103	103	106	106	106	104	99	99	109	101	99
1987-88	101	101	105	105	105	108	100	100	109	101	97
1988-89	109	109	112	112	112	114	104	99	108	98	97
1989-90	105	104	107	107	105	107	98	94	101	94	92
1990-91	119	118	121	120	118	116	106	105	112	98	96
1991-92	111	110	113	112	112	110	102	101	110	102	100

real salaries throughout the period. The slow growth in 1982-83 and 1983-84 for these grades has been explained above. Beyond the Grade 2 employees, almost all the employees upto Grade 17 were faced with constant or declining real wages until a year after the revision of salaries in 1983-84. However, as in the case of aggregate indices, the rate of growth in salaries keeps slowing down as we move up the grade levels. This, as explained in the previous section (Section II), was largely due to the grouping of grades on account of House Rent, Conveyance, and Grade-specific allowances. Under this policy, the lower grades benefited at the expense of higher grades in each group.

The most striking feature of the disaggregated indices is the erosion in the real salaries of the last five Grades 18–22 (with the exception of Grade 20). Over the period 1977-78 to 1983-84, on the average, real wages of Grade 1 increased by 5 percent while that of Grades 18–22 declined by –1, –1.8, –1, –4.5, and –3.1, respectively. Over the later period 1984-85 to 1991-92, real wages of Grade 1 again showed an average increase of 5 percent as compared to the 2.0, 2.4, 2.9, 2.8, and 2.9 percent increases for Grades 18–22, respectively. This conforms to the findings of Irfan and Ahmed (1985), as discussed earlier. The erosion in salaries for employees in Grades 18, 19 and 21 was relatively less severe and erratic as compared to that for Grade 22. The highest grade faced a persistent decline in real wages throughout the period, except for the last year. Massive increases in the year prior to revision restored the real wage of Grade 22 to the 1977-78 levels. It may be pointed out here once again that all these grades were subject to monthly income tax deduction from the salary. Over time, the two regular allowances are also partially taxable, while the Qualification Allowances are counted as part of the taxable income. The negative impact of these taxes comes out more clearly when we look at the composition of the salary and allowances of the lowest and the highest grades. In 1977-78 the salary (non-taxable) and allowances of Grade 1 comprised 59 percent and 41 percent of the total salary. The corresponding figures for Grade 22 were 32 percent and 68 percent. In 1991-92 the ratios changed to 58 percent and 42 percent for Grade 1 as compared to 27 percent and 73 percent for Grade 22. Furthermore, the last two grades were not entitled to annual increments until 1980-81, and the percentage increases in the House Rent Allowance for these two grades were kept below all the other grades (with one exception in 1981-82). Thus, we see that despite high grade-specific allowances, the higher grades faced a severe erosion of real salaries. The position of the highest grades is the worst, despite the exceptionally high Conveyance Allowance.

The exceptional position of the employees in Grade 20 as compared to those in Grades 21–22 may be explained with reference to the exceptionally high increases in their Entertainment and Senior Post Allowances in 1983-84 and 1990-91, respectively, as shown in Table 4.

(b) Nominal Salaries as a Percent of GNP Per Capita

Estimates of nominal salary as a percent of the GNP per capita are reported in

Table 9. It shows that the employees in Grades 1–10 earn less than the GNP per capita. In other words, they earned less than the non-government workers. The earnings of the employees in Grades 11–16 are above the GNP per capita upto a maximum of 89 percent in 1977-78. However, over time, the ratio drops to 45 percent in 1991-92. Grades 18–20 earn two to four times more than the GNP per capita in 1977-78, but the ratio declines two to three times of the GNP for Grades 17–19. Only for Grade 20 the ratio was constant at about four times the GNP per capita over the period 1977-78 to 1991-92. Finally, the five highest grades which were earning 11-12 times more than the GNP per capita in 1977-78 were faced with considerable declines in 1991-92. It is important to note that the table shows a declining trend in the gains of all the employees over time, while the GNP per capita increased throughout the period. The salient feature of the table is that, over time, the declining trend in the gains of the higher grades is more pronounced than that of the lower grades. The ratio of salaries of Grades 1–5 to the GNP per capita declined by 8–10 percent as compared to the decline of 25–32 percent for Grades 18–22. This reflects the trends in average increases of the salaries as discussed above.

