The State After
Communism

Administrative Transitions in Central and Eastern Europe
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WORLD BANK
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The State After
Communism
Administrative Transitions
in Central and Eastern Europe

BARBARA NUNBERG
WITH CONTRIBUTIONS BY
LUCA BARBONE
HANS-ULRICH DERLIEN

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Barbara Nunberg is Principal Public Management Specialist, Public Sector Group, World Bank. Luca Barbone is Sector Manager, Central Africa and Indian Ocean, World Bank. Hans-Ulrich Derlien is a Professor-Doctor at the University of Bamberg, Bamberg, Germany.

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Preface

Following the heady days when one communist regime after another was toppled in Central and Eastern Europe, international support—from the World Bank as well as other sources—was mobilized to help guide the region's journey toward the free market. These efforts gave high priority to macroeconomic stabilization and privatization, driven by an implicit model of a state that, while perhaps not fully "withered," as Marx had predicted, was nonetheless minimalist and hands-off in character. But, as experience with the economic reform agenda began to accumulate, the centrality of the state's role in helping to formulate and implement reform grew increasingly evident. With this recognition of the importance of government institutions to the transition, attention began to turn toward public administration questions. How could the state apparatus be harnessed to help make the transition a success? Also, in countries where significant numbers of personnel held over from the previous era might try to sabotage the new regime, how could the state sector be prevented from undermining reform achievements?

In the World Bank, a public management unit was formed in the mid-1990s to provide support and advice to countries and Bank staff on public administration issues in Eastern Europe and Central Asia. For a political scientist, the chance to work on the task of "state creation" upon the ruins of communist bureaucracies had an irresistible appeal. Along with colleagues who had worked on public management and governance in different parts of the world, I joined this new venture in its initial phase, confident that we were embarking on an experiment of an unprecedented nature, one whose goal was to help re-invent government essentially from scratch. It took very little time and contact with CEE governments, however, to see how deluded this presumption of a tabula rasa was. Complex institutions and behaviors,
both new and old, were firmly in place, with significant variations in each

country. Changes in the business of government would likely be a function of

adapting, incorporating, and, if necessary and possible, rupturing these ex-

isting patterns.

It seemed crucial, at the outset, to try to get a clear view of the present

bureaucratic order, so as to be able to offer policy advice and propose sup-

port for programs that could strengthen the administrative capacity of re-

forming governments. One problem, however, was that surprisingly little was

known empirically about these issues. While public administration, compara-

tive bureaucracy, and public management literatures based on careful obser-

vation and field work were well developed for other geographical areas, most

institutional analysis of CEE under communism carried out by social scien-

tists had emphasized questions of national security and international rela-

tions. Later, in the post-communist period, many of the inherited Soviet-era

structures had already begun to change, so an accurate, up-to-date picture of

recent CEE administration on the ground was needed.

The work that is the basis for the present volume began as a response to

this perceived need. The studies brought together here reflect a blend of analy-

sis carried out in direct connection with Bank lending operations together

with work undertaken as part of a "regional initiative" launched by the

EMTPM (Europe and Middle East Technical Public Management) Unit. This

initiative was intended to supply the basis for a broader Bank strategy on

administrative reform in CEE, as well as to provide lessons for potential fu-

ture reformers in the Former Soviet Union. Thus, Hungary and Poland—two

fairly advanced cases—were paired with Russia and Romania—the former

an important but troubling case and the latter a somewhat intransigent one—
to show how the course of reforms was progressing differently in different

parts of the region. Eastern Germany was added because of the lessons it

might offer for would-be reformers in other countries, even those with much

more limited resources. The focus was on the three top items on these coun-

tries’ administrative agendas: restructuring the machinery of government;

reforming government pay and employment practice; and developing a po-

litically neutral, professionalized civil service. In addressing these areas of

state reform, this book can perhaps help ground the debate about the CEE

state in real and palpable structures, processes, and people. As such, it may

be of interest in academic circles where the nature of the post-communist

state is very much under discussion. But, first and foremost, the volume is

intended as a potential tool for policy makers inside and outside the public

sphere who are trying to craft a new model of government for the transition

and beyond.
The empirical investigation that provided the basis for the pieces brought together here was the product of a collaborative effort. The important contribution of Hans-Ulrich Derlien, Professor at University of Bamberg, can be seen in his chapter on the former GDR at the close of this volume. In addition, Luca Barbone collaborated on field research and co-authored the Poland chapter. Research support was provided throughout by Karen Lado, whose exceptional intellectual and organizational contribution was critical to the successful completion of the task. Excellent background papers for the work on Hungary were provided by Stephen Benko, Robert Beschel, Peter Gregory, and Karen Lado during a World Bank mission to Budapest. On a separate trip to Bucharest, Geoffrey Lamb led the mission and he and Jacques Magnet each provided key inputs. Philippe LeHouerou and Elana Gold supplied essential analysis on Russia. The research was supported by the Europe and Middle East Technical Department’s Public Management Unit, headed first by Geoffrey Lamb and later by Salvatore Schiavo-Campo, both of whom provided support and encouragement for the work. On the latter’s watch, a joint EMTPM and Economic Development Institute workshop on the regional initiative was conducted in Salzburg, where invaluable comments and feedback from scholars, practitioners, and government officials involved in these issues in the CEE countries were garnered and gratefully incorporated into successive draft versions of the manuscript. As manager of ECSPE, Sanjay Pradhan continued support for the work. Support was also provided by the former Labor Markets Group of the Poverty and Social Policy Department, which, under the leadership of Ishrat Husain and Jane Armitage, allowed me time to complete the research and enabled me to take up a visiting fellowship at the Harvard Institute for International Development to work on the manuscript. I am grateful to Jeffrey Sachs, Director of HIID, for generously extending the institute’s facilities to me over several months and giving me the chance to interact with other fellows, faculty, and students. This was an opportunity to try to shape the manuscript into a work that would hopefully bridge the gap between the applied policy questions that drove the initial drafts and the scholarly literature that has grown up around issues of state development and bureaucratic change in Central and Eastern Europe and more broadly. Jeffrey Gross was an especially perceptive and patient editor who contributed actively to the intellectual as well as the editorial product. Vicky Viray and Lynette Alemar also did combat with ever-shifting word-processing technology to help produce the final draft.
In most of Central and Eastern Europe (CEE), the transition from socialism to the market has already entailed significant changes in the structure and nature of the state, primarily in the form of public enterprise privatization and the reorientation of many of the policies emanating from public institutions on the front lines of economic reform. While far from complete and not without serious possibilities of reversal, these reforms are, in the main, indisputably underway, and they have received substantial attention and resources. These changes have been accompanied and even, to a large extent, precipitated by the still evolving political transformation process that has been occurring in many countries of the region for the first half of the decade.

In the midst of these radical systemic changes, reforms of the core governmental apparatus itself—the public administration—have been much slower to materialize. Governments and international donors alike have proceeded haltingly to support programs to strengthen the state’s administrative capacity. This hesitation stemmed partly from the overwhelming urgency of economic reforms that crowded out what were perceived to be secondary reform agendas. It may also have been fueled by a wave of anti-statism that was both a reaction to the delegitimation of the communist state as well as a prevailing intellectual wind blowing in from influential quarters of the developed world.¹

As the transition increasingly comes to be characterized more by continuous and incremental change than by a single big bang, however, the capacity for ongoing policy formulation and program implementation—responsibilities resting largely with government—is now understood to be critical to consolidating and sustaining prior reform achievements and to promoting needed changes where they have not yet been realized. In this context, the

¹
ability of governments to transform their public administrations from centralized, party-dominated bureaucracies into modern, efficient, performance-oriented ones assumes heightened importance.

A number of CEE countries have started down the path toward administrative transformation, and reforms are at varying stages of development. This study examines the administrative reform experience of five countries in the region: Poland, Romania, Hungary, Russia, and Germany (the former German Democratic Republic—GDR). The cases were chosen on the basis of what was hypothesized to be their diverse placement along a continuum of administrative capacity and reform progress. Poland and Hungary were thought to represent more advanced administrations. Romania's state apparatus was assumed to have undergone less reform, and Russia's leadership was viewed as the least attentive to these issues. The GDR presented a unique set of lessons by virtue of its place in the overall German unification process.

The reality uncovered by the five case studies did not so much serve to confirm or overturn the initial suppositions as to nuance them. Although Hungary, for example, entered the reform process with considerable advantages and had moved quickly on the legal front, its initiatives appeared to have stalled, at least momentarily, and some early reforms had actually locked in dysfunctional mechanisms that still had to be reversed. When this chapter was all but finished, however, fiscal pressures incited movement on pay and employment rationalization, promising to re-ignite the larger administrative reform exercise. Hungary seemed to have advanced once again to a premier position on administrative reform.

In Poland, on the other hand, significant advances on the economic front and highly evolved, if fragmented, political institutions might have predicted rapid movement on administrative initiatives. But after an initial spurt of activity and real innovations in specific areas, such as public administration training, reform efforts sputtered and slowed as consensus on a civil service law proved elusive, and a post-socialist coalition took office, retreating from decisive administrative change. Then, after several years of impasse, Poland's post-socialist government suddenly pushed through a package of quite dramatic administrative and constitutional changes, fulfilling its initial promise as a reform leader.

Romania conformed more readily to the initial working hypothesis. Less political and economic change had occurred overall and, despite the installation of an embryonic reform apparatus and limited improvements in particular agencies or mechanisms, larger administrative reform initiatives had not yet been acted upon. Also, reform activities were largely under-resourced and under-staffed. Although the 1996 elections swept an opposition government into power, significant administrative change had not yet begun as of this writing.
The Russian case was most difficult to decipher, if only because the issues of government capacity were so serious that it was unthinkable that they would not be approached with a sense of urgency. But Russia’s bureaucratic transformation was, in fact, still to be addressed. Political chaos was reflected in balkanized administrative structures. Significant upper echelon staff changes notwithstanding, moreover, the basic communist era conditions of pay and employment and of administrative practice were still intact.

Finally, the former GDR made the greatest advances toward systemic administrative change. This was achieved largely through the transfer of a West German legal-political-administrative model with already demonstrated effectiveness, and the transfer of elites and institutions from West to East. While not without present and potential problems, the considerable success of these efforts so far suggests that we should focus less on what is particular to the German case—and there is much that is unique and not replicable—and more on what, with some alterations and adaptations, might be reproduced in other settings.

These five case experiences constitute a kind of “experiment in governance”—a laboratory for constructing post-communist administrations. For this task there is no precedent. Unlike countries that must rebuild classical administrations that have collapsed or new nations that have to erect government from scratch, CEE countries are in the midst of crafting a set of “unfinished” institutions, which combine aspects of both pre-communist and communist legacies with elements borrowed from abroad, as well as with indigenous innovations developed in response to the exigencies of the transition. Also, as has been underscored elsewhere, this task is also unprecedented in that it must be accomplished in the face of radical changes simultaneously taking place in both the economic and political systems.

Efforts toward administrative transformation have involved reforms in three broad areas: (a) those that address the need to revise the structure and organizational processes—the “machinery”—of government; (b) those that seek to carve out appropriate dimensions of government and establish conditions of pay and employment that can adequately reward public servants; and (c) those that seek to develop a professionalized civil service cadre, stressing skills, performance, and political neutrality. Although separate in principle, these tasks are, of course, interrelated. Progress in each area depends on the other, and all three have to be considered together in any estimate of the success of reform programs.

This volume seeks to provide, using the evidence available, what must necessarily be an interim assessment of the record on administrative transformation in the countries of Central and Eastern Europe. Making such an assessment poses a considerable analytical challenge, because administrative development is taking place in a highly turbulent political and economic environment, with changes occurring frequently and suddenly. Data, par-
particularly on government pay and employment conditions, are partial and not always reliable. These difficulties, indeed, exemplify the challenges facing the reform process itself, as governments try to formulate coherent and long-term administrative goals. It is hoped that the present study will both help provide an overview of current developments and point directions in which new research and new public service initiatives may proceed.

The chapters that follow take up each country case individually, examining the three main areas of administrative reform in depth. A concluding chapter draws together country findings into an overview of the CEE administrative reform experience to date.

Notes

1. The debate over the role of the state in society and the economy, of course, rages on, with each camp claiming custodianship of the ideological pendulum. Amsden, Kochanowicz, and Taylor assert that an anti-state bias is present in the Bretton Woods Institutions, whose preference for a limited institutional agenda of “market fundamentalism” implicitly favored weak states in Eastern Europe; they argue that this view (uncritically endorsed by Eastern European intellectuals over-reacting to the all-determining state of their recent communist past) has undermined the prospects for fashioning an indigenous version of the successful developmental states of East Asia. See Alice Amsden, Jacek Kochanowicz, and Lance Taylor, The Market Meets its Match: Restructuring the Economies of Eastern Europe (Cambridge, MA: Harvard University Press, 1996). In his review of Olivier Jean Blanchard, Kenneth Froot, and Jeffrey D. Sachs, eds., The Transition in Eastern Europe, Vol. 1, Peter Murrell makes a similar critique of western economists’ approach to economic and institutional reform in Eastern Europe, assailing it as overly standardized and ahistorical; see P. Murrell, “The Transition According to Cambridge, Mass,” Journal of Economic Literature 33 (1995): 164–78.


References


Breaking Administrative Deadlock in Poland: Internal Obstacles and External Incentives

Barbara Nunberg and Luca Barbone

Since the turbulent days following the collapse of the communist regime, Poland’s economic and political institutions have undergone a remarkable renewal. The country’s continued success in this transformation process will depend crucially on the capacity of the state to play its role in formulating policies and implementing programs for the transition and beyond. The break with the communist past has underscored the need for new kinds of governmental institutions to deal with the demands of a market economy and democratic society. As elsewhere in the former Soviet bloc, this implies the virtual reinvention of the Polish state and the creation of a modern public administration staffed with well-trained, efficient civil servants.

For most of the early transition, Poland’s impressive economic turnaround and its fundamental overhaul of political institutions had not been matched in the administrative realm. True, important initial efforts were made on selected fronts of public administration reform. Real progress was achieved in developing the institutions for public accountability first introduced in the latter days of communist rule. Decentralization of representative government had advanced significantly, followed—up to a point—by devolution of administrative power and responsibility. There had also been early initiatives on civil service development, but these were continually frustrated by political wrangling and lack of overall consensus on both means and ends. On the whole, public administration modernization was addressed only fitfully and incompletely.

The episodic quality of these reforms in the initial transition period is partly explained by their secondary importance to policymakers, whose focus on macroeconomic and privatization concerns was more deliberate. In
The task of enhancing government capacity was seen to follow rather than to accompany the "big bang" of economic reforms.

Administrative reform also faltered with the vicissitudes of Polish politics. The political arrangements of the transition grew out of the semi-democratic agreement forged in the 1989 Roundtable discussions between the Solidarity movement and the then communist government. The electoral model that emerged in the early 1990s established a semi-presidential system with proportional voting. Parties were highly fragmented and ideologically fluid, often associated in broad fronts that included groups with widely divergent political and social bases. The result was unstable government: a rapid succession of fragile and often unholy ruling coalitions and a lack of ongoing, consistent administrative reform policy. Successive governments have taken quite distinctive views on which, if any, administrative changes were desirable. Consensus about the introduction of intermediate-level government and about the creation of a professional civil service had eluded policymakers and parliamentarians. While the social democratic governments favored extensive devolution of power to the subnational level and a more radical renovation of civil service cadres, postsocialist governments preferred more modest deconcentration of state functions and the concession of acquired rights to existing public servants. For much of the period since the collapse of communism, repeated failures to pass a civil service law through Parliament forced successive regimes to make do with minor amendments to previously existing legislation of the communist era—the only politically feasible compromise.

Within this contentious, politicized context, the public administration had to continue operating at maximum capacity to keep up with the overwhelming demands of transition. In many areas of administration, a spontaneous and continuous process of administrative adaptation was, in fact, taking place, even without forceful leadership or political commitment. In late 1996, however, these ongoing "back-burner" efforts at reform received a major boost of energy and high-level political support. Spurred on largely by the accelerating pace of Poland's accession into the European Union (EU), the incumbent government began to see administrative capacity as key to completing its transition agenda and pushed a major package of reforms through Parliament. This push reflected the growing recognition that Poland's hopes of becoming a full member of Europe would depend, in great part, on a modern administrative apparatus able to ease the process of conforming to European norms. The government was able to back up this "born again" priority with relatively quick and decisive action, since the administrative reform agenda had been in preparation over the previous several years. The unifying motivation of "becoming European" helped break the long-standing political impasse that had impeded movement on administrative reform during the early transition. Amid a flurry of legislation and considerable public fanfare, a se-
ries of constitutional changes and reforms of the central and deconcentrated administration, as well as the public service, were proposed to and passed by Parliament. In a matter of months, Poland's administrative reform record went from peripatetic to promising.

This chapter looks at Poland's sometimes surprising journey so far on the road to administrative modernization. We examine current conditions in the bureaucracy and try to assemble an empirical picture of how things work. Three critical areas of administrative reform are analyzed in turn. First, we look at machinery-of-government questions: what changes have taken place in central government structures and processes? Next, we analyze the employment dimensions of government and the current incentive structure for public servants. Finally, we discuss efforts to create a professionalized civil service corps out of what remains of the communist-dominated bureaucracy.

Challenges in State Restructuring

State transformation in Poland began with structural changes in the machinery of government, which had to adjust its organization to carry out the tasks required by the new democratic and market-oriented order. As elsewhere, the restructuring agenda in Poland has implied the elaboration of a legitimate constitutional and legal framework and the strengthening of institutions of public accountability. It has also called for the extinction of obsolete institutions whose raison d'être has disappeared, as well as for the creation of new organs and systems to carry out a changed set of functions. Inefficient, antiquated internal procedures and decisionmaking processes have also been targeted for reform.

Many of these changes were already under way during the late communist period; they have been carried further and modified in the transition. While some restructuring has resulted in new institutions, many organizational shifts have involved grafting new elements onto old structures. Making this cohabitation between old and new work has been a significant reform challenge. Changes in government have also been taking place in the context of intense national debates over policies on decentralization of governmental functions and privatization or restructuring of state enterprises. Unresolved questions about the role of the central state has, in turn, affected thinking about the structure of the governmental apparatus, rendering decisionmakers less sure-footed on the path to reform. Here, we briefly examine some steps taken in Poland to reform central government machinery. Tracing the roots of current institutions to the communist era and the early constitutional and political reforms of the transition, we look at measures taken to improve cross-system accountability, to strengthen policy formulation and decisionmaking in the central government, to shift line ministries toward a less interventionist posture, and to accommodate trends in decen-
tralization and state enterprise reform. We also examine the institutional framework that houses the reform process itself.

Background

The 1952 Polish constitution, shaped by the 1936 “Stalinist” constitution of the U.S.S.R., set out the underlying organization of Poland’s state machinery. This constitution, in effect until the Roundtable negotiations in 1989, consolidated socialist authoritarianism, centralized economic planning and management and stabilized the Communist Party–dominated political system that Poland had in common with the other Eastern bloc countries. This system effectively blurred the line between the public administration and the ruling party bureaucracy. Guided by the ideological principle of “democratic centralism,” the 1952 constitution emphasized a hierarchical administrative structure in which mid- and lower-tier units enjoyed little discretion and were subject to comprehensive supervision by the party’s Central Committee.

Parliament essentially rubber-stamped decisions. Government work, in turn, was coordinated by the body peculiar to all socialist economies, the Council of Ministers. The council was charged with a number of administrative tasks, including the selection and management of key high-level government positions and the coordination of human resource policies in the central administration. But its policymaking power was extremely limited, since policy was effectively the prerogative of party structures. This created a major lacuna at the heart of government, the effects of which were carried over to the postsocialist era.

As was typical in the Soviet bloc, the Polish state was thoroughly centralized, with virtually no autonomy for local governmental bodies. The post-1948 Polish system followed the standard central planning model in economic decisionmaking. The Central Planning Office was charged with the elaboration of targets of the five-year plan and, together with the line ministries, with the annual calculation of revenues and the allocation of inputs for state-owned enterprises (SOEs). The SOEs played a dominant role in the delivery of social services, providing health facilities, vacation resorts, housing, child care, and so on. SOEs also absorbed redundant labor, thus furnishing de facto social assistance and unemployment insurance. The Ministry of Labor dominated decisions about wages and working conditions for the nonmaterial economy—roughly equivalent to western notions of general government.

Toward the end of the decade, a series of reforms—launched to stave off the economic and political unraveling that was already in motion—began to decentralize economic decisionmaking. Greater autonomy was devolved to SOE managers and workers’ councils. Central planning was curtailed through a progressive reduction in the number of inputs to be allocated centrally. Correspondingly, in 1987 several line ministries were consolidated into a single
Ministry of Industry. The Commission for Economic Planning was replaced by the Central Planning Office. Despite these attempts to enhance the efficiency of the state machinery, the overall political and economic situation continued to deteriorate rapidly, and Roundtable discussions led to the implementation of the 1989 program of economic and political transformation.

Early Transition Modifications

**Constitutional and political changes.** A key institutional hallmark of the new Polish regime was the constitutional amendment of April 1989, approved by the Sejm a few days after the signing of the Roundtable Agreement. The amendment, which provided the legal basis for the political compromises reached through the accords, legalized political opposition and freedom of expression. It also affected the structure of the government: it created a second parliamentary chamber (the senate), removed constitutional impediments to a democratic reform of the electoral law, established the office of the president of the Polish Republic, and created the National Council for the Judiciary, which established an independent judicial branch of government.

Various additional amendments further dismantled communist-era government structures. In December 1989 the ideological provisions were struck from the constitution; in March 1990 the concept of local self-government was introduced; and in September 1990 direct election of the president was authorized. But even with these dramatic alterations, the 1952 constitution still did not provide for separation of powers until the passage by the Sejm, in August 1992, of the Constitutional Law on Reciprocal Relationships between the Legislative and Executive Power and on Local Self-Government. This law (the so-called "small constitution") laid the basis for a true democracy by separating the powers to be exercised by the Sejm and the senate as legislative power, by the president of the Republic and the Council of Ministers as executive power, and by the independent courts as judicial power. The small constitution diminished the powers of the senate, strengthened the position of the Council of Ministers, to which the Sejm could delegate some legislative power, and weakened the position of the president of the Republic vis-à-vis the parliamentary bodies.

**Changes in structures of accountability.** Some structures of financial, judicial, and political accountability were already in place at the end of the communist era, but they have been strengthened during the transition. The four main institutions of public accountability are the Constitutional Court, the Administrative Court, the Commissioner for Civil Rights Protection (or Ombudsman), and the Supreme Control Chamber (NIK), the national audit office. Although since 1985 the Constitutional Court has been empowered to rule on constitutional issues, its decisions could be easily reversed until the
constitutional reforms of 1989 granted it the right of universally binding legal interpretation, as well as ex ante consultative powers subject to presidential discretion.4

The Administrative Court, also operating since the early 1980s, provided a specialized forum for resolving conflicts among administrative organs and between the public administration and private citizens. Headquartered in Warsaw, with six satellite regional branches, it has seen the range and quantity of its caseload grow substantially since its inception. Despite its origins under the ancien régime, it is regarded as having contributed significantly to developing the rule of law in post-communist Poland. The Commissioner for Civil Rights Protection is another highly respected independent state organ meant to complement the Administrative Courts system. Elected by and accountable to Parliament, this official closely resembles the ombudsman in western countries. But the commissioner has broader responsibilities, protecting not only the civil rights of individuals within administrative organs but also the citizen public vis-à-vis nongovernmental organizations charged with public tasks. Although mainly acting on behalf of individuals, the commissioner may also initiate actions independently, using a range of mechanisms, including civil actions, petitions to the Constitutional Court, and public relations through the mass media.5

The NIK has adjusted to the postcommunist environment more haltingly than other organs of public accountability. Under new leadership since 1991, it is charged with exercising financial control over the state administration and local governments in their execution of delegated tasks. Increasingly, however, its responsibilities have been broadened to include appraisal of the effectiveness of government programs. Failure to adopt NIK recommendations must be accompanied by formal responses from the audited institutions. With a staff of about 1,400 inspectors, distributed among Warsaw and 17 regional offices, and a direct reporting line to Parliament, the NIK has attained considerable power. Yet the agency’s professional credibility remains weak; more than half of its staff are over 50 years old and lack training in modern auditing techniques, raising concerns about the agency’s capacity to fulfill its role in undertaking performance evaluations of public activities.6

Changes in relations between SOEs and the State. The early transition also began the process of transforming the structural relationship between the central state authority and the SOEs. Initially, the approach was to control firms indirectly by providing incentives to SOE managers to maximize profits. Tax incentives were also offered to stimulate commercialization and eventual privatization of enterprises. The SOEs continued to be nominally supervised by the ministries that were their “founding organs”; commercialized enterprises awaiting privatization were to become the “ward” of the Ministry of Privatization. The voluntary method of commercialization, however,
met with only limited success, and the unwillingness to enforce penalties for noncompliance with compulsory payments substantially decreased the credibility and effectiveness of the indirect control policy.

**Changes in the structure of the State.** Perhaps the most significant target of state reform has been the organizational structure of the government, at both central and decentralized levels. The aim has been to improve policymaking and service delivery, to reflect organizationally the reduced role of the state in the economy, to accommodate new state functions in the state organization, and to devise workable mechanisms for arriving at consensus among diverse political interests.

At the subnational level, the constitutional and legal reforms described earlier triggered important changes in both representative and administrative state structures. Early in the transition, approximately 2,500 gminas (communes) were created, direct election of city councils was introduced, and various spending and revenue-raising responsibilities were assigned to local governments. These changes were all set in motion through the implementation of the Local Self-Government Act, the purposes of which was to reduce the power of central ministries that previously had virtually complete oversight of local public activities. Decentralization has continued to be an important reform priority but also a controversial one. A proposal for the creation of the powiat level of government has been under discussion through successive governments but has never been adopted. Under this plan, the powiat would replace the present administrative rejion as an intermediary form of representative government in rural areas and would increase the power of the gminas in urban areas. This would mean substantial devolution of spending and administrative powers, since powiats would be given responsibility over large portions of the administration of health and secondary education and several other functions now exercised at the central level.

This degree of devolution has been opposed, however, by the postsocialist governments, which have sought instead to strengthen the deconcentrated voivodships as the principal intermediate level of government. The most recent administrative reform legislation reinforced this tendency. Voivods have been given control over specialized administrative authorities until now overseen by central ministries, such as school supervision inspectorates. Voivods and their deputies are to be appointed directly by the prime minister, and they have been given supervision responsibilities for the vast majority of state companies, previously run by sectoral line ministries. The move to deconcentrate national authority could potentially enhance access to EU funds that target regional development programs. Skeptics suggest, however, that the strengthening of voivods represents little more than an attempt to consolidate the power and span of control of the current political regime in ad-
vance of the eventual creation of electoral powiat-level government, which many see as just a matter of time, irrespective of the ruling coalition.

Even more far-reaching were the modifications in central administrative and political arrangements ushered in by the recent reform package. This package introduces changes that have been under discussion for some time and that build on an ongoing series of efforts at restructuring the governmental machinery which were under way as early as the 1980s. Indeed, the early transition saw a range of modest organizational initiatives. Some of these initiatives merely accelerated earlier trends; others represented real breaks with the past. Changes involved the abolition of some agencies (the Censorship Office, for example) and the revamping of others, such as the Ministry of Internal Trade, which was absorbed by the Ministry of Industry. Some reforms were aimed at carving up unwieldy administrative structures into more cohesive and manageable units where form and function were better matched. This motivated the reorganization of the Ministries of Transport, Navigation, and Telecommunications into two ministries, for transport and maritime economy, and for telecommunications. Similarly, the Ministry of Agriculture, Forestry, and Food Supply was broken into ministries for agriculture and food supply and for environmental protection, natural resources, and forestry.

