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GHANA'S LARGE PUBLIC SECTOR COMPENSATION BILL

AGITATIONS, POLICIES, IMPLICATIONS, CAUSES & RECOMMENDATIONS

Ghana's Large Public Sector Compensation Bill

Agitations, Policies, Implications, Causes and Recommendations

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Abstract

The government of Ghana has long complained about the growth of the public sector compensation bill. It has therefore adopted different policy measures over the years to address this phenomenon. However, these policies have not had a lasting impact on the compensation bill growth. Data therefore reveal that the size of the country's compensation bill as a ratio of total revenue/expenditure has reached alarming proportions in recent years, despite having seen strong declines in the 1980s. We find that the compensation bill is currently posing serious fiscal and macroeconomic difficulties for the country. Although a few studies have been carried out by researchers in recent years about the compensation bill, which have also highlighted its large nature, these studies are not comprehensive enough and the solutions they proposed are too generic in nature. The reason for the latter is that these studies did not identify the fundamental causes of the country's large compensation bill. Using lessons drawn from (1) a historical analysis of wage agitations by public sector workers, (2) the government's responses to the agitations, (3) the government's policy behavior with regard to the compensation bill over the years, (4) trend and comparative analyses of the compensation bill (the latter using a sample of 56 countries), (5) analyses of a number of indicators from the Worldwide Bureaucracy Indicators (WWBI) database of the World Bank, etc., this paper identifies the fundamental factors causing the country's large compensation bill. Therefore, specific and actionable recommendations are provided, which, when adopted, can help the government rightsize the compensation bill to help ensure that the country achieves better fiscal and macroeconomic performance.

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1.0 Introduction

Decisions about compensation of employees are not only difficult to make in most organizations (both public and private) but also sensitive, due to the crucial importance of employees and the presence of strong competing interests on the part of employers and employees regarding employee compensation. While employees call for high levels of compensation to ensure good standards of living, employers normally want to beat down the levels because of cost concerns. Interestingly, appreciable levels of employee compensation also benefit employers because they tend to attract good talents, boost the morale of employees and lead to loyal and committed workers. However, when employees organize themselves into labor unions and act like cartels, leading to labor market imperfections, they can become powerful and use strikes, threats of strikes and other forms of agitations to extract high levels of compensation from employers. This can lead to excessive cost of production or service delivery, which can undermine the prospects and viability of the organization. These become even severer when the unions have strong legal protections, making it difficult to, for instance, get rid of striking unionized workers or withhold their benefits during strikes.

In Ghana's public sector, concerns have long been raised by the government about the growth of expenditure on compensation of public sector employees[1] owing to its fiscal and macroeconomic implications. Yet, data reveal that, over the years, the government has not succeeded in sustainably reducing the growth of the compensation bill. This raises the following questions. What exactly is the magnitude of the problem when it comes to Ghana's public sector compensation bill relative to other countries? What kinds of policies has the government pursued over the years regarding public sector compensation? What have been the implications and fundamental causes of the size of the compensation bill? And how can the government rightsize the compensation bill to ensure optimality? Sufficiently addressing these questions is critically important because of the loss of maneuverable fiscal space in recent years (see Boakye, 2017).

Although a few research papers have been written on the subject, they do not adequately address the issues raised in the questions. For instance, in a paper authored in July 2007, the Research Department of the Bank of Ghana discussed Ghana's public sector wages. However, the attention of the paper was on the broader issues of wages and labor market competitiveness in Ghana. Therefore, the public sector wage bill was not thoroughly discussed,

[1] *Public sector employees here refers to public sector workers on Government of Ghana payroll, which includes the Civil Service (comprising those working for the central and local governments), the Health Service, the Education Service, the Judicial Service, the Parliamentary Service, the law enforcement agencies, the Article 71 employees, the Foreign Missions, Subvented Agencies, etc.*

as it was treated merely as a subsection under a section treating the labor market in Ghana, and thus covered a few pages. Similarly, although in a report prepared by the staff of the IMF in June 2016, the large nature of Ghana's public sector compensation bill was highlighted, the discussion did not cover many of the issues raised in the questions above, since Ghana's case was treated as one of 20 other cases in the report and was thus given limited coverage. However, after demonstrating the role of Ghana's public sector wage bill in the country's fiscal development and examining whether Ghana has too many public sector employees relative to other countries, Osei-Assibey and Younger (2017) go to the extent of estimating the wage gap between the public and private sectors in Ghana. They find that there is a public sector wage premium in the data for 2012/2013, totaling 15 to 28 percent of the public sector wage bill. Nonetheless, the authors did not investigate the causes of the public sector wage premium they estimated. Consequently, not only were the authors not specific enough in their policy prescriptions, they were also unsure about the actionability and effectiveness of the prescriptions. They argued: *"To make further reductions in the wage bill, policymakers must either make the normative case that public-sector workers should be paid less than private-sector workers with similar qualifications, **something that will be difficult politically,** or they must adjust the required skill levels of public-sector employees downwards, **something that may not make administrative sense.** There is some low-hanging fruit in the public- sector wage bill, **but not enough to resolve Ghana's fiscal crisis."***

This paper therefore aims at providing a thorough treatment of the topic by addressing all the issues raised in the questions. It discusses historical developments in public sector wage agitations in Ghana and examines the government's policy behavior with regard to public sector compensation. It then carries out trend and comparative analyses of the compensation bill to know the magnitude of the problem. The comparative analysis uses data on compensation bill ratios of 56 countries [2] across all income groups from the Worldwide Bureaucracy Indicators (WWBI) database of the World Bank. The paper also analyzes the fiscal and macroeconomic implications of the compensation bill. Using the sample of countries and other indicators in the WWBI database for further analytical work, lessons drawn from the historical developments, the government's policy behavior, and others, the paper identifies the fundamental factors influencing the size of the compensation bill. Therefore, specific and actionable recommendations are provided, which, when adopted, can help the government rightsize the compensation bill.

The rest of the paper is organized as follows. Section 2 presents a historical overview of public sector compensation issues and policies. Section 3 presents trend and comparative analyses of the compensation bill. Section 4 discusses the implications of the compensation bill. Section 5 discusses factors that have influenced the size of the compensation bill. Section 6 presents policy recommendations, while Section 7 concludes the paper.

[2] *This represents the largest sample of countries ever used for comparative analysis of Ghana's compensation bill.*

2.0 A Historical Overview of Public Sector Compensation Issues & Policies

We examine in this section the history of public sector workers' agitations and strikes, and how the government has historically responded to them. We also discuss the policy measures the government has historically adopted to deal with the compensation bill.

2.1 Public Sector Workers' Agitations and Strikes

Public sector workers in Ghana began to organize themselves into labor unions years before independence in 1957. For instance, the Government School Teachers Union (GSTU) was formed in 1925. Also, Railway Enginemen's Union (REU) was formed in 1935 with a total membership of 1,500, while Railway Workers Union (RWU) was formed in 1939 with a total membership of 21,000 (Trades Union Congress of Ghana (TUC) and Rosa Luxemburg Foundation (RLF), 2012). According to TUC and RLF (2012), Health Services Workers Union (HSWU) began in Takoradi Hospital in 1944, and in 1945, the Post Office Employees Union, which was later transformed into Communications Workers' Union (CWU), was formed. Even though initially the colonial government had a tense relation with the trade unions, they were formally recognized in 1941 through the passage of the Trade Unions Ordinance of 1941. In 1945, a national trade union center, the Gold Coast Trades Union Congress (TUC), was established, which became the Trades Union Congress of Ghana after independence in 1957. The formation of public sector labor unions continued after independence. Among public sector labor unions formed after independence and in recent years are: Ghana Medical Association (GMA), 1958; Public Services Workers Union (PSWU), 1959; Local Government Workers' Union (LGWU), 1960; Ghana National Association of Teachers (GNAT), 1962; Civil and Local Government Staff Association (CLOGSAG), 1972; Federation of Universities Senior Staff Association of Ghana (FUSSAG), 1972; University Teachers Association of Ghana (UTAG), 1976; Polytechnic Teachers Association of Ghana (POTAG), 1994; National Association of Graduate Teachers (NAGRAT), 1996; etc.

Public sector workers and their unions in Ghana began to use protests and strikes to address compensation-related issues early on. For instance, employees of Public Works Department (PWD) and mine workers protested against delays in payment of their wages on separate occasions in 1919. Citing Ewusi (1971), Ampratwum (2012) reports that the first increase of the minimum wage in 1939 in the Gold Coast was a direct outcome of a strike in May 1939 by railway employees. In fact, during the struggle for independence, the TUC as a trade union center got actively involved, combining the struggle for improved compensation and other conditions of service with the call for independence.

After independence, Nkrumah's CPP Government established a close relationship with the TUC, as the government used organized labor as a means of advancing its socialist agenda. "A pro- CPP wing of the union movement, led by TUC Secretary General John Tettegah, allied itself with Nkrumah's CPP and sought to use government and CPP power to several ends...And, through the political alliance, it [the TUC] gained political power, status and resources to union and TUC leaders, at least until 1962, which caused many past worker demands to be fulfilled" (Kraus, 1979). Additionally, in the 1958 and 1965 industrial relations acts passed by the Nkrumah government, the TUC and the labor unions were given some privileges, including a legalbacking to the check-off system[3] for dues collection,

[3] *Check-off system is when employers deduct portions of employees' wages/salaries to pay union dues of the employees.*

prohibition of victimization and discrimination against union officers, the establishment of a provident fund scheme in 1965 for workers, etc. (TUC and RLF, 2012). In turn, the state had a great deal of control over the unions. The 1960 Civil Service Act even made trade union membership compulsory for all civil servants. According to Kraus (1979), the industrial relations acts, which laid down conciliation- arbitration procedures for the unions, made strikes become effectively illegal. For these reasons, although strikes by public sector labor unions (and labor unions in general) continued to be high during the immediate years after independence, they drastically reduced in 1960 - 1965. We can see from Table 1 that of all the sub-periods from 1951 to 2000 shown, 1960 -1965 witnessed the least average number of strikes (12.5) and average number of workers involved in the strikes (5,562) per year.

When the National Liberation Council government took over power in February 1966, the strong bond between the TUC (and thus the unions) and the government got broken. Some of the leadership of the TUC were imprisoned for their close relationship with the CPP. At the same time, the NLC Government inherited a difficult economy with large fiscal deficits, external imbalances and public debt. These were due to continuous and drastic declines in the international price of cocoa, the country's main export commodity at the time, which had resulted in drastic reduction in both fiscal and export revenues. Consequently, inflation was very high, eroding workers' real incomes (Boakye, 2018). TUC and RLF (2012) argues that the IMF-sponsored policies implemented by the NLC, aimed at correcting the imbalances, had negative effects on workers and the labor movement. On top of these, there was a widespread feeling among civil servants that the government had fixed wages and salaries for employees of the Public Boards and Corporations outside the Civil Service and for Legal and Medical Officers within the Civil Service, and also for the Staff of the Universities, at levels which were substantially higher than those of the civil servants in comparable grades.

Table 1: No. of Strikes, Workers involved, and Man-days Lost in Strikes in Different Periods

Period	*Average No. of Strikes**	*Ave. No. of Workers Involved **	*Ave. Man-days Lost**
1951/2–1956/7	48.0	20,302	474,912
1957/8-1959/60	50.5	15,606	30,510
1960–1965	12.5	5,562	38,271
1966–1969	40.5	25,764	86,795
1970–1971	68.5	34,091	140,102
1972–1976	26.6	15,306	26,959
1977–1979	43.0	29,121	155,816
1980–1981	65.5	70,363	276,331
1982–1990	16.0	7,711	16,454
1992–2000	30.0	26,807	249,224

**Even though these strike data are not about public sector workers alone, they are quite representative of strikes by public sector workers, since, for the most part, the government was the biggest employer of wage labor force. For instance, Kraus (1979) reports that in 1969, the government employed over 72% of the wage labor force.*

Sources: *Data for 1975-1990 are directly from Labour Department. Those for 1951-1965 and 1992-2013 are from Kraus (1979) and Baah (2006) respectively. However, Labour Department is still the source of their data.*

There was also a strong feeling among civil servants that increases in salaries granted to these other branches of the Civil Service and to the staff of the public corporations had enabled them to improve their real standards of living in the face of the rising cost of living, and therefore the government as an employer owed as much to the rest of the civil servants (Government of Ghana Salary Review Committee, 1969). As a consequence of all these, the NLC Government, which ran the affairs of the country from 1966 to 1969, witnessed sharp increases in strikes by public sector workers, particularly civil servants. From Table 1, we can see that, on average, the number of strikes increased sharply to 40.5 per year in 1966-1969, representing a 224% increase over the 1960-1965 period. Average number of workers involved in the strikes also increased to 25,764 per year, representing a whopping 362.2% increase, while average man-days lost in strikes more than doubled to 86,795.

When Busia's Progress Party (PP) government took office as a democratically elected government under the Second Republic in September 1969, it pursued similar policies to those of the NLC. However, unlike the NLC that partly met public sector workers' salary demands and increased the minimum wage, the Busia government refused to provide increases in salaries and thus never increased the minimum wage, despite setting up a commission of enquiry into workers' salary demands in March 1971. It is important to point out that increase in the minimum wage was (and remains) a very active policy variable in Ghana, since it has a direct bearing on public sector compensation. As Gockel and Vormawor (2004) point out, until the passage of Public Service (Negotiating Committee) law, PNDC Law 309, employees of the Civil Service had no bargaining rights. The minimum wage was therefore used [and it is still largely used] to adjust the rate of pay within the Civil and Public Services. It is important to point out that, despite refusing to increase workers' compensations, the PP leaders bought for themselves Mercedes 280s and permitted judges to retire on full pay (Kraus, 1979). These angered public sector labor unions.

In addition to the compensation issues, labor unions were further angered by a move by PP leaders to interfere in the affairs of the TUC by supporting a candidate as the TUC Secretary General in the 1970 TUC delegates congress. Making matters worse, in July 1971, the government imposed National Development Levy of 1% on all wage earners and the self-employed, and 5% on companies. This was, of course, heavily opposed by the labor unions and the TUC. "Now intensely suspicious and fearing strikes, the government in early September froze all TUC and other union funds and introduced an amendment to the Industrial Relations Act. It abolished the TUC; permitted the free formation of unions; required the registration of existing ones; abolished the check-off except on a voluntary 'contracting-in' basis; kept strikes illegal, and gave the minister power to terminate strikes for a specified period, have inquiries made, and accept, reject or amend the finding, which would then be binding! Heavy punitive fines and/or imprisonment could be levied against striking unions and their leaders" (ibid). The Busia government believed that it had the people's mandate to govern as it pleased and would not be intimidated into submission by public sector workers. For these reasons, measured by average number of strikes per year, the strike waves in 1970-1971 during the Busia administration have been the biggest, at least for the period between 1951 and 2000 shown in Table 1.

However, measured by average number of workers involved in the strikes, the strike waves during the Busia administration have been the second biggest. We can see from Table 1 that average number of strikes stood at as high as 68.5 per year in 1970-1971, while the number of workers involved in the strikes stood at 34,091 per year during the period. Average man days lost in strikes also stood at 140,102 in 1970-1971.

After the Busia government was overthrown on January 13 1972 by a group of military officers who formed the National Redemption Council (NRC) (later changed to the Supreme Military Council (SMC)), strike numbers declined dramatically during the first 5 years (1972-1976). Average number of strikes per year declined by 61.2% to 26.6, while average number of workers involved in the strikes decline by 55.1% to 15,306. Also, average number of man-days lost in the strikes declined by as high as 80.8% to only 26,959 during the period. These declines in strike numbers during the first five years of the NRC/SMC administration were due partly to the re-establishment of cordial relationships by the new government with the TUC and thus the labor unions. In this regard, the TUC was restored and the Busia government's Industrial Relations Act of 1971 was repealed, thereby restoring the 1965 Industrial Relations Act. Another reason for the reduction in the strike waves was that the NRC government increased the salaries and the social security benefits of workers during the period. Additionally, workers' hopes were raised high because the NRC government promised to improve the management of the economy and make Ghanaians rather than foreigners the beneficiaries of the economic gains envisioned.

