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**Written Comments to Legco Panel on Public Service
on “Civil Service Starting Salaries Review 1999”**

I am very glad to have the opportunity to share my comments and views on the Review with the members of the Legco. Since I believe that there are some major faults in the methodology and basic assumption of the Study, I would like to make most of my comments on this part in my response. However, I would also give brief comments to other aspects highlighted in your letter of invitation of comments. The impact of the faults can never be underestimated as they can completely reject the validity of the findings of the Report.

(a) The findings and recommendations of the Standing Commission on Civil Service Salaries and Conditions of Service (the Standing Commission)

In general, I agree with the conclusion of the Review Report that there is a “pay gap” between the private sector and the public sector. However, it is incorrect that such a “pay gap” should immediately lead to the conclusion that a significant pay cut is necessary for the starting salaries in the public sector. The “pay gap” can be necessary and based on sound grounds for maintaining a quality and efficient civil service. There are several reasons for the above argument. All of them are linked to the inadequacy in the methodology used in the survey and the inappropriate assumption that all public sector and private sector jobs are comparable.

The Bias of Ignoring the Role of Benefit

First of all, methodologically, the survey itself is inadequate in the sense that it totally discards the role of fringe benefits in its research (see the section on “salary data” in Chapter 3 “Pay Comparison Survey”, p. 8 of the report). This is an important and crucial methodological fault because the “total compensation approach” is now a growing trend in the human resources management in the private sector around the globe. When an employer is hiring or an employee is considering an offer, it is the total compensation, that is, the aggregate sum of salary and all other benefits (both monetary and non-monetary) that matters.

Therefore, the ignorance of the increasingly important role of the fringe benefits can seriously compromise and bias the findings of the survey. In order to correct the potential bias in the findings, the Government should immediately collect some representative data on the fringe benefits of the private sector. If the government is less flexible and less generous than most of the major firms in the private sector in terms of benefit, then, the extent of “pay gap” discovered in the Survey should have exaggerated the actual situation.

However, it must be recognized that some of the income or benefits can never be “quantified” easily. In labor economics, there is the term “psychic income”. An employee can receive utility or simply feel good in working for the employers for some non-tangible job elements. For example, an employee working in a world famous company should be “better off” than an employee who work in a small and unknown company, everything else equal. Unfortunately, for some reasons, working in the government is often being associated with a negative image, which is reinforced by the public opinion strategy lodged by the Government in promoting the recent the civil service reform. Therefore, there can be no any “pay gap” between the public sector and the private sector when the “psychic income” is taken into consideration.

A Biased Period of Study

The second fault is the timing of the Survey. The Survey means to find representative results that can be applied across at least the next four to five years, as recommended by the Committee. However, nothing is typical and representative during the study period of the Survey. It is conducted when most economies in Asia are badly hit by the Asian Financial Crisis. The Survey is self-defeating and self-conflicting to find a biased period in order to set a representative starting salary system.

When the findings may be representative for the unrepresentative year, it is hard to imagine that the given salary levels will remain stable for the next few years before another review is conducted. Therefore, the salary levels recommended in the Report may only be high enough to recruit and retain quality staff if the economy of Hong Kong keep running downhill. However, this is not what we expect and definitely is not what we would like to see.

The key problem here is that the salary system in the private sector can adjust with the situation of the economy much more quickly than the public sector. Therefore, it is perfectly fine for the private sector to keep their salary packages closely with the economy. Nevertheless, given the inflexible structure in our Government, which is often necessary for maintaining accountability to the public, there is often a time lag in its salary adjustment. Consequently, what should be focused is not whether the public sector can keep up with the private sector at a particular moment. Instead, it is whether the salary of the public sector can be competitive when compared with the private sector on average over a fixed period of time.

At the moment, since the problem is already committed by the Survey, it is already too late to fix the problem completely. It is recommended that the Government may at least try to minimize the negative effect by readjusting the findings of the Survey. For example, as it is expected that the salary of the public sector would lag behind once the economy recover, it may be possible to adjust the recommended starting salaries in the Report by linking them with the expected growth rate of the economy.