The main thrust of the early reorganization, though, had been to create new organs to carry out new tasks rather than to reduce the number of governmental agencies. The Ministry of Privatization was officially created in 1990 to divest the state of direct productive activities, and the Anti-Monopoly Office was established to strengthen the regulatory powers of the state. Sometimes these new functions were spread across several organs at once. The tax administration reform program strengthened selected departments of the Ministry of Finance and established a separate Customs Council.

Some internal reorganization of agencies also took place during the initial transition period. The Ministry of Industry was reshaped into a flatter organizational structure. The Ministry of Interior, the heart of the internal security apparatus under the communist regime, was downscaled, demilitarized, and depoliticized. Departments with inappropriate or obsolete missions such as the control of institutions and political parties were eliminated and units for newly acquired functions such as protection of the constitution were established. Various services, such as the border guards, were spun off to more autonomous status, although still under ministry supervision. These quite limited changes left ample scope for further restructuring. Many organs were still in need of reduction, elimination, or consolidation. And, as we will see shortly, institutional obsolescence—the persistence of agencies without valid missions—contributed to staffing misallocation throughout the government.
Beyond the line ministries, central decisionmaking structures and processes also required reform. The superimposition of parliamentary government structures on the existing Council of Ministers model was a source of particular inefficiency. The Council of Ministers was plagued by delays in decisionmaking and difficulties in implementation. In part, these problems stemmed from the weak institutional role of the prime minister, who lacked direct control of the organizational support apparatus for administrative and political affairs. The prime minister was forced instead to mediate through the powerful minister-head of the council, who ran the administrative apparatus. While frustration with the existing center-of-government arrangements continued to build, only a minimal and sometimes fleeting infrastructure for cross-governmental administrative restructuring was available to guide thinking about reforms for much of the initial transition phase. The Suchochka government had created a plenipotentiary for public administration, whose office acted intermittently as the focal point for development of an administrative reform strategy, but under the post-socialist governments policy on these issues tended to emanate from the higher levels of the Council.

Reforms in the Late Transition Period

To the considerable surprise of many observers, the government recently began a second phase of administrative transformation by launching a package of reforms to tackle many persisting administrative problems and to complete some of the unfinished initiatives started in the first years of transition. After a summer of intense but constructive debate, in the early fall of 1996 Parliament passed a core body of government-proposed legislation to restructure Poland’s public administration. In addition to a civil service reform, discussed below, the adopted package consisted of a reform of the central administration designed to shift governmental structures and relationships to reinforce the changes in the role of ministries and central decisionmaking organs that had taken place in the transition.

The 1996 reforms strengthened the role of the prime minister, reorganized governmental functions in consolidated ministries that would now have a “steering” rather than a “rowing” function, and further decentralized responsibilities to the voivod level of government, as discussed earlier. It also gave greater organizational prominence to European accession by creating a ministerial-status body for European integration.

A key element in the reform was to strengthen the role of the prime minister. Through separate legislation and constitutional amendments, the prime minister was empowered to select ministers, determine the nature and number of ministerial portfolios, and, an important change, require that ministers jointly uphold government policy consensus. These enhanced prime ministerial powers supported a new notion of flexible government, breaking with
the previous requirement that ministries be established by law. The Ministries of Defense, Foreign Affairs, and Internal Affairs, mentioned in the constitution, would be excepted; their portfolios would remain fixed by law.

Perhaps most significant, the overall shift toward flexible government would effectively transform the once all-powerful Council of Ministers. Previously, council members were free to dissent from the government position, undermining policy coherence. The government had operated like a loose federation of ministries, each protecting its own interests. There had been little coordination of ministries' work, and their powers and responsibilities had often overlapped. Under the new model, some have observed, government might now become a construct of "Lego blocks," making structures and political leadership are better able to accommodate shifting functions. The prime minister's powers would be supported by the creation of a chancellery to provide personnel and informational services to the prime minister's inner office and streamline its work.

The 1996 reforms also promised to alter ministerial functions dramatically. The reforms eliminated the "branch ownership" functions of ministries, charging them instead with strategic policy and monitoring responsibilities. Ministries would thus be divested of public enterprises. As discussed earlier, the majority of these enterprises would be transferred to the voivodships, but approximately 200 "strategic" enterprises would be placed under the tutelage of a new Ministry of State Treasury. The streamlined ministerial structures reflected a clear division between political and administrative positions. The minister and deputy minister would be political appointments. At the apex of the administrative structure would be a newly created position of director general, the highest ranking civil servant.

With this reform of the center, existing ministerial portfolios would undergo significant restructuring. Three large superministries were to be created, incorporating some, though not all, functions of a number of ministries to be liquidated. A Ministry of Economy, incorporating functions of the Ministries of Industry and Trade and of Foreign Economic Relations, would formulate medium- and long-range economic policies and coordinate their implementation. The Ministry of Economy would work closely with the newly formed Government Center for Strategic Studies, which would have analytic, monitoring, evaluation, and research functions would replace the central planning functions of the Central Planning Office, which the reforms liquidated. The remit of the Ministry of Finance would be circumscribed by these new economic organs; its mission would focus primarily on public finance and budgetary tasks. A second superministry, the Ministry of State Treasury, would be in charge of those strategic enterprises to be retained under central state control. Treasury would subsume the Privatization Agency, which would carry on privatization of those firms to be sold. A third superministry, Administration and Interior, would be responsible for manag-
ing relations with the voivods. (The security functions of the old Interior Ministry would move to the state security agency.) The Antimonopoly Office would be transformed into the Office of Competitiveness and Consumer Protection to conform more closely to EU norms.

The 1996 administrative reform package promised to have a major impact on the way in which the government carries out its business, possibly providing a model for other countries in the region. The break with the branch administrative system and the subjugation of the Council of Ministers and the government administration to the enhanced powers of the prime minister were dramatic changes the effects of which are likely be felt for years to come. But the reform also poses risks. One concern is that the considerable power of the prime minister to constitute and dismantle ministerial portfolios could over politicize the state administration, swelling its ranks with political appointees and destabilizing ministerial structures with each change of government. Moreover, although the reforms allow for flexibility in matching functional demands with administrative arrangements, political realities make it likely that the allocation of ministerial portfolios would continue to be determined through a bargaining process within the government coalition.

Although the 1996 reform package included a number of bold elements, it may in fact have been less radical than it at first appeared. The restructuring of state enterprise ownership and privatization could, if captured by recalcitrant interests, further entrench firms in public hands rather than liberate them. Indeed, the creation of the Ministry of State Treasury, with a mandate to retain ownership of strategically important public enterprises, makes the prospect of rapid privatization of valued state assets somewhat implausible.

Some have charged that the 1996 reforms constituted mere reorganization rather than real reform. In actuality, the package might be seen as a little of both, reflecting the government's explicit claim that it was practicing a kind of "selective radicalism" that emphasized a manageable program of reforms in which priorities were to be tackled in distinct stages. Indeed, the government stated its intention to undertake a second wave of reform measures in 1997. The second wave would involve changes below the ministerial level, including a reorganization, in line with EU requirements, of all the institutions dealing with standards and norms. Customs administration would also be reformed by being incorporated into the Ministry of Finance to provide for better cooperation between customs and tax offices. Further review of economic legislation and the elimination of useless or obsolete laws would be undertaken. Many have predicted that a territorial reform and the creation of powiat-level self-government would logically follow the current push toward further deconcentration. This preference for gradually phased reforms may reflect the government's estimate of how much political freight could be
borne by the ruling coalition, and may explain why the government opted for only a minimal ministerial shuffle rather than a wholesale overhaul of all ministerial leadership.

While the effects of the central administration reforms on government's capacity to carry out both its daily and its long-range duties may become clear only over a several-year period, the potential for significant improvements in government capacity could measurably strengthen Poland's hand in negotiating and implementing EU accession requirements. The reforms could lead to better informed, more coherent policy formulation and more coordinated decisionmaking that would enable the government to speak with one voice on EU membership issues. And, despite uncertainties about the persistence of key assets under state control, the central administration reforms break indisputably with the old interventionist branch ministry approach, moving Poland closer toward the modern policy and guidance bureaucracies of EU member states. These changes, coupled with the government's newly acquired potential to shape ministerial priorities in response to rapidly changing economic circumstances, would not only reassure EU members of a flexible community partner but would also be likely to further enhance Poland's capacity to attract direct foreign investment by demonstrating a commitment to the state's withdrawal from hands-on economic activities and its ability to adjust policies to market demand, as needed.

As we have just argued, creating a state that can assume the tasks of the transition and play a vital role in the emergent market economy depends critically on getting the functional responsibilities and the organizational structure of government right. Assigning appropriately skilled and rationally allocated staff to carry out redefined state functions is another crucial imperative for administrative reform. The prerequisite to rationalizing the public service is an accurate understanding of the present deployment of personnel throughout government and of the kinds of incentives currently in force for public employees. Several important issues will need to be resolved before reform can occur: What should be the size of the public service for the new Polish state with regard to both functional requirements and fiscal responsibility? What kind of remuneration and incentive structures should be installed to ensure a professional civil service at an affordable cost? What mechanisms and institutions need to be established to determine these and other public employment policies and to manage the system? How can central government employment be separated from that of newly decentralized government and from noncore functions such as education and health, making possible the establishment of a civil service with its own compensation arrangements and conditions of service?

The following discussion takes a first step toward clarifying the picture of current public pay and employment conditions in Poland, identifying key issues and constraints. We examine recent public employment trends and
then review the situation with regard to incentives and remuneration, focusing on both the fiscal aspects of wage bill management and the need to provide adequate incentives to good public service performance. We then examine the institutional capacity for establishment management. Finally, we suggest ways to begin improving the current situation.

Employment Trends

This section addresses three basic questions: What constitutes the public sector in Poland, and what part of that is central government? How are public employees distributed among the various branches of general government? How do these numbers and distribution compare with international standards?

Table 2.1  Total Employment in the Public and Private Sectors, 1989–93

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment</td>
<td>17,129.8</td>
<td>16,511.4</td>
<td>15,601.0</td>
<td>14,974.2</td>
<td>14,584.1</td>
</tr>
<tr>
<td>Privatea</td>
<td>8,085.3</td>
<td>8,239.2</td>
<td>8,643.0</td>
<td>8,174.3</td>
<td>8,388.8</td>
</tr>
<tr>
<td>Public</td>
<td>9,044.5</td>
<td>8,272.2</td>
<td>6,958.0</td>
<td>6,799.9</td>
<td>6,195.2</td>
</tr>
<tr>
<td>Nonbudgetary (SOEs)</td>
<td>6,654.4</td>
<td>5,854.6</td>
<td>4,580.4</td>
<td>4,180.3</td>
<td>3,987.0</td>
</tr>
<tr>
<td>Budgetary</td>
<td>2,390.1</td>
<td>2,417.6</td>
<td>2,459.4</td>
<td>2,419.6</td>
<td>2,208.2</td>
</tr>
<tr>
<td>Science and technology</td>
<td>6.3</td>
<td>6.1</td>
<td>4.0</td>
<td>4.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Education and training</td>
<td>1,055.1</td>
<td>1,085.6</td>
<td>1,072.7</td>
<td>1,030.7</td>
<td>1,025.8</td>
</tr>
<tr>
<td>Arts and culture</td>
<td>59.9</td>
<td>59.4</td>
<td>53.6</td>
<td>49.6</td>
<td>49.9</td>
</tr>
<tr>
<td>Health and social welfare</td>
<td>842.9</td>
<td>867.6</td>
<td>837.7</td>
<td>800.6</td>
<td>770.2</td>
</tr>
<tr>
<td>Physical culture</td>
<td>15.1</td>
<td>13.2</td>
<td>12.2</td>
<td>10.8</td>
<td>8.4</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>19.0</td>
<td>21.3</td>
<td>24.8</td>
<td>27.3</td>
<td>34.8</td>
</tr>
<tr>
<td>Administration</td>
<td>222.2</td>
<td>220.2</td>
<td>235.1</td>
<td>258.6</td>
<td>283.9</td>
</tr>
<tr>
<td>Other</td>
<td>169.6</td>
<td>144.2</td>
<td>219.3</td>
<td>237.4</td>
<td>33.1</td>
</tr>
</tbody>
</table>

a. Includes employees in private economic units. Data have been corrected to reflect the new classification introduced in 1991 which considered cooperatives and other establishments part of the private sector.

Source: Polish government authorities; World Bank estimates.

Before implementation of the 1990 reforms, the lion’s share of employment in Poland was in the public sphere. Most firms of any size were in the hands of the state. True, agriculture was largely private throughout communist rule, and the overall share of private sector employment in total employment was therefore higher than in neighboring socialist countries. Still, as table 2.1 indicates, in 1989 private sector employment amounted to only 47 percent of the total labor force. This picture began to change in 1990, when the private-public balance of employment started to shift in response to economic reforms. Overall employment declined by over 15 percent between 1989 and 1993. This decline is explained by a sharp decrease in total public
sector employment, comprising state employees in the public budgetary and nonbudgetary spheres. Together, these two categories of government employment declined by more than one-third over the same period.

In contrast, the private sector share of total employment increased not only relatively (from 44 to 58 percent) but also absolutely, absorbing a significant fraction of the public sector job losses. By 1993 private sector employment was estimated at 8.4 million—an increase of 4 percent over 1989. Public sector employment declined from 9 million to 6.2 million during the same period.

The decline in public employment is mainly attributable to the precipitous fall of nonbudgetary-sphere jobs, by over 44 percent from 1989 to 1993, reflecting rapid privatization and the crisis of production in the SOE sector. Employment in the budgetary (“general government”) sphere increased marginally between 1989 and 1992 before dropping to below the 1989 level in 1993. Within general government, employment changes varied considerably by sector. Areas such as arts and culture, science and technology, physical culture, and tourism, in which privatization or sharp funding cuts occurred, showed the sharpest decreases. Aside from these sectors, which in many nonsocialist countries are often in private hands or run by semiautonomous public institutions, general government employment numbers are mainly driven by three large institutional blocks: state administration, education, and health. Large absolute (but not relative) declines took place in education and health between 1986 and 1993, but state administration increased during the same period.

Examining the Polish situation in the light of other countries’ experiences may be helpful. Is Poland’s government overstaffed by international standards? Cross-country comparisons have only limited utility, as classification methodology varies with the differences in national institutions. Nevertheless, table 2.2 presents some roughly comparable cross-national data. Assessing general government employment more broadly, Poland’s public service does not seem excessively large. Indeed, at just over 6 public employees per 100 persons (or 16 percent of the labor force), Poland compares favorably with most of the Organisation for Economic Co-operation and Development (OECD) countries shown in table 2.2. Equally favorable is the comparison of the narrower domain of central government employment. There are approximately 2 civil servants per 1,000 persons in Poland, a figure lower than all of the OECD countries shown in the table.

Despite serious comparability problems, international comparisons strongly suggest that in the aggregate Poland’s government is not overstaffed. This does not mean that there is not a surplus in particular sectors or agencies. In Poland, however, the more acute public employment problems may be those of staff quality and distribution of skills—particularly those in scarce supply—throughout government. A more nuanced understanding of these
issues requires, as a first step, further analysis of the component parts of general government employment. The next section examines trends in the main public employment sectors.

Table 2.2 Government Employment in Selected Countries, 1992

<table>
<thead>
<tr>
<th>Country</th>
<th>General employment</th>
<th>Central employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Population</td>
<td>Labor force</td>
</tr>
<tr>
<td>Belgium</td>
<td>72</td>
<td>19.3</td>
</tr>
<tr>
<td>Denmark</td>
<td>15.1</td>
<td>31.1</td>
</tr>
<tr>
<td>France</td>
<td>10.1</td>
<td>26.0</td>
</tr>
<tr>
<td>Germany</td>
<td>6.7</td>
<td>14.7</td>
</tr>
<tr>
<td>Hungary</td>
<td>8.8</td>
<td>21.0</td>
</tr>
<tr>
<td>Japan</td>
<td>3.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Poland</td>
<td>6.3</td>
<td>16.2</td>
</tr>
<tr>
<td>Spain</td>
<td>5.3</td>
<td>16.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>16.1</td>
<td>32.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>8.5</td>
<td>19.3</td>
</tr>
<tr>
<td>United States</td>
<td>6.6</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Source: OECD, Ministries of Labor and Interior (Hungary); and Central Statistical Office (Poland).

Redefining Public Employment

Defining the parameters of the new civil service and reshaping the public sector more generally requires that distinctions be drawn among parts of government that have been undifferentiated up to now. This could well turn out to be a complicated, process, as the current budgetary sphere includes various sectors that may ultimately be privatized, contracted out, or spun off into semiautonomous state agencies. Four major public employment constituencies require particular attention in this definitional exercise: central administration, local government, education, and health. Below we review briefly employment trends and major issues in these categories.

Employment trends in the central administration. The restructuring of the central administration discussed earlier is reflected in aggregate employment trends. Since the mid-1980s, reorganization appears to have occurred in two distinct phases: a considerable contraction between 1986 and 1988, when the consolidation of the line ministries into the Ministry of Industry occurred, and an increase in staffing after 1990. Between 1989 and 1993 central government employment doubled, rising from 43,000 to almost 89,000 (table 2.3). The bulk of this increase occurred in the deconcentrated organs of central government; employment at this level increased over 130 percent, whereas core central government employment increased only 41 percent. This increase may, in fact, reflect a reclassification of personnel from elsewhere in the pub-
lic sector rather than a net rise in government employment, although data to confirm this are not available.

Table 2.3 Central Government Employment, 1986–93

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>49,466</td>
<td>45,463</td>
<td>42,525</td>
<td>42,890</td>
<td>46,062</td>
<td>60,794</td>
<td>68,728</td>
<td>88,561</td>
</tr>
<tr>
<td>Deconcentrated</td>
<td>32,157</td>
<td>30,151</td>
<td>30,678</td>
<td>30,961</td>
<td>33,766</td>
<td>45,164</td>
<td>50,854</td>
<td>71,765</td>
</tr>
<tr>
<td>Core</td>
<td>17,309</td>
<td>15,312</td>
<td>11,847</td>
<td>11,929</td>
<td>12,296</td>
<td>15,630</td>
<td>17,874</td>
<td>16,766</td>
</tr>
</tbody>
</table>

Source: Central Statistical Office.

Although these data are not sufficiently disaggregated to warrant firm conclusions, when combined with anecdotal information they nonetheless suggest that there has been a significant reallocation of human resources toward the agencies charged with the new functions of state. For example, the increase in overall central administration employment can be largely explained by recent programs to strengthen tax administration and expand the tax police, and possibly by an increase in employment in deconcentrated labor offices responsible for the administration of unemployment benefits. In addition, new agencies or ministries (the Antimonopoly Office, the Ministry of Privatization, and the Ministry of Justice) have been given higher staffing levels, which add up to a considerable increase in overall numbers. Although employment has been significantly reduced in other areas, such as censorship, agriculture, and planning, these cuts did not substantially offset the upward trends in central administration employment overall.

What cannot be substantiated by the aggregate data (in the central administration in particular, but probably elsewhere in the budgetary sphere as well) is the reported exodus of high-level professionals with policy and technical skills attractive to the private sector. We touch on this phenomenon below, in the discussion of wage policy. Beyond anecdotal accounts, available data do not permit systematic analysis of the turnover that may have taken place in various parts of the administration. Lack of disaggregated information about the quit, attrition, and recruitment rates for different levels of the public service prevent empirical documentation of shortages among particular professional or bureaucratic groups. Nor is it possible to know whether, for example, higher-quality staff vacated positions that were then filled by less competent replacements. Given the large increase in employment in some units, it is conceivable that whatever loss of qualified professionals may have occurred was limited to selected—albeit possibly critical—units.

Impact of decentralization on employment. The likely effect of present and prospective decentralization programs on public employment and pay is an issue that requires serious attention. Local employment is large and, with
new administrative reforms, almost certainly bound to increase. So far, the creation of the gminas has been accompanied by a large transfer of personnel (about 75,000 employees in 1992) from the central government to the local level. There remained, in addition, some 32,000 employees in the deconcentrated voivodships, who are fully charged to the central budget. These numbers probably underestimate overall local government employment, since a number of municipal services (water, sewerage, transport, child care) are provided through municipal companies that are not included in employment data. This picture may be further altered by future decentralization actions. For example, primary education has already largely become a gmina responsibility. Current proposals for reform would entail a substantially larger transfer of spending responsibilities to existing and future local governments. Overall, however, the potential staffing implications of these reforms are as yet unknown.

Plans for enhanced local government responsibilities could create new problems that will need to be addressed by both local and central authorities. Local governments engage in personnel and wage bill management practices similar to those of the central administration, but their autonomy is largely limited, either by controls over complement or by centrally set remuneration scales. Decisions will have to be made as to which public servants currently employed by the central government should be placed under local government auspices. What, for instance, would be the institutional and financial implications for local governments of decentralizing education sector employees such as primary or secondary teachers? Which quality standards should be set locally and which norms determined centrally? Answering these questions will involve thorough assessment of local governments' capacity to manage increased responsibilities. It will also depend on major government decisions about overarching decentralization policies.

Employment in the education sector. Teachers and school administrators make up the most substantial part of public employment. There were approximately 558,000 teachers in 1990–91, of which about 357,000 were in primary education. Polish Department of Statistics data for the first quarter of 1992 showed 601,300 teachers, again mainly in primary education. While overall budgetary sphere employment figures in the education sector increased between 1988 and 1992 by over 13 percent, the 1992 saw a decrease in teachers by 30,000 (including 10,000 retirees). More disaggregated data about this sector were lacking, and policymakers will need much better information to establish appropriate staffing norms, to identify redundancy or shortages, and to undertake future manpower planning.

Even so, there is some evidence of redundancy in education. This is suggested, for example, by the very low student-teacher ratios, particularly in primary education (about 18 to 1), due to relatively low teaching contact...
hours—18 hours per week compared with 25 hours per week for Europe—and to a proliferation of single-subject teachers and part-time teachers. Proposed reforms in the education sector have sought to reduce the overall demand for teachers by encouraging more cost-effective and flexible use of existing teachers. Efforts to rationalize the allocation of teachers may require measures such as retrenchment or early retirement. The Teacher Act of 1992 raised the obligatory teaching load to a minimum of 25 hours for technical teachers and 23 hours for others, plus 5 additional hours to be assigned as necessary, with a maximum allowable load of 40 hours per week under a "payment for overtime" policy.

Separating the management and pay of teachers and school administrators from that of other government civil servants involves drawing distinctions between schemes of service and pay conditions and, as just mentioned, making a decision about whether further decentralization should mean decentralized management of pay and working conditions. Serious reforms need to focus as well on streamlining and improving management practices in the education sector.14 In-depth analysis would be important of the role of the central administration in light of current decentralization policies: How will central functions related to program evaluation, planning and research, and accreditation of private providers be performed? How appropriate is the current deployment of staff, and what are the future staffing needs, especially for administrative education staff at the central level? Will a large number of teachers and administrative staff need to be retrained? Finally, what kind of working conditions and incentives will have to be put in place to attract and keep a motivated teaching force?

Health workers. A somewhat different set of reform issues is faced by health workers, the other sector that accounts for a large share of budgetary sphere employment. The main employment problems in the health sector appear to be qualitative in nature—training, licensing, human resource management, remuneration levels.15 There are also concerns about the supply and geographic distribution of staff; for example, the ratio of doctors per 10,000 people is 41.8 in Warsaw but only 9.9 in Siedlce voivodship. Part of the problem stems from a proliferation of institutions. The main actor is the Ministry of Health and Social Welfare (MOH) but other ministries, public enterprises, medical cooperatives, and a small private sector also provide health care services. Unfortunately, the dearth of information on health care activities outside the MOH makes it difficult to assess the actual capacity and future needs of Poland's health services. In addition, health sector statistics tend to overestimate actual employment by, for example, double-counting retirees and individuals with more than one position.

As in the case of education, some preliminary conclusions can be drawn from the available data. The number of workers in the health and social ser-
vices sector increased markedly in the 1980s but then fell from a high in 1990 of 867,600 to 770,200 in 1993, a decline of 11 percent. By mid-1992, health care personnel alone numbered 301,400: 85,300 doctors and 216,100 nurses and other employees. For some types of health workers, ratios in the early 1990s compared favorably with OECD norms. There were, for example, 2.3 health workers per 100 (the OECD range was 2 to 4.1 percent), and the population-provider ratio for doctors (21.4), dentists (4.8), nurses (54.4), and midwives (6.3) all fell within the OECD midrange. On the other hand, there was a scarcity of certain types of health care workers. For example, there were chronic shortages of nurses and of auxiliary and primary-level health care workers in relation to doctors and beds. Nurse-doctor ratios (2.5, compared with 0.8 to 7.7 for the OECD in 1987) and nurse-bed ratios (0.9, compared with 0.31 to 1.26 for the OECD in 1987) were low by industrial country standards. Surpluses of specialists were found in some areas and shortages in others. In general, there were few public health specialists, health managers, administrators, and health economists. Health care workers earned low wages, almost at the bottom of the relative wage scale. (Women, who constituted over 80 percent of health care workers, were especially penalized.) Addressing these issues would be a priority if employment allocations and incentives are to be rationalized throughout the government sector in Poland.

Public Service Pay and Wage Bill Issues

Along with redefining the nature of public employment, creating a modern, affordable public sector in Poland requires managing the wage bill effectively as well as putting in place the financial incentives to attract and reward good staff. Since 1989, aggregate wage bill management has been subject to the overall budget constraints imposed by Poland’s economic situation. Wage bill control has, in fact, been largely attained, and Poland does not compare unfavorably with other countries undergoing similar fiscal strain. Wage expenditures in 1993, as a percentage of gross domestic product (GDP), at 6 percent, or of total expenditures, about 13 percent, were not alarming from a comparative perspective (table 2.4). Nonetheless, between 1989 and 1992 wage expenditure increased overall, although they decreased slightly in 1993. The public sector wage bill thus clearly became more burdensome as a relative share of the national budget.

Significantly, this relative increase in the wage bill over the 1989 to 1993 period occurred as average wages for the public sector fell. Public sector wages for both for SOEs and general government rose substantially in 1987 and 1988 and then began falling in real terms. These developments resulted from the interaction of several factors: macroeconomic stringencies, government policy regarding the balance of public and state enterprise sector wages, the
relative bargaining powers of public employees' interest groups, and some specialized incentive structures and provision for managerial discretion.

Table 2.4 General Government Expenditures, 1989–93
(percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>34.1</td>
<td>44.5</td>
<td>41.5</td>
<td>44.0</td>
<td>44.8</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>39.9</td>
<td>41.3</td>
<td>48.0</td>
<td>50.7</td>
<td>47.2</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>36.4</td>
<td>37.6</td>
<td>44.9</td>
<td>47.7</td>
<td>44.0</td>
</tr>
<tr>
<td>Wages</td>
<td>4.2</td>
<td>4.2</td>
<td>6.1</td>
<td>6.8</td>
<td>6.0</td>
</tr>
<tr>
<td>Goods and services</td>
<td>2.5</td>
<td>4.6</td>
<td>7.6</td>
<td>6.0</td>
<td>4.9</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, World Bank estimates.