However, during the latter part of the NRC/SMC government, workers' hopes for durable improvement in their conditions of service were dashed. This is because the country's economic conditions deteriorated. Growth rate reduced, turning negative in some years, inflation increased, with annual average inflation reaching 116% in 1977. The external and domestic debt increased to US$1.33 billion and US$2.24 billion respectively in mid-1979, putting pressure on the fiscal and external balances through debt service expenditure, etc. (Boakye, 2018). Faced with serious fiscal difficulties resulting from the general economic decline, the government could not get public sector workers' salaries to match with increases in cost of living. This caused declines in the standards of living of workers. Consequently, worker agitations for higher compensation and improvement in their conditions of service increased in 1977-1979, the latter part of the NRC/SMC administration. Average number of strikes increased by 61.7% to 43.0 per year during the period. Average number of workers involved in the strikes increased by 90.3% to 29,121 and average man-days lost in the strikes increased by a whopping 478% to 155,816. When Dr. Liman was voted into power in September 1979 after the 3-month rule of the Armed Forces Revolutionary Council (AFRC), which overthrew the SMC, his government could not device any effective plan to reverse the economic decline. Rather, the bad economic conditions the government inherited worsened. For instance, the country witnessed dramatic stagflation in 1981, as average inflation increased from 51.7% in 1980 to as high as 116.9% in 1981, while real GDP contracted by 3.5% during the year. Workers therefore witnessed drastic declines in their standards of living.

Public sector workers and their unions therefore put enormous pressure on the Liman government through protests, demonstrations and strikes, asking for large increases in their compensation and other conditions of service. The democratic governance system also served as an added incentive for the strikes, since there were no military intimidations during strikes. Overall, the strike waves the country witnessed during the Liman administration in 1980-1981 are the severest in the country's post-independence history. Even though the average number of strikes of 65.5 per year recorded during the period, as shown by Table 1, is 4.4% lower than the 68.5 recorded during the Busia administration, average number of workers involved in the strikes in 1980 -1981 is 106.4% higher than the average recorded during the Busia administration in 1970-1971. Also, average man-days lost in strikes of 276,331 recorded during the Liman administration in 1980-1981, as shown by the table, is also the highest during the entire period. The Liman government, amidst serious budgetary difficulties, responded by tripling the minimum wage from 4 cedis to 12 cedis in 1981.

During the implementation of the Economic Recovery Program (ERP)/the Structural Adjustment Program (SAP) by the Rawlings-led Provisional National Defense Council (PNDC) administration, workers' agitations through strikes reduced considerably in Ghana. Average number of strikes reduced by 75.6% per year to only 16 in 1982-1990, from the average of 65.5 recorded during the Liman administration in 1980-1981. With the exception of the average value recorded in 1960-1965, this represents the lowest period average. Average number of workers involved in strikes reduced by as high as 89% to only 7,711 in 1982-1990, also the lowest period average between 1951 and 2000 as shown by Table 1, with the exception of the average value recorded in 1960-1965 during the Nkrumah administration. Average man-days lost in strikes in 1982-1990 during the Rawlings PNDC administration declined by a whopping 94.0% to only 16,454, the lowest period average recorded between 1951 and 2000. Why did the strike numbers reduce in such dramatic fashion during the period? Although inflation rate reduced, economic growth improved and the minimum wage increased by an annual average rate of 49.2% during the period, as part of the conditionalities of the ERP/SAP, the government removed a number of social intervention programs and drastically increased the consumer prices of social services, including electricity, water and healthcare services. These brought a lot of hardships to the people, particularly the urban dwellers and the poor. The propensity to strike by public sector workers was therefore high. Yet, "strikes were brutally quelled using the military and revolutionary forces. During the strikes of workers at Assere Manufacturing Company, and the Ghana Broadcasting Corporation in 1986 and 1988 respectively, for instance, heavily armed security personnel were deployed against the workers and suspected ring leaders were arrested, detained and branded as economic saboteurs" (Ampratwum, 2012). The PNDC government also used various means to undermine the unions and the TUC. This included replacing the leadership of the TUC with people who owed allegiance to the PNDC. In fact, the PNDC tried to eliminate the tendency for strikes by giving government positions to some of the leaders of the labor unions. As an example and contrary to TUC rules, the TUC secretary general was appointed as a member of the National Commission for Democracy, a body that organized district-level elections in 1988 (ibid).

When the country transitioned to democracy in 1992 under the 4th Republic, public sector workers found increased freedoms to air their grievances and to agitate for improved compensation. At the same time, the government found itself in a weaker position because of the legal limits placed on its ability to use force against the unions, and also to interfere in the unions' activities. The weakness of the government is also seen in terms of the fact that antagonizing the unions in any form could endanger the government's electoral chances because (1) the unions collectively form a big voting constituency, and (2) the public in general see unresolved labor unrest in the public sector as a sign of incompetence on the part of the ruling government. Consequently, strike actions by public sector employees demanding improved compensation and other conditions of service increased sharply when the country entered the Fourth Republic. In particular, public sector workers' agitations and strikes have been high in election years, as the workers tend to take advantage of the vulnerability of the ruling governments in the face of tough oppositions. In 1992, the first election year in the Fourth Republic, for instance, there were a series of large demonstrations and strikes by various public sector establishments. Grievances did not only center on the low levels of compensation but also on disparities in compensation between the Civil Service and other public sector employees. In fact, during the first 9 years in the Fourth Republic (1992-2000), average number of strikes increased by 87.5% to 30, while average number of workers involved in strikes more than tripled to 26,807. Also, average man-days lost in strikes increased by more than 15 times to 249,224 from the average of 16,454 recorded in 1982-1990. Interestingly, these increases in the strike numbers occurred despite the fact that Jerry John Rawlings, who transformed himself into a civilian, continued to be in power during the first 9 years under the Fourth Republic. This clearly confirms the argument that democratic governance system, which strengthens the unions and weakens the government, has been a major cause of sharp increases in strike actions in Ghana by public sector employees.

2.2 Committees/Commissions of Inquiry and Salary Reviews in Response to Strikes

In response to protests, demonstrations and strikes by public sector workers as just discussed, the Government of Ghana has customarily set up committees or commissions to review the demands and grievances of the workers. At times, the committees were set up to inquire into the causes of the strikes for policy actions. Among the committees and commissions set up over the years are: Mills-Odoi Commission (1967); J. H. Mensah Committee (1969); Issifu Ali Committee (1973); Apatu-Plange Committee of Inquiry (1978); Azu-Crabbe Commission (1979- 83); National Committee for Wage and Salary Rationalization (1983); and Gyampoh Commission (1992-93). In recent years, the government has preferred appointing private consultants for the salary reviews: Price Waterhouse and Associates (1996) and CoEn Consulting Ltd (2006).

2.2.1 The Mills-Odoi Commission (1967) and J. H. Mensah Committee (1969)

Named after its chairman, Mr. Justice Mills-Odoi, the Mills-Odoi Commission was set up in 1967 by the National Liberation Council (NLC) to investigate the remuneration and conditions of service of all grades of the Public Service and to recommend what changes may be necessary therein. It was also to consider the need to establish a permanent machinery for ensuring that remunerations in the different sectors of the economy were kept in proper balance, and to make recommendations therein. The commission was again asked to determine the relations to be established between the public services and statutory corporations and between the public services and the trade unions, paying particular attention to the principles governing relative levels of remuneration. In making its recommendations, the commission was required to take into consideration the general economic circumstances of the country, paying particular attention to each of the Public Services (Report of the Committee on Review of Salaries and Pensions, July 1969).

The Mills-Odoi Commission recommended that, rather than substantially increasing wages and salaries, which would create further pressure on the already precarious budget, the first step to be taken to improve upon the real incomes of public sector employees ought to be in terms of price reductions, particularly for local foodstuffs. According to the Commission, local foodstuffs represented about 62% of private consumption. The Commission argued that it was possible to achieve increased economic activities and decline in prices at the same time by an effective action to improve the distribution, marketing and storage facilities for local foodstuffs. This could be achieved, the Commission cautioned, provided substantial increases in wages and salaries were avoided so as not to defeat the government's fiscal and real sector objectives. Despite these arguments, the Commission recommended that it would be ill-advised if certain increases in wages and salaries were not granted, given the economic circumstances of 1967, the decline in standards of living, and the prevailing industrial relations climate. However, proposals for salary increases were linked to the ability of the government to pay. In addition to aiming to reduce the disparities in the rates of pay between the public services on one hand and the public corporations and the private sector on the other hand, the Commission also made efforts to realign wages and salaries of various groups of public servants through a salary structure it recommended. The Commission also called for a number of reforms to be carried out concerning salaries and allowances of public sector workers, including the establishment of a permanent body to be named Public Service Salary and Wages Commission (PSSWC) to advise the government on compensation issues of public sector workers. In a white paper, the government accepted the salary structure proposed by the Commission and the levels of pay recommended for each range. The minimum wage was increased from 0.65 cedis in 1963-1966 to 0.70 cedis in 1967 and further to 0.75 cedis in 1969. Through a decree, NLCD 256, the NLC government set up the Incomes Commission in 1968, in response to the recommendation by the Commission for a permanent body to advise the government on public sector compensation issues. In 1972, this body was replaced by the Prices and Incomes Board in a decree issued by the NRC government, NRCD 119.

However, civil servants and the TUC rejected most aspects of the Mills-Odoi Commission's recommendations. In a statement issued in May 1968 by its Executive Board, the TUC stated, among other things, that it did not "accept the conservative and biased economic arguments advanced by the Commission in arriving at its conclusions", and that what the Commission had recommended was more of a salary conversion than a wage review. The Commission's proposals, the TUC concluded, failed to correct the anomalous situation bequeathed to the country by the old regime. As a consequence, the government suspended the implementation of some aspects of the Mills-Odoi Commission. On April 15, 1969, the government set up a three-member committee chaired by Mr. J. H. Mensah, the J. H. Mensah Committee, to examine the implementation of the salary and pension proposals of the Mills-Odoi Commission in the Public Services of Ghana in the light of the objections raised by civil servants, and to submit recommendations to Government. In carrying out its work, the J. H. Mensah Committee formed two sub-committees – one concerned with salaries for civil servants and the other with pensions and social security. Members of the Junior and Senior Civil Service Associations served in the sub-committees. Although in its report submitted in July 1969, the Committee accepted the general view that wages and salaries in the civil service had become unsatisfactory, both at absolute levels and in relation to wages and salaries in the other parts of the public services, it did not recommend any significant changes to the recommendations made by the Mills-Odoi Commission. Even in a few instances that the Committee proposed some changes, such as the need for the government to accept the proposals of the Civil Service Associations for pay increases above the Mills-Odoi Commission's proposal, the Committee did not recommend any specific increases but merely stated that the Associations' proposals should serve as the basis for future negotiations. Still, the Committee recommended that future increases in civil servants' pay ought to be based on productivity gains, the government's ability to pay, etc.

2.2.2 The Issifu Ali Salary Review Committee (1973), Apatu-Plange Committee of Inquiry (1978) and Azu-Crabbe Commission (1979)

The Issifu Ali Committee, a 15-member committee named after its chairman, was appointed by the Chairman of the NRC in a letter dated August 10, 1973. The Committee was tasked to carry out the review of salaries and wages of public sector workers with the following terms of reference: "(a) to investigate the remuneration and conditions of service of all grades of personnel in the Public Services, including the Civil Service, the Teaching Service, the Police Service, the Prison Service, the Fire Service and the Public Boards and Corporations, and recommend what changes may be necessary therein; (b) to investigate ways and means of bridging the gap between the lower and higher income groups and make appropriate recommendations; (c) to recommend to Government methods of inducing school leavers to take to farming and allied activities instead of looking for clerical jobs; (d) to inquire into any other matters which appear to the Committee to relate to the foregoing and which, in the opinion of the Committee, ought in the public interest, to be inquired into; and (e) in arriving at the conclusions, they should take into consideration the impact of the present cost of living on the present levels of income in the country and make appropriate recommendations to Government in this regard" (Report of the Salary Review Committee, 1974). Having studied the performance of the economy over the previous decade, received 331 written memoranda and submissions touching on various aspects of the Committee's work, visited every region in Ghana and talked with officials and others on issues relevant to its terms of reference, and interviewed a cross-section of Ghanaians, the Committee prepared and submitted its report on July 3, 1974. The report dealt with all the issues contained in the terms of reference. It recommended the need to remove the disparity between the salaries of civil servants and their counterparts in the public corporations, in order to, according to the committee, "arrest the drain of experienced officers from the Civil Service into the Corporations and the Private Sector". It prepared new schedules of salary ranges for all public sector workers. To help bridge the gap between low income and high income earners, and to ease the economic hardships the lower group may endure, the report recommended certain forms of benefits and allowances to be given to those in the lower group. These included the organization by ministries and departments of subsidized meals through canteen services; provision by ministries, departments, public boards and corporations of transport facilities as a relief to the lower income group; institution of comprehensive housing schemes aimed at providing rental units for junior workers at subsidized rates; exemption from the payment of any hospital and allied health fees by junior officers and their dependents in the various areas of the public sector which did not have departmental medical service; etc. Even though in 1972 the NRC government had increased the minimum wage by 33% to 1 cedi, the report recommended a new minimum wage level of 1.80 cedis, an 80% increase. According to the report, this was done after taking into consideration the economic position of the country; the dispersion of income between the lower, middle and higher income brackets; changes in the cost of living situation and consumption patterns; the consequent increase in the wage bill that may confront the private sector; and the unemployment situation in the country. In a white paper issued after reviewing the report, the NRC government accepted most of the recommendations of the Committee. However, the government made revisions to some of the recommendations. For instance, the government decided to rather increase the minimum wage to 2 cedis, representing 100 percent rate of increase over the 1972-73 level.

As part of the spike in strikes by public sector workers during the second half of the NRC/SMC administration discussed in the previous subsection, the Association of Civil Servants embarked on a serious strike action between 3rd and 8th November 1978. The main grievance was that the government had failed to back its assurances with actual implementation of most of the Issifu Ali Committee recommendations, particularly with regard to getting rid of salary disparities between the Civil Service and the rest of the Public Sector. This strike almost brought government business to a halt. In fact, the SMC Government was shaken to the extent that it thought the strike was instigated by politicians who wanted to overthrow the Government. The SMC government, which was this time led by Lieutenant General Akuffo after General Acheampong had been forced out by the other members of the SMC in July 1978, set up a 4- member committee of enquiry into the strike on December 1, 1978 through the Committee of Inquiry (Civil Service Strike) Instrument, 1978 (E.I. 204). The Committee was chaired by Mr. Justice H. B. Apatu-Plange, a High Court Judge. The Apatu-Plange Committee, which was inaugurated on December 19, 1978, was given the following terms of reference: "(a) investigate the causes leading to the strike action by some civil servants between 3rd and 8th November, 1978; (b) ascertain the exact motives and objectives of the strikes; (c) inquire into the planning, organization and execution of the strike action; (d) identify the persons and organizations connected directly or indirectly with the strike action; (e) ascertain to what extent the conduct of Senior Civil Servants had a bearing on the strike action, before and after the event; (f) investigate any other matter which appears to the Committee to be reasonably related to the foregoing and which in its opinion may be of interest to the Government;

and (g) to report its findings to the Supreme Military Council not later than two weeks after its inauguration, giving reasons for its findings and making such recommendation as may appear to it necessary having regard to its findings" (Executive Instrument E.I. 204, Committee of Inquiry (Civil Service Strike Instrument), 1978).

The Committee held public sittings for eleven days and took both oral and documentary evidence. Although the Committee limited the investigation to a small sample of Departments and Ministries (the Controller and Accountant General's Department, the Ministry of Industries, the Department of National Lotteries and the Ministry of Information) because of time concerns, it far exceeded the two-week deadline given, as it was able to present its report on April 19, 1979. Among other things, the Committee found that the strike was caused by excessive delays in handling demands for improved conditions of service in the Ghana Civil Service, and that the strike was solely for the purpose of pressurizing the government to meet the long-standing demands and grievances of civil servants. The Committee argued in the report that the demands of the civil servants and their underlying grievances were genuine and reasonable. It further found that the strike was not planned, organized or executed by any identifiable body, since it erupted as a consequence of prevailing circumstances. There was, therefore, no evidence connecting any politicians or subversive elements with the strike action. In fact, the report blamed the government for overreacting "out of all proportion to the threat posed" and argued that the dismissal exercise was unfair. Among other things, the Committee recommended that the government should take meaningful steps to ensure that problems and grievances of civil servants were dealt with expeditiously, workers affected by the dismissals ought to be re-instated, and that the government ought to take positive steps to bring Civil Service salaries and conditions of service at par with those in other segments of the public service. In a white paper issued by the Armed Forces Revolutionary Council (AFRC) government after it had overthrown the SMC government on June 4, 1979, the new government accepted all the recommendations of the Apatu-Plange Committee of Inquiry.