V. CONCLUSIONS AND POLICY RECOMMENDATIONS

The pay commissions set up since 1972 have implemented the recommendations of the 1972 pay commission without any further consideration of any aspect of the wage and/or allowance structures. However, a closer examination of the existing patterns of pay scales and allowances show that they are beset with a number of distortions. First, with regard to the basic pay scales, the absolute amounts and incremental differentials between the pay scales of the gazetted and the non-gazetted employees are strikingly high. Secondly, the arbitrary grouping of employees in different grades for the allocation of House Rent Allowance discriminates against the employees in the higher grades in every group. Thirdly, the grant of a uniform Conveyance Allowance to all the non-gazetted employees also discriminates against employees in the higher grades. Furthermore, it is granted without any consideration of rank, distance travelled, or transport fares, which makes it highly questionable when compared to the grants for the two highest grades. Four, amongst the higher grades, the partial tax on the Conveyance Allowance of Grades 18–20, as compared to the tax-free fully-maintained official transport for Grades 21–22, is also an awkward anomaly.

The major finding of the study is the massive erosion in the real salaries of the higher grades. The study shows that the grant of grade-specific allowances and other benefits to the higher grades lead to excessive increases in their nominal salaries. However, at the same time, the taxation of allowances pushes them to higher tax brackets, which negates all the gains quite severely. This, coupled with erosion through inflation, leads to double taxation of the higher grades as shown by the average increases in the salaries of the higher grades.

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

Table 9

Nominal Salary as a Percent of GNP per Capita

Years / Grades	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991	1991-1992
1	58	60	58	53	55	49	47	51	51	50	48	49	47	54	52
2	59	61	59	54	56	50	48	52	52	51	49	51	48	55	52
3	74	75	70	64	68	61	59	66	66	63	60	64	60	69	64
4	76	77	71	65	69	61	60	67	67	65	62	65	61	70	65
5	77	77	72	66	69	61	60	67	67	65	62	65	61	70	66
6	80	81	74	67	71	63	62	68	69	66	63	66	62	71	67
7	99	98	92	82	87	78	75	86	86	82	77	83	78	89	82
8	104	102	96	86	92	82	77	88	88	84	79	85	80	90	83
9	107	105	99	88	94	84	79	90	90	86	81	87	82	92	85
10	110	108	101	90	97	86	82	93	92	88	83	89	84	94	86
11	143	139	131	116	121	108	102	120	119	113	105	115	108	120	109
12	147	143	134	119	132	118	106	123	122	116	108	118	110	122	112
13	152	147	138	122	135	120	109	126	125	120	111	121	113	125	115
14	174	168	156	137	156	139	127	150	148	141	132	143	134	146	134
15	178	171	159	140	158	141	131	153	151	145	135	146	136	149	137
16	189	182	168	148	165	147	141	163	162	155	144	155	143	155	145
17	268	253	226	204	218	195	202	229	226	215	210	223	206	216	202
18	332	312	277	250	259	231	242	266	263	252	239	252	232	245	233
19	460	432	394	359	365	326	328	358	356	349	333	334	308	335	319
20	485	548	506	459	461	411	424	460	497	490	460	460	424	455	441
21	1101	1021	918	814	786	735	735	800	839	853	802	791	736	752	772
22	1252	1161	1037	918	921	839	830	863	901	954	885	888	827	842	856

Keeping in view the problems of distribution of allowances between the higher and lower grades, and also among the lower grades, it is recommended that all the allowances should be merged into the pay scales, which should be taxed.[9] This would give the people the choice to spend their money according to their own requirements and preferences. However, care should be taken that real incomes are not impaired by the tax liability. This is expected to ensure a more sensible use of privileges like house rent, transport, and the telephone. This, in turn, would dampen the demonstration effect and, hence, the inflationary pressures. However, it must be acknowledged that while this would evolve a judicious system of payment for the skills possessed, work done, and responsibilities fulfilled, politically it is not a feasible proposition in Pakistan.[10]

