

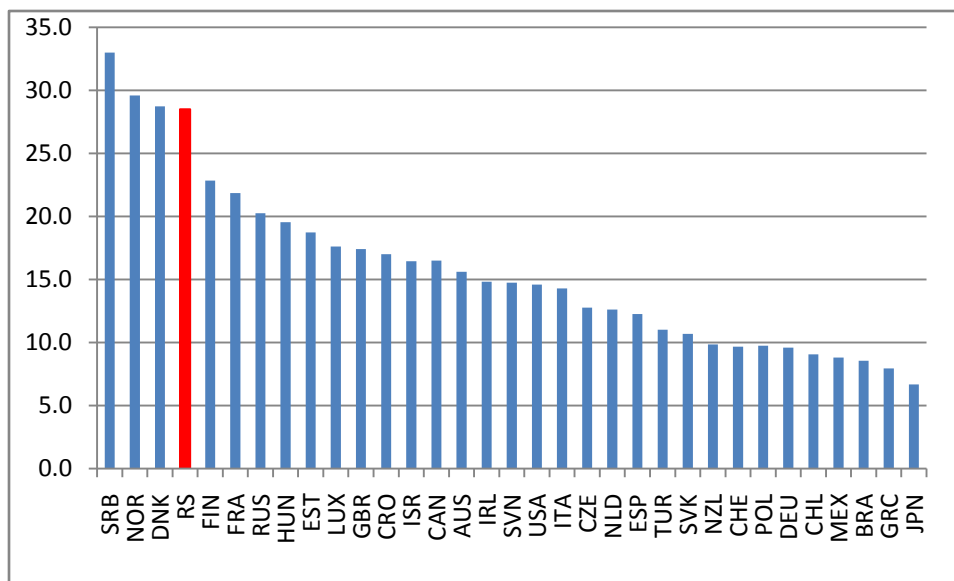
Reforms in the area of employment and wage-setting in the public sector of RS needed - the sooner the better

RS does not have a choice and it will, sooner or later, have to decrease the number of employees in governmental sector. Currently, around 28.5% of employees in RS works in the Government and governmental institutions, which is among the highest percentages in Europe. This information does not include employees in public companies, where the problem of over-employment is also notable. RS holds record in the size of difference between wages in public and private sectors. Such condition brings damage to domestic economy and society as a whole in many ways. Without implementing thorough reforms in these areas it will be difficult to improve mutual trust between citizens and authorities. New system for determining wages in public sector should be based on a clear principle: every workplace in public sector should be paid as much as a comparable workplace in private sector.

The number of public sector employees unsustainable

The Republic of Srpska has an unsustainably big number of employees in the Government and governmental institutions. Like it or not, this number will have to be decreased, and sooner is better than later. According to the Institute of Statistics of RS around 60.000 employees or 25% of all workers in the entire RS are employed in the Government and governmental institutions. However, it is usually forgotten that tax payers in RS also pay the costs of employees in B&H institutions. Since RS carries approximately one third of expenses by B&H institutions, one third of employees in B&H institutions

Employees in all levels of government (percentage share in the total number of employees)



Source: OECD, Institute of Statistics of RS, Report on budget liquidation of B&H institutions for 2010, National Institute of Statistics of Serbia, National Institute of Statistic of Croatia

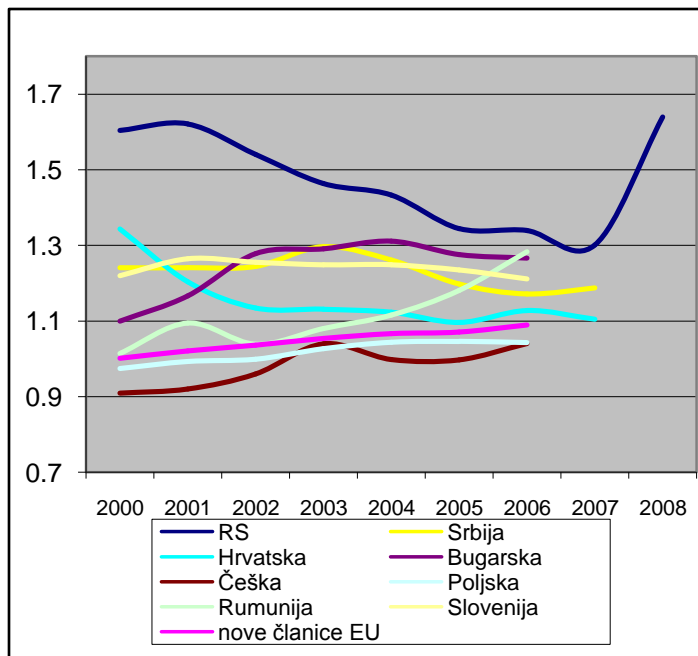
should be added to the upper mentioned number, which is around 8.000 employees. Thereby, we come to conclusion that RS has 28.5% employees in the Government and governmental institutions. In the graph to the left, this amount was compared to 32 other countries