Wage policy for the budgetary sphere was largely conducted in relation to state enterprise norms. Traditionally, remuneration levels in this sphere were kept low relative to those in the "productive" state enterprise sector, resulting, as of 1988, in average budgetary sphere wages amounting to approximately 80 percent of those in SOEs. This policy was reversed in 1989, when, in an effort to "correct" these inequities, the government introduced a law that set new targets for overall compensation of public employees. The stated purpose of the law was to attain, by 1992, public service remunerations equivalent to 106 percent of those in the state enterprise area. This was to be accomplished in annual increments that would raise the budgetary sphere average by three points (1989 = 97 percent, 1990 = 100 percent, 1991 = 103 percent, and 1992 = 106 percent). It is unclear whether the budgetary implications of what would have amounted to a substantial increase in real public sector remunerations were carefully assessed. Judging from the initial jump in budgetary sphere wages, however, the policy was adhered to during the early reform period.

More recently, political and economic tensions have threatened this trend. The government’s policy of strengthening public service wages was suspended in the second half of 1991 (although the Constitutional Tribunal ruled that such a suspension was illegal) and again in 1992 and 1993. The basic law remained in effect, however, and no alternative mechanism was put forward. In the absence of policy decisions in this area, growing dissatisfaction within the central administration and the other components of the public sector led to increasing social tensions and to a loss of morale among employees. In the meantime, the situation stimulated the flight of the best qualified toward better opportunities in the private sector.

While the net effect of these policy shifts was across-the-board wage erosion in the public service, erosion was more acute in some parts of the budgetary sphere than others. Indeed, differentials between SOE and budgetary
sphere pay were echoed in the overall lack of wage uniformity within the budgetary sphere itself. Clearly, there were ministerial winners and losers, reflecting not only deliberate government policy but also the considerable managerial discretion that characterizes Polish public sector pay practice at the level of individual ministries. The 1989 public sector salary policy set specific guidelines regarding relative sectoral wages. Despite the lack of compliance with the overall wage targets alluded to above, these sectoral guidelines were generally respected. The wage policy that emerges on the basis of the available data shows significant average wage differentials across sectors (over 40 percent between lowest and highest in 1993).

Table 2.5 Average Monthly Wages in the Public Sector, 1987–93
(thousands of zloty)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonbudgetary</td>
<td>38</td>
<td>70</td>
<td>210</td>
<td>1,012</td>
<td>1,812</td>
<td>2,485</td>
<td>3,361</td>
</tr>
<tr>
<td>Budgetary</td>
<td>32</td>
<td>56</td>
<td>194</td>
<td>1,092</td>
<td>1,674</td>
<td>2,302</td>
<td>2,947</td>
</tr>
<tr>
<td>Science and technology</td>
<td>41</td>
<td>73</td>
<td>235</td>
<td>1,315</td>
<td>1,849</td>
<td>2,354</td>
<td>3,153</td>
</tr>
<tr>
<td>Education and training</td>
<td>32</td>
<td>53</td>
<td>190</td>
<td>1,059</td>
<td>1,590</td>
<td>2,117</td>
<td>2,808</td>
</tr>
<tr>
<td>Arts and culture</td>
<td>35</td>
<td>64</td>
<td>177</td>
<td>1,003</td>
<td>1,572</td>
<td>2,103</td>
<td>2,750</td>
</tr>
<tr>
<td>Health and social welfare</td>
<td>29</td>
<td>53</td>
<td>189</td>
<td>1,046</td>
<td>1,607</td>
<td>2,300</td>
<td>2,801</td>
</tr>
<tr>
<td>Physical culture and tourism</td>
<td>36</td>
<td>67</td>
<td>190</td>
<td>1,092</td>
<td>1,786</td>
<td>2,236</td>
<td>2,937</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>37</td>
<td>85</td>
<td>197</td>
<td>1,058</td>
<td>1,637</td>
<td>2,352</td>
<td>2,891</td>
</tr>
<tr>
<td>Administration</td>
<td>38</td>
<td>66</td>
<td>230</td>
<td>1,405</td>
<td>1,637</td>
<td>3,413</td>
<td>4,027</td>
</tr>
<tr>
<td>State</td>
<td>—</td>
<td>—</td>
<td>261</td>
<td>1,512</td>
<td>2,355</td>
<td>3,645</td>
<td>4,594</td>
</tr>
<tr>
<td>Core</td>
<td>—</td>
<td>—</td>
<td>308</td>
<td>1,661</td>
<td>2,857</td>
<td>4,453</td>
<td>6,404</td>
</tr>
<tr>
<td>Special/other</td>
<td>—</td>
<td>—</td>
<td>246</td>
<td>1,454</td>
<td>2,195</td>
<td>3,385</td>
<td>4,211</td>
</tr>
</tbody>
</table>

--- Not applicable.

Source: Polish government authorities, World Bank estimates.

In 1991 the relative wage policy was further modified to benefit a "core" group of state administration employees. The budgetary allocation for wage increases in the second part of the year was used, apparently with full discretion at the level of individual agency managers, to raise considerably the remuneration of about 19,000 government employees working in a number of agencies (mostly in Warsaw) where private sector competition was exerting a threatening pull effect. From 1991 onward, the difference between core state administration wages and the average budgetary sphere wage continued to grow, rising from 152 percent of the average in 1990 to 217 percent in 1993.

Central Government

Central government salaries reflect the same wage dispersion as is found in the overall budgetary sphere. In May 1994, for example, employees in the NIK, the highest paid agency, earned, on average, almost three times as much
as the employees in the lowest-paid ministry, the Ministry of Justice (table 2.6). Employees of the highest-paid ministry, the Ministry of Finance, earned, on average, twice as much as Ministry of Justice employees. As the data in table 2.6 indicate, the relative discrepancies were greatest among lower-level professionals such as inspectors and specialists, although in absolute terms the gap at the high end of the pay scale was greater.

### Table 2.6 Net Average Monthly Wages for Full-time Employees in Labor Positions in the Central Government, May 1994

<table>
<thead>
<tr>
<th>Position</th>
<th>Total Thousands of employees</th>
<th>Percentage of central government average</th>
<th>Highest Thousands of employees</th>
<th>Percentage of central government average</th>
<th>Lowest Thousands of employees</th>
<th>Percentage of central government average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department director</td>
<td>17,899.4</td>
<td>190</td>
<td>31,998.4</td>
<td>336</td>
<td>17,940.0</td>
<td>191</td>
</tr>
<tr>
<td>Deputy department director</td>
<td>16,175.2</td>
<td>172</td>
<td>26,188.2</td>
<td>278</td>
<td>15,636.5</td>
<td>166</td>
</tr>
<tr>
<td>Advisor to minister</td>
<td>14,402.5</td>
<td>153</td>
<td>22,361.8</td>
<td>237</td>
<td>13,002.0</td>
<td>138</td>
</tr>
<tr>
<td>Chief specialist</td>
<td>10,192.3</td>
<td>108</td>
<td>18,054.7</td>
<td>192</td>
<td>6,992.5</td>
<td>74</td>
</tr>
<tr>
<td>Senior specialist</td>
<td>8,389.1</td>
<td>89</td>
<td>13,262.8</td>
<td>141</td>
<td>6,500.6</td>
<td>69</td>
</tr>
<tr>
<td>Specialist</td>
<td>8,079.8</td>
<td>86</td>
<td>12,723.8</td>
<td>135</td>
<td>6,774.7</td>
<td>70</td>
</tr>
<tr>
<td>Senior inspector/adviser</td>
<td>8,089.1</td>
<td>86</td>
<td>16,250.7</td>
<td>173</td>
<td>6,191.2</td>
<td>66</td>
</tr>
<tr>
<td>Inspector/adviser</td>
<td>6,719.3</td>
<td>71</td>
<td>13,055.7</td>
<td>140</td>
<td>5,468.8</td>
<td>58</td>
</tr>
<tr>
<td>Average</td>
<td>9,416.1</td>
<td>100</td>
<td>17,323.3</td>
<td>184</td>
<td>6,224.7</td>
<td>66</td>
</tr>
</tbody>
</table>

Composition ratio 2.7 2.4 3.3

Note: Wages include allowances. "Highest" category corresponds to the NIK and "lowest" category to the Ministry of Justice.
Source: Central Statistical Office.

To the extent that dispersion of salaries across sectors and ministries has been increasing, it may reflect the de facto staff reorganization discussed earlier, revealing implicit assumptions about the relative value of certain government functions and professional skills. Although this situation displays some traits of a healthy labor market within the government, it also poses a problem for essential but perhaps devalued areas that may find it difficult, in such a climate, to attract and hold high-quality staff. Less esteemed ministries may be losing the ability to draw good professionals to crucial but less attractive government jobs. Anecdotal reports suggest that the problem is widespread and has affected even ministries that have fared well with regard to remuneration. Although the pay raise referred to above may have temporarily mitigated this exodus of highly skilled employees, interviews conducted throughout government identified instances in which skilled staff had indeed left government for private sector jobs, with adverse effects on the policy-making ability of key ministries.
The issue of staff retention is related not only to dispersion among sectors within the budgetary sphere but also to the question of salary compression between top and bottom bureaucratic or professional levels. Using the official salary scale and grading system, the "theoretical" ratio of top to bottom professional salaries—that is, from director to inspector—is very flat at 4.5:1, a considerably lower ratio than in most other industrial countries. Actual salaries are even more compressed; the compression ratio for the central government, excluding manual laborers, was 2.7 in May 1994. Compression ratios vary widely across agencies, and the degree of compression does not appear to be correlated with average agency salaries. For example, two of the highest-paid agencies, the NIK and the Ministry of Finance, had compression ratios of 2.4 and 3.8, respectively, whereas the less well remunerated Office for Physical Culture and Tourism and Ministry of Justice had compression ratios of 2.1 and 3.3.

Again, it is not clear whether such levels of compression have been exacerbated of late, and lack of data prevent a comparison with private sector patterns. Further investigation would be needed to determine whether compression is another factor pushing skilled professionals out of high-level government posts. If so, one policy option that the government could consider, without increasing the overall size of the aggregate wage envelope, would be to shift the wage pyramid to reflect a salary distribution weighted more heavily toward the top level, to ensure higher levels of remuneration for top bureaucratic echelons. It should be noted, however, that anecdotal accounts reported personnel loss not only at the top level of the bureaucracy but also in secretarial support, especially for staff with competitive computer skills. This shortage has resulted in grade inflation, with skilled secretaries elevated to inspector and specialist levels in order to offer them better pay and more prestigious titles. To deal with such problems, a new grading system, designed to reward scarce skills and, at the same time, to conform to appropriate and accurate descriptions of job duties, would be required.

These issues raise a more fundamental question about public service incentives, which, in general, have not been based on rational or meritocratic criteria. A large part of the pay package is inertial, determined by job grading and length of tenure. The average employee may receive a basic wage and, in the case of the five highest managerial categories, a functional allowance worth up to 15 percent of base salary. The base wage in 1993 was divided into 21 categories. (The lower end of the scale, it should be noted, is determined more or less by the movements of the national minimum wage.)

The wide variation in central government remuneration reflects the importance of non-wage allowances and a high degree of managerial discretion. All workers receive a 13th-month salary. For workers with more than 20 years of seniority, a five-year anniversary special bonus is also paid, starting at 75 percent of base wage, and topping at 300 percent of the base wage.
Employees are also entitled on separation (historically, an unlikely event) to severance pay of up to six months, depending on seniority. In addition to these allowances, other bonuses can be awarded at the discretion of individual managers. Since budgetary allocations depend on the number of authorized positions, not all of which are filled, managers can distribute, as they see fit, unspent funds among current workers. There seem to be no specific rules limiting the discretion of managers in allocating these funds or limiting the portion of unspent resources that can be distributed for this purpose. Furthermore, there appears to be little if any linkage between the allocation of these allowances (or of basic pay) and job performance.

As with wage levels in general, the proportion of remuneration attributable to allowances varies substantially across agencies, from a low of 4 percent in the National Radio and Television Council to a high of 70 percent in the Ministry of Finance. Most agencies appear to fall into the 10–25 percent range. As the rankings in table 2.7 indicate, this variability in allowances has, in fact, a major impact on actual salary levels. For example, the Ministry of Environmental Protection, where allowances are equal to 8 percent of the average base wage, ranks 15th according to average base salary and 22nd when allowances are included. In contrast, the Ministry of Foreign Economic Relations, where allowances amount to 23 percent of the base, ranks 24th according to base wage and 14th when allowances are included. While the reasons for such variations are not easy to document empirically, they probably reflect, on some level, the same implicit assumptions about different government functions discussed above, as well as a response to private sector competition for needed skills.

Such variations, which stem from the overall personnel budget allocation awarded each ministry, represent de facto constraints on managerial discretion with regard to allowances, in certain agencies at least. Managerial autonomy in rewarding staff is also somewhat constrained by indirect controls operating throughout the public service as a whole. Promotions are limited by the oversight of department complements by the Council of Ministers, which has the power to limit the number of department directors and deputy directors, the highest-paid positions in the administration. In addition, the overall complement of positions is customarily agreed upon in consultation between the individual organ or ministry and the Ministry of Labor, which in turn consults, at least on an informal basis, the Ministry of Finance. Aside from these mechanisms, central control over the grade composition of government employment appears to be lacking.

Institutional Management of Government Pay and Employment

As the above discussion suggests, the determination and administration of government pay involve a number of institutions in a complex and not always
rational system. The system is, in fact, a hybrid, combining features of both the former centralized communist structure and the more decentralized practice that has evolved during the reform period.

Table 2.7 Wages for Full-time Employees in Nonlabor Positions, by Central Government Agency, May 1994

<table>
<thead>
<tr>
<th>Agency</th>
<th>Base Employees</th>
<th>Rank</th>
<th>With allowances Employees</th>
<th>% Base</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>7,941</td>
<td></td>
<td>9,416</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supreme Control Board</td>
<td>14,540</td>
<td>1</td>
<td>17,327</td>
<td>119</td>
<td>1</td>
</tr>
<tr>
<td>Office of the Ombudsman</td>
<td>11,451</td>
<td>2</td>
<td>13,181</td>
<td>115</td>
<td>3</td>
</tr>
<tr>
<td>Presidential Chancery</td>
<td>11,186</td>
<td>3</td>
<td>13,661</td>
<td>122</td>
<td>2</td>
</tr>
<tr>
<td>Central Customs Offices</td>
<td>10,940</td>
<td>4</td>
<td>12,950</td>
<td>118</td>
<td>4</td>
</tr>
<tr>
<td>Sejm Chancery</td>
<td>10,647</td>
<td>5</td>
<td>11,995</td>
<td>113</td>
<td>8</td>
</tr>
<tr>
<td>State Labor Inspection</td>
<td>10,198</td>
<td>6</td>
<td>12,719</td>
<td>125</td>
<td>6</td>
</tr>
<tr>
<td>National Election Office</td>
<td>9,960</td>
<td>7</td>
<td>12,146</td>
<td>122</td>
<td>7</td>
</tr>
<tr>
<td>National Radio and TV Council</td>
<td>8,876</td>
<td>8</td>
<td>9,769</td>
<td>104</td>
<td>12</td>
</tr>
<tr>
<td>Senate Chancery</td>
<td>8,766</td>
<td>9</td>
<td>10,301</td>
<td>118</td>
<td>9</td>
</tr>
<tr>
<td>Securities Commission</td>
<td>8,167</td>
<td>10</td>
<td>9,110</td>
<td>112</td>
<td>13</td>
</tr>
<tr>
<td>Office of the</td>
<td>8,136</td>
<td></td>
<td>9,347</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Council of Ministers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Labor and Social Policy</td>
<td>8,085</td>
<td>12</td>
<td>9,557</td>
<td>118</td>
<td>10</td>
</tr>
<tr>
<td>Ministry of Telecommunications</td>
<td>7,788</td>
<td></td>
<td>8,543</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Environmental Protection</td>
<td>7,745</td>
<td>13</td>
<td>8,343</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Agriculture and Food Economy</td>
<td>7,733</td>
<td>15</td>
<td>8,400</td>
<td>109</td>
<td>22</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>7,579</td>
<td>16</td>
<td>12,861</td>
<td>170</td>
<td>5</td>
</tr>
<tr>
<td>Central Planning Office</td>
<td>7,540</td>
<td>17</td>
<td>8,721</td>
<td>116</td>
<td>17</td>
</tr>
<tr>
<td>Ministry of Planning</td>
<td>7,494</td>
<td></td>
<td>8,499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Industry and Trade</td>
<td>7,476</td>
<td>19</td>
<td>8,571</td>
<td>115</td>
<td>18</td>
</tr>
<tr>
<td>Ministry of Ownership Changes</td>
<td>7,409</td>
<td>20</td>
<td>8,180</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Health and Social Welfare</td>
<td>7,433</td>
<td>21</td>
<td>7,924</td>
<td>107</td>
<td>31</td>
</tr>
<tr>
<td>Labor Office</td>
<td>7,419</td>
<td>22</td>
<td>8,812</td>
<td></td>
<td></td>
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<tr>
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— Not applicable.

Source: Central Statistical Office.

Pay determination. The Budget Office of the Ministry of Finance, with the endorsement of the Council of Ministers, provides an overall budget ceiling for the aggregate wage envelope. Yearly wage guidelines are developed through a process involving the Council of Ministers, the Ministry of Finance, the Ministry of Labor, the Economic Committee of the Council of Ministers (KERM), and the relevant trade unions, which are especially active in education and health. The budgeting of wage bills has been done on an incremental basis, with the Ministry of Finance making decisions as to how much the salary mass will increase over previous years. The ministry's primary aim has been to abolish automatic indexation of wages and develop a new approach to collective negotiation arrangements. The Ministry of Finance is also involved, with the Ministry of Labor, in decisions about the distribution of the total wage package among various ministries in the budgetary sphere. And, of course, the Ministry of Finance transfers funds directly to ministerial agents to administer the payroll.

The Ministry of Labor, once the principal administrator of wage policy for the entire society, continues to play a very important role, relative to ad-
ministrative models elsewhere, in defining remuneration policy, pay scales, and allocation of the wage fund among ministries and other budgetary units. Thus, although a standard salary scale exists in principle for most of the budgetary sphere, in practice norms are developed in consultations or negotiations among the Ministry of Labor, the individual state agencies, and the relevant representatives of collective labor. This system was conceived as covering all budgetary sphere employees—central and deconcentrated administrative units, teachers, and health workers. The nonbudgetary state enterprise sector was excluded, as were the military and security forces and political positions in ministries.

Establishment management and payroll administration. The establishment management, payroll administration, and overall personnel functions of government are extremely decentralized and, by and large, rudimentary. Each ministry or agency has a personnel department that maintains individual dossiers with general information on age, social background, education and qualifications, references, general health, examinations, and interviews. Personnel departments vet promotion applications submitted with appropriate documentation from individual ministers, and, in theory, they review applications for individual salary increases. At most, however, this review function is a check for possible abuse; virtually all proposals submitted are approved.

Recordkeeping techniques are antiquated by industrialized country standards. Personnel records are kept manually; they are not fed into a larger personnel management information system, nor are they linked systematically or electronically to the payroll. Instead, changes in status are recorded and reported on paper. Personnel management is not hindered only by lack of technology, however. Because of the widespread abuse of personnel records for political control during the communist period—a legacy Poland shares with other Eastern bloc countries—the function of personnel management itself has retained a stigma. Moreover, modern personnel management methods are unfamiliar. Indeed, except for instruction in the application of periodic legal modifications or in the calculation for remuneration purposes of the newly introduced personal income tax, personnel officers receive virtually no professional training.

Finally, the actual administration of the payroll is outdated. The Ministry of Finance distributes the payroll to each ministry, which in turn makes its own decisions about distribution, under the constraints described above. Wages are paid in cash, and the main secretary from each department signs out a lump sum for the payroll from the cash vault. No systematic check on employee identification takes place, though fraud has rarely been reported.
Reinventing the Civil Service

In its efforts to equip state administration with the staff capacity for critical transition tasks, Poland faces a threefold challenge: to define and circumscribe the nature of the civil service, restricting its composition to those staff who carry out essential core functions; to establish a package of remuneration and incentives that is at once fiscally responsible and generous enough to attract and retain qualified personnel; and to put in place the institutional infrastructure to manage the public sector personnel establishment on an ongoing basis.

Careful examination of the available data on public employment in Poland presents a picture that is more complex than earlier, more casual observations indicated. On the basis of international comparisons, overstaffing for the budgetary sphere does not appear alarming, and a narrower focus on the core administration indicates still less redundancy in the aggregate. This does not mean that redundancy is not a problem in some areas. The main issue appears, however, to be one of rational distribution and allocation of staff, by sector, agency, function, professional skills, and administrative responsibility. Some organs and sectors may indeed require drastic downsizing (education is an obvious target) or replacement of existing staff by personnel with more appropriate professional skills. Others may need additional staff who could, in part, be transferred from elsewhere in the public sector. Internal reassignment might not, however, be the best means of staffing some of the new government institutions and agencies that are now being developed. It might be better to contract certain skills on an as-needed basis from the emergent private sector or to develop them, as discussed below, through pre- or in-service public service training.

A number of policy implications emerge from these considerations. One is simply that reform efforts excessively focused on downsizing per se would be misplaced because the overall dimensions of the Polish public service already largely conform to international standards. At the same time, the allocation and distribution of staff among various parts of government appear to be inefficient and in an extreme state of flux, as reflected in conspicuous increases and decreases in personnel for the budgetary sphere as a whole. For some agencies and sectors, therefore, severe redundancy or scarcity issues may need to be addressed.

Public sector wage policy is a source of somewhat greater concern. Although the wage bill is not dangerously high, it has been increasing relative to other elements of the budget. Average wages have eroded, and pay differentials between the top and bottom levels of the bureaucracy have been compressed, constraining the ability of agencies to recruit and retain qualified professional and managerial staff. At the same time, levels of compensation differ widely across government, creating winning and losing ministries.
Compensation management remains decentralized, with considerable managerial discretion but with little transparency and few links to merit or performance. Establishment management systems and procedures are rudimentary and out-of-date, and professionally trained staff are not available to oversee or modernize them. Serious reforms in wage and remuneration policies are clearly needed if Poland is to have a public administration system that can keep track of and place staff, as well as provide adequate but affordable salary incentives.

Civil Service Management

Carrying out the tasks outlined above will not be easy. More daunting still is that these tasks constitute only a first step toward meeting the monumental challenge of creating a civil service on the ruins of the former communist bureaucracy. The next section focuses on the civil service management aspects of public administration reform. First, we outline the chief elements of civil service management that will need to be in place to meet both the urgent demands of the transition and longer-term expectations for developing a modern, effective, and responsive bureaucracy in Poland. We then discuss the present state of the Polish public service, exploring the origins of current practices and diagnosing problems in crucial administrative areas.

Creating a Civil Service

To achieve real and lasting administrative improvements, nothing less than a transformation of the civil service and its administrative culture has to take place. In formulating, implementing, and enforcing sound policies, the government has to be responsive and accountable to its citizens—citizens who, in turn, must be confident that the state can do its job effectively and impartially. The bureaucratic machine must be one that can act quickly; decisions need to be made rapidly at all levels of the hierarchy, not just the top of the command structure. As the initiator and implementor of public policies that will be crucial to the success of Poland's economic reform program and the sustained development of a strong market economy, the government must have both a well-managed civil service and able cadres to staff it.

To meet these objectives, changes will be required in a number of areas of civil service management. This section highlights those functions that must be up and running to meet basic administrative needs during the immediate transition period and to provide the building blocks for further civil service development. These functions include: the development of a modern organizational culture; the development of leadership-grooming mechanisms for civil service cadres; the design of operating systems and rules for ongoing
management of the civil service; and the establishment of a legal and institutional infrastructure for civil service management and oversight.

Present State of the Polish Public Service

Although much of Poland’s present-day administrative structure and behavior can be traced to the former communist regime, underneath lies an important legacy from Poland’s more distant past. The present tendencies toward bureaucratic centralism, authoritarianism, and legal formalism mixed with informal personal networks were all bequeathed by the country’s complex bureaucratic and political history. This history spans Poland’s feudal administration and the advent of statehood in the 12th century, years of foreign domination and partition among Russia, Prussia, and Austria-Hungary, the creation of central government in 1918, German occupation during World War II, and, finally, communist rule during the postwar period. Throughout, several characteristics typified the state administration: a rigid and steep bureaucratic hierarchy—that is, many layers of bureaucracy with decisional autonomy only at the top of the command structure; power derived from personal ties and seniority rather than merit; and the prevalence of inflexible rules undermined by clientalism and circumvented by the use of zalatwic (loosely equivalent to the American slang word “pull”).

Rather than dismantling this traditional organizational culture, the communist regime built upon it. Communist Party domination of the bureaucracy reinforced the top-down, centralist decisionmaking structure, with its preference for promotion on the basis of political or personal qualities instead of performance. This behavior was embodied in the nomenklatura system found in most regimes of the region, under which the list of individuals suitable for appointment was determined by the leading executive organs of the party.

Ironically, internal opposition to this system only reinforced dysfunctional bureaucratic behaviors. Resistance to party domination took the form of insulation of superiors by subordinates, who withheld information and created a “wall of formalized deference.” Authority was also subverted through informal networks. The impetus of the party toward centralization was not able to offset the existing tendency toward isolation and fragmentation; the result was minimal communication among organizations in the public sphere. Although some western intellectual and technical influences, such as the scientific management and professionalism movements, had modernizing effects in Poland in the 1960s and 1970s, the overall impact was minimal and was mainly felt in academic rather than bureaucratic or political circles.17

The consequence of this cumulative administrative culture is that, despite an extremely literate and well-endowed human resource base in the country as a whole, Poland suffers from a critical shortage of the technical
skills required for policymaking, especially in economics and public management. There are, to be sure, some promising recent trends. Many talented professionals previously associated with academic institutions have assumed key positions in the bureaucracy, replacing virtually all of the top administrative elite from the former regime. What is less encouraging is that these new cadres lack crucial technical background and policy skills, as demonstrated by the widespread use of outside advisers, who provide some temporary relief but no lasting solution. The size of the new elite is, in any event, insufficient to carry out the government's critical reform agenda.

As the above history suggests, the evolution of organizational culture is a slow process, a product as much of historical accident as of deliberate planning. An appreciation of the weight of this indigenous tradition underscores that the transformation of the Polish bureaucracy into a modern public administration will not happen overnight. At the same time, the urgency of the task demands concentrated, practical action. One important target for this action is the administrative cadre that will staff the new service. Some approaches to cadre development and leadership grooming are discussed below.

Cadre Development and Leadership Grooming

Creating a civil service means, at the most fundamental level, developing a staff that is both well prepared to carry out technical and policy functions and committed to a common public service ethos. The first step in developing high-quality government cadres is to obtain an accurate picture of the present skills base of the Polish public service. Little information is available regarding the nature or distribution of professional skills in government, some anecdotal observations are possible. Mostly reports suggest, a dearth of policy and technical skills throughout government, especially in public finance, accounting, macroeconomics, and computer technology. These shortages have been exacerbated by the exodus of talented personnel to the private sector. Initial organizational studies of individual ministries reinforce the generalized picture of a scarcity of policy skills in particular sectors, such as agriculture.