The Azu-Crabbe Commission was appointed in February 1979 also by the SMC government, led by General Akuffo. The Commission was given a similar mandate to the Issifu Ali Committee of 1973, as it was tasked to investigate the compensation and conditions of service of all public sector workers. However, unlike the Issifu Ali Committee, the Azu-Crabbe Commission was required to take into consideration job classifications of the International Labor Organization as a basis for the establishment of relativities in jobs and remuneration (Report of Salary Review Commission, 1993). The Commission recommended a new salary structure. Unlike the Mills- Odoi Commission of 1967, which mostly dwelt on the ability of the government to pay and the impact increases in employee compensation would have on the economy in its analysis and recommendations, the Azu-Crabbe Commission argued that cost of living should be the basis for determining public sector compensation. This, the Commission explained, would reduce corruption, increase productivity and attract the best brains into the public service. On this account, the Commission recommended 15 to 20% general increase in the gross wage and salary levels of public sector employees. The Commission also called for the consolidation of allowances into the basic salaries of public sector workers and the establishment of a team of analysts to assess the relative values of jobs for the determination of wages and salaries on continuous basis (ibid). It is important to point out that because of the overthrow of the SMC government by the AFRC about four months after the appointment of the Azu-Crabbe Commission, and the subsequent changes in government that followed, the Commission's recommendations were not implemented (Asah-Asante and Brako, 2014).

2.2.3 National Committee for Wage and Salary Rationalization (1983) and the Gyampoh Commission (1992)

It was realized in 1983 that productivity and real wages in the public service had sharply declined. For instance, "Between 1972 and 1982, the size of the civil service swelled at an annual rate of almost 15%, but real wages shrunk equally rapidly, with the sharpest decline at higher skill levels. By 1984 real wages for top civil servants were one-sixteenth of their 1977 level, and about one-fifth of those for a comparable job in the private sector. Besides wages, working conditions also worsened: inadequate offices and equipment, little or no supplies, and complicated by inefficiency of too many employees" (the World Bank, 1987). Therefore, as part of the Economic Recovery Program (ERP), the National Committee for Wage and Salary Rationalization was established in 1983 by the Provisional National Defense Council (PNDC) government to prepare an appropriate public service salary policy. The target was to increase the spread of the salary structure, provide a large real increase at the higher end of the scale to attract qualified personnel, and to reform the compensation system as a whole to ensure that there was equal pay for comparable work in the public service (ibid). Specifically, the Committee was assigned to "(i) compile all relevant data on job classification, both local and foreign; (ii) evaluate the content of jobs and the ratings to be given to them; (iii) submit all other relevant criteria to be used in determining the rationalization system of remuneration and entitlement; and (iv) develop guidelines for rationalized salaries and allowances that would express the principle, for each according to his ability and for each according to his work" (Report of Salary Review Commission, 1993). According to the government, the Committee did not achieve much, since its attempt to implement a classification of top posts in the public services met with so much controversy that the scheme was eventually abandoned.

The Gyampoh Commission, also named after its chairman Mr. E.P.L. Gyampoh, a lawyer, was appointed by the PNDC government on 21st December, 1992, following the surge in strikes by public sector workers during the year as discussed in Subsection 2.1. The Commission was asked "(a) To investigate the remuneration and conditions of service of all grades of personnel in the public service, including the civil service and to examine, in particular, the differentials and relativities within the Public Services, including the Civil Service, following the implementation of the consolidation concept and make recommendations for both horizontal/vertical adjustments of salaries and wages within the service; (b) To determine the relations to be established between the unionized and non-unionized sectors of the Public Service and to recommend the principles which are to govern the relative levels of remuneration; (c) To enquire into any other matters which appear to the Commission to relate to the foregoing and which in the opinion of the Commission ought in the public interest to be enquired into; and (d) To report to the Government within three months, the conclusions arising out of the foregoing, making such recommendations as the Commission may think fit" (Reference Letter No: PNDC/024/COS, P.N.D.C Secretariat, December, 1992).

To carry out its work, the Commission decided to first undertake a comprehensive review of reports of previous salary review commissions and committees. After the review, the Commission bemoaned the fact that its terms of reference were not different from the previous ones. The Commission therefore appreciated the skepticisms expressed by a section of the public that the Commission would not be able to "produce lasting solutions to such perennial problems in wages and salary administration". To be able to make a difference, the Commission resolved to undertake a very thorough and detailed investigation and examination of remunerations and conditions of service, particularly the differentials, disparities and distortions as well as vertical and horizontal relativities. It also decided to get to the root causes of the phenomena, which were becoming endemic in salary administration in the country, and to avoid ad-hoc decisions involving salary problems that "tended to plunge the nation into cycles of industrial unrest". To achieve these, the Commission studied relevant reports commissioned by the Government and made available by the Prices and Incomes Board and other agencies, as well as reports prepared by consultants on state-owned enterprises. It solicited 79 petitions and memoranda from the general public, relevant bodies and individuals. It also held 37 public sittings and invited professional bodies and associations to appear before it. Moreover, it invited individuals knowledgeable in specialized and relevant subjects for interviews, and held 65 informal meetings.

In its report completed in November 1993, the Commission found that there existed multiplicity of mechanisms for negotiating remuneration in the public service. As a consequence, uneven results on the levels of remunerations and conditions of service were bound to arise, which lead to salary disparities and anomalies, since horizontal relativities were affected. Even though the Commission made recommendations to ensure horizontal parities in salaries, it proposed that to get rid of the disparities and anomalies on permanent basis, the government ought to immediately constitute a permanent body to be called the Income Review and Advisor Board (IRAB). The IRAB was to be charged with the responsibility of periodically reviewing the salaries and other conditions of service for public sector institutions "in order to ensure, among other things, the resolution of parity issues as and when they occur" (Paragraph 143, Report of Salary Review Commission, November 1993). These, the Commission admitted, were similar to the recommendations of the Mills-Odoi Commission report. Thus, although it identified the multiplicity of mechanisms for negotiating remuneration to be the main culprit of the salary disparities, the Gyampoh Commission did not address this problem head-on. However, in effect, it proposed a continuous treatment of the symptoms (i.e. continuous elimination of the resultant disparities by the permanent body). Having validated almost all the existing allowances [about 65 existed at the time, according to Price Waterhouse and Associates/Public Service Commission, 1996], the report commended the government for its efforts to consolidate allowances into basic salaries.[4] As usual, the minimum wage was recommended to be increased by the Commission. The minimum wage was increased by 71.7% from 460 cedis in 1991-1992 to 790 cedis in 1993. In 1994, the government accepted most of the recommendations of the Gyampoh report and granted a 20% salary increase across the board. However, the recommendations of the report were largely not implemented.

2.2.4 Towards a Unified Salary Structure: Price Waterhouse and Associates (1996), CoEn Consulting Ltd (2006), and Fair Wages and Salaries Commission (2007)

In 1996, the disparities and distortions in the compensation of public sector workers, which, in addition to 'low' salary levels, had long been the main causes of workers' agitations and strikes, continued to exist. The government stated in 1996 as follows: *"Mr. Speaker, the distortions in the structure of the remuneration in the public sector continue to create discontent. Ever so often, circumstances have compelled us to resolve demand for improved remuneration in a manner that has also tended to worsen the situation"*

[4] *The salary consolidation program formed part of the Structural Adjustment Program the government had agreed with the World Bank/IMF.*

(Page 40, 1996 Budget Statement). This statement was in reference to the fact that, in addition to a 35% arbitration award that had been given to civil servants in 1995, a 30% increase in salaries was again given to the civil servants and medical doctors effective January 1996. Staff of the public universities were also given big increases following a strike during the year (Kiragu and Mukandala, 2003). The government therefore commissioned Price Waterhouse and Associates, an international consultancy firm, to undertake a review of the salary structure and make recommendations for rationalization. The review had three main objectives: "eliminating ad hoc approaches to income administration in the short-term; establishing a remuneration policy implementation plan in the medium term, mainly based on a comprehensive exercise of job classification; and developing a sustainable structure for the long term in line with Ghana's Vision 2020 report on the Coordinated Program of Economic and Social Development Policies" (IMF, 1999). To perform its work, Price Waterhouse and Associates solicited and received memoranda from stakeholders. It appointed local consultants from different institutions, including Ghana Institute of Management and Public Administration (GIMPA), Council for Scientific and Industrial Research (CSIR), Management Development and Productivity Institute (MDPI), Office of the Head of Civil Service, and the universities. It completed its report in December 1997. It recommended equitable compensation, mostly based on tasks, instead of positions; limitation of allowance to cover temporary extra dimensions of a job or temporary conditions under which a job is performed; minimization of non-cash benefits such as free vehicles and free utilities; etc. The report rationalized public sector compensation and recommended a 22-level uniform salary structure, called Ghana Universal Salary Structure (GUSS). The report also recommended the establishment of a Central Management Board, tasked to, among other things, monitor and oversee the implementation of the new salary policy to ensure that distortions were permanently avoided, and represent the government on the National Tripartite Committee. Following the completion of work by Price Waterhouse, the government issued a confidential report, Price Waterhouse Report, in mid-1998, outlining its proposed strategies from 1999 onwards (IMF, 1999). The government began to implement GUSS and the recommendations of Price Waterhouse and Associates starting from 1999.

Even before the government accepted the Price Waterhouse report in 1998, there were signs showing that GUSS was not going to have long-term success. Among the signs was that there was a lot of disagreement among stakeholders about the new 22-level salary structure. For instance, in 1997, a coordinating committee, comprising 38 representatives of public sector institutions and the trade unions, constituted to arbitrate between government agencies, the different occupation and professional groups, the trade unions, and the consultants could not arrive at any agreed position because of large differences in opinions and views, even though there had been over 10 formal meetings in a period of 3 months (Kiragu and Mukandala, 2003). Therefore, when GUSS began to be implemented in 1999, a number of public sector institutions opted out. This rendered the new salary structure ineffectual with regard to its ability to get rid of salary distortions. The failure of GUSS "could also be attributed to the fact that the Central Management Board and the Appellate Body that were to manage its implementation were not backed by any legal instrument and were also not adequately resourced" (Government White Paper on Single Spine Policy, November 2009).

In May 2006, the government appointed CoEn Consulting Ltd. to (i) develop a pay regime that is fair, transparent and equitable; (ii) design a Pay Policy framework that is sustainable; (iii) include all public service institutions and employees on a unified grading and pay structure; and (iv) design a pay structure for implementation over the medium term, which could attract the requisite skills and competencies to the public services and be managed within the national budget. Using extensive stakeholder consultation and participation, the consultant first grouped public sector institutions into the following 9 service classifications based on similarities of job requirements in terms of education, skills and training: (1) Public Policy, Planning, Service, Administration and Related Service; (2) Health Services; (3) Education (Non-Tertiary); (4) Education (Tertiary), Science and Research; (5) Revenue and Accounting Services; (6) Security Services; (7) Legal and Judicial Services; (8) Sub-vented (Commercial and Non-commercial); and (9) Regulators. It then conducted job analysis and evaluation to determine the value of all public sector jobs, and established internal relativities across and within service classifications. The goal was to ensure 'equal pay for work of equal value'. Based on these analyses, a 25-level grade structure, called Single Spine Salary Structure (SSSS), was developed. Allowances in the public sector were categorized into four distinct categories. Category 1 allowances were incorporated into basic salaries as an outcome of the job analysis and evaluation exercise. Category 2 and 3 allowances were recommended to be standardized to ensure equity and effective management of the wage bill, while category 4 allowances and benefits were recommended to be discontinued. The consultant also recommended that in-kind benefits ought to be converted into cash. To attract and retain critical skills in short supply and public servants in deprived areas, market premium and inducement frameworks were also prepared. CoEn Consulting Ltd. argued that lack of a pay administration framework with mandated responsibility and authority to implement pay reforms is a main weaknesses in achieving compensation reform objectives in Ghana (Government White Paper on Single Spine Policy, November 2009).

Therefore, in 2007, the government established a 7-member regulatory and oversight commission, called the Fair Wages and Salaries Commission (FWSC), by passing Fair Wages and Salaries Commission Act, 2007 (Act 737). According to the Act, the objects of the Commission are (a) to ensure fair, transparent and systematic implementation of the Government public service pay policy; (b) to develop and advise Government on and ensure that decisions are implemented on matters related to (i) Salaries, wages, grading, classification (ii) Job analysis and job evaluation, (iii) Performance management and indicators, and (iv) Allowances and benefits in the public service with the ultimate objective of consolidation of the allowances and benefits; and (c) to undertake negotiations where compensation is financed from public funds. To achieve its objects, the Commission was tasked to, among other things, implement public service pay policy, except the determination of emoluments under article 71 of the constitution; develop and monitor allowances and benefits of public servants and the consolidation of salaries of public servants; undertake job analysis and job evaluations; develop and ensure implementation of grading and classification structures; review requests for the re-grading of positions; coordinate, manage, and monitor collective bargaining processes in which Government is the direct or indirect employer; develop salary structures for the public service; advise on performance management processes and indicators; etc.

In a white paper issued in November 2009 (WP. NO. 1/2009), the government accepted almost all the recommendations, and set January 1, 2010 as the effective date for the implementation of the Single Spine Pay Policy (SSPP). A 5-year transition period was used to place public sector workers from the existing salary structure onto the SSSS. This, according to the government, was to ensure that the cost of the SSPP, particularly from the perspective of conversion difference, did not disrupt the government's macroeconomic stability agenda. When the implementation of the SSPP began in 2010, the government announced a 10% salary increase across the board in the public service.

In a report prepared by a team of experts from the World Bank who visited Ghana in November 2010 to study the country's new approach to public sector reform, the SSSS has been criticized as having an unusual design, and will thus restrict the government's capacity to adjust to the requirements of specific occupational groups. This is because, according to the report, Ghana's SSSS corresponds directly to a **single grade structure**, rather than acting as a spine along which various occupational grades can be placed. The report argues:

"Generally, a single pay spine serves as a common pay reference for several grade scales, whilst allowing those separate grade scales to exist to meet the different career requirements of different occupational groups..... In the usual model, after fixing the relative worth of all jobs in all grades, money values can be assigned to the single pay spine to determine pay for everyone. Whenever pay is reviewed in such system, all the employer needs to do is to change the money values allocated to the single pay spine, and the pay for all levels in all grades will automatically be changed while preserving pay relativities between grades. Pay bargaining is centralized. This system is simple, easy to administer, and is widely used around the world."

These inherent limitations of the SSSS are not surprising. The reason is that the SSSS was designed purposely to ensure pay increases and the elimination of pay disparities in Ghana's public sector pay system in response to agitations by public sector employees, and not mainly to ensure simplicity, ease of administration and the meeting of different career requirements for efficiency and productivity purposes.

It is important to point out that organized labor has again begun to agitate for the review of the Single Spine Salary Structure. Labor unions still believe that salary disparities in the public sector have not been gotten rid of by the SSPP, and that compensation levels remain low. For instance, the General Secretary of Industrial and Commercial Workers' Union (ICU), Mr. Solomon Kotei, is reported to have said in an interview in April 2019 as follows: "Before the inception of the Single Spine Salary Structure, it was clear that the levels of salaries that were being paid were extremely low and that compelled the government to review the salary structure. It has run for a while now, and the levels are not seeing the much-needed increase, and many of them [members of ICU] have run to the top of the scale. The re-engineering implies that we change the levels and the endpoint to endpoint of the salary structure" (Business Insider, April 30, 2019). According to the paper, Mr. Kotei argued further in the interview that the review "should make provision for non-discriminatory and fair employee compensation". In response to these calls by the labor unions, President Akufo-Addo gave an assurance during the 2019

May Day celebration that the SSSS would soon be reviewed.

Clearly, the endless cycle of salary agitations, followed by salary reviews and job evaluations, and then by new salary structure/re-alignment and increases, continues.