The Imperfect Employment Mobility Between Public and Private Sectors

Third, it is the invalidity of the assumption of the perfect comparability of public sector and private sector jobs that mount serious challenges to the findings of the Survey.

This assumption has already been seriously questioned in the public administration literature. Jobs in the public and private sectors are not always comparable in two senses. First, some of the jobs can just never be found in the private sector. For example, the HK Government is the sole employer of all the firemen and policemen in Hong Kong.

Most importantly, it is the non-perfect employment mobility between the public sector and public sector that make it inappropriate to compare the starting salaries between the two sectors. After all, many of the job skills in government are so specialized that they are not directly transferable to the private sector. While this argument may not be applied to the lower level jobs, it should be very strong in referring to the middle to upper levels of the civil service. For example, many duties and responsibilities performed by the administrative officers in the HK Government, including the setting of public policies and balancing interests of different parties in society, are so unique to the public sector. Moreover, it is also a strong perception in the private sector that a different set of skills is needed in running the business sector. Similarly, a different mind set, particularly the concern for public interest, instead of private profit, is required for all senior government staff in operating the government successfully.

An important implication of this imperfect mobility is that a higher starting salary is very necessary in order to compete with the private sector for talents. If the public sector fails to get the best talent at the entry level, they would run out of talents at the top level very soon as they find the staff at the lower level may not be promotable to a higher level. As already mentioned, the set of skills in the private sector is not directly transferable to the public sector in many cases. Therefore, the crisis of shortage of talent in the upper level caused by the lack of young talent joining the government at the entry level cannot be simply solved by hiring the senior executives from the private sector into the government.

Furthermore, we should also realize that the personnel structure and system are very different between the public and private sectors. Public employers often have to face a lower pace of promotion and a cap of financial rewards they may get. After all, while opportunities of financial fortunes are abundant in the private sector, no public employees can expect to get rich. The financial prospects in the public sector are more limited. Moreover, because of the imperfect mobility from the public sector to the private sector, the senior public employees can be “locked-in by the government” in their career. The two factors combined will lead to the conclusion that a higher starting salary is very necessary to attract the talent to join the government. If we lose this competition for talent with the private sector at the beginning, there can be no way to make up for the loss in the future.

Implications of the Standing Commission’s findings and recommendations on the starting salaries of:

(i) serving civil servants on transfer

As we should not discourage the flexibility of reallocating human resources within government, we should set the bottom-line that the salary between the transfer should not be lower than that after the transfer.

(ii) disciplined services

It should not be desirable to give “special treatment” to the disciplined services in review of the starting salary. However, such general criteria as the difficulties in recruiting and retaining staff, should be given special consideration. It should be aware that there could be special features in the labor market of disciplined services.

(iii) Judiciary

The salary set for the Judiciary should be high enough to avoid any judges and related staff in leaving the government in their career. Having the chance of leaving the government to join the business or other sectors may make the judicial staff less “independent” in their operation as they may not want to destroy future connections for employment.

(iv) Non-civil service contract staff

At the moment, most of them are either professionals or lower-level staff who have higher mobility between sectors. There should be more similarities in the labor market between the private and public sectors for this category of staff. Therefore, there should not be serious problems in tying the salary of this category staff more closely with the private sector.

(v) Subvented sector

As the employees in the subvented sector usually have less security in employment, therefore, it may not be appropriate to set their salary entirely equal to that of the government. By doing so, even if the same salary is set, the “total compensation” (with all the salary, benefits, and other job factors considered) will still be lower in the subvented sector. Consequently, the subvented sector will face a bigger problem than the government in recruiting quality staff.

(b) The Administration’s proposed pay package for recruits at entry ranks

The whole package should be linked with the civil service reform being conducted by the Government. Setting the starting salary of the civil service is much more than finding out what the private sector is paying their employees. It is also about what expectations we have on our civil service and what responsibilities we are going to assign to them. Simply setting the starting salary at the “market wage” can be high enough for maintaining an “average” civil service. Nevertheless, more will be needed if we desire an excellent civil service. We should therefore think of what exactly we want from our civil service first before finding out how much we should pay them.