Quality secretarial skills also appear to be in short supply. This shortage perhaps explains the unusually high proportion of professionals to clerical support staff (approximately 6:1). The significance and appropriateness of the ratio depends, of course, very much on considerations of workload, technology, and skills, factors not examined in any depth here. It seems, however, that Poland's administration is not overstaffed at lower clerical levels, as is often the case elsewhere. Managers clearly view the lack of adequate secretarial support as a problem; as mentioned earlier, this situation conventionally has been dealt with through inflating grades, that is, assigning to qualified secretaries titles that imply higher professional grades and thus better salaries to keep them from leaving for the private sector. Eventually, upgraded
office technologies, such as electronic mail and word processing, may mitigate the secretarial and clerical shortage.

A surplus of lower- and middle-management staff has also been reported—the result, it appears, of high numbers of ideologically-motivated appointments made at these bureaucratic levels under communism. Despite purges of higher staff, many personnel originally at low echelons in the communist bureaucracy are still in place or have even moved up the career ladder, often replacing their ousted former superiors. The result is the presence of a somewhat dysfunctional vestige of the old system in the new bureaucracy. Many petty officials are older and more accustomed to responding to cues of obedience and control than engaging in independent analysis and action. Precisely because of the advanced age profile of these officials, this problem may gradually resolve itself through normal retirement. Meanwhile, a balance must be struck between the need to ease out truly untrainable staff and the risk of losing a critical mass of bureaucratic skills and experience. Moreover, as many observers of the Polish bureaucracy note, the extent of political compromise in the previous era makes it difficult to find technically skilled people “of a certain age” without some communist ties. Under these conditions, attempts to clean house thoroughly may be illusory.

The fact remains that, for these employees, as well as for other, more recently recruited staff, behaviors common to modern democratic administrations—such as autonomous decisionmaking, critical analysis of policy options, responsive service demeanor, and collegial coordination and information sharing—are unfamiliar. To the extent that these behaviors can be instilled at all, staff development or training programs for prospective and current public servants can help change the existing organizational culture. We examine some of Poland’s public service training efforts below.

Generating Institutional Capacity: Targeting Critical Skills

Successful civil services throughout the world use training programs to develop skilled cadres for the public administration. Training is likely to play an even larger role in a country such as Poland, where a dramatic reorientation of staff needs to take place quickly if the government reform program is to keep on track. Poland has made impressive strides toward developing public service training, but capacity remains limited. Disagreements over who should be trained and how have so far prevented policymakers from applying a strategic focus to training and career development issues, although there are signs that such a strategy has started to develop.

The National School of Public Administration. By far the most energetic and ambitious effort in public administration training has been the work of the National School of Public Administration (NSPA), established by Parliament
in June 1991. The school, set up to provide training for prospective elite cadres, administers a two-year postgraduate course in general public administration, public policy, and international relations for new recruits (under age 30), who enter the school through competitive examination. On completion of their studies, these cadets are ranked on the basis of their NSPA performance and are guaranteed middle-management positions in the core government administration. NSPA graduates assuredly have been on fast tracks to higher posts; within one year, they were likely to reach director general (department head) level. The school, which turns out 60 graduates each year, draws its part-time faculty from government officials, university professors, and visiting or resident foreign experts.

The NSPA has so far been quite successful in attracting international interest and assistance, and has had programs of cooperation with a growing list of institutions in the United States and western Europe. The school's curriculum emphasizes public law and administration; micro-, macro-, and welfare economics; public finance; international relations and introduction to European Community law; international contract-making; and diplomatic protocol. It also offers training in negotiation skills, decisionmaking, and communication, as well as more general courses in the social sciences. A key element of the curriculum is a six-week internship abroad, mainly in western Europe and the United States. The program is supplemented by daily intensive teaching of two foreign languages and by practical computer training. Students are financed through bonded scholarships on condition that they serve in government for a minimum of five years after graduation.

The NSPA is one of a few such institutions in the former Soviet bloc, and its impressive achievements should not be underestimated. In mobilizing resources to tap into international experience on elite cadre training, it has planted the seeds of a very good higher civil service staff college. Much remains to be done, however, and the school's institutional capacity still needs to be strengthened. Moreover, some have questioned the wisdom of continuing to focus resources on a single, narrow-entry, elite training institution rather than encouraging the development of a more open, competitive system with higher-level training provided by other organizations from the public or private sector. One reason to seek a broader institutional approach to training is the NSPA's high cost per student and the small number of graduates produced annually. Many have argued that a more competitive model would train more students more efficiently.

_In-service training._ Although pre-service training has received most attention in Poland, training for incumbent civil servants—until recently, largely neglected—is also a crucial component of administrative reform. Given the very limited coverage of the NSPA and the likelihood that many of today's public servants will be in post for some time to come, in-service training is
clearly needed. The NSPA's focus has largely excluded programs for current public servants, other than the exceptional short seminar for small numbers of senior government officials. Some preliminary government efforts, such as the formation of an Advisory Council for In-Service Training, have begun to redress the imbalance between pre-entry and in-service programs. In-service training is also emphasized in the recently passed Civil Service Law.

But, Poland's capacity to deliver quality in-service training has some distance to go. Although a range of public and private institutions, in principle, sponsor some training for public employees, it is often technically weak, and the content is still frequently imbued with approaches and even ideology from the communist era. Most institutions lack teaching staff with sufficient background in modern management practice or in western concepts of finance, law, and economics. The NSPA's own capacity would have to be significantly enhanced to undertake serious in-service training. Moreover, even incipient attempts to link NSPA's pre-entry programs with in-service training have met with resistance from high-level public servants, who themselves believe they do not require additional training. Social dynamics have also been difficult. Seasoned public servants have been uncomfortable being trained alongside the "green" recruits who comprise the NSPA student body. And for many, the whole concept of "training" in Poland is still associated with the involuntary socialization aspects of the previous regime. The institutions, instructors, and course content selected to reorient and reeducate public servants for the new civil service thus need to be professionally and politically above reproach.

In addition to programs specifically designed for civil servants, other training and educational organizations offer programs that might be relevant to in-service public administration training. Management training in a broader sense is offered by various sources, including higher education institutions that offer full-time graduate and part-time extramural study programs and independent management training firms and institutes. Some of these provide longer-term degree programs that are not feasible for the majority of public servants, but short courses are also available. Shorter-term training is also available from approximately eight upgrading institutes attached to government ministries that train state employees in specific (mainly sectorally oriented) aspects of management. Most emphasize economics, enterprise management, and finance and accounting.

Training of lower-level staff. Another neglected area of civil-service training concerns lower-level staff. Alongside efforts in the upper and middle echelons, transforming the old bureaucratic apparatus into a modern civil service requires a significant reorientation of lower-ranking officials and support personnel. As indicated earlier, the drain of skilled support staff to the private sector has already become a serious practical concern. Training in the
areas of basic accounting, word processing, computer technologies, and commercial law is needed. Such skills were apparently underdeveloped under the old regime because relatively little “paper” was produced. Now, with more policy analysis, production of reports requires enhanced skills. This training function could be largely contracted out to private institutions, or a separate institution might be created for these purposes. In light of the scarcity of qualified lower-level employees, one policy option might be a “multiskilling” approach that increases staff mobility and deployment for lower- and mid-level positions.18

Directions in civil service training. Choices about resource allocation for public administration training require better information about the appropriate targets of training, along with well-defined objectives for what is to be achieved. The main question is, who can be rehabilitated through training? The answer may have to be determined case by case, but it could also be grounded on impartial criteria. An inventory of current skills and an assessment of training needs could be helpful in knitting together target populations, pedagogic approaches, human, institutional and financial resources, time frames, and overall civil service development goals into a strategic game plan for public administration training.

Even short-term training policy decisions have serious longer-range implications for the development of a civil service model. For example, the eventual selection of institutions to carry out training might be centralized (through, at one extreme, a single staff college for high-level recruits) or decentralized (through ministerial training institutes or by vouchers to be used in the private sector). The NSPA program assumes an elitist training model, broadly in the mold of the French or Japanese systems. Such models have worked best where the education system is highly competitive and the civil service is stratified. They presuppose a career rather than a job system and an administrative class that tends to be generalist rather than technical in nature. Even with the passage in 1996 of the Civil Service Act, Poland has yet to make certain crucial decisions about its preferred training model.19

Recruitment as a Vehicle for Bureaucratic Renewal

Recruitment is also a powerful means of transforming the bureaucracy into a professional, merit-based civil service. For this very reason, perhaps, efforts to design new rules for recruitment and new conditions for employment have been mired in complex political debates. The most difficult issues have centered on the rights of current public servants versus the goal of creating a future meritocracy and the relative roles of political and career civil servants. For most of the transition, failure to resolve these and other fundamental questions resulted in rather tentative administrative arrangements that left
the final system still to be defined. A major step toward a definition occurred in 1996 with the passage of the Civil Service Act. This law was not yet implemented at this writing, so the interim conditions that have prevailed for most of the transition were still in force.

During the initial phase of the transition, personnel recruitment into the Polish public service has taken place, in theory at least, roughly in accordance with the last law governing public service employment, the 1982 Law on State Administration Employees. This law distinguishes between state—sometimes called “nominated”—officials and other employees of the state administration. The latter were generally lower-level staff employed on the basis of employment contracts and were subject to the general rules of the Labor Code. They were governed by rules of remuneration, working hours, and rewards defined in the 1982 law, and they could be terminated with one to three months’ notice. Nominated officials were selected for specific posts, the number of which was fixed by the Council of Ministers. They could be fired, with six months’ notice, but only with just cause—mainly malfeasance or restructuring. Thus, all nominated state officials, regardless of their abilities or the original criteria for their recruitment, had de facto tenure. In addition, political appointees, selected by the prime minister, could be recalled or fired with six months’ severance pay.

Although the 1982 law stipulated that state employees must have “an appropriate education” and pass a 12-month administrative apprenticeship, the law did not, in fact, prescribe recruitment practice. As a result, recruitment was been carried out ad hoc, with no clear or uniform standard for procedures across the government. Some agencies (for example, the Personnel Office of the Council of Ministers) reported sporadic attempts to introduce competency criteria into recruitment—written or oral examinations, the use of skills tests for typing, computer literacy, or language proficiency—but these were entirely at the discretion of individual managers and were mainly applied to lower-level labor code employees whose jobs required concrete technical skills. The most rigorous recruitment criteria were those applied by the NSPA; these required a university education and subjected candidates to written examinations and intensive oral interviews.

As the transition wore on and the adoption of a civil service law did not seem imminent, pressures to update the State Employees Act and specify its coverage mounted. In 1994 the Sejm approved the Law on State Administration, interim legislation which stipulated that new employees were to be hired on a contractual rather than a tenured basis. Employees hired under the old system would have grandfathered tenure, but any changes in their employment status would be made on the basis of the 1994 legislation. It was widely agreed that this law was a stopgap measure; questions about how government officials were to be recruited, what the balance should be between political appointees and administrative staff, and whether conditions of pay
and recruitment should be uniform and determined centrally across the service were some of the pressing system design issues that awaited consensus on the overall civil service model and, most urgently, the passage of a civil service law.

**System Limbo—In Search of Rules and Laws**

What prevailed in the early transition was a kind of "system limbo" marked by the absence of consensus on crucial procedures and practices for staff recruitment, career advancement, job definition, grading and pay, performance evaluation, information management, and establishment control. Lacking such definition, work organization and most bureaucratic transactions had to be carried out without the routines that, in most public administrations, provide predictability and consistency to administrative life. Many practices survived that were based on outdated regulations, such as the State Employees Act. These practices often de-emphasized merit, accountability, and autonomy and they created a confusing, uncertain environment in which to work, depressing staff morale.

The difficulties confronted by lawyers working in the bureaucracy provide one example of the role confusion that accompanied the administrative transition. Under the former regime, the job of lawyers was simply to review and rubber stamp legal decrees issued by their superiors. In the new bureaucratic environment, they have been required to perform tasks for which they have no training, and they are unsure what is expected of them. They are now asked, for instance, to comment critically on such matters as proposed draft legislation or the likely implementational and financial implications of a new act of Parliament. This role confusion has been reinforced by the absence of formal job descriptions laying out the basic duties and characteristics of tasks in the new bureaucratic order. Reporting relationships and responsibilities for information sharing among individuals and among departmental units have not been well defined.

Such problems have been reproduced at all administrative levels. No standard operating procedures have been applied even to simple tasks such as memo preparation or departmental budgeting and accounting. No mechanisms for formal information dissemination or horizontal communication among different sections—even within single ministries—have been introduced. While command bureaucratic structures might have been able to operate without such mechanisms, their absence in more participatory organizations has made work feel unstructured and undirected. In the absence of more agreed-upon official guidelines, administrators have commonly resorted to improvised codes and regulations to allow their agencies to function. Even temporary guidelines and manuals to help adapt procedures to the current environment have been lacking.
The results of this situation have been evident in promotion and recruitment practices within the civil service. The old mechanisms for career advancement, which were primarily based on a highly questionable system dominated by ideological considerations, have been repudiated. Although a mechanism for periodic performance evaluation, as set out in the Law on State Administration, had officially existed under communism, the post-communist regime abandoned these procedures in 1989, because they were felt to be contaminated. Even so, in an impulse to preserve some order and direction, public servants continued to draw on the 1982 law in preparing evaluations or justifying recommendations for promotion. But, essentially, promotion has been carried out without rules. This lack of predictability and transparency has eroded the credibility of the new order.

Growing concerns about the new administration's legitimacy underscored the need for political and legal consensus on at least the starting point for a fair and responsible system of civil service management. After a long and exhaustive public debate, an important first step was taken in 1996 with the approval of the Civil Service Act. Indeed, the government made that law a centerpiece of its broader administrative reform program, on the assumption that restructuring central administration could have only a superficial impact without major changes in personnel management systems and incentives for government service. The passage of the law, which took place only after numerous redraftings and intense political conflict, represents a significant advance. It provides the legal basis for a politically neutral civil service, clearly separating civil servants from political appointees. It also creates an organizational structure for ongoing civil service management and establishes the principles (if not the specifics) of recruitment and promotion based on merit. The act also reflects a decision to create the civil service incrementally over an unspecified period. The administration would in this way be able, at least in theory, to build a quality civil service as the ablest and best-qualified candidates become available.

An important achievement in democratic consensus building, the Civil Service Law has given Poland the chance—well ahead of most other countries in the region—to begin the long process of developing a professional government service corps. This prospect can be facilitated by the loose structure and general provisions of much of the law which allow for flexible system design as agreement on how the civil service should look evolves. At the same time, the lack of clear delineation of various important features of the civil service places enormous pressure on the government reform team to carve out a fair and workable civil service framework over the next several years. Various issues will need to be addressed in this system design process.

While the act designates institutions to manage the civil service, ambiguity persists about their respective roles and relative autonomy. The Civil Service Council created by the act can serve only in an advisory capacity to the
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prime minister—the official head of the civil service. This council is to consist of both civil servants and citizens from other walks of life and would be serviced by a chief of the Civil Service with support from the Office of the Civil Service. The Civil Service Council also oversees three Civil Service Commissions, for Qualifications, Appeals, and Higher Discipline. All three of these bodies, however, would be directly subordinate to the prime minister, although it is suggested that recourse to the Commission of Appeal may be sought through the Supreme Administrative Court, if specifically stipulated by law. This provision is one of the very few checks (the fixed terms of the commission and council members are others) on the prime minister’s power to shape the practices and policies of the civil service. Whereas an independent civil service board or commission serves to insulate the civil service from political manipulation in many countries with strong civil service traditions, in Poland virtually all power over the civil service has been placed in the hands of the prime minister.

The criteria for entry into the civil service and approval for higher management posts have also been the subject of intense debate. Knowledge of one foreign language is required only for the top class—four classes are envisioned—of the new civil service. Critics contend that the law should stipulate that the foreign language be a western European one, to facilitate contact with the EU. Familiarity with Russian, which is fairly common among older civil service cadres, would be of little use in cementing Poland’s ties with the rest of Europe and beyond. Critics also argue that the language requirements, which are essentially a proxy for exposure to western thinking from abroad, should be extended to lower professional classes within the civil service. Indeed, it is clear that the presence of civil servants at all levels who can communicate easily with their European counterparts will be important in easing Poland’s accession into the EU.

Another contested area is the new eligibility requirements for higher management positions, which demand seven years of work experience and four years of managerial responsibilities. This clause effectively rules out the possibility of a bright young graduate rising rapidly to an executive position in the civil service and enhances the likelihood that many bureaucratic survivors of the previous era—which ended approximately seven years before the act comes into force—will remain in their current managerial posts. Critics have charged that the design of a neutral, professional, depoliticized civil service has been compromised in order to maintain the political status quo. Defenders of the act insist that the requirement of managerial experience was intended as a safeguard against immature, unseasoned individuals attaining power in government before they acquire the necessary experience. This point of view is largely a reaction to the rapid promotion of NSPA graduates, who had privileged access to fast-track advancement opportunities in the transition administration. The law eliminates the NSPA’s special status as the
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premier training school for civil servants and allows for the possibility of a range of training institutions to provide pre- and in-service training for the civil service.

Amid the debate over the law’s specific provisions, there also remain serious gaps on important questions of system development and implementation—that is, on how the principles embodied in the law will be put into practice. For example, practical systems for civil service recruitment and promotion need to be designed, and clear performance criteria for evaluation, career advancement, and pay have to be elaborated and tested. It is one thing to call for competitive recruitment in the law itself; it is another to develop rigorous mechanisms that really select and promote the best and the brightest. In the same vein, although the act introduced the principle of evaluation, the specific form of the evaluation system itself needs refining. True, the law’s provisions place a strong emphasis on performance, and clauses allow for dismissal based on poor job performance, among other things. The act, however, does not provide for the possibility that functional changes may demand a different mix of skills, requiring that the government retrench staff who have become redundant and perhaps recruit new employees with the needed experience. Reductions-in-force are not particularly facilitated by the new Civil Service Law.

At an even more basic level, the law leaves undefined the boundaries of the civil service in general. Following, perhaps, the current wave in many advanced countries, the law appears to opt for a lean civil service. At the same time, the questions of who (that is, which categories of current public employees) should be included in this body and how the other parts of the government service should function have gone largely unanswered. The assumption is that the recently revised State Employees Act will govern the activities of the vast majority of public employees, who will not become civil servants. However, as discussed above, this act is mainly a set of “housekeeping” rules, with few provisions for stimulating good behavior or performance.

Without addressing these kinds of implementation issues, it will be difficult for the government to determine the pace and character of civil service induction and development. The act stipulates only that the national budget set annual civil service recruitment levels. On this basis, approximately 3,000 civil servants would have been inducted in 1997. While budgetary considerations are, of course, crucial, what should really drive admission to the new civil service is the development of rigorous standards for recruitment, performance, and promotion, as well as an improved understanding of the kind of skills currently available within the government. Given the numerous conceptual and informational gaps in the Civil Service Act, the real test of the new law will be the ideas and resources that are brought to bear on making government administration work in reality.
The passage of the Civil Service Law is an important step in what is sure to be a much longer process of creating a modern, merit-based civil service, one that will offer the necessary policymaking and implementation capacity to help Poland achieve its goals in economic and political reform. While the law has many imperfections, it offers the foundation for real progress on these fronts. Here, as with the broader machinery of government changes, the "carrot" of EU membership played an important role in moving political actors beyond the conflicts that paralyzed reform efforts for a number of years. One issue on which contentious political actors could agree was that development of an improved civil service was essential to Poland's aspirations to EU accession. In the medium term, a fully modern civil service will be necessary to put Poland on a par with the administrations of other EU member countries. Closer at hand, reforms that stress merit and performance in recruitment and promotion are needed to ensure that a sufficient number of high-caliber civil servants are in place to negotiate and implement the EU accession agreement.

Conclusion

The story of the transformation of the Polish state in the transition has frequently been erratic and difficult to predict. The overall impression was one of a country that made great strides in developing a market economy and democratic polity but had progressed far less decisively toward establishing a modern administrative infrastructure to support economic and political changes. Although the constitutional bases for reforms were firmly established in the early phases of the transition, reforms in the machinery of government were modest and, for the most part, built on institutional changes already introduced before the fall of the communist regime. Decentralization of governmental power and responsibility had advanced only partially, with many preferring a more modest administrative deconcentration to full devolution. Although the state was relatively small in terms of both employment and wages, staff were not allocated rationally, and the mounting burden of personnel expenditures alongside eroded and compressed average pay raised concerns about the future capacity of the government to attract and retain qualified staff. For most of the transition, civil service development progressed only fitfully, with isolated advances in the development of training institutions but with political stasis on the development of a larger legal and institutional framework for civil service management. As a result, the Polish government apparatus found itself operating in an uncomfortable administrative limbo, with the prospect of constructing a fully modern state pushed into the indefinite future.

A somewhat unexpected wild card in Poland's administrative transition was the "carrot" of entry into the EU that dangled increasingly before gov-
ernment policymakers. The incentive of joining Europe and the need to equip the bureaucracy with the means to implement EU standards and to negotiate a good deal for Poland in pre-entry discussions appears to have spurred the government, as well as its political opponents, to take forceful action on an administrative reform agenda. Central administrative organs have been re-organized to reflect the move away from directive government in a branch economy to a policy-oriented government in a capitalist environment. The long, tense struggle over civil service legislation culminated in the passage of a compromise Civil Service Law that could provide the basis for the establishment of a modern, apolitical, performance-oriented civil service.

The 1996 reform package contained legal and policy proposals that had been under consideration and debate for some time. The government’s resolve to push the agenda forward and break the stalemate with opposition parties shows the considerable impact of external inducements in mobilizing domestic support for administrative reform.

The next chapter of Poland’s administrative reform program is still to be written. Although the legal and political foundations for meaningful transformation have been laid, much work remains to be done to create the implementing institutions and to build national capacity. The question of whether the current momentum, driven in good part by the goal of joining Europe, can sustain what must of necessity be a long-term administrative reform effort will need to be revisited in a few years’ time.

Notes


2. Including the Ministry of Energy and Materials, the Ministry of Steel and Machinery, the Ministry of Chemical and Light Industries, and the Ministry of Construction and Construction Materials.


5. Ibid.

6. Ibid.

8. Interest in creating an intermediate level of devolved government has waxed and (mainly) waned in recent years, subject to intense political debate. The previous and present post-socialist governments have so far demonstrated more enthusiasm for strengthening the voivodships, the deconcentrated arms of the central state, than for establishing powiats.

9. This is the Polish terminology. The budgetary sphere includes all those economic and administrative units for which the state budget provides direct payment of wages and those enterprises for which there is a direct budgetary transfer or subsidy. Among the former would be state administration employees, teachers, health workers, and the like. Among the latter would be employees of the railway company, of subsidized theaters, and of sports facilities. The nonbudgetary sphere can be thought of as mainly comprising the state-owned enterprise sector (Przedsiebiorstwa).

10. The OECD country reference was selected with the assumption that the objective of Polish public employment reform is ultimately to achieve developed country norms. Advanced country government employment norms may actually be higher than some middle-income countries; this may possibly be explained by a variant of Wagner’s law, which correlates a rise in government expenditure with increasing GDP. For a discussion of this phenomenon and its possible link with employment trends, see David L. Lindauer and Ann D. Velenchik, “Government Spending in Developing Countries: Trends, Causes and Consequences,” World Bank Research Observer 7, no. 1 (1992): 59–78.

11. For this table, we have defined central administration as comprising the employees of the state administration, minus local government employees, plus the police and the civilian employees in the defense area.

12. Detailed local government issues are beyond the scope of this study, except where related to the central administration.


14. The broad outline of teachers’ skills is known: 54 percent are graduates from universities, polytechnics, and pedagogical universities; 33 percent have post-secondary education (teacher training colleges); and 13 percent have only secondary education. But disaggregated information about the distribution of skills throughout the education sector has not yet been collected. This is just one of the indications of the deficiencies of personnel policy in the sector.


16. “Establishment management” refers to the systems, institutions, and policies used by governments to manage the stock and flow of public employees and to set and implement public wage policies and standardize conditions of service.

18. Through departmental workplace reviews, tasks are redesigned to include a much wider range of skills requirements and staff are given a broader array of training opportunities. Undertaken with extensive union consultation, multiskilling is reported to have significantly increased job satisfaction and worker productivity (especially in Australia, where it has been well developed).

19. One leadership development alternative to an elitist training and recruitment system is the establishment of a senior executive service (SES). This would be a cadre of high-level officials (not including political appointees), with either fixed-term or permanent civil service tenure, which would form the policymaking core of the central government administration. Access would be from anywhere in the service, thus affording greater possibility of upward mobility and career advancement. Variants of such SES programs have had some success in Australia and the United States. This option would need to be very carefully considered and designed to be successful; its advantage is that it offers serving civil servants the chance to be incorporated into an elite corps—an option mainly reserved, as reform proposals now stand, for the new recruits into the NSPA. See Barbara Nunberg, Managing the Civil Service: Reform Lessons from Advanced Industrialized Countries, World Bank Discussion Paper No. 204 (Washington, D.C.: World Bank, 1995).

References


Modernizing the Romanian State: The Go-Slow Administrative Transition

Barbara Nunberg

In important ways, the state transformation process Romania is undergoing in the transition to democracy and a market economy epitomizes dominant trends in Central and Eastern Europe (CEE). Command structures with obsolete functions have begun to shift missions and to shed or reorient staff, and centralized decision mechanisms have started to give way to pressures to achieve better coordination and greater responsiveness in policymaking. Yet Romania’s pace of reform has been different and, in almost all respects, significantly slower than that of its neighbors. The country’s unique history of personalized communism under Nicolae Ceausescu’s one-man rule bequeathed a paradoxical institutional legacy. On the one hand, those institutions most closely associated with Ceausescu’s horrific reign were more unambiguously de-legitimized than in other post-communist settings, and the quest to substitute organs and mechanisms with “new regime” acceptability (albeit often with pre-communist roots) was strong. More generic bureaucratic institutions that could be more easily dissociated from Ceausescu were, on the other hand, less tainted, and the impetus to transform them after his fall far less determined. This paradox was also a feature of Romanian politics. While the post-communist government of Ion Iliescu, which ruled the country until 1996, represented a real break with the hated Ceausescu regime, it had little interest in seriously transforming the political, economic, and administrative power structures of the previous era. In the context of Romania’s generally lower level of economic development, these conditions have resulted in a fragile mix of transitional institutions that are undergoing an awkward combination of rapid innovation, sluggish continuity, and a kind of “go-slow” modernization. Despite some promising initial efforts, this administrative transition has been more halting and ad hoc, and the goal of
significantly improved administrative capacity more remote, than elsewhere in the region.

This chapter examines some of the distinctively Romanian aspects of administrative transition, and the special challenges the country faces in creating a public administration for a modern democratic state and market economy. I look first at the restructuring that has taken place in the machinery of core government, emphasizing the organizational changes occurring in line ministries as well as the introduction of new, cross-system mechanisms to help ensure public accountability. Next, I examine more closely the personnel dimensions of government, in an effort to delineate the size and nature of government employment and to understand how staff—from low-level bureaucrats to policy experts—are allocated. Questions of staff remuneration are then taken up, providing a view of how financial incentives operate in today’s government. In the light of these considerations, the chapter goes on to analyze Romania’s efforts to develop a professionalized civil service on the ruins of the communist bureaucracy. How far advanced is the movement toward a government meritocracy? Finally, I examine the steps taken so far to create the institutional, legal, and technical basis for a politically neutral, competent civil service. While the picture that emerges is in many respects a troubling, the aim here is not to issue a report card on Romania’s administrative reform progress. Rather, I want to provide an empirically grounded picture of the transition’s institutional context, and to highlight those areas where further reforms may be warranted.