2.3 Government Policies with Regard to the Public Sector Compensation Bill

The acceptance of the recommendations of the above discussed committees, commissions and private consultants set up in response to strikes usually led to increases in the public sector compensation bill. This was not only due to increases in the levels of salary across the board but also to payments of conversion difference, which resulted from the movement of some workers onto higher salary scales in the process of trying to get rid of the perceived disparities. Interestingly, the government has long and repeatedly complained about this phenomenon. The following are some of the complaints by the government:

1. *"Worst of all, the adjustments in salaries and wages as a result of the increase in the minimum wage from ₵4 to ₵12 per diem rendered the approved estimates for emoluments of civil servants and subvention to some public organizations and corporations grossly inadequate. Consequently, Parliament gave approval in March, 1981 for the recurrent expenditure to be revised from ₵4,773.6 million to ₵6,026.5 million, a supplementary provision of ₵1,252.9 million" (Page 7, 1981-82 Budget Statement).*

2. *"On the other hand, actual expenditure outstripped the programme by a significant margin (almost a third) with virtually all expenditure items recording excess over programme levels. The major source of expenditure pressure came from wage and salary increases for the Civil Servants and allied institutions and services, which added over ₵50 billion to the wage bill and in the case of End of Service Benefits another ₵20 billion in actual payments" (Page 2, the 1993 Budget Statement)*

3. *Personal Emoluments accounted for ₵1,516.3 billion (7.4 per cent of GDP), 16.7 per cent higher than the budget estimate. This increase was the result of the implementation of the Ghana Universal Salary Structure (GUSS) which took effect from January 1999" (Page 12, 2000 Budget Statement).*

4. *"The 2006 outturn for personal emoluments amounted to GH₵1,137.1 million, 13.8 per cent more than the budget estimate. The reasons for this over expenditure include extraordinary pressure from the labor front which led to higher nominal increases in the wage bill during the fiscal year" (Page 29, 2008 Budget Statement).*

5. *"Personal emoluments for the whole year [2011] is projected at GH₵4,323.5 million, 10.6 per cent higher than the 2011 budget estimate. The higher-than-programmed wage bill is as a result of the larger-than-expected cost of migrating onto the Single Spine Salary Structure, and a retroactive payment to compensate public sector workers for delayed migration beyond the effective date of January 1, 2010" (Page 25, 2012 Budget Statement).*

6. *"The size of the public-sector compensation bill (wages, salaries, & other costs), which accounts for a significant proportion of domestic revenue, is a major concern for Government. It is one of the 'Big-Three' budget line items that continue to narrow Government's choices in pursuing higher economic growth and development programmes" (Page 3, 2018 Budget Implementation Instructions on Compensation of Employees).*

So what policy measures has the government adopted over the years to address these serious challenges about the compensation bill it keeps complaining about? Payroll Management, Retrenchment, Employment Freeze, Hiving-off Commercially Viable Public Organizations, Privatization, and Productivity Improvement are the main policies the government has pursued over the years.

I) ***Payroll Management:*** Payroll management as a means of compensation bill management has taken the form of payroll mechanization/automation and payroll audit. It was believed early on that mechanizing the payroll would not only lead to efficiency in the estimation of the compensation bill for budgeting purposes, but it would also lead to transparency, which would ensure that payroll fraud that could swell the compensation bill was done away with. Payroll audit has long been used in Ghana's public sector to remove ghost names[5] from the payroll and thus reduce the size of the compensation bill. It has been employed by almost every administration since at least the time of the NRC/SMC administration in the 1970s. In recent years, relying on technology such as biometric registers to remove ghost names through payroll audit has vigorously been pursued by the government.

II) ***Retrenchment of Labor:*** Due to the limited nature of employment opportunities in Ghana's private sector and the resultant high rate of unemployment, the public sector has long been the main source of formal employment. This, coupled with political pressures and other factors, has often led to excessive employment into the public sector, leading to the bloating of the public sector compensation bill. To reduce the compensation bill, the government has at times resorted to retrenchment of labor from the public sector. The National Liberation Council (1966-1969), Busia's Progress Party (1969-1971) and Rawlings PNDC (1982-1992) governments are the administrations that used retrenchment as a strategy to manage the compensation bill. It is important to point out that in all the three cases, the retrenchment policies were implemented under the auspices of the IMF/World Bank. For instance, Kraus (1979) reports that the NLC dismissed about 40,000-50,000 public sector workers in 1966-67. Also, the PNDC's Civil Service Reform program, which was implemented as part of the Structural Adjustment Program, retrenched over 12,000 workers per year from 1987 to 1991 from the civil and education services (World Bank, May 1992). Retrenchment policies have always been unpopular in Ghana, and opposition groups have usually condemned and used it to undermine the ruling government. Therefore, when the Busia government, for instance, was overthrown by the National Redemption Council (NRC), the new military government quickly reversed the retrenchment policy despite recognizing that compensation of employees was posing a serious fiscal difficulty. As an example, the NRC government reinstated about 400 maritime workers who had been sacked by the Busia government (TUC and RLF, 2012).

[5] *Ghost names is used in Ghana to refer to those who fraudulently draw salaries from the public sector payroll even though they are not supposed to do so. Many times, the 'ghosts' were legitimate public sector employees who quit but continued to draw salaries, or who die but others draw salaries on their behalf because their names are not removed from the payroll after their death.*

III) ***Employment Freeze:*** Rather than directly cutting down the existing employment (retrenchment), at times, employment freeze has been used to ensure that public sector employment does not see further growth in order to cut the growth of the compensation bill. Even though it has not been without controversy, it has been less controversial as compared to retrenchment. In recent years, the government has tried to enforce employment freeze by requiring all Ministries, Departments and Agencies (MDAs) as well as all Metropolitan, Municipal and District Assemblies (MMDAs) to get employee clearance certificates from the Ministry of Finance before they can go ahead with employment of new staff, otherwise the newly employed staff would not be paid. Interestingly, because of the tendency of the government to provide employment to the people through hiring into the public sector, particularly party supporters, again due to the high rate of unemployment, employment freeze has almost always been a requirement by the IMF/World Bank and not the government's own policy initiative.

IV) ***Hiving off Commercially Viable Public Organizations:*** Hiving off commercially viable public organizations, mostly subvented organizations and public corporations, to reduce the compensation bill has been pursued by almost every government since the overthrow of the Nkrumah government. Even the NRC government that resolved to implement Nkrumah-type state-led economic policies showed preference for this policy. For instance, in the 1972-73 Budget Statement, the NRC argued: *"In view of our declared policy against retrenchment of labour, and the high element of personal emoluments, recurrent expenditures cannot be cut down significantly without creating additional unemployment. This we will not do. However, to control more effectively the size of the Government labour force and expenditures, it has been decided to reduce the size of the government establishment as much as possible by allowing those departments and government agencies that can stand on their feet to be hived off as independent bodies."* At times, the implementation of this policy has been very intensive, especially when it forms part of IMF/World Bank conditions, while it has been less so at other times.

V. ***Privatization/Divestiture of State-Owned Enterprises:*** Privatization of state- owned enterprises has been used as a policy to reduce the size of the public sector and, by extension, the size of the compensation bill. It was first pursued in Ghana by the NLC and Busia administrations as part of the IMF/World Bank programs they implemented. Starting from the late 1980s and as part of the Structural Adjustment Program, the PNDC government also began to implement privatization policies. The implementation of the policy continued into the 1990s and 2000s. Data from the Divestiture Implementation Committee show that between 1990 and 2003, 335 state-owned enterprises were divested.

VI) ***Productivity Improvement:*** This is aimed at reducing the growth in the size of public sector employment so as to reduce the growth of the compensation bill. Since independence, the need to increase productivity has been a recurring theme whenever the government of Ghana offers major increases in wages and salaries, especially in response to workers' strikes. However, historically, the repeated words of the government regarding workers' productivity have not been matched with any concrete plans of action, aside the general public sector reforms it has implemented as part of IMF/World Bank programs, which may have led to productivity gains.

The question now is, how effective have these policies been when it comes to the size of the compensation bill? Before we provide answers to this question in the next section, it is important to point out that we can see from the above listed policies that the government has not been able to adopt any concrete strategy to directly confront the main source of the problem -- pressures from the labor unions for higher levels of salaries across board and upward movements on the salary scale (also known as 'getting rid of salary distortions').

3.0 Trend and Comparative Analyses of Ghana's Public Sector Compensation Bill

To appreciate the size of Ghana's public sector compensation bill and how it has been influenced by public sector labor unions' pressures and government policies, we carry out in this section historical trend and comparative analyses of the compensation bill. It should first be understood that public sector compensation bill comprises payments of (a) wages and salaries, (b) social security contributions on behalf of public sector workers, (c) pensions, and (d) gratuities. The last three components are called social contributions.

3.1 Trend Analysis

In nominal terms, compensation of employees has generally seen continuous growth since independence. It increased from GH₵5,934 in 1965 to GH₵42,520 in 1975/76 (See Table 2). In 1983, the compensation bill stood at GH₵432,300. By the end of 1990, it had reached GH₵9.9 million. It increased to GH₵183.3 million in 2000, and further to GH₵3.6 billion in 2010. By the end of 2018, the compensation bill had reached a whopping GH₵19.6 billion.2. Local governments must strive for efficiency gains by reducing their operational costs and initiating programs to improve revenue generation. Municipalities in countries such as Nepal and India have shown encouraging results by reducing their reliance on central government cash transfers through improving their billing and collection of revenues and minimising operating costs. There must be strong political will and discipline on the part of policy makers in the implementation of policies and the formulation of the right mechanisms for evaluating the costs and benefits of instituting programs.

Table 2: Nominal Values of the Compensation Bill in Selected Years, 1965-2018

Year	*Wages and Salaries (GH₵)*	*Social Contributions (GH₵)*	*Compensation of Employees (GH₵)*
1965	--	--	5,934
1975/76	--	--	42,520
1983	380,000	52,300	432,300
1990	8,228,000	1,670,800	9,898,800
2000	142,281,500	41,040,000	183,321,500
2010	3,182,526,834	437,444,355	3,619,971,189
2018	17,212,921,176	2,399,119,497	19,612,040,673

Source of Data: Ministry of Finance and World Bank's Statistical Appendices on Ghana

It is, in fact, normal to see the nominal values of the compensation bill exhibit an increasing trend over time. The reason is that countries normally experience inflation and enjoy real economic growth, which lead to increases in the nominal values of government revenues. Increases in government revenues may also come about as a result of improvement in the efficiency in revenue collection. Nominal values of employee compensation, like other expenditure items, therefore increase in response to the increases in government revenues as a way of making public sector workers benefit from the economic growth, get compensated for losses in real incomes due to inflation, or benefit from efficiency gains in revenue collection.

What is therefore interesting is what happens to the compensation bill when expressed as a ratio of total revenue of the government, total expenditure, GDP, etc. Expressing the compensation bill as a ratio of total revenue is most interesting, since the size of total revenue directly defines the level of affordability by the government.

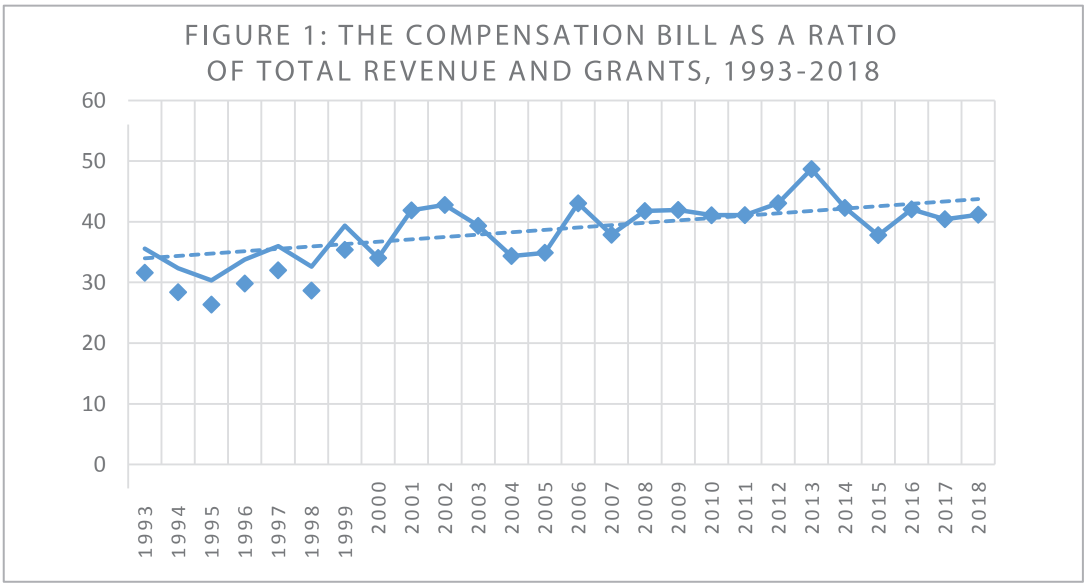
If the compensation bill expressed as a ratio of total revenue exhibits a decreasing trend, it means, on average, the government passes a decreasing portion of revenue increases on to public sector employees as a group, despite the fact that the nominal value of the compensation bill may be increasing. Thus, on average, public sector employees' compensation grows slower than the growth in government revenues. Governments usually do this when they, for instance, desire to sharply increase what they see as more pressing expenditure items -- such as public investment to stimulate faster economic growth.

If the ratio exhibits a constant trend, then it means the government, on average, passes the same portion of revenue increases on to public sector workers as a group. Thus, the growth rate in the compensation bill equals the growth rate in government revenue.

This implies that the government makes public sector workers as a group evenly benefit from economic growth and efficiency gains in revenue collection, or evenly compensates them for real income losses due to inflation.

If, however, the ratio exhibits an upward trend, then it means the government, on average, passes greater and greater portion of revenue increases on to public sector employees. Thus, growth of the compensation bill exceeds that of total revenue. This implies that the portion that goes to the remaining budgetary sectors shrinks in proportionate terms. This phenomenon has the tendency to limit economic growth, since public investment is usually the most affected expenditure item, due to the rigid nature of the remaining expenditure items.

Figure 1 below shows Ghana's public sector compensation bill expressed as a ratio of total revenue and grants during the Fourth Republic, 1993-2018. We can see from this figure that the dotted line, which is the trend line, is increasing over time. Therefore, since 1993, Government of Ghana, on average, has been allocating increasing portions of its revenues to compensate public sector workers. As explained above, this implies that the ratio of government revenue that goes to the total of other expenditure items has been shrinking, on average.



To fully understand the behavior of the compensation bill as a ratio of total revenue and grants and how workers' agitations as well as government policy choices have influenced it even before the Fourth Republic, let us turn our attention to Table 3 and Figure 2 below. Table 3 compares the number of times of growth in the compensation bill to the number of times of growth in total revenue and grants in different periods since 1976/77. Figure 2 demonstrates the impact of the growth in these two variables on the compensation bill ratio in the various periods to explain the trends in the ratio.

First, as Figure 2 shows, in 1966/67-1968/69, the NLC years, the compensation bill as a ratio of total revenue and grants stood at 29.8% averagely, following the economic austerity measures the NLC government implemented, including the retrenchment policies.

However, in 1976/77-1981/82, the period of political and economic turbulence in Ghana[6] the compensation bill grew by 5.1 times from GH¢45,320 in 1976/77 to GH¢229,700 in 1981/82.

Total revenue and grants, on the other hand, grew by only 4.2 times from GH¢107,460 to GH¢454,500 during the same period. Therefore, on average, the compensation bill as a ratio of total revenue and grants increased to as high as 52.1% during this period. Thus, averagely, the government spent a whopping 52.1% of all its revenues to compensate for labor services of public sector workers alone.