and it can be seen that only Serbia, Norway and Denmark had larger percentage of employees in governmental sector. It must be mentioned here that because of that Serbia has adopted Law on determining maximum number of employees in state administration, whose goal is to decrease and limit the number of employees in public administration (most other countries in the region and EU have also adopted same or similar regulations). When speaking about Nordic countries, it is known that great share of public sector employees in the total number of the employed is related to the tradition of effective work of public sector, founded on the established trust between citizens and governmental institutions in these countries, and which is strongly supported by high living standard and competitiveness of public sector. It is interesting to note that Greece (currently in a great crisis caused by high public debt) with 7.9% of employees working in public sector is almost at the bottom of the list. However, Greece's problem here lies in the enormous number of employees working in state-owned companies. Namely, almost 13% of all employees in Greece works in state-owned firms, which is the highest of all compared countries. Over-employment in public firms in RS is a well-known problem, even though precise data on the number of employees per individual firms are not easily available. This surely is not a reason not to deal with this problem as well.

RS has the highest public sector wages

Employees in the public sector of RS have obviously been overpaid in comparison with private sector employees. Even several years ago we were directing attention to this problem, because, in 2008, an average wage in public sector was 64% higher than an average wage in private sector. This ratio was by far bigger than in all other European countries in transition, which can be seen on the graph. In 2008, wages in public sector went through an enormous increase, which was enabled by then increase of public incomes due to the introduction of VAT. Most recent research by the World Bank (B&H – Overview of public expenditure and institutions) has shown that over the last five years there has been a significant increase of spending on wages in public sector and that such condition has been becoming more and more unsustainable. As the report said, despite the ban on new employment introduced at the end of 2010, in the public administration of RS 80 new workers and 220 teachers were employed. The report has also pointed out the problem of

Movements of the ratio between wages in public and private sectors



Source: Authors' calculations are based on the information from domestic institutes of statistics, EUROSTAT and central banks of Serbia and Croatia

excessive salaries and allowances in public administration in relation to equivalent salaries in private sector.

Such misbalance of wages in public and private sectors brings damage to domestic economy in many ways:

1. Fiscal burden for domestic economy is becoming unbearable
2. There has been increased growth of deficit in the republic's budget and funds
3. Public sector, as the biggest employer by far, through its wage policy (based on the availability of public incomes and political cycles, and not on market principles) prevents the development of healthy negotiation between employers and unions in private sector
4. Public sector as employer has become unfair competition to private sector
5. Attractiveness of employment in public sector has led to the disappearance of entrepreneurship initiative, especially among young people, who often stated employment in public sector as their first option in their business career.

New wage-setting policy must be based on clear principles

Thorough reform of wages in the public sector of RS is needed as soon as possible. A new wage-setting system should be based on the principle that each workplace in public sector is paid equally as a comparable workplace in private sector. Why would an accountant in the Government be paid more than an accountant in a private firm? Public sector wages must be linked to wages in private sector and then social negotiation in private sector should be supported. This would benefit both workers and employers. It is known that effective social negotiation is extremely important for the functioning of economies with fixed currency, such as in the case of B&H.

Current situation is simply unsustainable and it costs the entire society too much. We remind you that the expenditure for personal income participates with even 47% in funds in the budget of RS that remain after settling monthly debt payments. This means that, after monthly debt payments have been paid, almost a half of the remaining

Recommendations for new public sector wage-setting policy:

- 1. Level wages in public sector with wages at comparable workplaces in private sector.*
- 2. Link further growth of the basis for wages in public sector with the amount of an average wage in private sector.*
- 3. Improve the quality of statistics on wages (especially in private sector)*

funds goes on wages! In Serbia and Croatia, the comparable wages participation is far less (23% and 20% respectively). This big account for wages of employees in governmental institutions (which annually,

including the costs of employees in B&H institutions paid by citizens of RS, amounts to more than a billion BAM) has been a consequence of over-employment and undeservingly high wages in public sector.

Without thorough reforms in this area, trust between citizens and authorities cannot be strengthened. How could a citizen be happy paying tax when they know that MPs from RS and Parliamentary Assembly of B&H make more than 5000 BAM a month, while at the same time monthly allowance for those in social need amounts to 41 BAM? When these huge injustices are removed and citizens are certain that public funds are allocated justly, then they too will be willing to sacrifice their personal living standard (of course, for no more than a year or two) for the sake of long-term improvement of the overall economic situation.