Background

While Romania has tried to move quickly away from its communist past, the legacies of the Ceaucescu era weigh heavily on the country’s public institutions. Before turning to the above issues, a brief sketch of the political and administrative backdrop for current reforms is provided.

As in other communist countries, the structure of the pre-transition Romanian government was highly interconnected with the apparatus of the long-dominant Romanian Communist Party (RCP), officially established in the 1965 constitution as the country’s only legal political party. This constitution also created the Grand National Assembly (GNA), a unicameral body of representatives nominated by the party and serving as the highest authority in Romania. The GNA designated representatives to the State Council, which acted for the GNA when the assembly was not in session. The assembly or the council oversaw the Council of Ministers, made up of representatives from different administrative agencies. The actual number of ministries and agencies was not constitutionally specified, however, and the size and nature of administration appear to have varied over time.
Again conforming to the pattern in the rest of the Soviet Bloc, it was, in fact, the party that largely determined the administrative structure. What was unique to Romania was the early and sustained domination of the party by one man, Nicolae Ceausescu. Beginning in 1967, Ceausescu was both general secretary of the RCP and head of the State Council. Although the RCP Executive Committee appeared to control the administrative apparatus through its overwhelming representation (all but one of the representatives to the Council of Ministers in 1989 were members of the RCP Executive Committee), RCP authority and independence waned as Ceausescu’s power grew. By 1974, a constitutional amendment created the post of President of the Republic, to be filled by Ceausescu. Formal presidential reporting obligations to the GNA and the State Council aside, Ceausescu’s installation as president signaled a major consolidation of centralized and personalized rule. Policy by presidential decree became commonplace and, by the late 1980s, political leadership in Romania had taken on clannish dimensions, with assorted key positions in government, the party, and the military occupied by members of Ceausescu’s family.

This centralization of political authority had a variety of implications for the structure of public administration. Interestingly, the concentration of power in Ceausescu’s hands was paralleled by bureaucratic expansion. At the end of the 1980s, the Council of Ministers, over sixty strong, was larger than similar councils of any other Eastern Bloc government except the Soviet Union’s. In 1989, Romania had the largest number of ministries and central organizations of any country in the region. At the same time, the internal structure of the bureaucracy was quite unstable. Agency reshuffling and changes in high-ranking executives were frequent; between 1985 and 1988, for instance, there were over twenty government reorganizations affecting central functions such as defense, finance, and foreign affairs.

The bureaucratic structure that resulted from this situation was highly stratified, isolating the majority of administrative officials from any real role in planning or policy decisions. Decision-making authority was reserved for a few, high-level executives, with little discretion at lower levels. Local government had virtually no autonomy. Moreover, administrative procedure was extremely formal and, despite the lack of western notions of rule of law under Ceausescu, strongly legalistic, consistent with a long Romanian legal tradition that predated the communist era. The result was a bureaucratic class that was both disengaged and insecure, as well as prone to corruption.

Much of this system was swept away with the fall of Ceausescu and the introduction of democratic politics. Major political and constitutional changes have taken place in Romania since the 1989 revolution. A new constitution, based on French and Belgian models, was approved in 1991, establishing the separation of powers. It provides for a semi-presidential republic with a
bicameral Parliament, both chambers of which are elected by universal suffrage to four-year terms and a court system led by a Constitutional Court. Created by the new constitution, it consists of nine judges appointed to nine-year terms by the legislature and the president. Additionally, it reviews the constitutionality of proposed or enacted legislation and rules on matters referred by lower (appellate and district) courts.

The prime minister, representing the dominant parliamentary party, is nominated by the directly elected president who can dismiss ministers and dissolve Parliament. Each district (judet), and the Municipality of Bucharest, is an electoral constituency, selecting deputies and senators through a proportional, open-list system. Each chamber is organized into parliamentary groups based on political affiliations. Legislation may be proposed by the government, by any member of Parliament, or through petition by at least 250,000 citizens. Both houses must approve legislation for enactment.

This constitutional and political framework, established early in the transition, provides the context for ongoing reforms in public administration in Romania. The very speed with which the institutions of government have been transformed presents, to be sure, its own challenges. The scope and pace of legal and institutional reform have, in many ways, taxed the state's ability to implement such reforms effectively. Deeply rooted bureaucratic practices and ways of thinking, moreover, are not so easily changed. Whether these institutional and behavioral obstacles can be overcome will be the real test of the administrative transition underway in Romania. The next section turns to the first set of these reforms—those focused on transforming the machinery of central government.

**Government Machinery:**
**Building Modern Structures and Accountability Mechanisms**

Romania faces its own version of the machinery of government challenge that is present region-wide: How can the communist bureaucracy be transformed into a modern state that can meet the demands of the new political and economic order? What are the changes needed for moving from a system of command to one of consensus? Most observers of the transitional Romanian state apparatus would agree that meeting this challenge will require that the government structures, decision-making processes, and institutional relationships that characterized the Ceausescu-era bureaucracy be significantly altered. This means that obsolete entities need to be eliminated, new mechanisms need to be created to carry out new functions, and organizational units need to be linked in a workable system of coordination and communication. But how successfully is this program being implemented? What are the constraints on following through with these reforms and what factors influence their outcomes? Answering these questions requires a closer
look at the effect of administrative restructuring in specific areas. Here, I look at three dimensions of this restructuring agenda, emphasizing Romania's experience in reforming central government institutions: promoting core cabinet efficiency; shifting ministerial missions from a hands-on to a hands-off posture; and developing effective but unobtrusive mechanisms of accountability across government. Together, these three issues offer an initial picture of the problems facing administrative reform at all levels of government.

Restructuring Core Government Mechanisms

Romania's core government apparatus was constructed upon the remains of the communist Council of Ministers structure; nonetheless, it represents a significant departure from past arrangements, both in its organization and democratic principles. In addition, the present central government structure contains a rather complex web of inter-related entities—many of which are intended to help implement and coordinate the reform process itself—that have been developed since the transition. The roles of these units are still being worked out; until now, in fact, they have frequently tended to operate at cross-purposes and with less than optimal efficiency.

At the core of the new government apparatus is the Office of the Prime Minister, comprised of four departments: European Economic Integration, Information, Trade Union Relations, and the Supervisory Corps of the Prime Minister. In addition, specialized bodies (the National Commission for Statistics, the Department for Local Public Administration, and the Secretary General of the Government) report directly to the prime minister. The Secretary General of the Government (SGG), with ministerial rank, plays a key role in overseeing the administrative procedures associated with the government's work. He is responsible for regulatory matters as well as for the Legal Directorate, which advises the government on legislation and regulation preparation. A Minister for Parliamentary Relations and four ministers of state—for Finance; Foreign Affairs and Minorities; Labor, Social Protection and Trade Unions; and Reform—also report directly to the prime minister, forming the group of state counselors. Regular line ministries, discussed below, are also directly responsible to the prime minister.

Two additional institutional mechanisms operate at the center of government. One is the Executive Bureau, consisting of the prime minister, the ministers of state, and the ministers of Justice, Defense, and Interior. The Executive Bureau may make decisions outside of regular meetings of the government. The other is the Council for Coordination, Strategy, and Economic Reform (Council for Reform), chaired by the Minister of State for Reform. This body is responsible for developing the government's social and economic reform program, coordinating such organs as the National Agency for...
Privatization, the Romanian Development Agency, the Agency for State Enterprise Restructuring, and the National Commission for Forecasting.7

Such changes clearly reflect the ongoing efforts to create a more closely integrated and responsive public administration. Notwithstanding the positive aspects of these developments in core structures and processes, however, their capacity to make and coordinate policy has been constrained by a range of difficulties.8 One problem stems from inadequately prepared policy decisions. Carefully crafted background work is vital, both with respect to executive decrees and for government-prepared bills that are sent to Parliament for review, amendment, and enactment.9 In Romania insufficient information and analysis at early stages of policy formulation has meant that policy decisions are often issued without this careful preparation.

The inadequate analytic and technical support for policy decisions is partly due to the heavy burden imposed by the sheer volume of new decisions and laws, all of which have had to be dealt with during a period when the basic institutions of government have been in flux. The capacity to shoulder this burden at the center of the machine—within the SGG’s office as well as the Council on Reform—has been weak. Although established to promote and coordinate reform, the administrative resources at the disposal of these agencies are far from adequate. A relatively small staff with little experience in policy work and, in some instances, only limited disciplinary background in law, economics, or public management have had to prepare decisions on a wide array of unfamiliar issues under pressures of time and politics.

Such pressures have led to a kind of “short-termism” that leaves little room for strategic thinking and alternative option consideration. This tendency—also found in line agencies set up to implement change—reflects as well a lack of familiarity with strategic planning and forecasting approaches. This has been reinforced by a pervasive resistance throughout government to modern approaches to planning, widely conflated with the disdained central-planning processes that were part of the old command economy.

Discussion of options within core government has likewise been impeded by limited inter-ministerial input and lack of coordination and cooperation among concerned agencies. Ironically, this can be traced partly to the introduction of administrative systems and processes meant to enhance greater interaction among core government organs. All decisions and proposals must be approved by the government in meeting. Under clearly prescribed procedures, the initiating agency must obtain prior, formal clearance of policy proposals from other affected ministries. Debate on quite minor details of issues, is frequently prolonged, often at inappropriately senior, even ministerial levels, leading to serious decision making delay or even impasse. Thus, while the introduction of such cross-system checks is clearly necessary, their value has been compromised by conflicting agendas among government agencies, and by a widely shared apprehension about a return to over-centralization.
The problem here is also a technical one. Weak channels of routine communications at a working level among line ministries, and between ministries and the center further compound consultation difficulties, both with regard to initial exchanges of information on policy matters and the eventual development of coherent policy prescriptions. While factors of organizational and political culture are surely involved, this deficiency is at least, in part, due to insufficiently developed information technology facilities and the corresponding absence of appropriate management systems.

Central policymaking inefficiencies result from, and contribute to, major legislative backlog in a kind of vicious circle. The backlog is generated, on the one hand, by the slow pace with which bills are prepared for parliamentary submission by the cabinet complex, and, on the other, by the massive amount of legislation before Parliament in the context of the major systemic change associated with the transition itself. This legislative backlog generates, in turn, a sense of inertia in key areas, constraining progress on policy development and, ultimately, on implementation of important reforms.

This is not the only way in which the pressures of the transition have themselves impeded reform progress. Ineffective core government has also resulted from inappropriate functional attributions developed in the haste of transition. For example, many of the emergency matters and day-to-day problems currently handled by the Secretary General of the Government would, in less frenetic times, be dealt with as a matter of course by a line ministry. In the transition, when new structures have not obtained parliamentary approval, and expenditure is under rigorous scrutiny from the Court of Accounts (discussed below), the center has sometimes had to bear a disproportionate share of malfunctions in the wider governmental system. Pressure on resources and political imperatives have also been cited as reasons for locating at the center of government various functions that, on the face of it, appear more appropriate to line ministries. Ironically, the reform's rhetorical commitment to leave behind the legacy of over-centralized government has sometimes been sacrificed to the need to get the most urgent tasks of the transition done as efficiently as possible. This has led to a partial re-centralization of government functions.

The transitional, temporary nature of these arrangements has been a concern for lawmakers, however, and efforts to stabilize institutional attributions have been initiated. One such effort is embodied in the draft Law on the Organization and Function of Government, which would seek to clarify, amend, and extend provisions of Law 72/91, the only cross-system legal framework governing the structure of government at present. The current law regulates the global structure of government and stipulates the existence of different ministries. In addition, the internal organizational framework for each ministry is laid out in ministry-specific laws published in the Official Gazette. The existing legislative framework, however, has not kept pace with
the creation of new agencies, which often have overlapping or competing jurisdictions. For example, the division of competencies among the State Ownership Fund (SOF), the Agency for Restructuring, and various privatization arms of individual line ministries had yet to be officially defined, as of this writing, leaving each organ to carve out its own mission on a de facto basis.

The proposed Law on Organization and Function of Government would put in place measures to strengthen core government policy mechanisms and clarify inter-agency relationships. For example, it contains steps to enhance the prime minister's support functions as well as to improve the quality of preparation of substantive decisions through the strengthening of a Prime Minister's Secretariat. This secretariat would serve government by providing support to meetings of the cabinet as a whole and, for more minor issues not involving all ministers, to meetings of concerned ministers. It would organize and chair meetings of lower-ranking officials at the working level and examine issues requiring cooperation among ministries, both before ministers made decisions and afterwards, ensuring that interests of key agencies were identified and that details of policy decisions were worked out. These procedures would be backed up by a system of inter-ministerial correspondence to be developed and housed in the secretariat to further reduce the load on ministerial meetings.

Although the proposed law represents real progress on the legislative level, many issues remain unresolved or unaddressed. The improvements the law envisions, presumably to be introduced through a strengthening of the SGG's office, leave in question, for example, the role of the current Council for Reform, now responsible for coordinating the government's reform strategy during the transition. Sorting out which agencies would become part of the permanent institutional landscape and which would be eclipsed when the transition has ended is a complicated task that Romania is only starting to address.

Moreover, while the proposed legislation would bring increased clarity to the division of responsibilities among central government organs, it does not define the relative powers and functions of government at national and local levels. The lack of attention in the 1991 constitution to this issue gave rise to the Law on Local Public Administration, passed in the same year. Yet, by delegating explicit responsibilities to local government, this law (69/91) implicitly derived powers for central government. The legislation did reassign to local government service delivery functions that had once been performed jointly by central government and state enterprises. It failed, however, to provide instructions for detailed resource allocation, and ancillary legislation that would be needed to implement the new arrangements is still lacking. Movement toward real separation of powers has, so far, been stalled.
Reform efforts have not, of course, focused solely on core government machinery. Line ministries have also presented an important target of restructuring, with the rising pressure to adjust mandates, structures, and staffing to the new missions dictated by the economic and political demands of the transition. The challenges posed by central government reforms are multiplied many fold by the size and complexity of the ministerial bureaucracy, as well as by the remnants of communist-era practices and bureaucratic culture within these institutions. Here, as above, reform is characterized by the tension between increasing institutional autonomy and tendencies—some old, some new—toward centralization.

There are nineteen line ministries in Romania, in addition to a number of commissions, agencies, and councils. The organization and operation of central administration line agencies can be established and modified either by government decree or by law. Currently, only three agencies are established by law: the ministries of Interior and Defense and the Romanian Intelligence Agency (formerly the Securitate). The creation of any new government agency must be approved by the Court of Accounts. Within these parameters, however, individual organs may reshape their internal organization to conform to newly-perceived functional requirements. In consultation with the Council for Reform, each ministry has established a team responsible for administrative improvements. The recent experience of three agencies engaged, to varying degrees, in restructuring may shed light on the process. The thrust of reform in the ministries of Finance, Industry, and Agriculture suggests that the shift toward decentralized, hands-off, streamlined management is not an easy one.

Even in tackling their initial restructuring task—the definition of new organizational missions and the establishment of appropriate functional priorities—these agencies frequently found their autonomy constrained. Indeed, as suggested earlier, organizational missions were largely determined by legislation originating outside individual ministries. In addition, many new ministerial tasks were directly related to interpreting and implementing the policy and operational implications of new laws and executive orders. Indeed, drafting additional legal provisions or supplementary regulations became a key activity for these organs. It is no coincidence that the shortage of legal skills was noted early by ministry officials as one of the deficiencies that most undermined agency performance.

At the same time as they have sought to shape an autonomous role for themselves, shifting priorities in these agencies have followed the larger transition trend from "rowing to steering." Where the Ministry of Agriculture once directly supervised the state monopoly of cereal production, for example, it now looked for ways to regulate that production indirectly. With
privatization (actual or potential) of various industrial sector activities, the Ministry of Industry also anticipated a vastly reduced and significantly less interventionist role.

While the agencies endorsed the shift away from execution toward policy guidance, there was less agreement about what such a shift would mean in terms of the level of resources to be devoted to the new agenda or the relative clout of different agencies in the bureaucratic hierarchy. Thus, Ministry of Agriculture (MOA) officials did not interpret a shifting ministerial role as downsizing. These officials pointed to foreign (in particular, French) agricultural institutions as potential models to justify large corps of service agents posted in district-level offices.

This move toward decentralization or deconcentration of functions and staff was a theme that also resonated forcefully in the Ministry of Finance (MOF), where a new financial guard of tax and customs inspectors had recently been installed and expanded on a district basis. In the case of the Ministry of Finance, this decentralization actually signaled an enlarged role for the ministry, whose position has been markedly enhanced by its role in meeting the demand for new economic policies and services.

The MOF's heightened position was, in due course, accompanied by bureaucratic expansion. New departments were created and various processes were developed or modernized to carry out new tasks, often with external assistance. Ministry of Finance personnel received help from the U.S. Treasury Department, for example, in installing debt management and treasury systems in Romania. Also, as in several other ministries, EC-PHARE put a technical assistance unit in MOF to help mount its new Value-added Tax (VAT) system. This triggered a kind of "chain reaction" of reform initiatives. The VAT reform was viewed as a particular success. Its framers pursued a conscious strategy of first introducing technological change through system computerization, which, once in place, then triggered the associated institutional and behavioral modifications necessary for full program implementation. These initial reform efforts on VAT issues served to highlight additional areas in which procedural mechanisms needed to be further improved. When VAT reform was finally implemented, it became evident that the public expenditure approval process in the MOF was cumbersome and inefficient. It was discovered, for example, that eight signatures were required to issue simple payment orders for equipment purchases. Streamlining this process, necessary to fix accountability for expenditure decisions and to enhance system efficiency, became a reform target.

A variety of other changes were put in place. For some pre-existing MOF functions, reconfiguration and consolidation is either underway or contemplated. Creating more coherent departments—in one instance combining the directorates of direct, indirect, and budgetary revenues into one organiza-
tional unit—was an important restructuring goal. The objective was to reduce the overall number of directorates within the ministry, conforming to government policy emanating from the SGG that the number of politically appointed officials and, in particular, state secretaries, should be reduced across the system (from an average of eleven to three per agency).

Changes in ministries at the internal level were not always matched, however, by developments in the structure of the ministerial bureaucracy as a whole. Stabilizing functional attributions and drawing clear distinctions among agencies is a crucial restructuring requirement that has been identified but not yet addressed. Indeed, efforts at reform themselves have, to some extent, enlarged the areas of possible conflict or “turf wars” among ministries. Blurred lines between the privatization functions of the Ministry of Agriculture and the SOF required clarification, as did the overlapping functions of the debt and budget directorates of the National Bank and MOE. While individual ministries have been attempting to make these distinctions through the introduction of organograms and real job descriptions, such jurisdictional conflicts are likely to require resolution at the higher, cabinet levels of core government. Moreover, some attributions deemed specific to the transition with explicit sunset provisions—the case of the SOF, whose extinction was originally to be programmed for seven years after its creation—demand special strategic consideration.

Line ministry reforms in Romania have, so far, also demonstrated the limits of foreign technical assistance in supporting the restructuring process. For example, although MOF leadership accepted, in principle, some of the recommendations offered by a team of foreign consultants on reorganizing the ministry, most of the ninety suggestions contained in the consultants’ final report were rejected. In part, the recommendations were ignored because the external assistance failed to provide clear reform priorities or follow-up guidance on how to implement the proposals. But, some remarked that various of the proposed changes were resisted mainly because they threatened key vested ministerial interests. Thus, only a few reforms were adopted, and then only after a change of ministerial leadership had taken place.

While direct foreign technical assistance has had its problems in practice, foreign models in the abstract—both from Europe and North America—appear to have held considerable appeal for ministerial reformers. The desire to conform to European Union standards drove Romanian tax reforms and thereby organizational changes in the MOF, for example. Also, Canadian approaches to agricultural export credit policy, emphasizing the need for an independent export agency, have guided MOA restructuring initiatives. The lesson here might be that the successful introduction of foreign administrative models depends on the presence of strong economic and political incentives.
Building Accountability in Government

In addition to such structural changes, the reform of government machinery in Romania has also focused on creating or improving mechanisms that hold state officials accountable for public actions. These represent an effort to retrieve long-lost government legitimacy as well as to stem rising abuse of power in the sometimes chaotic wake of the old regime. Various cross-system institutions were established toward this end. The effectiveness of these institutions depends on coming to terms with deeply rooted mistrust of central government authority.

Oversight agencies carry out a variety of functions, primarily in the financial sphere. The Government Review Department, for example, reporting directly to the prime minister, was given responsibilities for the review and supervision of budget appropriations, grants and loans, balance-of-payments, procurement, and public debt. The revamped and expanded State Financial Control Division and the Financial Police, arms of the MOF, have already been mentioned. The former oversees the use of budget funds allocated to central and local bodies of public administration and supervises investment funds and the operation of commercial companies in fulfillment of state tax obligations. The latter is a paramilitary financial control body responsible for the enforcement of tax legislation and customs regulations. The Commercial Control Corps, organized at the district level, supervises business activity and commercial service provision. In addition, a People's Advocate is an ombudsman charged with protecting the rights of individual citizens, either by responding formally to specific grievances or by pursuing problems ex officio. Parliamentary review offers another mechanism of cross-system accountability. A parliamentary committee on public administration, composed of 26 members (12 opposition and 14 ruling party representatives), reviews and amends legislation regarding central and local government institutions. Finally, the Court of Accounts is charged with overseeing the formation, management, and use of the financial resources of government and the public sector.

The impact of such institutions depends, of course, on the character and professionalism of the agencies themselves, as well as the extent to which they are allowed to perform their assigned tasks. A closer look at the Court of Accounts' activities illustrates some of the difficulties facing efforts to build new mechanisms of government accountability. This body drew criticism from various parts of government for overly zealous oversight that, it was feared, could adversely affect the ability of public servants to carry out their duties. The concern was that government officials, afraid that they would be held personally liable for public acts of negligence or incompetence, were failing to take decisive action, thereby paralyzing many administrative functions.
The Romanian Court of Accounts is not, in fact, entirely new. A legacy of the pre-communist Romanian state, it originated as a 19th-century institution first fashioned after the Italian audit model. After its dormancy during the communist period, it was revived in 1993 to play a central role in financial oversight of the public administration. The Court of Accounts has been empowered to exercise both audit and judicial functions, with three types of powers: *ex ante* control of (only) financial acts of central government officials; *ex post* control of broad public financial management (with regard both to regularity and to efficiency and effectiveness); and jurisdictional powers to pass judgment on the propriety of public officials' management of public financial transactions.

It was these *ex ante* controls that, at first, appeared excessive to many, especially those unfamiliar with continental European systems, where such powers were not uncommon. But in Romania, in fact, as in western Europe, these powers were far from unconstrained: the court was bound to a tight time frame in authorizing financial expenditures (three days), and the government had the right of appeal and could even overrule court decisions, though this rarely occurred. Thus, these *ex ante* controls posed less of a danger to public service autonomy than had been originally feared.

In the end, it was the court's *ex post* powers that turned out to be less benign. In particular, the court's power to rule (retroactively) a government official's financial act unwise or inefficient and thereby nullify it, without possibility of appeal, was a source of considerable intimidation to many public servants. This was so even though the court had never actually exercised this power. Disturbing too was the manner in which Court of Accounts controllers were pursuing their *ex post* inquiries. Government officials found the court's investigators bullying and intrusive, behavior that obstructed effective government performance. Critics also deemed the court's jurisdictional powers to be inordinate. These powers held public officials personally liable for their own and for their subordinates' malfeasance, negligence, or inefficiency. Indeed, the activities of public servants were to be governed by the same personal liability clause applied to private citizens through the Civil Code. To many, this clause was being applied inappropriately to government officials acting for the common weal.

In fact, various policy changes could be undertaken to make the Court of Accounts less threatening. The court's nullification powers could be curtailed or the government could be granted the right to overrule the court's nullification under specific conditions. Court of Accounts controllers could be trained in the art of client-friendly investigation, much in the way that police officers are now routinely taught "people skills" in order to smooth their interaction with the public. Also, the draft Civil Service Act's existing clause to limit government officials' liability could be passed and enforced. Concerns about
the Court of Accounts might also be allayed through a public information campaign to convey a more accurate picture of the role and responsibilities of the court in present-day Romania.

But such measures would have little effect if, as some observers suggest, conflicts between the administration and the Court of Accounts continue to be fueled by an over-reaction among government bureaucrats to control mechanisms that resemble, however remotely, those so badly misused by the old regime. This over-reaction has been reinforced by the vulnerable frame of mind of the post-communist public servant in Romania. Insecure in carrying out tasks that are entirely new to them and lacking ratified civil service legislation, public servants have had heightened concerns about their job stability and conditions of employment. Clarifying these uncertainties could achieve a more comfortable equilibrium between government officials' actions and Court of Accounts controls.

The Future of Core Government Reform

The machinery of government changes examined above suggest that while restructuring and reorientation has been occurring in Romania, the pace and direction of reform have been uneven and not fully under the control of the agencies involved. Despite not a considerable consensus about the types of reforms required, impediments and resistance to change at all levels of government have proved formidable. Legislation to stabilize government functions and structures was thus still pending as of this writing, and initiatives to streamline and shrink line ministry organizations, while publicly endorsed, have been privately undermined. Some reforms, such as those that improve coordination and long-term planning and policy preparation, have been inhibited by lingering mistrust toward all forms of centralization. So, while the impulse toward decentralization is strong rhetorically, the implementation of decentralization plans is, in practice, more difficult than expected. And, as the Court of Accounts' experience shows, tensions between old and new political and administrative cultures have not yet resulted in a workable balance between control and accountability.

Government Pay and Employment

The changes in core government structure discussed above were only one aspect of administrative reform in Romania. The changing functional requirements and structural shifts in government would need to be matched by a reallocation of staff and a rationalization of incentives for state employees. On this basis, a modern, professionalized civil service could be created. Reforms of government employment and remuneration policy require an understanding of the status quo. The following is an analysis of current
Romanian pay and employment conditions. Focusing first on recent employment trends and staff deployment policies, the discussion moves on to issues of aggregate wage bill management and remuneration practice. Finally, questions of government’s institutional capacity to manage its own personnel establishment are addressed.

Employment Trends

Defining the dimensions of government employment in Romania is not easy. The picture is obscured by the employment classification system, which still uses the branch economy sectorial categories from the communist period. Thus, conventional western estimates of general, central, and local government are not possible. National Commission on Statistics data include central government employment in a broader sectorial category that also encompasses regional and local government employment, some defense-related occupations, and social welfare benefits providers. This category does not, however, include public employees in the predominantly budget-financed education and health sectors. Nor does it count public employees in such sectors as transportation, post and communications, and industry. Table 3.1 lists employment by economic sector between 1990 and 1992, the last year for which comprehensive data are available. Determining who is where and by whom they are paid is exceedingly difficult.