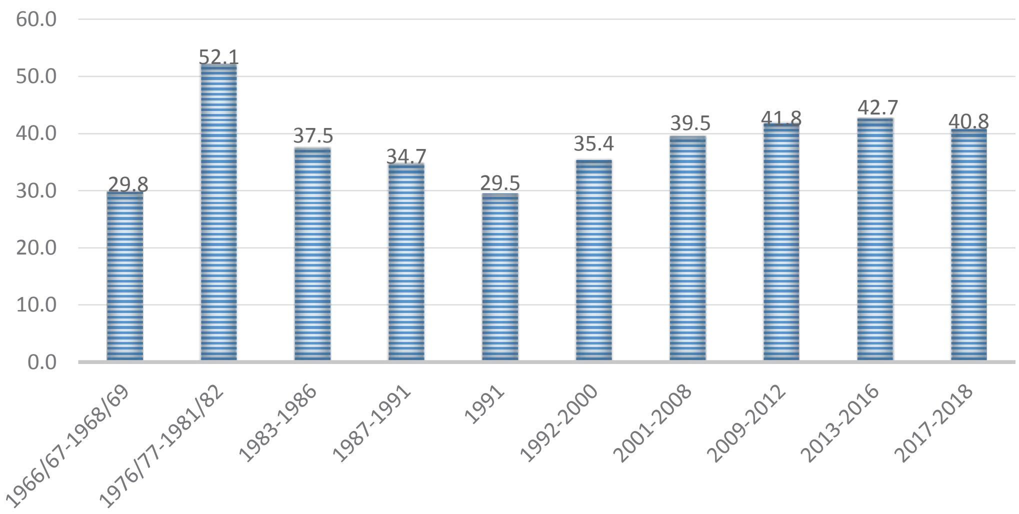
Table 3: Number of Times of Growth of the Compensation Bill Compared with Times of Growth of Total Revenue and Grants in Different Periods, 1976-2018.

Period	No. of Years	The Compensation Bill			Total Revenue and Grants		
		Begin. and End Period Values (GH₵)		*Times of Growth*	*Begin. and End Period Values (GH₵)*		*Times of Growth*
1976/77--1981/82	5	45,320	229,700	5.1	107,460	454,500	4.2
1982-1986	4	229,900	2.96m	12.9	525,200	7.35m	14.0
1986-1991	5	2.96m	12.67m	4.3	7.35m	42.96m	5.8
1991-2000	9	12.67m	183.32m	14.5	42.96	538.50m	12.5
2000-2008	8	183.32m	2,349.2m	12.8	538.5	5,623.2m	10.4
2008-2013	5	2,349.2m	9,479.1m	4.0	5,623.2m	19,471.6m	3.5
2013-2018	5	9,479.1m	19,612m	2.1	19,471.6m	47,636.7m	2.4
2013-2016	3	9,479.1m	14,164.8m	1.49	19,471.6m	33,678.2m	1.73
2016-2018	2	14,164.8m	19,612m	1.38	33,678.2m	47,636.7m	1.41

Source of Data: Ministry of Finance and World Bank's Statistical Appendices on Ghana

[6] *1976-1982 is a period of political turbulence because the country witnessed as many as 5 different governments during this short period (SMC 1, SMC 2, AFRC, PNP and PNDC). It is also a period of economic turbulence because the economy of Ghana witnessed a very erratic performance, with real GDP contracting by an average rate of 0.7% and inflation rate averaging 70.1% during the period.*

FIGURE 2: THE COMPENSATION BILL TO TOTAL REVENUE AND GRANTS RATIO IN DIFFERENT PERIODS, 1976-2018



This was because of the high level of agitations and strikes by public sector workers, particularly during the Liman administration, which, for instance, saw the minimum wage increase by 200%, causing the government to excessively increase wages and salaries with little regard to the size and growth of total revenue and grants. Following the introduction of the Economic Recovery Program (ERP) in 1983, the compensation bill to total revenue and grants ratio witnessed a considerable decline. In 1983-1986, the period under ERP before the introduction of the retrenchment policy, averagely, compensation of employees to total revenue and grants ratio reduced sharply to 37.5%. This was largely due to the use of different means by the PNDC to prevent workers from using demonstrations and strikes to demand high compensation, calling striking workers economic saboteurs as we pointed out in the previous section. Consequently, the government was, to a large extent, able to have a free hand to take decisions about compensation of public sector workers as it deemed fit. Therefore, in proportionate terms, the government did not pass all the gains in revenue growth on to public sector workers. Specifically, compensation of employees grew by 12.9 times from GH¢229,900 in 1982 to GH¢2.96 million in 1986, which was quite a remarkable growth. However, total revenue and grants grew faster by 14.0 times from GH¢525,200 in 1982 to GH¢7.35 million in 1986. In 1987-1991, the average ratio of compensation of employees to total revenue and grants declined further to 34.7%. In fact, in 1991, the ratio stood at only 29.5%. Again, the decline was because growth of total revenue and grants (5.8 times from 1986 to 1991) continued to exceed that of compensation of employees (4.3 times during the same period). The underlying cause of the slower growth of the compensation bill relative to that of total revenue and grants, leading to the decline in the compensation bill ratio in 1987-1991, was the result of the retrenchment policy, implemented as part of the public sector reforms under the Structural Adjustment program, which significantly reduced the size of Ghana's public sector employment.

However, following the return to democratic governance system in 1992 under the Fourth Republic, which strengthened the hands of organized labor and reduced those of the government for political and constitutional reasons, leading to increased rate of strikes and demonstrations as discussed in the previous section, the compensation bill began to increase faster than total revenue and grants. From 1991 to 2000, the compensation bill increased by 14.5 times from GH¢12.67 million to GH¢183.32 million. However, total revenue and grants increased by only 12.5 times from GH¢42.96 million to GH¢538.5 million during the same period. Therefore, averagely, the compensation bill as a ratio of total revenue and grants increased to 35.4% in 1992-2000.

From 2000 to 2008, the growth of the compensation bill continued to outpace that of total revenue and grants. The compensation bill grew by 12.8 times to GH¢2,349.2 million in 2008. Total revenue and grants, on the other hand, grew by 10.4 times to GH¢5,623.2 million in 2008. Consequently, in 2001-2008, the compensation bill as a ratio of total revenue and grants increased by additional 4.1 percentage points to 39.5%, thus nearly hitting 40%. The implementation of Ghana Universal Salary Structure (GUSS) starting from 1999, which moved some workers on to higher salary scales, and the continuous salary adjustments across the board in response to workers' agitation are the main causes of the higher growth in the compensation bill relative to that of total revenue and grants during the period.

The implementation of the Single Spine Salary Structure starting from 2010 made the growth of the compensation bill continue to exceed that of total revenue and grants between 2008 and 2013. Specifically, while the compensation bill increased by 4.0 times from GH¢2,349.2 million in 2008 to GH¢9,479.06 in 2013, total revenue and grants increased by 3.5 times from GH¢5,623.2 million in 2008 to GH¢19,471.55 million in 2013. Therefore, in 2009-2012, on average, the compensation bill as a ratio of total revenue and grants crossed the 40% line to stand at 41.8%.

Between 2013 and 2018, however, the times of growth in the compensation bill marginally fell below that of total revenue and grants. While the compensation bill grew by 2.1 times from 2013 to 2018, total revenue and grants grew by 2.4 times. Nevertheless, the excess growth of the compensation bill over growth of total revenue and grants in 2013 was strong enough to push the ratio to increase again to 42.7% in 2013-2016. In 2017-2018, however, the ratio declined to 40.8%. In spite of the fact that this average is still above 40% and is thus among the highest historically, its decline in the last two years has provided marginal relief to the government. Nevertheless, it cannot yet be argued that the ratio has begun to trend downwards. This is because, while the ratio declined to 40.4% in 2017, it increased again to 41.2% in 2018.

3.2 Comparative Analysis

Although we should begin to ring the alarm bells when the ratio keeps on rising or when it exceeds some uncomfortable threshold, using trend analysis alone may not be sufficient to inform us about which specific ratio is high or low and thus requires a serious redress policy. Nevertheless, if, in addition to the information gleaned from the trend analysis, the compensation bill ratio deviates considerably from the average for a number of countries, particularly peer ones, then we can be more convinced that appropriate policy action is needed to adjust the compensation bill.

We therefore discuss in this subsection Ghana's public sector compensation bill by comparing it with those of other countries. Here, the compensation bill is expressed as a ratio of government expenditures. Data for this variable come from the Worldwide Bureaucracy Indicators (WWBI) dataset of the World Bank, which, according to the Bank, have been harmonized to make them favorable for cross-country comparative analysis. The sample data used for the analysis cover 56 countries. Of them 17 are low income, 28 are middle income, and the remaining 11 are high income countries.[7] Across the income groups, there are 22 African countries. The sample was put together based on availability of data in the database. However, the sample is quite representative. The list of countries (by income type) and their compensation bill as a ratio of government expenditures is presented in Appendix 1.

Table 5 and Figure 3 below demonstrate where Ghana stands relative to other countries with respect to the compensation bill as a ratio of government expenditures. Table 5 shows the rank of Ghana relative to different country groups. The ranking is based on how low the compensation bill ratio is (i.e. from low to high ratio). Figure 3 on the other hand graphically presents Ghana's compensation bill ratio compared with different country group averages.

We can see from Table 4 that, of the 28 middle income countries in the sample, Ghana ranks 25th. And of the 22 African countries in the sample, Ghana's compensation bill as a ratio of government expenditures is 21st lowest or the second highest. Ghana ranks 52nd out of all the 56 countries in the sample.

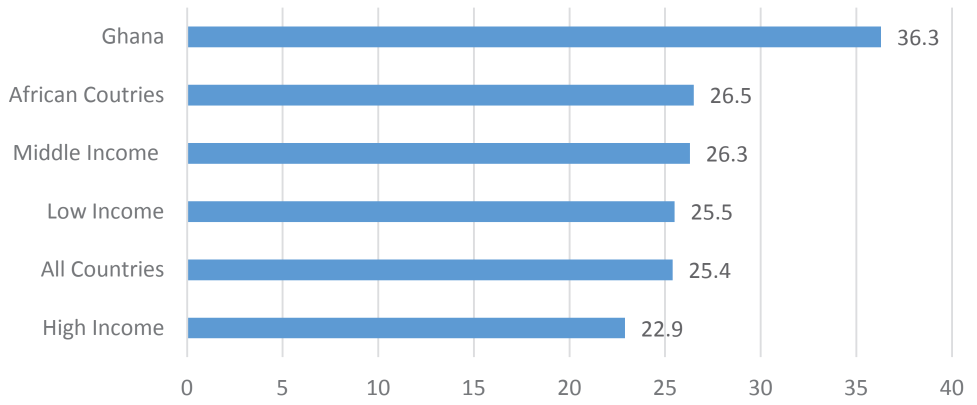
Table 4: Ghana's Rank in Terms of the Compensation Bill as a Ratio of Government Expenditures – Rank Based on Low to High Ratio

Country Group	*Number of Countries in the Sample*	*Ghana's Rank*
Middle Income Countries	28	25th
African Countries	22	21st
All Countries	56	52nd

Source of Data: World Wide Bureaucracy Indicators (WWBI), The World Bank, 2015 or Most Recent Data

[7] *Income statuses of the countries in the sample were taken from World Bank analytical classification table.*

Figure 3: The Compensation Bill as a Ratio of Government Expenditures, Using 2015 or Most Recent Data (%) (Ghana's VS. Group Averages)



We can also see from Figure 3 that Ghana's ratio, which stands at 36.3%, is much higher than the averages for all the country groups. For instance, Ghana's ratio is higher than the average for the 22 African and the 28 middle income countries in the sample by as high as 9.8 and 10.0 percentage points respectively. This is quite remarkable. This is because, for instance, 10.0% of government expenditures, serving as additional employee compensation above the middle income average, represents quite a huge amount of money in any year. For example, 10.0% of the GH¢69.8 billion projected as total government expenditure in the 2019 revised budget (defined narrowly to exclude foreign financed capital to conform to the definition of government expenditures in WWBI) equals about GH¢7.0 billion. This amount is almost double the GH¢3.6 billion projected as domestically financed capital expenditure in the 2019 revised budget. Clearly, Ghana's compensation bill ratio is extremely high in comparative terms.

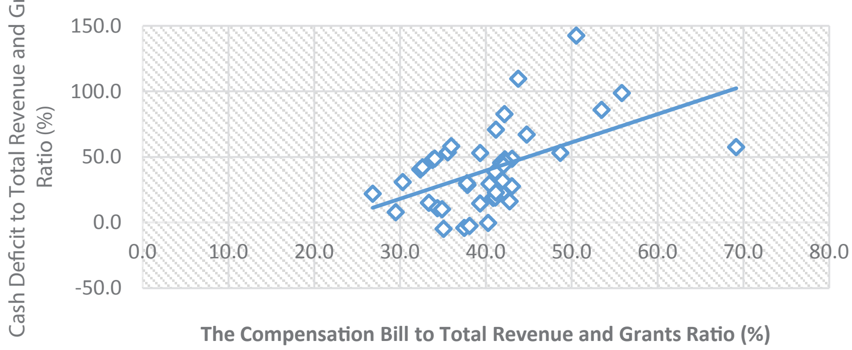
4.0 Implications of the Large Compensation Bill

Public sector compensation that translates into a good level of average pay has the benefit of attracting, retaining and motivating well qualified employees who bring efficiency to government policy formulation and implementation. This makes the public sector effectively drive the entire system to achieve faster social and economic development.

However, if the compensation bill as a whole becomes very large, then the country could be in for a rough ride economically, which could make the above stated benefits pale in comparison. So what are the implications of Ghana's large compensation bill, which has just been found to be at the extreme end when ranked among those of other countries in terms of largeness?

I. ***Large Fiscal Deficits:*** The compensation bill is a strong driving force behind the country's large fiscal deficits. Figure 4 and Table 6 demonstrate this fact. Figure 4, which is a scatter plot of the two variables with a linear trend line, clearly shows a strong positive or increasing effect of the compensation bill ratio on the cash deficit ratio.

Figure 4: The Effect of the Compensation Bill Ratio on the Cash Deficit Ratio -- Scatter Plot with Linear Trendline



We can also see from Table 5 that, with the exception of 2001-2008,[8] increases in the compensation bill ratio brings about increases in the cash deficit ratio, and vice versa. The correlation coefficient between these two variables is as high as **0.83.** This implies that the large fiscal deficits the country has traditionally recorded, making fiscal consolidation difficult, is significantly due to the high compensation bill ratio.

Table 5: The Relationship between the Comp. Bill and Fiscal Deficit Ratios

Period	The Compensation Bill to TR&G Ratio (%)	Cash Deficit as a Ratio of Total Revenue and Grants[9] (%)
1976/77-1981/82	52.1	94.2
1983-1986	37.5	22.2
1987-1991	34.7	2.3
1992-2000	35.4	49.1
2001-2008	39.5	22.0
2009-2012	41.8	34.6
2013-2016	42.7	43.3
2017-2018	40.8	26.6
Correl. with the Compensation Bill Ratio		**0.83**

** As the government used to present in the budget statements, cash deficits before 1990 are on narrow basis, implying that they do not take foreign financed capital expenditure into consideration.*

[8] *2001-2008 served as an exception because the HIPC and MDRI Debt Relief initiatives made substantial fiscal resources available to the government. This eased the traditional tension on spending that leads to borrowing, which limited the fiscal deficit despite the high compensation bill ratio.*

[9] *Traditionally, deficit ratios are expressed in terms of GDP. However, due to frequent rebasing and recalculation of GDP in Ghana, there are many sharp structural breaks, making it difficult to be used for an extended time series analysis.*

It is important to point out that this finding is consistent with findings in other studies. For instance, in a paper published in 2016, the IMF argues: "Wage bill increases are, on average, found to be associated with a worsening fiscal balance. This was the case in a number of country-case studies (Honduras, Portugal and Romania) where sharp increases in wage bill spending were a major factor behind deteriorating fiscal balances."

II. ***High Levels of Debt Build-ups, Debt Service Cost and Macroeconomic Instability:*** The explanation here is straightforward. Since the size of the fiscal deficit is what mostly determines the annual increases in public debt, it follows that the country's large compensation bill is an important factor behind the country's usually high rate of public debt buildups. This is not to say that debt buildups cannot result from the government's discretionary decisions to increase borrowing and spending. However, the point here is that, having used a substantial portion of revenue to settle the compensation bill, the government is forced to resort to borrowing in order to be able to meet other expenditure obligations, leading to high deficits and thus large debt buildups.

    Naturally, large debt build-ups lead to large debt service costs. Therefore, the large compensation bill is a significant fundamental factor behind the country's high debt service cost. Because debt service cost, like compensation of employees, is a highly rigid expenditure item, the implication is that the country's large compensation bill serves as both direct and indirect driving force behind the country's fiscal rigidity problem.[10]

    Also, the large fiscal deficits Ghana frequently records have been found to be a significant factor responsible for the high levels of macroeconomic instability the country frequently witnesses (see, for instance, Sowa (1994), Ghartey (2001), Boakye (2009 and 2017). With our current finding that the country's large compensation bill is a powerful driver of the fiscal deficits, it follows that the compensation bill serves as an important fundamental cause of the country's persistent macroeconomic instability.