Alternatively, therefore, the anomalies in the allowances of the non-gazetted employees should be scrutinised in depth and revised on more rational lines within the existing system. The rationale behind all the allowances should be clarified. With regard to the House Rent Allowance, it is suggested that the recommendations of the Senate Committee on Housing may be implemented. The Committee recommended that Grades 1–16 may be granted the House Rent Allowance as a part of the salary package. It is strongly suggested here that this recommendation should be applicable to all the grades. The policy would 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 full entitlement because there is no rebate on the house rent recovery if they pay a rent lower than their entitlement.[11]

The Conveyance Allowance for all the grades needs to be rationalised. It is obvious that the existing Conveyance Allowance to Grades 1–20 is very meagre by all standards. It is suggested that the allowance for all the grades needs to be linked to petrol prices. In the case of lower-grade employees, the public and private transport fares are always increased with every increase in petrol prices, which should be accounted for. Furthermore, some steps should be taken to account for the distance travelled irrespective of the grade level.

Regarding the sharp erosion in the salaries of government employees, particularly of the higher grades, maximum possible indexation of the salaries is recommended for the government employees. Furthermore, the tax burden of the higher grades needs to be rationalised significantly. The inclusion (partial or complete) of allowances under taxable income negates the concept of "income tax" of the "salaried class". These privileges are tax-free in the non-government private sector, besides massive tax evasion in that sector. While the cash emoluments should be taxed in the present salary structure, allowances

[9]This recommendation of merging allowances into the basic pay is made in the light of detailed and convincing discussion of the subject in *Pay Structures of the Civil Service in South Asia, including Pakistan*, by Chew (1992).

[10]The Pay Commission of 1972 reduced the number of pay scales from 650 to 22 national pay scales. These new pay scales, in addition to the monthly wage and annual increments, prescribed a variety of allowance and perquisites. A pursual of various allowances and perquisites, and also additions to allowances over time, has increased the share of allowances in the total wage package quite significantly.

[11]For a detailed discussion on this anomaly, see [Chew (1992), pp. 140-41].

which are paid directly for a specific purpose should not be taxed. For example, the Conveyance Allowance is given to the employees to reach the place of work. The Entertainment Allowance is granted to entertain official guests in office or to entertain subordinates coming to work at residence in time of need. The Orderly Allowance is paid with the objective of paying the orderly. Although the condition of hiring an orderly has been waived, it is difficult to ascertain what proportion of employees actually do not hire an orderly. Therefore, on the basis of the objective behind it we assume it is not a part of personal salary as such.

Taxation of such allowances is not justified as they are not retained as part of the emoluments for personal use. Besides, the higher allowances have helped maintain the continuously shrinking gap between the lowest-paid with the least responsibility and the highest-paid with higher skills and higher responsibilities. Otherwise, the widening of the differentials between the public and the private sector salaries and privileges is a strong incentive for senior officers to accept executive jobs in the corporations in the private sector [See Chew (1992), pp. 138 and Robinson (1990), pp. 216].[12]

Therefore, the policy of granting allowances and the policy of taxing the allowances should be considered in the light of the objectives behind the given allowance and its possible adverse effects. It needs to be harmonised with the payment structure in other kinds of employment.

An efficient running of the system requires that the basic needs of the government employees at all levels are met. Therefore, the changes recommended here and further consideration of the salary structure of the federal government employees are necessary.

[12]While the first Pay Commission of Pakistan (1948) questioned the "need for hiring men of genius" in the government, the government disagreed with it and the subsequent pay commission of 1970 also emphasised the need "to provide adequate financial recompense and due recognition as incentives for persons of the highest calibre to seek employment in the public sector" as quoted in [Irfan (1984), p. 60]. However, the existing trends in real salaries of the higher-level government servants, coupled with the taxation of allowances, appears to negate the objectives of the 1970 pay commission.

Appendix

Appendix Table A

Approximate Cost of Full Maintenance of Official Cars for the Two Highest Grades

Heads of Expenditure	Grade 21	Grade 22
Petrol	1620	2120
Depreciation at 10 Percent of Historical Price	1604	1604
Driver's Pay	4214	4132
Insurance	583	583
Road Tax	29	29
Radio Licence	5	5
Maintenance at 10 Percent of Historical Price	1604	1604
Total	9659	10,077

These cost estimates are used to calculate the Conveyance Allowance of the two highest grades for the previous years according to the official price index of transport and communications for the government employees. This index moves fairly close to the petrol price index over the period of study.

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