Table 3.1 Employment by Economic Sector, 1990–92

(Thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3,055.2</td>
<td>3,115.9</td>
<td>3,361.6</td>
</tr>
<tr>
<td>Construction</td>
<td>599.4</td>
<td>500.9</td>
<td>579.2</td>
</tr>
<tr>
<td>Education</td>
<td>407.3</td>
<td>432.7</td>
<td>482.5</td>
</tr>
<tr>
<td>Financial, banking, and insurance</td>
<td>39.3</td>
<td>44.1</td>
<td>57.1</td>
</tr>
<tr>
<td>Fishing and pisciculture</td>
<td>9.0</td>
<td>6.9</td>
<td>6.6</td>
</tr>
<tr>
<td>Health</td>
<td>320.0</td>
<td>311.4</td>
<td>306.6</td>
</tr>
<tr>
<td>Hotel and restaurant</td>
<td>185.5</td>
<td>213.0</td>
<td>175.3</td>
</tr>
<tr>
<td>Industry</td>
<td>4,111.1</td>
<td>3,803.0</td>
<td>3,003.9</td>
</tr>
<tr>
<td>Other branches</td>
<td>267.8</td>
<td>501.2</td>
<td>201.3</td>
</tr>
<tr>
<td>Post and communications</td>
<td>97.2</td>
<td>95.6</td>
<td>92.9</td>
</tr>
<tr>
<td>Public administration</td>
<td>87.6</td>
<td>98.8</td>
<td>112.7</td>
</tr>
<tr>
<td>Real estate services</td>
<td>365.2</td>
<td>280.3</td>
<td>441.1</td>
</tr>
<tr>
<td>Retail and wholesale trade</td>
<td>538.1</td>
<td>698.8</td>
<td>753.9</td>
</tr>
<tr>
<td>Silviculture, forestry, and hunting</td>
<td>89.1</td>
<td>89.5</td>
<td>80.6</td>
</tr>
<tr>
<td>Transport</td>
<td>667.7</td>
<td>593.7</td>
<td>555.7</td>
</tr>
<tr>
<td>Total</td>
<td>10,639.5</td>
<td>10,785.8</td>
<td>10,458.0</td>
</tr>
</tbody>
</table>

Analysis of government employment is further complicated by the decision to shift, from 1991 to 1992, from Romanian to international norms in classifying and defining economic sectors. As a result, pre-1991 data are not readily comparable to later figures. In particular, what was previously simply the public administration sector, called “administration,” became “administration, defense, and compulsory social assistance.” With this more comprehensive definition, the size of the sector expanded substantially. In 1991, for example, there were 83,200 individuals employed in the administration sector under the old classification, versus the 98,800 included in the new category (table 3.2).

Table 3.2 Public Administration Employment, 1988–95  
(thousands)

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<tr>
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<tbody>
<tr>
<td>Old classification system</td>
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<tr>
<td>As a percentage of total employment</td>
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<td></td>
</tr>
<tr>
<td>As a percentage of total population</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>New classification system</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>As a percentage of total employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As a percentage of total population</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

n.a. Not applicable.

Note: Total employment refers to economically productive employment. It does not include persons engaged in non productive activities, such as military personnel, employees of political organizations, and inmates of corrections facilities. 1988–92 data are for the end of the year. 1993–94 data are for January. No data available for 1993.


Even with these classification anomalies, it is nonetheless possible to detect some broad government employment trends. Using the current classification scheme, public administration employment does appear to have grown significantly with the transition, rising from 87,600 people in 1990 to 115,700 at the beginning of 1995, an increase of over 30 percent. Most of this increase occurred between 1990 and 1992, during which time administration numbers rose by 25,000. Since 1992, employment appears to have been relatively stable. The reasons for the 1990–92 increase are not completely clear, but it was probably due in part to a substantial rise in deconcentrated employment in certain line ministries, particularly the ministries of Finance and Labor and Social Protection, as well as to an expansion in local government employment following the passage of a local government law in 1991.
These increases notwithstanding, the current Romanian definition of public administration constitutes a very small fraction of total employment, as table 1 shows. Public administration employment represented only 1.1 percent of total employment and 0.5 percent of total population in 1992, the last year for which complete sectorial employment data were available. But, as suggested earlier, these numbers do not represent the totality of government employment in Romania, as they exclude both education and health sectors, which are predominantly budget-financed. If workers in these sectors are included, "budgetary sphere" employment rises to approximately 852,000 in 1992, equal to 8.1 percent of total employment and 3.7 percent of total population. Even this number represents less than the whole of budget sphere employment, however. A number of additional workers in other sectors, such as industry, communications, and transport, are undoubtedly paid out of budget funds, either directly or through state-owned enterprises. Without reliable information about where they are employed and how they are paid, they cannot be included in budget sphere counts.

Central government. The above data contain various contradictions. For core public employment, that is, employees of government ministries and agencies in Bucharest, the trend appears to be one of decline. As table 3.3 indicates, core central government employment was down by about 10 percent between 1989 and 1994. But, this decline was not uniform across ministries and agencies. The important ministries of the communist era, such as Industry and Agriculture and Food, suffered the greatest losses. Finance and External Affairs, on the other hand, actually grew in size, reflecting power under the new regime. The liquidation of some agencies and the consolidation of employees into new or existing organs undoubtedly explains some changes in employment levels across agencies.

The decline of central government employment appears to have occurred mainly among Bucharest-based staff, since during the same period there was a marked expansion of employment in deconcentrated central government organs (prefectures) located in Romania's 41 districts (judets). Complete information on deconcentrated employment is not available, but data for the two largest employers at the sub-national level, the Ministry of Finance and the Ministry of Labor and Social Protection (MOLSP), indicate that deconcentrated employment has increased substantially. Deconcentrated personnel in the Ministry of Finance increased fivefold between 1989 and 1994, growing from 4,300 to 25,800. The biggest leap took place between 1989 and 1990 with the recruitment of over 10,000 new tax collectors, the financial guard. In 1994, deconcentrated employment in this ministry alone was almost 70 percent higher than the total number of central government employees working in Bucharest.
# Table 3.3 Core Central Government Employment by Agency, 1989–94

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and food</td>
<td>1,438</td>
<td>1,492</td>
<td>1,158</td>
<td>1,082</td>
<td>936</td>
<td>845</td>
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<tr>
<td>Communications</td>
<td>109</td>
<td>92</td>
<td>92</td>
<td>71</td>
<td>90</td>
<td>82</td>
</tr>
<tr>
<td>Culture</td>
<td>169</td>
<td>286</td>
<td>286</td>
<td>270</td>
<td>270</td>
<td>204</td>
</tr>
<tr>
<td>Education*</td>
<td>254</td>
<td>411</td>
<td>411</td>
<td>353</td>
<td>380</td>
<td>356</td>
</tr>
<tr>
<td>External Affairs</td>
<td>1,058</td>
<td>1,732</td>
<td>1,830</td>
<td>1,700</td>
<td>1,845</td>
<td>1,845</td>
</tr>
<tr>
<td>Finance*</td>
<td>635</td>
<td>820</td>
<td>797</td>
<td>1,035</td>
<td>1,510</td>
<td>1,510</td>
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<tr>
<td>Health</td>
<td>149</td>
<td>224</td>
<td>232</td>
<td>201</td>
<td>245</td>
<td>220</td>
</tr>
<tr>
<td>Industry</td>
<td>5,656</td>
<td>4,270</td>
<td>2,632</td>
<td>1,356</td>
<td>1,400</td>
<td>1,444</td>
</tr>
<tr>
<td>Justice</td>
<td>136</td>
<td>236</td>
<td>269</td>
<td>247</td>
<td>280</td>
<td>290</td>
</tr>
<tr>
<td>Labor and social protection</td>
<td>255</td>
<td>310</td>
<td>317</td>
<td>325</td>
<td>459</td>
<td>459</td>
</tr>
<tr>
<td>Public works and physical planning</td>
<td>630</td>
<td>552</td>
<td>556</td>
<td>392</td>
<td>416</td>
<td>416</td>
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<tr>
<td>Research and technology</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>90</td>
<td>140</td>
<td>128</td>
</tr>
<tr>
<td>Tourism*</td>
<td>1,490</td>
<td>1,145</td>
<td>1,143</td>
<td>208</td>
<td>225</td>
<td>201</td>
</tr>
<tr>
<td>Trade*</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>759</td>
<td>850</td>
<td>800</td>
</tr>
<tr>
<td>Transportation</td>
<td>968</td>
<td>1,281</td>
<td>804</td>
<td>695</td>
<td>700</td>
<td>495</td>
</tr>
<tr>
<td>Water, forestry, and environmental protection*</td>
<td>345</td>
<td>374</td>
<td>355</td>
<td>260</td>
<td>310</td>
<td>260</td>
</tr>
<tr>
<td>Youth and sports</td>
<td>83</td>
<td>163</td>
<td>163</td>
<td>179</td>
<td>190</td>
<td>190</td>
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<tr>
<td>Subtotal</td>
<td>13,375</td>
<td>13,388</td>
<td>11,045</td>
<td>9,223</td>
<td>10,246</td>
<td>9,745</td>
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<tr>
<td>Agencies</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>National Agency for Privatization</td>
<td>—</td>
<td>581</td>
<td>581</td>
<td>453</td>
<td>410</td>
<td>105</td>
</tr>
<tr>
<td>National Commission for Statistics</td>
<td>1,538</td>
<td>2,164</td>
<td>2,494</td>
<td>3,208</td>
<td>3,251</td>
<td>3,000</td>
</tr>
<tr>
<td>Office for Consumer Protection</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>746</td>
<td>770</td>
<td></td>
</tr>
<tr>
<td>Romanian Bureau of Legal</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metrology</td>
<td>1,267</td>
<td>1,252</td>
<td>1,252</td>
<td>243</td>
<td>250</td>
<td>254</td>
</tr>
<tr>
<td>Other</td>
<td>538</td>
<td>848</td>
<td>846</td>
<td>1,115</td>
<td>1,249</td>
<td>1,301</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3,343</td>
<td>4,095</td>
<td>5,173</td>
<td>5,760</td>
<td>5,930</td>
<td>5,430</td>
</tr>
<tr>
<td>Total</td>
<td>16,718</td>
<td>18,233</td>
<td>16,218</td>
<td>14,983</td>
<td>16,176</td>
<td>15,175</td>
</tr>
</tbody>
</table>

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Not available.

Note: 1993 and 1994 figures refer to number of authorized positions; data for all other years refer to actual employment. Data do not include security and defense agencies (Ministries of Interior and Defense, Romanian Intelligence Service); the Office of the Prime Minister; and a small number of agencies such as the National Press Agency. Deconcentrated employees of the Ministries of Finance and Labor and Social Protection are not included; it is not clear whether deconcentrated employees of other agencies are included.


Source: Ministry of Finance

The MOLSP also experienced substantial, albeit less dramatic, growth in deconcentrated employment between 1989 and 1994. MOLSP employment doubled, rising from 2,300 to 4,500 in 1994. This increase reflects growth in local labor branch offices, which were responsible for the administration of unemployment benefits and for the provision of employment counseling and training services.
With such limited data, it is difficult to assess objectively the appropriateness of Romanian government employment dimensions. Still, compared to other countries, Romania's central government employment looks relatively small. As the statistics in table 3.4 show, central government employment in Romania constitutes a lower percentage of total labor force and total population than in any of the other countries included in this sample. The usual caveats, of course, must be applied to these data. Definitional and methodological differences in data collection across countries limit the value of comparisons; the scope of government activities also varies substantially across countries. These comparisons do suggest, however, that overstaffing per se is not the key problem in central government in Romania, though adjustments in the allocation of staff across functions may be needed.

Table 3.4 Central Government Employment as Share of Population and Labor Force, 1992 (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Labor force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Canada</td>
<td>1.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.3</td>
<td>4.7</td>
</tr>
<tr>
<td>France</td>
<td>4.9</td>
<td>12.6</td>
</tr>
<tr>
<td>Germany</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Hungary (1993)</td>
<td>0.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Japan</td>
<td>0.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Poland (1993)</td>
<td>0.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Romania</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Spain</td>
<td>2.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.6</td>
<td>9.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.7</td>
<td>6.0</td>
</tr>
<tr>
<td>United States</td>
<td>1.22</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Note: Romania data may underestimate the actual size of central government as some deconcentrated employees may not have been counted. All data are for 1992, except where indicated.
Source: OECD, Public Management Development Update 1994 and National Accounts 1980–1992; Ministry of Interior (Hungary); Central Statistical Office (Poland); Ministry of Finance (Romania).

To the extent that personnel surplus exists, specific sectors should perhaps be examined, particularly those providing social services such as health or education. For example, in the transition period, teacher-student ratios and classroom hours per week were reported to have actually decreased (teachers/students from 45/1 to 26/1; classroom hours/week from 24 to 16). This quite possibly affected staffing levels in the education sector; indeed, employment in the education sector rose by 25,000, from 407,000 to 432,000 between 1990 and 1992. Clearly, identifying staffing surplus and deficiencies in these spheres will require specialized, detailed analysis based on an un-
derstanding of functions and the application of global professional norms. Moreover, some teachers, such as kindergarten staff, paid by state enterprise crèches before 1989, have been reportedly financed out of the budget. More generally, the burden of public enterprises in overall public employment, beyond the scope of this discussion, may well be the more serious challenge for state contraction than the governmental sphere.

**General Government Wage Bill**

Increases in government employment have been matched by the general government wage bill (meaning wages for central and local government employees as well as those from other sectors paid directly by the budget—the "budget sphere"), which has clearly been rising over the transition period. The main growth was during the early transition years from 1989 to 1991, when it rose by over 50 percent. It dropped somewhat between 1992 and 1994, but only to a level that was still about 25 percent higher than that of 1989 (table 3.5).

The wage bill rose from 4.5 percent to 7.6 percent of GDP, before dropping to an estimated 6.4 percent in 1994. As discussed below, this increase in the government wage bill appears to be due to the rise in government employment rather than to an increase in average wages. In fact, average wages have declined during the transition.

Although personnel spending as a share of current expenditures remained relatively constant throughout the transition period, the proportion of total expenditures comprised by wages and salaries rose significantly—by 80 percent between 1989 and 1991 (from 10.5 percent to 19.1 percent)—before dropping slightly to 18.3 percent in 1994. Also of concern was the increase in the ratio of expenditures on wages to those on goods and services by one-third between 1989 and 1990, from 0.8 to 1.1, where it has remained. This may mean that essential services and materials are being crowded out by wages.

The growth in personnel spending early in the transition was that much more worrying when viewed against a backdrop of declining government revenues. Total revenues declined from 51 percent of GDP in 1989 to 37 percent in 1992, sliding still further to 32 percent in 1994. Given the 20 percent decline in GDP over this period, revenue losses actually may be understated; in constant terms, revenues were off by over 40 percent during the transition. The wage burden was thus all the greater: wages and salaries' share of revenues was up from 11.3 percent to 20.4 percent between 1990 and 1993, with only a minor decrease to 19.7 percent expected in 1994.

Whereas the percentage of public sector employment in Romania is, as seen above, relatively low in comparative terms, the percentage of the government budget dedicated to wages and salaries in Romania falls at the up-
per end of the range for the countries shown in table 3.6. The percentage of total revenues comprised by wages and salaries in Romania, for example, is higher than in all of the advanced industrialized countries in the sample except France. Romania's wage bill also looks high in relation to other countries of its own region. The Romanian wage bill as a percentage of total expenditures is more than twice that of Hungary and the former Czechoslovakia. Again, these comparisons are, at best suggestive, since country governmental structures and accounting practices vary widely, and since the precise number of budget-financed public employees cannot be gleaned for Romania from available data. Combined with other indicators, however, these data raise serious concerns about wage structures and remuneration policy.

Table 3.5 General Government Budget, 1989–94
(billions of lei)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In current lei</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>408</td>
<td>341</td>
<td>922</td>
<td>2,225</td>
<td>6,630</td>
<td>17,348</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>342</td>
<td>332</td>
<td>850</td>
<td>2,624</td>
<td>6,645</td>
<td>18,677</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>159</td>
<td>265</td>
<td>715</td>
<td>2,250</td>
<td>5,723</td>
<td>15,373</td>
</tr>
<tr>
<td>Wage bill</td>
<td>36</td>
<td>54</td>
<td>162</td>
<td>453</td>
<td>1,352</td>
<td>3,417</td>
</tr>
<tr>
<td>Goods and services</td>
<td>43</td>
<td>46</td>
<td>154</td>
<td>399</td>
<td>1,086</td>
<td>2,961</td>
</tr>
<tr>
<td><strong>In 1989 lei</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>408</td>
<td>325</td>
<td>320</td>
<td>248</td>
<td>208</td>
<td>229</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>342</td>
<td>316</td>
<td>295</td>
<td>293</td>
<td>208</td>
<td>247</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>159</td>
<td>252</td>
<td>248</td>
<td>251</td>
<td>179</td>
<td>203</td>
</tr>
<tr>
<td>Wage bill</td>
<td>36</td>
<td>51</td>
<td>56</td>
<td>51</td>
<td>42</td>
<td>45</td>
</tr>
<tr>
<td>Goods and services</td>
<td>43</td>
<td>44</td>
<td>53</td>
<td>45</td>
<td>34</td>
<td>39</td>
</tr>
<tr>
<td><strong>As percentage of GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>51.0</td>
<td>39.8</td>
<td>41.8</td>
<td>37.2</td>
<td>30.9</td>
<td>32.2</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>42.3</td>
<td>38.7</td>
<td>38.6</td>
<td>48.9</td>
<td>31.0</td>
<td>34.7</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>19.9</td>
<td>30.9</td>
<td>32.4</td>
<td>37.6</td>
<td>26.7</td>
<td>28.6</td>
</tr>
<tr>
<td>Wage bill</td>
<td>4.5</td>
<td>6.3</td>
<td>7.4</td>
<td>7.6</td>
<td>6.3</td>
<td>6.4</td>
</tr>
<tr>
<td>Goods and services</td>
<td>5.4</td>
<td>5.4</td>
<td>7.0</td>
<td>6.7</td>
<td>5.1</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Wage bill
As percentage of total revenue | 8.8   | 11.3  | 17.6  | 20.4  | 20.4  | 19.7  |
As percentage of total expenditure | 11.5  | 16.3  | 19.1  | 17.3  | 20.3  | 18.3  |
As percentage of current expenditure | 22.6  | 20.4  | 22.7  | 20.1  | 23.6  | 22.2  |
As percentage of goods and services | 83.3  | 116.7 | 105.2 | 113.5 | 123.5 | 116.4 |

Source: Ministry of Finance.
Table 3.6 Central Government Wage Bill as Share of Resources, Expenditures, and GDP, 1991

<table>
<thead>
<tr>
<th>Country</th>
<th>Resources (1989)</th>
<th>Total Expenditures</th>
<th>Current Expenditures</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>10.9</td>
<td>9.7</td>
<td>9.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>8.6</td>
<td>8.3</td>
<td>9.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Denmark</td>
<td>12.1</td>
<td>11.7</td>
<td>12.1</td>
<td>4.7</td>
</tr>
<tr>
<td>France</td>
<td>17.5</td>
<td>16.4</td>
<td>17.3</td>
<td>7.2</td>
</tr>
<tr>
<td>Germany</td>
<td>8.1</td>
<td>7.6</td>
<td>8.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Hungary</td>
<td>6.3</td>
<td>6.4</td>
<td>6.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>12.3</td>
<td>12.7</td>
<td>15.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Lithuania</td>
<td>5.6</td>
<td>6.2</td>
<td>7.8</td>
<td>—</td>
</tr>
<tr>
<td>Romania</td>
<td>15.6</td>
<td>16.4</td>
<td>16.5</td>
<td>5.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>13.2</td>
<td>12.5</td>
<td>13.5</td>
<td>4.9</td>
</tr>
<tr>
<td>United States</td>
<td>13.5</td>
<td>10.5</td>
<td>11.4</td>
<td>2.7</td>
</tr>
</tbody>
</table>

— Not available.

Salary Trends in the Public Administration

General government wage figures need to be understood in combination with wage patterns for particular classes of employees in individual sectors. But, wage data in Romania are scarce and limited primarily to aggregate sectorial information. Consequently, patterns of public servants' remuneration over time can be determined only by analyzing various partial sources. Such sources suggest that public servants' wages, as already mentioned, have been declining in most sectors during the transition. Government personnel had been relatively better paid than other workers in the economy before the transition. Indeed, in 1989 the average salaries in public administration were estimated to be the highest among the various economic sectors, at about 10 percent above the national average.  

But, public administration salaries appear to have dropped sharply during the transition period, leading a general decline in average earnings in the Romanian economy as a whole (table 3.7). Between 1991 and 1994, average monthly salaries in the public administration sector decreased by over 35 percent, slightly more than the 30 percent slide in the average national wage during the same period. Public administration fared worse than various other sectors, falling from 105 percent of the national average wage in 1991 to 96 percent in 1994. Health workers also experienced real wage decline, with average salaries dropping from 102 percent of the national average in 1991 to 94 percent in 1994. These parallel declines in health and public administration workers' salaries brought them more closely in line with education wages, which remained quite constant from 1991 to 1994, only dropping from 94 percent to 93 percent of average national wages during that time.
The decline in wages has not been consistent over all sectors of public employment, however. Average wages in such sectors as finance and transport have, in fact, increased relative to other parts of the economy. In the finance, banking, and insurance sectors in particular, the average real wage was over one and a half times the national average in 1994. Because of the undifferentiated nature of the data it is not possible to distinguish between private and public portions of these sectors. Indeed, the degree to which these increased remuneration levels are associated with newly commercialized activities is not known. What is clear, though, is that salaries for public administrators and social service providers appear to have fallen substantially behind other economic sectors in the transition period.

Table 3.7 Average Monthly Salary by Sector, 1991–94

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>6,742</td>
<td>5,482</td>
<td>5,148</td>
<td>4,394</td>
</tr>
<tr>
<td>Construction</td>
<td>7,981</td>
<td>6,871</td>
<td>6,329</td>
<td>5,565</td>
</tr>
<tr>
<td>Finance, banking and insurance</td>
<td>8,526</td>
<td>9,584</td>
<td>9,044</td>
<td>199</td>
</tr>
<tr>
<td>Education</td>
<td>5,710</td>
<td>5,207</td>
<td>5,164</td>
<td>4,982</td>
</tr>
<tr>
<td>Health</td>
<td>7,983</td>
<td>6,395</td>
<td>5,331</td>
<td>5,042</td>
</tr>
<tr>
<td>Hotel and restaurant</td>
<td>8,372</td>
<td>4,654</td>
<td>6,067</td>
<td>3,126</td>
</tr>
<tr>
<td>Industry</td>
<td>7,503</td>
<td>6,610</td>
<td>6,290</td>
<td>5,506</td>
</tr>
<tr>
<td>Post and telecom.</td>
<td>7,269</td>
<td>6,304</td>
<td>4,315</td>
<td>3,769</td>
</tr>
<tr>
<td>Public administration</td>
<td>8,206</td>
<td>7,600</td>
<td>6,662</td>
<td>5,120</td>
</tr>
<tr>
<td>Real estates services</td>
<td>7,711</td>
<td>7,087</td>
<td>5,987</td>
<td>5,120</td>
</tr>
<tr>
<td>Retail and hotel trade</td>
<td>6,846</td>
<td>5,671</td>
<td>5,209</td>
<td>4,348</td>
</tr>
<tr>
<td>Silviculture, forestry, and hunting</td>
<td>6,689</td>
<td>5,968</td>
<td>5,120</td>
<td>5,340</td>
</tr>
<tr>
<td>Transport</td>
<td>8,850</td>
<td>8,177</td>
<td>6,918</td>
<td>5,464</td>
</tr>
</tbody>
</table>

Note: The index was calculated by dividing the sectional average by the national average and multiplying by 100.


To understand what such figures mean for the conditions of public employment in Romania, a more detailed analysis is needed. In the following section, these broad findings for the public administration sector as a whole are broken down further to focus specifically on salary conditions for core ministerial personnel. These are the public servants who will likely form the core of Romania’s future civil service.
Public service remuneration. How much and in what way Romania’s public servants get paid is established in Law No. 40/1991, which stipulates pay scales for the office of the president, the government, the ministries, the Constitutional Court, and county and local government officials. Ministerial personnel are divided into two broad categories: professional and technical-administrative staff. Professional staff are further classified into three groups: (a) managers, (b) advisors and experts with university education, and (c) mid-level personnel who generally have secondary degrees. The latter two groups are further broken down into six classes, each with four steps, which provide the basis for basic wage levels. Three “ministries of state”—the Ministry of Finance, Ministry of Labor and Social Protection, and the Foreign Affairs Ministry—are entitled by law to pay staff 20 percent higher base salaries than the rest of the public service. Staff employed by the Presidency, the Office of the Prime Minister, and the Constitutional Court receive salaries that are 30 percent higher. The most senior-level political officials, including ministers down to the undersecretary of state level, are paid on a separate scale.

An examination of the basic salary system suggests a highly compressed public service pay structure. The compression ratio for the positions of director-general as compared to manual laborer is 4.5 for the base salaries established in the 1991 law (table 3.8). Subsequent indexation has further flattened the wage structure due to the inclusion of fixed supplements to compensate for price increases in basic goods. As a result, the top-to-bottom ratio as of April 1994 was an even more compressed 3.7.

Although total earnings for public employees have, on average, more than doubled, basic salaries appear to comprise a decreasing proportion of the overall remuneration package. The degree to which non-wage premia and benefits may alter the degree of wage compression is hard to gauge, however, since many premia are calculated as a percentage of the individual employee’s basic salary and are applied across the board. On the other hand, various discretionary “performance-based” allowances are increasingly being used by ministries to retain and reward selected staff. The distribution of these awards may indeed affect the overall remuneration structure, most probably in the direction of decompression, if, as is likely, bonuses tend to be disproportionately awarded to higher-level staff. These non-wage elements are examined more closely below.

Base salaries are supplemented by a series of premia and allowances for which all public servants are eligible. These include across-the-board entitlements to an annual bonus equal to one month’s (13th-month) basic salary as well as to a monthly premium based on length of service. This premium ranges from 5 percent of basic salary for individuals employed between three and five years in the public service to 25 percent for individuals employed over 20 years. In addition, all public servants, except managers, are entitled to overtime compensation in the form of additional time off or overtime pay
Modernizing the Romanian State 77

(150 percent to 200 percent of the base rate), and to “hardship” pay ranging from 10-20 percent of base salary, depending on the assignment. Managers receive a managerial allowance above their basic wage.

Table 3.8 Estimated Base Salaries for Selected Central Government Positions

<table>
<thead>
<tr>
<th>Position</th>
<th>Law 90/1991</th>
<th>Index</th>
<th>April 1991</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director-general†</td>
<td>91,700</td>
<td>450</td>
<td>233,900</td>
<td>375</td>
</tr>
<tr>
<td>Head of office†</td>
<td>79,200</td>
<td>388</td>
<td>203,833</td>
<td>327</td>
</tr>
<tr>
<td>Adviser/specialist grade IA‡</td>
<td>69,400</td>
<td>340</td>
<td>160,260</td>
<td>289</td>
</tr>
<tr>
<td>Reference grade‡</td>
<td>36,150</td>
<td>177</td>
<td>100,280</td>
<td>161</td>
</tr>
<tr>
<td>Administrative and support</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economist grade †</td>
<td>46,250</td>
<td>227</td>
<td>124,575</td>
<td>200</td>
</tr>
<tr>
<td>Technician grade †</td>
<td>33,150</td>
<td>163</td>
<td>93,064</td>
<td>149</td>
</tr>
<tr>
<td>Chief secretary grade †</td>
<td>32,200</td>
<td>158</td>
<td>90,779</td>
<td>145</td>
</tr>
<tr>
<td>Office clerk †</td>
<td>29,600</td>
<td>145</td>
<td>84,525</td>
<td>135</td>
</tr>
<tr>
<td>Watchman/Attendant †</td>
<td>23,250</td>
<td>114</td>
<td>69,251</td>
<td>111</td>
</tr>
<tr>
<td>Worker †</td>
<td>26,450</td>
<td>130</td>
<td>76,948</td>
<td>123</td>
</tr>
<tr>
<td>Unskilled laborer†</td>
<td>20,400</td>
<td>100</td>
<td>62,395</td>
<td>100</td>
</tr>
<tr>
<td>Compression ratio‡</td>
<td>2.5</td>
<td></td>
<td>3.7</td>
<td></td>
</tr>
</tbody>
</table>

a. Positions correspond to central, non-special ministries and agencies. Staff of the Ministries of Finance and others specialized bodies receive salaries that are 20-30 percent higher.
b. The index is calculated by dividing the salary of the specific position by the lowest salary in the public service (unskilled laborer) and multiplying by 100.
c. Managers receive a base salary corresponding to their grade and step as well as a monthly managerial allowance. These figures assume that managers receive the maximum base salary (grade IAd).
d. The compression ratio is the ratio of the highest salary to the lowest salary.