III. ***Limited Public Investment:*** An important effect of Ghana's large compensation bill is that it limits public investment in the country. To accommodate increases in the compensation bill in the face of the fiscal consolidation policies the government of Ghana has been pursuing over the years, the government resorts to cutting down public investment.

[10] *For more on this, see Boakye, 2017, an IFS Publication entitled "Fiscal Rigidities and their Effects in Ghana: What Should the Government Do?"*

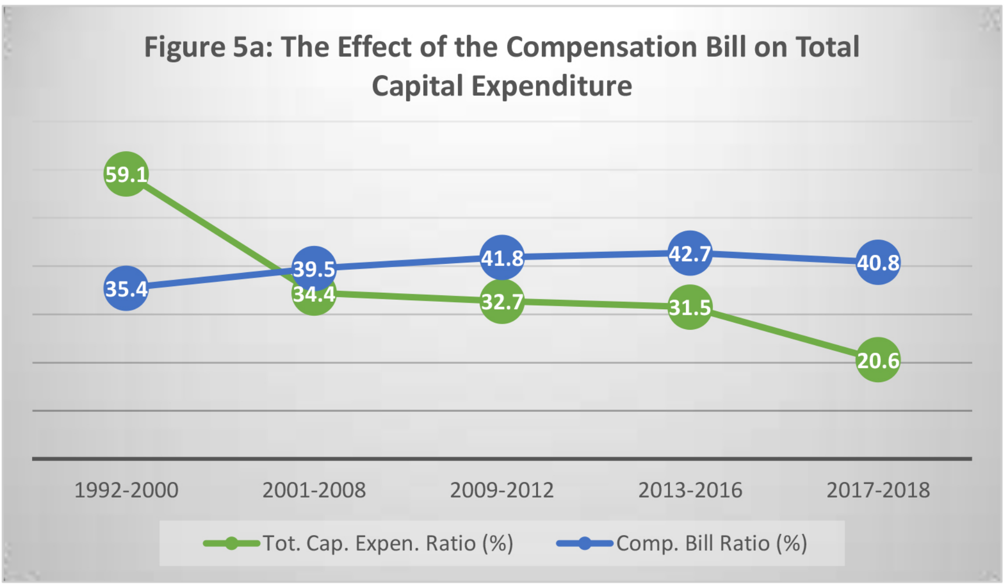
Table 6: The Effect of the Compensation Bill on Public Investment

Period	The Compensation Bill to TR&G Ratio (%)	Tot. Capital Expenditure* to TR&G Ratio (%)	Dom. Capital Expend. to TR&G Ratio (%)	Other Expenditures to TR&G Ratio (%)
1983-1986	37.5	--	19.7	64.9
1987-1991	34.7	--	22.5	34.6
1992-2000	35.4	59.1	23.8	50.6
2001-2008	39.5	34.4	16.8	38.4
2009-2012	41.8	32.7	13.3	47.6
2013-2016	42.7	31.5	14.0	61.4
2017-2018	40.8	20.6	11.1	61.8
Correl. with the comp. bill ratio		***-0.84***	***-0.93***	***0.42***

* **Note:** For consistency, we have added GETFund, DACF, Road Fund, Transfer to GNPC, and Petroleum Related Fund to 2013-2018 values of capital expenditure because the government stopped including them in capital expenditure in the fiscal table starting from 2013.

* Foreign financed capital component of total capital expenditure are not available before the 1990s because the government used to record capital expenditure in the budget on a narrow basis (i.e. excluding foreign financed ones).

This is due to the rigid nature of the other remaining expenditure items. Consequently, the compensation bill ratio has a strong negative correlation with capital expenditure ratio in Ghana. Table 6 and Figures 5a and 5b illustrate this point. We can see from the table and figures that, generally, as the compensation bill ratio increases, total and domestically financed capital expenditure ratios decline, and vice versa.



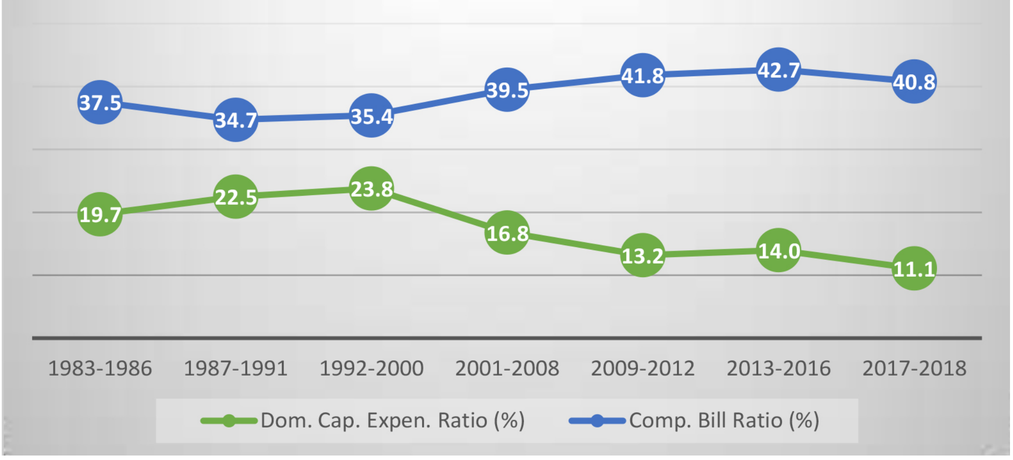


Figure 5b: The Effect of the Compensation Bill on Domestic Capital Expenditure

The correlation coefficient between the compensation bill ratio and total capital expenditure ratio is -0.84. And that between the compensation bill ratio and domestically financed capital expenditure ratio is as high as -0.93. These are quite strong relationships, which, we believe, are causal in nature. To show that it is capital expenditure that the compensation bill negatively affects and not the other remaining expenditures, we have shown the sum of these other remaining expenditures as a ratio of total revenue and grants in the last column of Table 6. The relationship between the compensation bill ratio and the other remaining expenditures ratio is positive, implying that the other remaining expenditures ratio rather increases when the compensation bill ratio increases. This is not surprising, since we just explained above that the country's high compensation bill leads to increases in debt service cost, a major component of the other remaining expenditure items.

IV. ***Reduced Growth and Development of the Economy:*** Accelerated public investment brings about improvements in productivity in all sectors of the economy. Many studies have therefore found that Ghana's limited public investment since independence is a significant factor behind the country's poor economic performance over the years (See, for instance, Boakye, 2018.). Therefore, having shown here that Ghana's high compensation bill, a consumption expenditure, is significantly responsible for the country's limited public investment, it follows that the large compensation bill is an important contributing factor behind the poor growth and development of the country's economy.

5.0 Causes of Ghana's Large Compensation Bill [11]

Why has Ghana's public sector compensation bill ratio seen such an increasing trend, making it substantially larger than most other countries, particularly peer ones? It should first be noted that two main variables directly determine the size of the public sector compensation bill: (1) the size of public sector employment and (2) the level of public sector wages.

[11] *The raw data used for analyses in this section are tabulated in Appendix 2 of this paper.*

So, is Ghana's substantially high compensation bill ratio attributable to excessive number of employees in the public sector or high level of wages paid in the sector, or both?

5.1 Is the High Compensation Bill Ratio Driven by the Size of Public Sector Employment?

Before the introduction of the Economic Recovery Program/the Structural Adjustment Program in the 1980s, the government of Ghana had so many employees on its payroll. For instance, in 1971, the public sector employed 72.4% of all employees in establishments employing 10 or more workers. This ratio increased to 75.0% in 1975, and in 1979, it reached 79.0%[12]. However, the divestiture of state-owned enterprises, the retrenchment policies pursued in the late 1980s and early 1990s as part of the Structural Adjustment Program, and the continuous restrictions placed on hiring by the government under later programs have led to sharp declines in the relative size of public sector employment. For instance, according to data from Ghana Living Standard Surveys, government employment as a ratio of total labor force declined from 7.8% in 1991/92 to 5.9% in 1998/99, and to 5.7 in 2012/2013. This suggests that the upward movement of the compensation bill ratio since the beginning of the Fourth Republic is not being driven by growth in the size of public sector employment. To shed more light on this point, let us compare the size of Ghana's public sector employment to those of other countries, using public sector employment as shares of paid and total employment.

Across countries, data reveal that, on average, the size of Ghana's public sector employment, measured as ratios of paid and total employment, is generally smaller, though not by large margins. As Table 7 and Figure 6 show, in Ghana, public sector employment as a share of paid employment stands at 26.0%. Although this ratio is 0.5 and 0.7 percentage points larger than averages for low income and high income countries in the sample respectively, it is smaller than averages for the rest of the remaining country groups by bigger margins. Importantly, Ghana's public sector employment as a share of paid employment is 4.7 and 3.3 percentage points lower than averages for the 22 African and 27 middle income countries in the sample, respectively. Indeed, Ghana's ratio is 1.4 percentage points lower than the average for all the 55 countries with data for this variable in the sample.

With regard to public sector employment as a share of total employment, Ghana's ratio is only larger than the average for the low income countries (by 1.5 percentage points). It is 2.1 percentage points and as much as 11.3 percentage points lower than averages for African and middle income country peers in the sample, respectively.

The foregoing analysis clearly shows that Ghana's substantially large compensation bill ratio relative to its peer and other countries is not being driven by the size of its public sector employment.

[12] *Ghana: Policies and Programs for Adjustment, a World Bank Report, 1984, Appendix Table 9.3, using data from the Quarterly Digest of Statistics of March 1983 by the Ghana Statistical Service.*

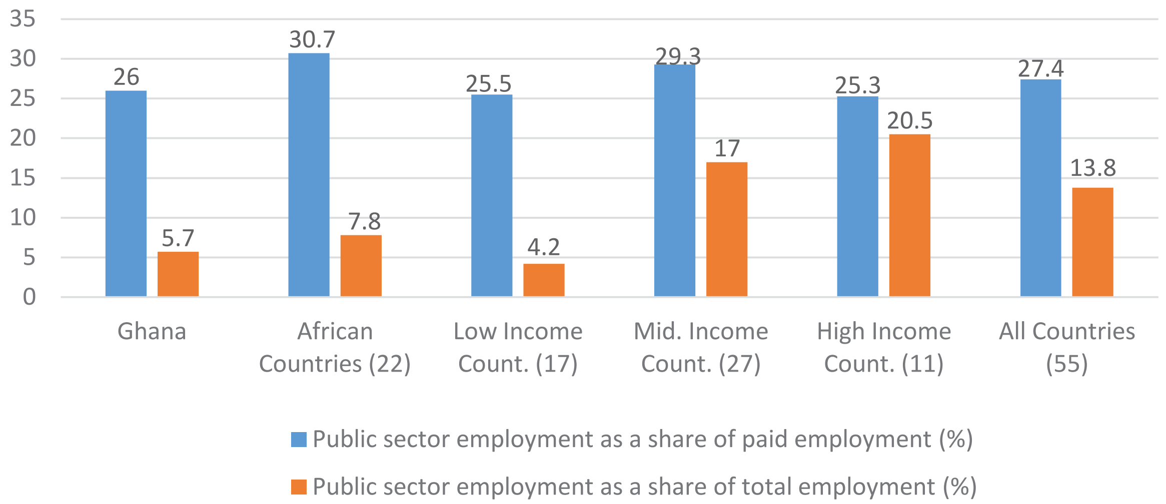
Table 7: Ghana's Public Sector Employment as a Share of Paid and Total Employment, Compared with Averages for Different Country Groups, 2015 or Latest Data

Country/Country Group	*Public sector employment as a share of paid employment (%)*	*Public sector employment as a share of total employment (%)*
Ghana	26.0	5.7
African Countries (22)	30.7	7.8
Low Income Count. (17)	25.5	4.2
Mid. Income Count. (27)	29.3	17.0
High Income Count. (11)	25.3	20.5
All Countries (55)	27.4	13.8

Note *: For list of individual countries and their ratios, see appendix 2*

Source of Data *: Worldwide Bureaucracy Indicators (WWBI), World Bank (Updated in Dec. 2018)*

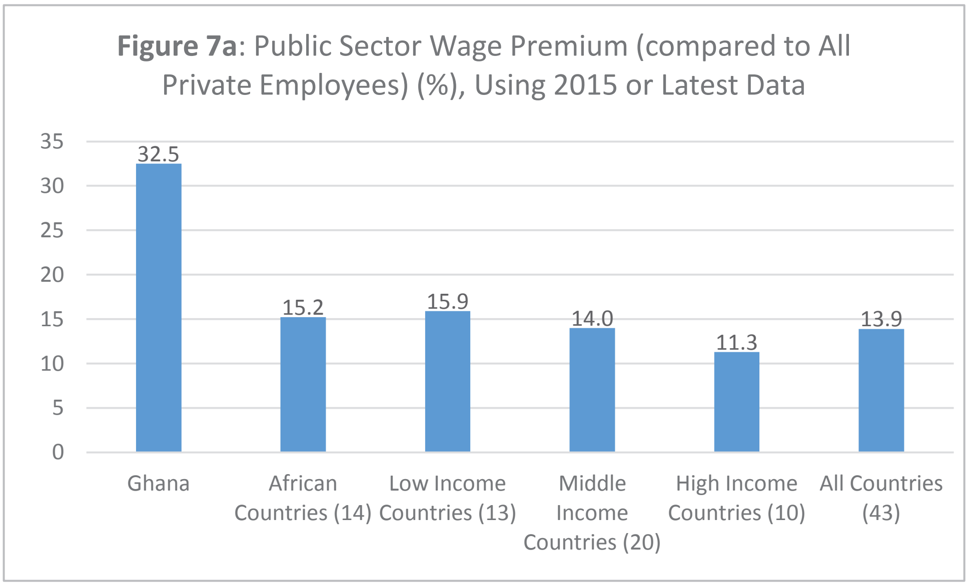
Figure 6: Public Employment as Shares of Paid and Total Employment (%), 2015 or Latest Data



5.2 Is the High Compensation Bill Ratio Driven by the Level of Public Sector Wages[13]?

To determine how high a country's level of public sector wages are, compared to those of other countries, researchers usually first ascertain the size of public sector wage premium (or discount) relative to the domestic private sector, and compare the premium/discount to those of other countries, particularly peer ones. Thus, excess labor cost to the government above domestic opportunity cost is compared to those of other countries. By doing this, the relative strengths of domestic economies are taken into consideration. This is because the level of private sector wages, which are normally determined by market forces, reflect the wage shouldering strength of the domestic economy in each country.

We use two types of public sector wage premiums for our analysis[14]: (1) public sector wage premium (compared to all private employees), and (2) public sector wage premium (compared to formal wage employees). Figures 7a and 7b show Ghana's public sector wage premiums relative to averages for different country groups. We can see from Figure 7a that Ghana's public sector employees enjoy a premium of as high as 32.5%, compared to all private sector employees. This is more than double the averages for all the country groups. For instance, averages for African countries and middle income countries with data for this variable in our sample stand at 15.2% and 14.0% respectively.



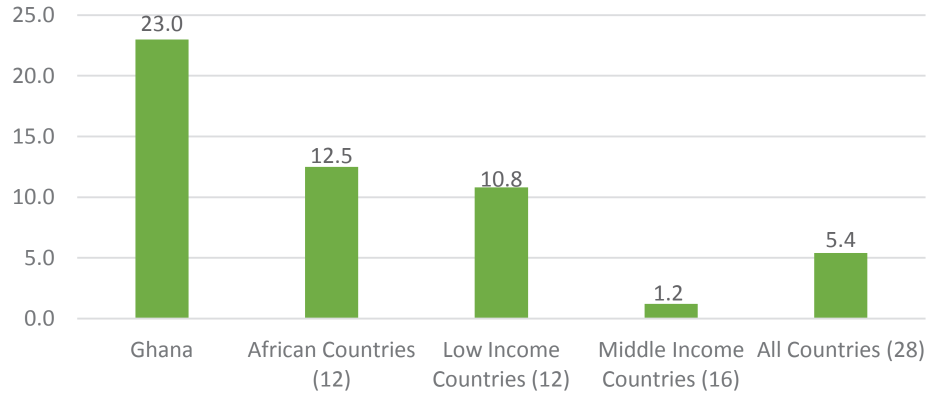
We can also see from Figure 7b that public sector employees in Ghana enjoy as much as 23.0% premium, compared to formal wage employees. Average for African countries with data for this variable in the sample stands at 12.5%. For middle income countries with data for this variable in the sample, the average stands at as low as 1.2%. Average for all countries[15] with data for this variable in the sample also stand at only 5.4%.

[13] Wages here stands for compensation/remuneration in general. It thus represents wages, salaries, allowances and other benefits accruing to public sector employees.

[14] For public sector wage premiums by levels of education, see Appendix 3.

[15] High income countries have been excluded from Figure 6b because only two of them have data for this variable in the sample.

Figure 7b: Public Sector Wage Premium (compared to formal wage employees) (%), Using 2015 or Latest Data



It can therefore be concluded that Ghana's high compensation bill ratio, compared to both its peer and non-peer countries, as we saw in Section 3, is the result of high levels of wages paid to public sector employees in relative terms[16], and not because public sector employees in Ghana are too many in number.

5.3 Does Ghana Have a Better Educated Workforce in the Public Sector than Other Countries in Relative Terms?

Let us now ascertain if Ghana's substantially high public sector wage premium relative to its peer and non-peer countries is because it has comparatively better educated workforce in the public sector. We use the *proportion of total employees with tertiary education working in the public sector* as the measure of how educated and trained public sector workforce of a country is. Table 8 shows where Ghana stands, compared to different country groups. We can see from the table that Ghana has 40.3% as the proportion of total employees with tertiary education working in the public sector. Although this ratio is 2.7 percentage points higher than the average for middle income countries, it is 2.0 percentage points lower than the average for African countries. Ghana's ratio is only 0.3 percentage points higher than the average for low income countries. We can therefore conclude that the educational attainments of public sector employees in Ghana are not significantly different from the country's peer and non-peer countries in relative terms. Public sector wage premium that has been found to be substantially higher in Ghana than in peer and non-peer countries, on average, cannot therefore be attributed to the educational attainment or quality of labor force in the country's public sector.

[16] *That is, relative to the strengths of the domestic economy of Ghana and those of other countries.*

Table 8: The proportion of Total Employees with Tertiary Education Working in the Public Sector: Ghana's Compared with Averages for Different Country Groups, 2015 or Latest Data

Country/Country Group	*Proportion of Total Employees With Tertiary Education Working in the Public Sector (%)*
Ghana	40.3
African Countries (14)	42.3
Low Income Countries (14)	40.0
Mid. Income Countries (20)	37.6
Low and Mid. Income Countries (34)	38.6

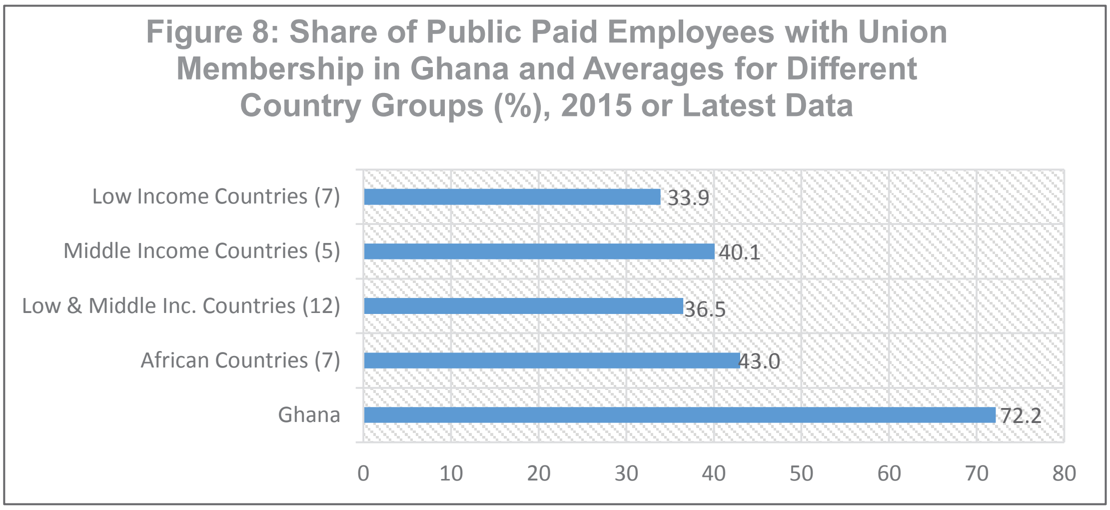
Note *: For list of individual countries and their proportions, see appendix 2*
Source of Data *: Worldwide Bureaucracy Indicators (WWBI), World Bank (Updated in Dec. 2018)*

5.4 What then are the Causes of the Comparatively High Levels of Public Sector Wages in Ghana?

I. ***The Power of Public Sector Employees, Resulting from High Degree of Unionization:*** An important reason why wages in Ghana's public sector are comparatively very high is that, as we saw in Section 2, public sector employees in Ghana have long been very strong and powerful in pushing the government to fulfil their demands for higher wages through strikes and other forms of agitations. This often happens despite the fact that the financial position of the government may be weak. As an example, it was the result of power and strength expressed through strikes and demonstrations that made the Mills-Odoi Commission, appointed by the NLC in 1967, recommend increase in wages and salaries, which the government accepted, even though the Commission had argued that increase in wages and salaries would create further pressure on the already precarious budget. It was also because of enormous pressure exerted by public sector employees that, in the middle of serious fiscal crisis, the Liman government tripled the minimum wage. Again, despite recognizing the high cost associated with the Single Spine Pay Policy (SSPP) bequeathed to it, and in the middle of serious fiscal difficulties, the Mills government implemented the new pay policy due to strong pressure from public sector employees, etc.

The question is, why are public sector employees in Ghana so strong and powerful? The answer is that they are highly unionized compared with their counterparts in other countries. This makes them behave like cartels, and are thus able to exert a great deal of power and influence over wages. Using the share of public sector employees with union membership as the measure of the degree of unionization in the public sector, Figure 8 demonstrates this fact.

We can see from the Figure that the share of public sector paid employees with union membership in Ghana, which stands at as high as 72.2%, is substantially larger than averages for all the country groups[17].



II. ***Electoral Interests of the Government Getting in the Way of Economic Issues:*** Public sector employee unions' agitations for higher wages succeed with relative ease in Ghana not only because they are strong and powerful as explained above, but also because the government of Ghana often makes its electoral interests get in the way of its economic interests. As discussed in Section 2, unresolved wage disputes between the government and public sector workers, which create tensions and spark series of strikes, tend to undermine the chances of ruling governments at the polls. This, again, is not only because public sector workers and their families constitute a large voting constituency but also because the voting public in general tend to judge, based on the tensional industrial relations climate in the public sector, that the ruling government is incapable of effectively steering the affairs of the country. Because of these, opposition groups in the country are quick to take advantage of these wage disputes to undermine the ruling governments for electoral gains by promising to increase public sector wages when voted into power, irrespective of whether the demands/agitations for wage increases are economically justifiable or not. For these reasons, ruling governments tend to easily give in to wage demands by public sector workers, especially during election years, even though the demands may not be economically justifiable. As a clear example, electoral interest of the Rawlings government played a significant role in making it increase wages to the extent that the compensation bill started to grow faster than total revenue and grants when the country entered the Fourth Republic, even though the same Rawlings government had succeeded in keeping the growth rate of the compensation bill below that of total revenue and grants when it was a military government with no electoral interests.

[17] *Although data on this variable are available for only a few countries in our sample space (12 of them), the strong positive causal relationship between the degree of unionization and the level of public sector wages cannot be denied. For example, it is Tanzania alone whose public sector has greater degree of unionization than Ghana (72.8% VS 72.2%). We can, therefore, see from Appendix 2 that Tanzania has greater public sector wage premium (compared with formal employees) than Ghana.*

III. Overreliance on the Use of General Wage Increases to Induce Efficiency and Productivity in the Public Sector: Another reason why public sector wages are higher in Ghana than most of its peer and non-peer countries in relative terms is that the government over-relies on general increases in wages in order to induce efficiency and productivity in the public sector, given the fact that productivity is reported to be very low in Ghana in general (See, for instance, Research Department, Bank of Ghana, 2007) and in the public sector in particular. As an example, in the 2004 Budget Statement, the government argued: "As part of public sector reforms, the government aimed at improving the conditions of public service employment in order to ensure that it can:

1. *hire and retain highest caliber of people who would render loyal and conscientious services;*
2. *bring government much higher standards of efficiency and effectiveness; and*
3. *ensure that state support for its citizens is delivered with highest degree of professionalism."*

Also, according to the government's White Paper on the Single Spine Pay Policy (2009), productivity improvement was one of the main rationale for the Single Spine Pay Policy. In fact, in Paragraph 857 of the 2018 Budget Statement, the government stated that it was going to "review the pay policy [the Single Spine Pay Policy] to see *if it has achieved its objective to* ***pay wages that can attract and retain staff and increase productivity in the public service."***

IV. ***Constant Obsession with the Elimination of Wage Disparities in Ghana's Public Sector, Leading to Wage Increases:*** Labor is one of the most non- uniform factors of production because human capital of individuals differs. This is not only because of differences in education and training but also because of differences in natural abilities or talents, which naturally lead to differences in productivity and thus wages. At the same time, due to market conditions, special job requirements, job related risks, locational differences, etc., employers may have to pay different wages in order to have access to the requisite labor. For these reasons, wage differentials or disparities are bound to happen, even for people with the same level of education and training or in absence of labor unions. It is labor mobility that helps to minimize wage differentials in the labor market. Administrative efforts to get rid of wage differentials may therefore create distortions in the labor market because of difficulty in (1) assessing the true values and productivities of different labor units, and (2) addressing supply and demand pressures administratively. Even if administrative efforts succeed, the success may only last for a short time because forces that usually drag the differentials are natural and quite powerful. The continuous recurrence of wage disparities in Ghana's public sector despite having engaged numerous committees, commissions and private consultants over the years to get rid of the disparities bears testimony to this economic fact. In fact, like all the previous pay reviews and reforms, one of the main rationale that necessitated the reforms under the Single Spine Pay

Policy (SSPP), according to the government's white paper, was "pay disparities that have emerged within the public sector." However, in less than a decade after instituting the new pay reforms, public sector abor unions have begun to call for yet another reform to again get rid of disparities in the public sector pay structure. For instance, on April 30, 2019, Mr. Solomon Kotei, the General Secretary of the Industrial and Commercial Workers' Union (ICU), was reported by the Business Insider to have called for a review of the Single Spine Salary Structure to "make provision for non-discriminatory and fair employee compensation". By this, the General Secretary meant that disparities still exist or have reappeared in the new pay structure despite the reform.

Clearly, the constant obsession with the elimination of wage disparities in Ghana's public sector and the frequent reforms it brings, which always lead to wage increases because of the movement of certain categories of public sector workers onto higher pay scale, is a significant contributing factor to the substantially high public sector wage premiums (compared with private sector wages) relative to most other countries, causing the comparatively high compensation bill ratio in Ghana.

V. ***Lack of Clear Separation between Government of Ghana's Social Welfare Policy and Public Sector Pay Policy:*** As employers, governments are concerned about how to minimize cost of governance and service delivery, subject to efficiency and productivity requirements. Governments, therefore, normally pay competitive wages to serve as a means to attract and retain quality and dedicated staff. This is the scope of public sector pay policy. In fact, cost minimization in governance is needed to ensure that governments do not become highly indebted and thus become weak and vulnerable to internal and external manipulations, which could make them serve special rather than national interests, thereby undermining national development. Social welfare policies of governments, on the other hand, are pursued with different sets of instruments, such as income redistribution, broad- based economic growth, rural development, income support, poverty alleviation, etc.

In Ghana, the government often marries its social welfare objectives and public sector pay policy. Thus, the government of Ghana often behaves as if its immediate concern as an employer is to maximize the socioeconomic wellbeing of public sector employees by paying them as high wages as possible. For instance, in the Government White Paper on the Single Spine Pay Policy, the government acknowledges this as follows: "Over the years, pay reforms and reviews have been undertaken by past governments with the goal of improving Public Services salaries and managing the recurring canker of disparities and inequalities in the Pay Administration System." If improving public services salaries serves as one of the two main goals of the numerous pay reforms and reviews over the years, should one wonder why public sector wage premium, relative to private sector wages, is substantially larger in Ghana than in most other countries, which has driven Ghana's compensation bill ratio to be much higher than most peer and non-peer countries?

VI. ***Wrong Signal from the Political/Governing Class, which Stimulates Wage Agitations:*** Many times, public sector employees in Ghana agitate for higher wages despite fiscal/financial difficulties the country may be going through because the political and governing class, by their behavior with money, send the wrong signal. Thus, often, public sector employees and their unions tend to be unconvinced that economic and financial conditions of the country do not permit significant wage increases when they see the governing class enjoy good compensation and benefit packages or spend monies luxuriously. For instance, the slogan '*Monkey De Work, Baboon De Chop'*, used by striking public sector workers during the Second Republic meant that they (the workers) did the hard work but the governing class enjoyed the benefits. This slogan was in reference to the Mercedes 280s the PP leader drove, the law permitting judges to retire on full salary, etc. as pointed out in Section 2. Even though the PP Government refused to increase workers' compensation, the National Redemption Council, which overthrew the PP Government, quickly increased the compensation to placate workers. In the Fourth Republic, public sector employees see the huge sums of monies spent on large convoys when some members of the political class travel. They also see the 'I-scratch-your-back-you-scratch-mine' attitudes of Parliament and the Executives when it comes to deciding on emoluments for Article 71 office holders. What about the expensive party offices and campaigns the political class are able to afford during elections when in power? Clearly, these explicitly and implicitly serve as incentives and stimuli for strong agitations for higher wages, which the government usually cannot help but to respond positively to, thereby contributing significantly to the comparatively high public sector wages and thus the large compensation bill.

6.0 Recommendations

We have found in this paper that the size of Ghana's compensation bill ratio is out of the ordinary, since it exceeds the averages for the country's peer African and middle-income countries by substantially large margins. It is also among the highest in the world. We have also understood that the large size of the country's compensation bill has serious negative implications for the fiscal deficit, debt buildups, macroeconomic stability, public investment, and growth and development of the country's economy. To reduce the size of the fiscal deficit, minimize debt buildups and thus growth in debt service costs, improve public investments and thus productivity in the sectors of the economy, and help accelerate growth and development of the Ghanaian economy, we make the following recommendations.

A. General Recommendations

1. *Reduce the Size of the Compensation Bill Ratio to Match International Standards:*

   Efforts should be made to reduce the size of the compensation bill ratio to match international standards. By this, we mean that deliberate efforts should be made to ensure that Ghana's compensation bill ratio falls in line with peer countries' average.

This should be achieved over a given period of time in order to minimize the impact on public sector workers. Over the length of this period, say 3 to 5 years, the government should ensure that the growth rate of total revenue and grants exceeds that of the compensation bill so that gradually, the compensation bill ratio will get to the required ratio. The realized savings from the reduction in the compensation bill ratio should be put into effective use, such as expanding public investments to accelerate economic growth and development, which will end up benefiting public sector employees as well as the entire citizenry.

B. Specific Recommendations

Since the size of Ghana's compensation bill ratio has been found to be driven by the level of wages paid in the public sector, specific steps should be taken to tackle the factors that have been identified to influence the growth of public sector wages in Ghana, namely: the power of public sector labor unions; the government's electoral interests frequently getting in the way of economic issues; the frequent use of general wage increases to induce efficiency and productivity in the public sector; the constant obsession with the elimination of wage disparities in the public sector, which brings about frequent wage increases; lack of separation between the government's social welfare policy and its public sector pay policy; and wrong signal from the political/governing class, which stimulates wage agitations and thus wage increases.

We, therefore, recommend the following specific measures:

2. *Set a Maximum Limit for the Compensation Bill Ratio in Order to Keep the Power of the Labor Unions and the Weakness of the Government in Check:*

As a matter of national policy, a maximum limit should be set for Ghana's compensation bill ratio. Given the weakness of the government due to its electoral interests, which is partly influenced by the willingness of opposition groups in Ghana to use public sector wage disputes to undermine ruling governments, the maximum limit is needed to ensure that public sector employees are unable to use the power of their unions to continue to push wages upwards at fast rates. When set and made a national policy, the government and the labor unions would have no choice but to work within the limit. It would therefore ensure that the compensation bill ratio does not increase to pose fiscal and macroeconomic difficulties for the country. Logically, the limit should be set in line with recommendation (1) above. To make it truly a national policy, the setting of the limit should not be an imposition by the government. It should rather be set through a consultative process with public sector labor unions and other stakeholders. History tells us that compensation related decisions imposed on public sector employees usually do not succeed because of the power of the unions, which even military governments find it difficult to break. However, the unions are pragmatic, and can thus be counted on to contribute their appropriate share of national development, when facts about national economic interest are laid bare in truth and honesty.