Source: Law 90/1991; Ministry of Finance.

Law 40/1991 provides for two additional types of premia—both, in theory, based loosely on performance criteria, and subject to various constraints. One is a bonus of up to 15 percent of base pay for superior performance, awarded annually at the discretion of the individual manager. This merit increment can be granted to no more than 15 percent of staff in a given ministry. Furthermore, only one-third of all merit bonuses can be awarded to managers themselves. In addition, according to the law, ministries and agencies establish an additional monthly bonus fund to grant individual bonuses to employees for exceptional performance over the course of the year. The level of this fund cannot exceed 2 percent of the entire wage bill for the agency and the amount of an individual award cannot exceed the equivalent of one-month’s salary. The only exceptions are for customs officials and the financial guard, who are entitled to up to three months’ salary equivalent in bonuses.
for extraordinary performance in order to stimulate confiscatory activities. Five percent of the value of confiscated property and penalties can be earmarked to fund these extra incentives. A Ministry of Finance official estimated that these financial agents’ salaries were on average 25 percent higher than other MOF employees as a result of these extra incentives.

Precise information is not available to determine the relative weight of non-salary allowances and benefits in the remuneration of average public servants. In the MOF—as noted earlier, among the highest paying ministries—variable elements are reported to reach about 70 percent of total compensation, increasing with skill and seniority. Informants estimated non-salary remuneration to have doubled since 1990.

The extensive use of such “performance-based” incentives for Romanian government workers is clearly connected with the larger aims of reform, serving, among other things, to help retain government employees who might be drawn to the more lucrative private sector. In this respect, the 1991 law represents a change from previous policy. Before the 1991 law, government remuneration conditions were reportedly standardized and centrally controlled. While public servants’ remuneration in the transition appears to continue to be uniformly dictated by law, in reality managerial discretion provides for considerable dispersion in government pay. Managers, usually in concert with personnel directors and ministers, make essential decisions about the amount and targets for annual and monthly “performance” bonuses. While overall parameters for these bonuses are established by law, the funds available for bonuses can be buttressed by the manipulation of the staff vacancy rate. For example, the MOF has a 20 percent vacancy rate but has been allocated a salary fund for its full authorized personnel complement. Each year, the unused salary fund can be distributed as bonuses by the ministry. In addition, although distribution of bonuses is roughly linked to performance, the connection between performance appraisal and pay and career advancement is tenuous.

Another form of discretion available to managers is the creative use of “grade creep.” Before 1991, the highest-level grade for each class of public servants was 1. By 1993, however, the desire to raise remuneration levels encouraged managers to push more and more staff up to this highest grade, thus creating increasingly less differentiation at the top bureaucratic levels. To reintroduce distinctions at the highest ranks, and to accommodate the inevitability of this upward drift, a new top grade, 1-A, was established. But, in the absence of job descriptions or position-related skill profiles, the degree to which this increased stratification has had any basis in staff qualifications is unclear. The budgetary implications of this upward structural drift are also difficult to determine.

Grade creep has occurred elsewhere in government as well. At the district (judet) level, there is also the impression that a disproportionate percent-
age of posts have been allocated to higher-level staff, also presumably to improve remuneration levels. Although comprehensive information is unavailable, sample data for one judet government suggest a top-heavy employment structure, indicating that subnational governments may also be subject to these “inflationary” pressures. Of the 145 public servant positions in the judet, 46 percent were occupied by senior managers or high-level public servants, 26 percent by middle-level public servants and clerical workers, and the remainder by manual workers, including guards, housekeepers, and porters. Officially, there were only seven secretaries to assist almost 100 professional and technical staff. For non-managerial employees, supplements and bonuses represented between 20 and 35 percent of total monthly salaries. For managers the proportion was higher, up to 50 percent (100 percent for directors-general), because of the inclusion of the extra managerial allowance.

Public-Private Pay Comparisons

Such developments raise a number of concerns about recent changes in government remuneration policy. Issues of corruption aside, the question to be asked is: Have these ad hoc adjustments in fact enabled government agencies to retain and attract needed skills? The familiar complaints about recruiting qualified professionals, particularly economists, lawyers, financial experts, and computer specialists, abound in Romania. It is difficult to obtain clear estimates of the effect of the new incentive structures in this regard. Reports from the Ministry of Finance, however, suggest that it is only through these discretionary powers that MOF has been able to stem the outflow of professionals to alternative markets, especially in the banking sector.

The impression that public servants’ salaries cannot compete with salaries in the private and state-owned commercial sectors, particularly at the senior managerial level, is borne out by data from an informal survey of salaries and earnings in the public service, régies autonomes, state commercial companies, and private firms (table 3.9). In base salaries, directors-general in the public service earned dramatically less than directors in all three types of companies surveyed. The top public service salary (for a non-managerial position) was roughly comparable to those of equivalent jobs in régies autonomes, but substantially lower than salaries for similar positions in state and private commercial companies.

Establishment Management

In the foreseeable future, the pull of the private sector is likely to continue, especially for the most highly trained government personnel. To meet transition staffing requirements in light of competition, the government’s ability to plan for and manage its personnel needs is crucial. As the data
constraints on the above discussion demonstrate, the capacity to gather and use information for personnel management is inadequate in Romania. Partly due to the reliance on the branch economy system of classification and partly because of the still very tentative linkages among different parts of government, no central institution has had access to credible figures on public employment or remuneration. Other than the National Statistical Commission’s aggregated data on employment in branches of the economy, no central data bank continuous this information. But the ability to foresee, for example, recruitment needs or plan an affordable attrition policy is absent.

Table 3.9. Sample Base Salaries by Type of Employer, July 1994

<table>
<thead>
<tr>
<th>Position</th>
<th>Public service</th>
<th>Régies autonomes</th>
<th>State commercial company</th>
<th>Private commercial company</th>
</tr>
</thead>
<tbody>
<tr>
<td>General manager</td>
<td>n.a.</td>
<td>290,006</td>
<td>496,668</td>
<td>950,000</td>
</tr>
<tr>
<td>Economist I</td>
<td>n.a.</td>
<td>164,708</td>
<td>288,793</td>
<td>400,000</td>
</tr>
<tr>
<td>Computer analyst I</td>
<td>n.a.</td>
<td>173,183</td>
<td>278,793</td>
<td>340,000</td>
</tr>
<tr>
<td>Judicial counselor I</td>
<td>n.a.</td>
<td>176,360</td>
<td>276,048</td>
<td>600,000</td>
</tr>
<tr>
<td>Director-general</td>
<td>233,900</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Adviser specialist IA (4)</td>
<td>180,260</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

n.a. Not applicable.

Source: Law 90/1991; World Bank estimates.

To the extent that any organ has responsibility for imposing central standards on employment and wage policies for individual organs of government, it is the MOF that negotiates and authorizes public servants' position levels with individual agencies and, in the context of budgetary policy, determines the government wage envelope. Although the authorizing legislation for each ministry establishes a set number of positions, this number is revised each year through the negotiation process. The Ministry of Labor has also been involved in these discussions, but its once dominant role has receded substantially.

Aside from this MOF role in determining overall government wage bill parameters, there is little cross-system establishment management. Most personnel matters are handled on a decentralized basis by individual ministries or agencies. Pay administration works the same way. Individual line agencies administer computerized payrolls, but most employees are paid in cash. Payroll lists are authorized by the MOF on a trimestral basis. An account is presented to the MOF and disbursement takes about two weeks. There are few checks to curtail abuses in this system—although such problems as "ghost" workers or double employment, prevalent in many countries, do not seem troublesome in Romania.
The approach to personnel management has changed little from the communist period. Personnel department staff in individual ministries, as well as those in the MOF itself, have had little exposure to modern techniques of personnel management. Although the payroll itself is computerized, personnel records are kept manually. Files probably contain irrelevant and quite possibly, as a holdover from the previous regime, incriminating or invasive information. Few staff have been assigned to meaningful personnel work in any case. Even in the personnel department of the MOF, there are fewer than 50 staff to deal with personnel and accounting for approximately 30,000 MOF employees, although some 40-odd deconcentrated offices also have some accounting staff and computerized payroll mechanisms. Personnel staff would require extensive training if a fully operational personnel management information and establishment control system were to be introduced across central government.

Trends in Pay and Employment Reform

If present trends continue, dysfunctional government employment and pay policies could well undermine Romania's future administrative reform prospects. True, central government is quite small in relative terms; but expanding government employment, particularly in budget-funded social sectors, has been significant during the transition. There is also a growing aggregate wage bill problem, with personnel expenditures increasingly crowding out those on goods and services. Moreover, high wage expenditures are fast becoming less affordable in light of dramatic revenue declines. That employment expansion is, in part at least, driving this wage bill growth is evident from the decline in average government wages during recent years. Public servants' salaries are highly compressed and have eroded in relation to average wages in the economy as a whole. Moreover, they compare unfavorably with state enterprise and emerging private sector remuneration. These deteriorating conditions reinforce distorted incentive practices, such as the growing tendency toward non-wage remuneration and grade creep. All of these difficulties are that much harder to ameliorate without a solid establishment management system that can supply timely and accurate information to policymakers about government employment and pay. Such a system was not in place in Romania as of this writing.

Transforming the Bureaucracy:
Issues in Civil Service Management

Constructing a modern administration in Romania depends, as in other post-communist states, on the country's ability to shape a professionalized civil service out of existing cadres and to put in place a framework for attracting, retaining, and developing new ones. To do this, Romanians will have to change
many of the management practices and bureaucratic behaviors inherited from the past. The prize of a modern civil service will only be won if government is able to turn the once politicized, centralized, party-dominated bureaucratic institutions into a corps of by-and-large politically neutral personnel who are recruited on merit and are professionally trained, and whose performance influences their career advancement.

Even in advanced countries, of course, this “state of administrative grace” has rarely been fully achieved, and then only after long periods of management development. Where is Romania in its administrative trajectory and what kinds of changes are likely to occur in its bureaucratic institutions? The focus in the section that follows is on Romania’s recent experience in laying the foundations for merit-based civil service management. While advances have occurred on various important fronts, progress on civil service development has been, on the whole, uneven, with some crucial institutional and legal reforms trailing those in other countries in the region.

Institutional and Legal Framework for Civil Service Development

Although Romania has taken some initial steps toward establishing the legal and institutional foundations for a modern civil service, significant progress still remains to be made. The legal framework for civil service development, for example, was not yet in place at this writing. No special regulations governed a “civil service” in Romania. Instead, the legal basis for Romania’s central government bureaucracy was an amalgam of several pieces of often mutually contradictory pre- and post-communist legislation and decrees. These included the 1991 constitution, the salary law (Number 40/1991) of the same year, and the General Labor Code, in force since 1973. Each government agency hired its own employees in accordance with the Labor Code and a ministry-specific government order on staff recruitment.

Two pieces of draft legislation were still pending before Parliament that would, if passed, help fill this legal void by defining the role of central government and outlining the responsibilities and conditions of service of government employees. These were the Draft Law on the Organization and Function of Government discussed earlier and the draft Civil Service Law. The former bill proposed that direction of the civil service be centered in the prime minister’s office. The latter laid out general provisions for the civil service.

Due for parliamentary reading in late calendar year 1994, two years hence the Civil Service Law had not been enacted. The draft elaborated general provisions for a civil service. It set out conditions of service and established procedures for appointments and promotions, rights and duties of civil servants, disciplinary procedures, and transfers and dismissals. Importantly, it provided for the creation of joint consultative committees and advisory committees for civil service oversight. The statute was modeled after centralized,
continental European administrations, although it retained some characteristics of the former Romanian communist system.

While adoption of this statute would move Romania that much closer to a stable, professionalized civil service system, various weaknesses in the bill still left unclear some crucial aspects of civil service management. Critiques provided through external review of the legislation have recommended various revisions. An underlying concern was that, the law’s detailed provisions consolidated rigidities of the earlier system, making adaptation to changing conditions and requirements more difficult in the future.

The law reflected the lack of consensus within Romania as to what kind of civil service system to develop. There was little evidence that the financial and institutional implications of proposals had been carefully analyzed. And the law, was too all-encompassing. It covered a wide range of individuals who, in most other systems, serve under quite different categories. Rather than limit the civil service to permanent employees of the executive branch, the law included parliamentarians and local government officials. Arguably, separate employment frameworks would be more appropriate for different segments of the public service.

The law wavered between creating a “career” civil service system in which an individual follows a stable and continuous career path within the civil service, often within one agency, and a “job” system based on an ensemble of posts and skills, defined according to their levels and nature. The vacillation between the two systems created inconsistencies and raises numerous operational questions. Would individuals have to pass exams only for the first position they occupy, or for every successive position thereafter as well, for example?

The legislation also left ambiguous one of the most problematic features of the extant system, the relationship between performance and pay. Although poor annual performance reviews can lead to demotion or dismissal, links between superior reviews and advancement or pay raises were not spelled out in the Act. To be fair, many advanced administrations are also conspicuously weak on this dimension. But without such clarifications, non-performance factors tend to dominate career advancement. This would simply mean a continuation of prevailing practice in Romania. The law also failed to distinguish clearly between political and administrative appointments. These problems could seriously constrain the development of a neutrally competent civil service cadre.

The civil service legislation also threatened to award in alienable entitlements to sitting public servants without adequate consideration of their potential cost implications. The law guaranteed free transportation and medical care as well as special pensions for civil servants. Some benefits stipulated in the draft, such as the right to two salaries or the right to work past mandatory retirement age, appeared to contradict other provisions of the stat-
ute itself. These inconsistencies posed a potential source of future confusion and conflict.

Finally, although ultimate responsibility for the civil service was assigned to the prime minister, the law fell short of defining institutional roles in civil service management. Which agency would be responsible, for example, for establishing and grading new positions or controlling the number of civil servants? While not proposing a consciously decentralized civil service system, neither did the law provide for mechanisms to ensure standardized working conditions across agencies, including comparability of entrance exams, salaries, promotions, or disciplinary measures.

Existing Institutions for Public Service Management

In the absence of more formalized legal and institutional arrangements, several organs have jointly assumed *de facto* oversight of personnel matters in the bureaucracy. The activities of the ministries of Finance and Labor have already been mentioned. The SGG has also played a key role in supervising government administrative procedures. In addition, the Council for Coordination, Strategy, and Economic Reform brings together a sub-group of agencies charged with overall reform responsibilities for administrative restructuring, and civil service and local government policy (see above). These quite limited central activities aside, however, Romanian civil service management has, overall, been highly decentralized and has lacked coherence. Most routine personnel management functions have been carried out at the individual line agency level. Management practices and behavioral patterns in these agencies appear to be governed by a combination of long-standing informal custom, pre-existing legal norms, and ad hoc adaptation to new transition requirements. A closer look at this mix of bureaucratic practices highlights some of the problems Romania will need to solve to move its public administration forward.

Current public service management practice. Recruitment—The formal trappings of personnel recruitment in Romania give the appearance of openness and transparency. Vacancy announcements are published in the local press, and information about available posts is disseminated throughout all government offices, including local and territorial units. Position candidates submit application packages that include curricula vitae, diploma certification, verification of health and the absence of criminal records, and recommendations or other documentation on employment experience.

Consistency in civil service recruitment across the board is lacking, however. In keeping with other aspects of civil service management, hiring decisions are totally decentralized. Individual line ministers, in consultation with
the department director, section chief, other specialists, and representatives of the personnel department recruit staff. They are not bound by competitive guidelines and, except for common educational criteria, there are few, if any, uniform standards or policies applied to public service recruitment. The only stipulation applied across the system is that managers comprise under 20 percent of government staff. The nature of recruitment examinations is also determined on an agency-by-agency basis. Each line agency administers its own examinations; these may be oral or written and the substantive content is non-standardized. In the Ministry of Industry, for example, entrance examinations include psychological tests. Recruitment into the MOA requires demonstrated written proficiency in the legal statutes regulating agricultural privatization and state enterprise reform.

This decentralized recruitment model prevents easy assessment of the stringency or competitiveness of entrance requirements. Certainly, there are few, if any, cross-system mechanisms to ensure merit-based recruitment policies. Also, in stark contrast with formal descriptions of the system, anecdotal accounts strongly reinforce the view that personnel selection is far from objective, resting largely on personal, ascriptive bases.

Performance evaluation—Formal renderings of performance evaluation and promotion procedures also convey a misleading picture of prevailing practice. By law, individual performance must be appraised annually, with four possible grades of very good, good, satisfactory or unsatisfactory. Evaluation results are theoretically linked to pay; an unsatisfactory review results in the denial of a seniority bonus. These results are also, in principle, linked to promotion, with a good performance rating as the minimal prerequisite to promotion to the next grade. Where performance is deemed exceptional, time-in-grade requirements (officially two years per grade) are waived to allow for fast-track advancement. Promotion between classes, in principle, requires written examination, although, again, no cross-system instrument to ensure objectivity exists, at present.

Most staff report, however, that performance evaluation, even of the most formulaic variety, is rarely carried out. Promotion practice is irregular and, while merit is certainly a factor in some career advancement, personal and political factors still figure overwhelmingly. Perusal of personnel file contents substantiates this impression. File contents vary markedly, often lacking performance appraisal results altogether or containing only perfunctory ones. A meaningful shift toward performance-based management would require a radical revamping of these performance evaluation and promotion systems. It also goes without saying that such a shift would depend upon a profound change in the organizational culture that has tended to undermine the importance of merit in shaping bureaucratic behavior.
Staff profiles and shortages—While rationalizing remuneration structures and recruitment policies is crucial, a responsible, competent civil service will not be developed without a supply of quality staff. Unfortunately, there is already a shortage of such personnel. Agencies report that some professional profiles considered crucial to transition requirements are very difficult to recruit and retain in public service jobs. Economists, lawyers, and computer specialists appear to be universally sought but only rarely available. In contrast, engineers are in surplus.

The demand for personnel with the most needed skills manifests itself in various ways. Moonlighting in second jobs, especially among lawyers, doctors, and high-level personnel who teach part-time in universities, is common (and legal according to current law.) Also, although quit rates for the government sector are not available, informants overwhelmingly report that many qualified people are leaving government for better-paying jobs in the private sector.

Understanding the dynamics and recent history of staff turnover in the Romanian bureaucracy is important to an accurate picture of human resource problems government currently faces. The most abrupt and dramatic personnel changes took place immediately after the regime transition in 1989. The main turnover occurred at the most senior bureaucratic levels. In the MOF, for example, 95 percent of director-level positions (about 78 jobs) changed hands from 1989 to 1990. The original group comprised the explicitly political echelon of the administration, mainly coinciding with the nomenklatura.24 These individuals were replaced by another, different group of political appointees who had fewer direct links to the old regime.

Since 1991, there has been relative stability in high-level MOF positions, and most directors and above have been in place for two years or more. The personnel drain at higher levels was no doubt less acute than for less well-remunerated agencies. As mentioned earlier, MOF compensation appears to compete better than most with alternative markets. Perks included, an MOF division chief or above could make 30 percent more than his or her equivalent at private or state-owned banks, for instance.

The basic dilemma for the MOF and other ministries, however, was not that there was an absolute brain drain, but that the departing staff were the most capable and experienced. After the aforementioned political purge of higher-level officials in the initial days of the transition, a second group of higher-level, mainly older staff left government employ. Many, often with over thirty years experience, had professional skills in technical areas where policy and functional demands were shifting most rapidly. The effects of this exodus can be seen in the age profile of those who were left behind. By 1995, the average age of remaining public servants, and of new recruits, was unprecedentedly low by pre-transition standards (41 years old in the MOF—the lowest in 40 years, informants maintained). Where the majority of entry-
level staff in the MOF before 1988 had an average of four years’ experience prior to joining the Ministry, more than half of new recruits now enter directly upon graduation. The average experience level of MOF staff is a mere 1.5 years. Although this inexperience is apparently less glaring at the highest levels—ministers and state secretaries have been selected mainly from the (somewhat limited) pool of director-level staff—the very rapid promotion of extremely junior professionals to managerial posts has resulted in a bureaucracy staffed by inexperienced, albeit, in some instances, technically capable personnel.

The general inexperience of government personnel is tested even further by the radically new nature of tasks that all staff are being asked to perform in the transition. New laws regulating new activities, such as public procurement, for example, must be learned. New attitudes about decision making and control must be adopted. While younger staff may have fewer dysfunctional bureaucratic habits, even they have to make extreme adjustments in attitudes and behavior, without benefit of guidance from more seasoned colleagues and supervisors.

This problem may have actually worsened in the most recent years of the transition. In the early days of reform, very junior staff did, in fact, receive supervision from somewhat older colleagues who had been recruited from universities and think tanks. But this trend began to reverse by 1992, as academics-turned-bureaucrats were having their own difficulties adjusting to government service, and were themselves replaced by former bureaucrats with growing frequency. Increasingly desperate for some “old and safe hands,” ministry employers sought to re-hire former middle and higher-level officials, whose expertise and experience began to outweigh their possible political and technical shortcomings. Indeed, such old line bureaucrats are even beginning to replace younger staff, as recruitment of recent graduates slows, particularly in light of growing competition for young talent by the private sector.

The other noteworthy change in the profile of the “new bureaucrat” is that she is increasingly female. In the recent transition period, women have been easier to recruit and retain in government at lower salaries than men, who have been drawn into private employment. In the Romanian context, this has tended to be explained, in part, by the higher relative importance women are said to place on job security and regular hours—generally more readily available in the public than the private sector. How they are faring in the climb up the administrative hierarchy remains to be seen, however, as many top leadership positions continue to be awarded to males. Some male supervisors argued that women have advanced less because they avoid increased responsibilities and the associated overtime hours. Without more systematic data, we may only conjecture about the role of other constraints, such as gender bias, on female mobility.
Transforming cadres through training—Throughout CEE, high hopes have been pinned on the training of public administration cadres as a means of bringing about enduring governmental reinvention. These hopes have rested on the assumption that shifting from secretive, command orientations to transparent, collegial bureaucratic cultures would help plant the seeds of modern administration. It has also been the view that, despite high levels of education in the region, the skill base of many CEE bureaucracies needs to be updated and, for those disciplines fields where educational credentials were tainted by ideological content, neutralized and legitimated through introduction of internationally accepted professional norms. These assumptions have informed Romanian thinking on cadre transformation, and attention has begun to focus on how to improve the skills and re-orient the attitudes of existing and prospective government cadres through education and training.

Judging by what has been available by way of pre- and in-service training for public servants in Romania, however, progress toward transforming the hearts and minds of Romanian bureaucrats through a robust national program of management and leadership training has been minimal. Although the building blocks for such an enterprise have slowly been mounted through various training initiatives, these efforts have, so far, been under-resourced. And they have not been closely linked to the development of new organizational structures and civil service systems discussed earlier. Moreover, these disparate training undertakings have not been brought together as part of a strategic, coherent approach to national priorities in public management training—a situation that echoes the lack of coordination in civil service reform as a whole.

In developing such a strategy, choices would have to be made about whether to emphasize pre-service training for new public service entrants, or to try to rehabilitate sitting public servants. Currently, de facto emphasis is given to the former, although at a very low level of investment. The primary institution now charged with pre-service training of public servants is the National School of Political and Administrative Studies (NSPAS), recently established in Bucharest. This is one of six colleges within the general Social Science Faculty of the University of Bucharest. The school offers a three-year post-graduate program as well as a smattering of short courses for serving public administrators. The school has a small enrollment of about 40 students who enter through competitive examination and pay a nominal course fee (NSPAS receives a direct subvention from the Ministry of Education).

With external guidance and assistance in curriculum development, mainly from the French Ecole Nationale d'Administration and the European Institute of Public Administration in Maastricht, the NSPAS developed a curriculum consisting of a core program and various electives emphasizing law (administrative, constitutional, and commercial), management and public policy, and foreign languages. Modernizing the curriculum meant introducing an inter-
national comparative perspective, particularly in the law modules. Curriculum development was reportedly constrained by the pre-existing bias of the Romanian higher educational system, which tended to emphasize technical disciplines over social and management sciences. The school has relied on four regular faculty who, despite their full-time status, moonlight at other institutions. There is also a range of part-time instructors, drawn mainly from government.

As a fledgling institution, the NSPAS has, so far, had only limited success in placing its graduates in desirable government posts. A few alumni have found jobs in local and central government and with political party organizations or for elected officials. As an interim measure, NSPAS graduates are awarded fellowships for internships abroad, for example in the Netherlands and France, through external assistance programs.

Other pre-service, higher education training options in public administration include the Braov-based Transylvania University's public administration program, offered through the sociology department. In addition, the Soros Foundation has been working with the French government to create an institute for economic development and public administration in Timisoara. Universities also offer general courses with relevance to public administration. Courses in economics, finance, and management (with a private orientation) are increasingly common at higher education institutions. Virtually all private universities, for example, have programs in one or more of these areas.25 Both public and private universities offer evening classes and continuing education programs. With the rapid emergence of many new institutions and the absence of regulation or accreditation, however, maintaining an even standard of quality in these programs has been difficult.

Such developments constitute only a beginning. The very limited resources applied to pre-service training in Romania would need to be increased substantially in order to have significant impact on incoming public service cadres. The small number of students enrolled in NSPA’s elite program can aspire to only limited impact on staff quality in government. Moreover, the program’s access to government positions, as reflected in its graduates’ placement difficulties, have been tenuous. To be successful, a higher-level training institute must have direct links with career development channels inside the bureaucracy. Again, the grooming of these new cadres has, so far, been largely disconnected from any explicit civil service development plan.

The other major challenge in developing a well-prepared civil service staff is to train those public servants who are already in post. Many serving staff face radically new and challenging assignments but lack the skills and orientation to carry them out. In-service training has, so far, been ad hoc and episodic, much of it occurring at the local level with external donor financing. It has been driven neither by an overarching vision of training goals for
government nor by a systematic assessment of existing skills and needs in Romania’s public service.

Much of the in-service training available for Romanian public servants has been a relic of the old communist system. Training has traditionally been provided through a system of “upgrading” institutes linked to line ministries. For example, the ministries of Agriculture and Labor have had very large upgrading institutes. The training on offer by these ministerial institutes is largely of a technical nature. Some ministries have broadened their training to include public administration topics, however. The Ministry of Public Works and Planning has provided training for trainers in local public management, with assistance from the United Nations Center for Human Settlements.