3. Use Performance Related Pay, Rather than General Wage Increases, to Induce Productivity in the Public Sector:

   Despite the frequent use of general wage increases with the goal of inducing productivity and efficiency in the public sector, not much evidence exists to show that the needed efficiency and productivity gains have been achieved. In fact, the government has complained, over the years, that increases in public sector wages do not generate the needed efficiency and productivity gains. As an example, in a speech delivered on May 1, 2019, President Akufo-Addo argued: "Salaries and conditions of service have been improved for many, and we have not seen the equivalent improvement in the quality of the work they do."

   To ensure success in this regard, the government has to switch to the use of performance related pay (PRP) policy. PRP is defined as: "enabling pay to differ for workers doing the same job by linking a portion of pay to the achievement of performance targets" (World Bank, 2014). It is important to point out that studies show that PRP works better when output can easily be measured. This policy can help Ghana achieve the efficiency and productivity gains in the public sector as several countries, including Brazil, Chile, Korea, Malaysia, the Philippines, Thailand, etc., have been found to have used the policy to achieve. For instance, World Bank (2014) writes: "In *Brazil, especially in the state of Minas Gerais, the PRP scheme led to higher productivity in the police and revenue authority, as measured by weapons seizures, number of police operations, and revenue collections. Notably, the performance targets for the revenue authority evolved as frontline managers became aware of the perverse incentives that a myopic focus on only revenue collection could generate ..."* In fact, PRP works because it (1) improves the behavior and quality of output of individual employees due to the financial incentives involved, and (2) leads to effective management due to strong monitoring and evaluation standards it requires, which in turn improves employee behavior and output. And, unlike general wage increases, the use of performance related pay as an efficiency and productivity inducement strategy does not lead to sharp rises in the compensation bill.

4. *Since Wage Differentials/Disparities are Bound to Happen, What are Needed are Better Career Planning and Incentives for Skills Upgrades, Retraining and Furtherance of Education:*

Although efforts should be made to get rid of clear cases of wage discrimination based on, say, tribe, religion, sex or even unnecessary influences from segments of public sector employees, the government and public sector employees should understand that wage differentials/disparities in the public sector are bound to happen for reasons listed in point IV under Subsection 5.4. Workers should therefore have a better career planning at the beginning in order to have the desired compensation or job satisfaction that meets their expectations. Even in the middle of a career, faster movement onto higher grades in the same career or movement on to an entirely new career can be pursued through skills upgrading, retraining, or furtherance of education. To facilitate these, the government should provide well-structured and affordable incentive packages. As was pointed out in the previous section, these labor mobility measures are the surest ways to minimize wage differentials in a market economy while ensuring economic efficiency and productivity at the same time. Again, administrative measures may create economic distortions. Even if some success is achieved, it is usually short- lived, as the history we recounted in Section 2 clearly tells us.

5. *Separate Public Sector Pay Policy from Social Welfare Policy of the Government:*

The government should separate public sector pay policy from its social welfare policy. Cost minimization, constrained by the ability to attract and maintain qualified and dedicated personnel, should be central to the government's public sector pay policy. Simply put, what is required of the government as an employer is to pay competitive wages in order to prevent public sector employees from moving to the private sector. Perhaps, a small premium above private sector wages, serving as a means to ensure stronger employee loyalty may not be a problem. However, a situation where the government sees increasing public sector wages as a main goal of its pay reforms, as pointed out in the previous section, is simply not the right thing to do. Social welfare issues should be handled from different perspectives, again using measures such as income redistribution, accelerated and broad-based economic growth, rural infrastructure, etc.

6. *The Political and Governing Class Should Display Economic Modesty to Serve as a Positive Example to Public Sector Employees:*

Public sector employees and their unions cannot be convinced to accept the reforms we have proposed here to rightsize the compensation bill ratio so as to ensure a better performance of the economy if the political and governing class, who are in the driver's seat, do not display appropriate signs of economic modesty in terms of the benefits they enjoy and their luxurious spending patterns. This is what the country's economic history reveals. Indeed, economic modesty on the part of the political and governing class will send a powerful and positive message to public sector labor unions that they (the political class) are prepared to change the economic course of the country for the better and that the labor unions must join in.

C. Other Recommendations

7. *Maintain the Restrictions on Employment into the Public Sector:*

The restrictions placed on public sector hiring over the years have helped to keep the size of public sector employment moderate, making public sector employment as a share of paid employment, for instance, not significantly different from averages for different country groups (see Table 7 and Figure 6). In fact, without the hiring restrictions, the problems with the country's compensation bill would have compounded. We therefore recommend that, of course allowing for staff replacement, the hiring restrictions should be maintained, at least till when the country is able to get the compensation bill ratio to reduce to a desired level, and the maximum limit discussed above is fully instituted.

8. *The Single Spine Salary Structure (SSSS) should be simplified:* The SSSS should be simplified in such a way that it becomes a genuine single spine onto which all occupational grades are linked, rather than its current form as a single grade structure.[18] This will ensure complete centralization of wage negotiations, thereby rendering negotiations by different public sector occupations redundant. In this case, when salary adjustments are made to the spine, it would automatically reflect in the salary grades of all the public sector occupations.

7.0 Conclusion

We have comprehensively studied in this paper Ghana's public sector compensation bill. First, we discussed the historical developments in compensation-related agitations and strikes by public sector employees and how the government responded to them over the years. We then considered the various policy measures the government adopted to try to shape the growth and size of the compensation bill, seeing that the bill kept on swelling.

To ascertain the true magnitude of the problem the country faces with respect to the compensation bill, we carried out trend and comparative analyses of the compensation bill. We found that the country's compensation bill, both as nominal values and as a ratio of total revenue and grants, has grown sharply since the country entered the Fourth Republic. We also found that the country's compensation bill as a ratio of government expenditures is out of the ordinary, since it is among the highest in the word. It also exceeds peer and non-peer countries' averages by substantially large margins. Seeing this, we analyzed the fiscal and macroeconomic implications of the compensation bill. We found that the high compensation bill has serious negative implications for the fiscal deficit, debt buildups, macroeconomic stability, public investments and growth and development of the country's economy.

To enable us provide the appropriate recommendations to help the government rightsize the compensation bill in order to improve the country's fiscal and macroeconomic performance, we first identified the main drivers and causes of the large compensation bill. We found that wage levels in the country's public sector, rather than the size of employment in the sector, are the main driver of the compensation bill. Seeing this, we proceeded to find

[18] See World Bank (2010), Ghana's New Approach to Public Sector Reform: Focusing on Delivery, Public Sector Performance Global Expert Team, Led by Nick Manning.

out whether public sector wages are comparatively higher in Ghana because the country has more educated workforce in the sector, compared with other countries, or not. Evidence showed that that is not the case. We found that the comparatively high level of public sector wages is caused by a number of factors, which include the power of the public sector labor unions; the weakness of the government due to its electoral interests; overreliance on wage increases to induce efficiency and productivity in the public sector; constant obsession with the elimination of wage disparities in the public sector, which always leads to wage increases; lack of clear separation between public sector pay policy and the government's social welfare policy; and wrong signal from the political and governing class in terms of how they spend state resources, which stimulates wage agitations.

Based on these findings, we have recommended that the government should: allow the compensation bill ratio to reduce to match peer countries' average, allowing about 3 to 5 years to achieve this in order to minimize the impact on public sector employees; set a maximum limit for the compensation bill ratio in order to keep the power of the unions and the weakness of the government in check; use performance related pay, rather than general wage increases, to induce productivity in the public sector; provide affordable incentives for skills upgrades, retraining and furtherance of education to enhance labor mobility onto higher pay scales rather than frequently using administrative measures to remove wage differentials in the public sector, which always lead to wage increases; separate public sector pay policy from social welfare policy; be modest in its use of national resources as a way of sending proper signal to public sector employees, etc.

Appendices

Appendix 1 : List of Countries and their Compensation Bills as ratios of Government Expenditures, 2015 or Most Recent Data

	Country	Compensation Bill to Public Expenditure Ratio (%)
	Low Income Countries - 17 in number	
1	Bangladesh	12.7
2	Benin (A)	30.0
3	Burkina Faso (A)	27.8
4	Cambodia	22.7
5	Congo, Dem. Rep. (A)	31.2
6	Ethiopia (A)	33.7
7	Gambia, the (A)	18.8
8	Guinea (A)	17.0
9	Liberia (A)	29.5
10	Madagascar (A)	39.9
11	Malawi (A)	25.1
12	Mozambique (A)	31.2
13	Niger (A)	16.8
14	Rwanda (A)	13.3
15	Sierra Leone (A)	33.9
16	Tanzania (A)	30.5
17	Uganda (A)	19.8
	Middle Income Countries – 28 in number	
18	Albania	18.5
19	Angola (A)	25.0
20	Argentina	30.9
21	Brazil	23.1
22	Cameroon (A)	23.3
23	Costa Rica	39.4
24	Djibouti (A)	18.5
25	Dominican Rep.	22.7
26	Ecuador	21.2
27	Egypt, Arab Rep. (A)	24.2
28	El Salvador	29.5
29	Georgia	18.1

30	**Ghana (A)**	**36.3**
31	Honduras	38.6
32	Jordan	13.8
33	Kosovo	32.9
34	Mauritania (A)	23.0
35	Mexico	21.7
36	Moldova	22.8
37	Panama	21.6
38	Paraguay	49.9
39	Peru	26.5
40	Philippines	26.2
41	Romania	23.7
42	Serbia	23.5
43	Tajikistan	23.7
44	Ukraine	23.8
45	Zambia (A)	34.1
	High Income Countries -11 in Numbers	
46	Chile	24.8
47	Estonia	27.9
48	Finland	25.0
49	Germany	17.6
50	Greece	24.5
51	Italy	19.7
52	Luxemburg	19.6
53	Slovenia	27.8
54	United Kingdom	22.7
55	United States	26.0
56	Uruguay	16.2

Source of Data: Worldwide Bureaucracy Indicators (WWBI), The World Bank, Updated Dec. 3, 2018

Note: (A) indicates that the country is an African country. There are 22 African countries in the sample.

Appendix 2: List of Countries and their Raw Data on Variables Indicated in Each Column, 2015 or most recent data.

Note: Data from this Appendix Table were used to generate Table 8, Figure 6, Figure 7a, Figure 7b, Figure 8, and Table 9 in the Text.

Country	Public Sector Employment As a Share of Paid Employment *(For Table 8 and Figure 6)*	Public Sector Employment As a Share of Total Employment *(For Table 8 and Figure 6)*	Public Sector Wage Premium (Compared with All Private Employees) *(For Figure 7a)*	Public Sector Wage Premium (Compared with Formal Wage Employees) *(For Figure 7b)*	Share of Public Paid Employees with Union Membership *(For Figure 8)*	Proportion of Total Employees With Tertiary Education Working in the Public Sector *(For Table 9)*
Low Income Countries						
Bangladesh	0.1109	0.042	0.1148	0.0289	..	0.2247
Benin (A)	0.2823	0.0328	0.2872	0.1042	0.2938	0.3764
Burkina Faso (A)	0.2955	0.0356	0.1742	-0.00719	0.251	0.49
Cambodia	0.166	0.0765	..	..	0.0811	0.5187
Congo, Dem. Rep. (A)	0.366	0.0605	-0.1547	-0.2877	..	0.2769
Ethiopia (A)	0.373	0.0437	0.0923	..	..	0.5926
Gambia, the (A)	0.074	0.0265	0.085	0.1032	..	0.0401
Guinea (A)	0.398	0.0377	..	..	..	..
Liberia (A)	0.3841	0.074	0.4149	0.3364	..	0.4127
Madagascar (A)	0.1933	0.0255	0.2041	0.1871	0.3857	0.2323
Malawi (A)	0.1692	0.063	-0.0862	0.1175	0.296	0.5703
Mozambique (A)	0.2548	0.0354	0.3051	0.1036	..	0.4948
Niger (A)	0.3771	0.0198	..	..	..	..
Rwanda (A)	0.1035	0.0278	0.3014	-0.0192	..	0.455
Sierra Leone (A)	0.3959	0.0425	..	..	..	..
Tanzania (A)	..	0.0426	0.2956	0.2956	0.7275	0.5664
Uganda (A)	0.141	0.032	0.0298	0.3363	0.3358	0.3481
Middle Income Countries						
Albania	0.3566	0.1996	0.0107	-0.033	..	0.5464
Angola (A)	0.2197	0.0801	..	..	..	..
Argentina	0.2356	0.1772	0.2003	0.0388	..	0.3067
Brazil	0.1783	0.1212	0.1596	0.0916	0.287	0.3071
Cameroon (A)	0.2225	0.0451	..	..	..	..
Costa Rica	0.1621	0.1231	0.4608	0.2686	0.2798	0.3214
Djibouti (A)	0.5826	0.4596	..	..	..	..
Dominican Rep.	0.2055	0.111	-0.0125	-0.1315	..	0.2297
Ecuador	0.1661	0.0947	0.3917	0.3327	..	0.3081
Egypt, Arab Rep. (A)	0.4088	0.2543	-0.1500	..	..	..
El Salvador	..	..	..	..	..	..
Georgia	0.3772	0.1425	0.0642	0.0611	..	0.3149
Ghana (A)	***0.26***	***0.0573***	***0.3248***	***0.2299***	***0.7217***	***0.4027***
Honduras	0.131	0.0674	0.2623	0.0384	0.1803	0.288
Jordan	0.2582	0.2319	0.2726	..	..	0.3815
Kosovo	0.4598	0.3074	0.0657	0.0044	..	0.5712

Mauritania (A)	0.5292	0.142	..	..	..	0.6673
Mexico	0.1461	0.0992	0.2941	0.0679	..	0.2752
Moldova	0.4707	0.3029	-0.4108	-0.4338	0.5363	0.459
Panama	0.2264	0.1541	0.2393	-0.0395	..	0.3267
Paraguay	0.2073	0.095	0.1915	0.075	..	0.3226
Peru	0.1889	0.0845	0.0818	-0.1372	..	0.2231
Philippines	0.1377	0.0787	0.3713	..	..	0.2141
Romania	0.1632	0.1012	..	..	..	.. 56
Serbia	0.4236	0.2957	..	..	..	..
Tajikistan	0.3811	0.2946	0.022	-0.2384	..	0.6046
Ukraine	0.416	0.3867	-0.0422	..	..	0.4611
Zambia (A)	0.4071	0.0879	..	..	..	..
High Income Countries				..		
Chile	0.1269	0.094	0.1122	0.0852	..	0.1775
Estonia	0.2879	0.2562	-0.0100	..	..	..
Finland	0.377	0.3056	-0.07	..	..	..
Germany	0.2677	0.2242	0.2200	..	..	..
Greece	0.3391	0.2060	0.2000	..	..	..
Italy	0.1839	0.1491	0.1000	..	..	..
Luxemburg	0.14997	0.1382	0.3800	..	..	..
Slovenia	0.3266	0.2778	..	..	..	..
United Kingdom	0.2883	0.2451	0.0100	..	..	..
United States	0.2317	0.2087	-0.0400	..	..	..
Uruguay	0.2037	0.1488	0.2280	0.1779	..	0.3174

Source: Worldwide Bureaucracy Indicators, World Bank (Updated in December 2018)

Appendix 3: Public Sector Wage Premium (over the Private Sector) by Level of Education
-- Ghana's VS. Averages for Different Country Groups.

Country/Country Group	*Primary Education (%)*	*Secondary Education (%)*	*Tertiary Education (%)*
Ghana	-3.7	26.1	27.2
African Countries (11)	12.1	17.3	-7.8
Low Income Count. (11)	15.4	15.8	-10.6
Mid. Income Count. (9)	-1.0	0.6	-2.0
Low and Mid. Income Count. (20)	8.0	9.0	-6.7

Note: The data show that Ghana's public sector wage premium increases as the level of education increases. This is generally not the case for other countries.

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