The local level has also been the focus of in-service training, at least on a limited basis. Local government administrative centers offer training in finance and accounting, for instance. The largest institution in this network of local government training centers is the Center for Staff Training for Local Public Administration (CPPAPL) in Bucharest; this center belongs to the national Department for Local Public Administration under the Secretary General of the Government. The center offers refresher courses on management issues for local officials through programs of several weeks duration that target mayors, deputy mayors, secretaries of local councils, and technical personnel of local governments.

Private providers also play a role in helping to retrain civil servants, chiefly in the area of management training. Several non-governmental and private institutions have captured a share of this new in-service training market. The Romanian Institute of Management (IROMA), for example, offers courses in modern business and management techniques for private sector managers. While the institute’s principal focus has been on preparing managers in state-owned enterprises for privatization, some government staff have also attended courses.

In addition, international donors have actively supported various types of in-service public administration and management training. Support has been extended to a range of programs including short-term programs, study tours abroad, degree study scholarships, and long-term institution building. The British Council has concentrated on short workshops, while EU-PHARE’s emphasis on training is more substantial, supporting the local government training centers alluded to above. In addition to its adviser-in-residence programs, discussed earlier, the European Union also provided financing for training of trainers, curriculum development, and training materials and equipment. Training of local managers, in conjunction with the work of other funders and the cataloguing of information about western public administration experience, has also been supported.
The French have mainly provided France-based study programs for local Romanian officials, both at the Center for Local Administration and Research (CEFRAL) and at other regional institutes of public administration in France. United States assistance has focused on democracy and governance, supporting the development of a civic education program through work with the Romanian NGO Pro-Democracy, as well as in on-the-job local government training. The Soros Foundation has also been active in this area, through its support for U.S.-based training of Romanian public administrators as well as the "Prolog" program to fund local government projects in Romania. Seminars on civil service management, training of trainers in cadastre and land registration, and workshops on urban and regional management and local public financial management have all been financed through this program.

However, as in the case of pre-service training schemes, these in-service initiatives fall short of the large-scale integrated program of training and re-education Romania's civil service requires. Although the result has been a series of useful efforts, the lack of coordination among initiatives and the absence of a larger sense of training priorities has quite possibly resulted in a mis-spending of scarce training resources. A strategic training agenda would help here, especially if it began with an assessment of the current skills profile of public servants, and of how to integrate needed improvements in this area with the developing legal and institutional framework. This agenda would identify institutions, resources, substantive training areas, and the nature of (pre- or in-service) training to be carried out over the transition period.

The Future of Public Service Management

Romania clearly has a long distance to travel before the foundation of a modern, professionalized civil service can be said to be firmly in place. Currently, a coherent legal and institutional framework for civil service management is still being developed. Government has been operating with a provisional set of formal rules and informal practices that are decentralized and subject to only individual managerial discretion. The effect has been to undermine system-wide incentives to carry out recruitment, pay, and promotion functions on the basis of merit. Competent modern human resource management is urgently needed in Romania, where many existing public service cadres are inexperienced or ill-equipped to deal with new tasks of the transition. A substantial number of those with the most marketable skills have left government for the private sector. The importance of developing the capacity of current staff and new recruits through career grooming and training is thus paramount. So far, though, these programs have advanced very slowly.
Conclusion

This chapter has analyzed Romania's experience in modernizing its public administration. Despite advances in some areas, Romania's administrative transition has perhaps so far been more one of impasse than accomplishment. But, this is still very much a work in progress; decisive action on any of the initiatives begun in the three reform areas examined here could improve the record dramatically. Thus, even the quite mixed results achieved so far justify cautious optimism about future reform possibilities.

With regard to machinery of government reforms, Romania has taken some important steps. With the overall constitutional framework in place, the core decision-making mechanisms of central, cabinet government have been doing their jobs, albeit under great strain and with many inefficiencies. Issues of coordination, policy preparation, and strategic planning are the biggest difficulties here, but proposals to strengthen systems have been discussed, initiated, or both. Resolving the conflict between creeping re-centralization, on the one hand, and policy incoherence, on the other, will be key to the success of these reforms.

The key challenge in line ministry government is to manage the shift from intervention to policy oversight. Although recognition of this requirement is pervasive, the will and wherewithal to accomplish change have been sometimes difficult to mobilize. Vested interests and bureaucratic inertia have posed obstacles to change. Injecting energy and resources—especially when connected with new, and high, technologies—into new activities seems to have been an easier task, however, than shedding or reorienting old ones, as the experience of the Ministry of Finance suggests. Finally, introducing mechanisms of cross-system accountability, such as the Court of Accounts, has involved a clash between the desire to control abuse of government power and the urge to devolve greater autonomy to public servants. This tension will need to be resolved if the transition program is to be implemented effectively.

Government pay and employment policies have been in a holding pattern, but serious problems have been emerging which may require attention. Low and compressed pay, along with rigid, formal rules that are frequently bypassed are the main features of the current system. At the center of this system, information management and forward planning of personnel needs are lacking. Links between public service performance and fiscal or budgetary management have been negligible. There are a few positive signs here, however. Some employment trends, such as the growing decentralization of ministerial personnel and the staffing up of new functions, such as the financial guard, reflect significant movement toward greater service orientation, as well as an emphasis on creating a better resource base from which to finance the transition.
With all these developments, the fact remains that a robust civil service is still to be developed in Romania. At this writing, no government organ yet existed to oversee such a corps, and no law embodying its central principles had been adopted. The civil service statute under consideration had problems: it was unclear about civil service membership, it contained too many entitlements, and its emphasis on performance as the basis for civil servants' success was weak. Moreover, it failed to create strong institutions to steer and manage a professionalized civil service. In reality, approaches to recruitment, career advancement, and performance evaluation have been inconsistent and not political or personalistic. Finally, the grooming of new cadres and the reorientation and upgrading of the old has been under-resourced.

How can Romania push its reform efforts to the next level? Over the near term, a number of measures that build on existing initiatives could be taken to advance administrative development. These would include (a) clarifying institutional responsibilities for administrative reform, (b) enacting legislation to stabilize governmental structures and strengthen the secretariat support for the prime minister, (c) assigning institutional oversight for establishment control and developing the technical infrastructure to manage a modern personnel system, and (d) putting in place the legal and institutional framework to support a merit-based bureaucracy with well-trained and highly skilled staff. Over the longer term, a sustained commitment to ongoing development of administrative institutions that adapt to the changing requirements of the transition, and Romania's eventual entry into Europe, will be necessary. This kind of commitment can be supported by external encouragement—through, it is to be hoped, a more strategic and coherent program of international assistance. But, the real driving force has to come from an internal social pact and steady political drive. Early signs are good that the political regime shift of the mid-1990s represented a sea change, ushering in a long-awaited movement on reforms in the political, economic, and administrative spheres. With this prospect, Romania could potentially quickly move from a "go-slow" to a "catch-up" transition to complete its task of public administration modernization.

Notes

1. Iliescu was finally defeated in the 1996 elections by Emil Constantinescu, leader of the staunchly anti-communist Democratic Convention party coalition. With this power shift, hopes have been raised that real change can at last occur in Romania.


5. The current structure was authorized by Government Decree 515 on September 27, 1993.


7. Ibid., 8.


9. Bills go first to senate and House of Deputies committees and then to the full legislative bodies.


In addition, agencies include National Center for Cinematography, National Commission on Computers, National Council for Audiovideo, National Press Agency (ROMPRESS), Office for Consumer Protection, Protection and Guard Service, Romanian Academy, Romanian Bureau of Legal Metrology, Romanian Institute of Standards, Romanian Intelligence Service, Secretary of State for Religions, Secretary of State for the Handicapped, Special Telecommunications Service, Subsecretary for Problems of the Victims of the 1989 Revolution, State Office for Investment and Design.

12. Clause number 45.

13. The Court of Accounts' powers also extend to state enterprise managers. Much has been made of the difficulties of exercising these *ex post* controls of SOE financial decisions after a state company has been privatized. The Court of Accounts is also responsible for carrying out asset valuation of privatizing state enterprises, a time-consuming and imprecise process that threatens to undermine effective privatization.

14. Defense figures include only those civilian employees engaged in "economically productive activities"; they do not include the armed forces.

15. Total employment in this case refers to "active employment," which in Romanian terminology is defined to include all persons engaged in economically productive activities. This definition excludes the armed forces, individuals who are institutionalized or incarcerated, and employees of political organizations. It also
appears to exclude the unemployed; unemployment rates in Hungary generally averaged under 3 percent before 1991, but rose to over 8 percent by the end of 1992.

16. Because a clear and complete breakdown of central and deconcentrated government employment is not available there is no way to determine whether figures on all governmental ministerial staff provided by the MOF actually include or exclude deconcentrated ministry staff. Thus, precise identification of disaggregated trends in government employment is not possible.

17. Romania: The Challenge of Transition (Washington, D.C.: World Bank, 1992), vol. I, 33. This was a non-trivial advantage in the context of very low dispersion within the pre-transition economy’s wage structure.

18. The technical/administrative category encompasses nine occupational and functional categories: economists; inspectors and engineers; technicians, accountants, and reference; secretaries and typists; office clerks; cashiers, store clerks, and record-keepers; doormen and watchmen; couriers; and manual laborers. Within each category, base salaries vary according to grade and step.

19. Régies autonomes are state-owned companies that are not expected to be privatized; they are either national monopolies or government bodies deemed essential for national security and welfare. State commercial companies, in contrast, were incorporated in 1991 and have been slated for privatization. This survey is based on a sample of seven companies, including four state commercial companies, two régies autonomes, and one private company.

20. Because of the limited sample size, these data should be viewed as indicative of general trends, rather than as representative of actual salaries.


22. Ibid.


24. It should be noted that, under present legislation, no distinction is drawn between political and administrative appointments, so the notion of a “political” echelon is approximate, at best.


References


Well into the transition from communism to democracy and capitalism, Hungary now confronts the enormous task of rebuilding its public administration to meet an array of demands placed on the state. New and flexible government machinery structures must replace old, ones and staff need to be re-allocated to new functions. In addition, a professional civil service must replace the once communist-dominated bureaucratic apparatus.

The starting point for state transformation in Hungary in many ways resembled that of other Central and Eastern European countries. As elsewhere, Hungary’s public administration had been based on the precepts of democratic centralism, emphasizing a unified state with strong hierarchical controls and subordination, party-dominated administration, disregard for rule of law, and the pervasive influence of a central planning system on administrative functions. But the Hungarian experience has diverged from that of its neighbors in several important respects that, in theory, should make the process of administrative reform easier. In the recent postcommunist period, Hungary has enjoyed relative political and economic stability and a comparatively settled constitutional environment. The gradual nature of the transition itself afforded Hungarians, already among the best educated people in the region, considerable prior exposure to western models of economic and administrative management. And, a distinguished precommunist administrative tradition provided an important reference for current reform efforts. Thus, Hungary’s administrative reform program began with what appear to have been real advantages and high expectations.

To what degree have these expectations been met? This chapter examines the Hungarian experience with administrative reform at the level of central government. Following a background discussion on the pretransition his-
tory and the overall context of reform, I assess the progress of change along
three dimensions: (a) machinery of government—how have core govern-
ment structures and decisionmaking processes adapted to new transition re-
quirements? (b) government pay and employment—what are the current di-
mensions of and incentives within government and what shifts have taken
place since transition began? and (c) civil service management development—
how have new legal instruments, institutions, and systems been put in place
to develop a professionalized cadre of de-politicized civil servants?

Finally, I draw some conclusions about administrative transformation in
Hungary and offer thoughts about the future direction of reforms.

Background: The History and Context of Reform

Hungary's contemporary public administration has its roots in the Austro-
Hungarian Dual Monarchy, which spanned the years from the mid-19th
century to the collapse of the empire at the end of World War I. During this
period, government was highly centralized and expansionist. This tendency
was spurred by prevailing contemporary ideology about nation-building and
by the need to hold together an ethnically diverse realm. Government
administration was elitist, distributing public sector positions to the powerful
landed gentry class. The conservative, ascriptive character of the Hungarian
administration persisted through the interwar period. Periodic efforts to
rationalize and professionalize the administration through the introduction
of merit-based recruitment and promotion did occur, however, leading to the
gradual replacement of older aristocratic cadres by younger staff selected
more on the basis of professional credentials. Rationalization efforts were
most vigorous between the world wars but were sharply curtailed under the
fascist regime that came to power during World War II.

Communist Period

The postwar Soviet occupation was followed, fleetingly, by a democratic
regime in the late 1940s. But democracy soon gave way to a 40-year period of
communist rule, beginning in 1949 with the approval by the National
Assembly of a Stalinist constitution. This constitution established a socialist
state dominated by the Hungarian Workers Party—after 1956, the Hungarian
Socialist Workers Party, or HSWP. Under the constitution, the National
Assembly was, in theory, the supreme bodies of state power. In fact, as in
other communist countries, the assembly was a rubber-stamp institution that
seldom met.

The structure of the HSWP resembled that of other Soviet-style commu-
nist parties. Political power rested with the Politburo, whose members occu-
pied the most important positions in the party, the government, and mass
organizations. Party leaders elected a general secretary, who was also head
of the Politburo and, typically, the government and who served for an unspecified period, subject to the approval of the Soviet Union.

Decisionmaking was centralized in the Politburo. One level below, the Central Committee had the key role in coordinating policy and in overseeing implementation. Government administration, essentially the executive staff of the Central Committee, operated in the party's shadow, with little independent scope of activity. Three ministries (Defense, Interior, and Foreign Affairs) were explicitly under party control, and permanent staff members within the Central Committee were empowered to approve all major policy and personnel decisions. The rest of the bureaucracy operated in a similar fashion, directed by a core of about 800 staff in party headquarters, where a set of policy departments corresponding to, and in daily contact with, those in government ministries was maintained.

Two government bodies played central roles in implementing the party's directives: the Council of Ministers and the Presidential Council. The Council of Ministers was the highest executive and administrative organ of state power, with primary responsibility for economic management. According to the constitution, the Presidential Council was to be subordinate to the National Assembly and superordinate to the Council of Ministers; in fact, it served as a de facto parliament. Until 1989, all members of the Council of Ministers and most members of the Presidential Council were party members who also served on the Central Committee or the Politburo.

Under the old regime, public servants had no special legal status. Like other branches of the economy, they were regulated by the standard Labor Code. For most of the communist era, appointment to the government administration was determined, to some extent, by academic qualifications and personal aptitude, but the criterion of political reliability was paramount. Under the "cadre system," appointees to specific top-level positions in the state administration had to be approved by the party committee corresponding to the organ bodies in question.\(^2\)

**Goulash Communism: Pretransition Reform**

Although many of the institutions described above conformed outwardly to classic communism as practiced throughout Eastern and Central Europe, the Hungarian experience was, in fact, distinctive in the degree of system relaxation and reform that was gradually introduced, beginning soon after the 1956 uprising, under the regime of Janos Kadar. Kadar struck an implicit compromise between the party and the public, allowing considerable civic autonomy in exchange for continuing party domination of economic and political life.

Under the looser grip of "goulash communism," various incremental reforms were initiated. These included constitutional reforms in the early 1970s
establishing a court system and guaranteeing, in principle, a number of po-
litical freedoms that were, in practice, still exercised at the discretion of the
party. Various economic reforms, such as the privatization of agriculture and
the introduction of market incentives through the New Economic Mecha-
nism, were also undertaken, and, at various points, reversed. Multicandidate
elections for the National Assembly and local councils were in place by 1983.
Although multiparty activities were not legitimized, the regime tolerated
growing opposition both within and outside the HSWP throughout the 1980s.
Relaxation of restrictions on university admissions led to the gradual expan-
sion of the professional class, which became, over time, an increasing source
of public servants. Indeed, the regime’s efforts to woo elements of the intel-
ligentsia into government positions in the 1980s resulted in the
professionalization of public servants, who reached a qualification level on a
par with western European administrations. During this period women filled
a higher proportion of executive positions than the European average. Thus,
by the 1980s a new group of highly trained technocrats had reached midlevel
positions within government. This group laid much of the intellectual ground-
work for subsequent economic and administrative reforms. The Program
Office of Scientific Research was particularly influential, issuing policy pro-
posals that urged reforms in a number of areas, including public service eth-
cics, public finance, and economic management.

The future of the HSWP, however, was not so bright. By the late 1980s,
the party faced formidable problems: the loss of external support from the
Soviet Union, a rapidly deteriorating economy, and an increasingly restless
domestic opposition. The party itself was more and more divided between
reformist and conservative wings, and its power began to wane. Party au-
thority to issue legislation was gradually supplanted by that of the National
Assembly, which by 1989 began to approve a growing volume of legislation.
The re-establishment of separation of powers had begun.

The reform process rapidly gathered momentum under the transition
government of Miklos Nemeth, the last of the communist rulers, whose motto
was to “flee ahead” and “liberalize, deregulate, decentralize.” In October
1989, the 1949 constitution was amended to establish a democratic system,
paving the way for the free elections of May 1990 that swept away commu-
nist rule. Under the leadership of Jozsef Antall, the Hungarian Democratic
Forum formed a coalition government.

Current Political and Constitutional Context

The transition to democracy in Hungary signaled the creation of new political
and administrative systems. The constitutional revisions of 1989 created a
republic with a unicameral Parliament. Parliament elects a president who, in
turn, selects a prime minister every four years, or sooner in the event of a no-
confidence vote. The legislature also elects the Chief Justice of the Supreme
Court, Constitutional Court members, and the chiefs of the State Audit Office and the Office of the Ombudsman.

The new electoral system combines individual constituency, proportional, and national transferable voting in two-round elections. A somewhat fragmented multiparty system reflects a complex array of cleavages: urban-rural, nationalist-socialist, liberal-free market, and so on. The current government coalition is led by the postsocialist Hungarian Socialist Party in partnership with the Alliance of Free Democrats.

The present legal system provides for distinct codes for civil and criminal procedures, adjudicated through a system of supreme, county, and local courts. A hierarchy of laws, much of which derive from 1987 legislation, includes parliamentary acts and government decrees. The power of the latter was restricted during the transition. Local governments, which coexist alongside deconcentrated offices of central government in a two-tier system, are also empowered to issue by-laws. The “ordinary” court system adjudicates these laws. This system is headed by a Supreme Court (not to be confused with the Constitutional Court) and includes lower jurisdictions at the county, local, and capital city levels.

Restructuring the Machinery of Government

With the regime change in late 1989, an overhaul of the organizational machinery of central government began. The eclipse of the party as the dominant organizing force in government meant that new mechanisms for coordination and policy formulation had to be put in place. The shift toward a market economy made a number of organs or parts of agencies obsolete or inappropriate, and, for some functions, wholly new institutions needed to be created. In addition, the democratic opening prompted the revision or creation of systemwide accountability and of consultative and decisionmaking processes. The following section reviews Hungary’s experience so far with these machinery of government reforms. I look first at the current status of core government organizations, assessing the adequacy of coordination relationships and policymaking instruments. The discussion next turns to structural and procedural changes in line ministries, with particular emphasis on the experience of two organs, the Ministries of Industry and Trade and of Interior. I then look at cross-system mechanisms of accountability. Finally, the institutional arrangements for the public administration reform process itself are discussed.

Restructuring Core Government Mechanisms: Improving Coordination and Decisionmaking

In framing the new political order, transition reformers wanted to alter decisionmaking structures and processes at the core of government to enhance
transparency and accountability. The system they created placed Parliament at the apex with the president and the prime minister, and, implicitly, all executive functions, subordinated to the legislative branch.

From the administrative point of view, the question was: could the reformers also create efficient, responsive institutions at the core, cabinet level of executive government where policy formulation and coordination take place? These functions, carried out under the old regime by the Central Committee and Presidential Council, have evolved in a trial-and-error fashion in recent years. While improvements are still needed, decisionmaking mechanisms have matured significantly during this period. In the initial transition, the Council of Ministers was in charge of policy coordination, but its oversight proved ineffective. Cabinet meetings were long, unstructured, and unproductive. Ministries could not be disciplined to engage in sufficient consultation prior to meetings, so closure on decisions was rarely reached. To improve coordination, the prime minister’s office was designated as a central clearinghouse for policy decisions, but this provoked complaints from some line ministers who resented the growing power of the prime minister’s staff.

By the end of 1990, a new decisionmaking system had been organized. The new arrangement was characterized by weekly cabinet meetings that were preceded by regular meetings of administrative state secretaries. The agenda for the cabinet meeting was set at these earlier gatherings, which involved four main groups of actors: the Prime Minister’s Office and associated advisers, the Ministerial Cabinet, and the political and administrative state secretaries. Several other ad hoc bodies also played a role. Overall this system appears to have worked better than its predecessor, although problems remain. Some key features of this new policy coordination machinery are discussed below.

**Office of the Prime Minister.** As might be expected, the Prime Minister’s (or Cabinet) Office is at the center of the decision-making system. This office provides the prime minister with supporting information and advice, organizes and coordinates cabinet sessions, and serves as an organizational base for ministers without portfolio and for governmental activities not covered by another central authority.

The office is headed by an administrative state secretary, who, aided by two deputy state secretaries, supervises the government’s work and prepares the agenda for government sessions. The Prime Minister’s Office also houses one minister without portfolio and, as a formality, two “deputies” or “substitutes” who may act in the prime minister’s absence. Customarily, this may be either the head of the junior coalition party or the Minister of Finance. These substitutions are not clearly spelled out in law, however—an ambiguity that has occasionally resulted in decisionmaking confusion on important issues.
An unwieldy administrative body in both the size of its staff and the scope of its responsibilities, the Prime Minister’s Office has, in fact, been streamlined under the new arrangements. Some staff reductions have taken place, and various oversight functions—in particular, those related to religion, science, and youth—have been transferred with their relevant political state secretaries to the Ministry of Education and Culture. Even with these changes, however, the office (with 400 to 500 staff) continues to be oversized. Moreover, its operations are not very transparent, with policy formulation seemingly based less upon rational, formal processes than informal, personal ones. The resulting policies often seem idiosyncratic and inconsistent.

Ministerial Cabinet. The Ministerial Cabinet is the government’s central policymaking and executive body. The number of cabinet members has varied slightly over time and now is at its lowest with 14 members: the prime minister, 12 ministers with portfolio, and 1 minister without.

All matters that concern the executive branch must be submitted to the Ministerial Cabinet unless they are, by law, immediately passed directly to the ministers. The cabinet directs and coordinates the work of the ministries and other agencies. The cabinet meets once a week; agenda items are proposed by the ministers, the administrative and political state secretaries in the prime minister’s office, or by government commissioners or other individuals charged by the prime minister with preparing a report.

In practice, this has been a fairly efficient arrangement. During cabinet meetings, the prime minister and his cabinet consider, on average, 30 issues that have been previously vetted. Decisions require a majority vote; the prime minister’s vote breaks a tie. Approximately three-fourths of the issues are noncontroversial and are affirmed by voice vote after only a few minutes’ consideration. The remainder require more extensive discussion.

Meetings of administrative and political state secretaries. In 1990, the government passed legislation creating a new administrative structure within central government ministries. As in the Prime Minister’s Office, each ministry has a political state secretary and an administrative state secretary. The former is a political appointee responsible for representing the ministry in Parliament; the latter is a career civil servant, responsible for the day-to-day management of the ministry. While both administrative and political state secretaries play a role in policy coordination, in recent years the weekly meetings of the administrative state secretaries, in particular, have been among the most important institutions within the government.

These weekly gatherings, in which administrative state secretaries prepare the agenda for the next week’s cabinet meeting, provide a chance to iron out policy wrinkles or reconcile divergent views before items are sent to the full cabinet. Typically, the initiating ministry circulates its proposal to those
line ministries affected by the decision. The administrative state secretaries then meet to review comments and decide either to forward the proposal to the cabinet meeting 10 days hence or to return it for revisions. Without this prior approval, no issue can be put onto the cabinet's meeting agenda except by permission of the prime minister. Although this mechanism appears to be functioning effectively, the irony that political and policy consistency in core government decisionmaking depends on bureaucrats rather than political appointees is worth noting. Also noteworthy is that this instrument relies greatly upon the capabilities and personalities of individual ministers for its effective implementation.

In contrast, the participation of political state secretaries in the policy coordination process is much less prominent. The prime minister chairs a weekly meeting of political state secretaries to promote political discussion of key issues currently before government. These meetings appear to carry relatively little weight in policymaking, however, in part because of the secretaries' ambiguous role. Although political state secretaries are legally authorized to represent their ministers in Parliament, this authorization does not extend to participation in government meetings, where political state secretaries attend only on an *ex officio* basis. Furthermore, political state secretaries lack the control over the ministerial apparatus vested in their administrative counterparts. The former often do not have the minister's confidence; indeed, they are frequently from a different political party and have been appointed to their positions only to balance the coalition representation in government.

Consultative and advisory bodies. Several other formal and informal mechanisms provide policy advice and coordination assistance. There are specialized "cabinets," for example—formal consultative bodies that meet and prepare preliminary views on policy decisions, although they have no authority to make decisions independently. Their membership includes ministers and representatives from other government agencies. The Economics Cabinet, for instance, is composed of members from the Ministries of Industry and of Finance and the State Privatization Agency, along with the chairman of the National Bank. The frequency with which these cabinets actually meet and the degree of their influence on government policy are unclear.

A number of informal ad hoc committees have also been formed on a range of topics. These groups often consist of special consultants drawn from various disciplines, such as economists, lawyers, and political scientists, who serve as personal advisers to the prime minister. The impact of these groups on the policy process is also uncertain, determined more by informal personal access than by formally institutionalized roles.

As might be expected, the interaction of players in the ruling coalition itself also influences the policy process. The rules of the previous coalition
agreement made the Free Democrats, in principle, equal partners in the governing process. The result was the institutionalization of a series of informal political consultations and mechanisms for conflict resolution and coordination. A Coalition Coordination Council, set up according to the interparty agreement, consists of the prime minister, his coalition deputy, heads of the coalition parties, leaders of parliamentary party groups, and officials from both parties. The council discusses every major issue and meets weekly to establish the government's agenda for the following week, with considerable intermember consultation between meetings.

As this discussion suggests, cabinets and committees abound in the core government policy organization. In this diffuse institutional environment, policy coordination remains a fundamental problem, particularly in areas that stretch across the purviews of several ministries. While agreement on interministerial issues may be reached at the highest levels of government, consensus often fails to filter down to the lower rungs of the bureaucracy. What is needed to make these arrangements work is both improved vertical communication channels within organs as well as more horizontal information exchange among agencies at lower working levels.

Even with strengthened policy coordination mechanisms in place, reports of a pervasive informal decisionmaking structure that repeatedly substitutes for formal channels have not diminished. This may simply reflect the continuation of the informal personal networks that so pervaded the communist, and perhaps the antecedent, systems. Or it may represent a mechanism for getting things done when official instruments prove too unwieldy. Whatever the reason, excessive reliance on informal decisionmaking tools also implies less transparency and accountability, inhibiting institutionalization of sound policymaking practice. Such behaviors are unlikely to decrease without greater commitment throughout government to formal policy deliberation structures.

New Mechanisms for Accountability

Making government more accountable at all levels has been a chief aim of the reform process. A legal and institutional system to enhance government accountability was introduced in Hungary through constitutional and political changes made early in the transition. The 1989 constitution and additional legislation created several new institutions to strengthen the rule of law and ensure prudent management of public resources. Although sometimes lacking adequate funds and appropriately trained staff, these fledgling institutions nonetheless represent a serious effort to create a framework for accountable government.

The strongest accountability mechanism is Parliament itself, consisting of 386 members elected for four-year terms. In order to exercise a straightfor-
ward check on other parts of government, parliamentarians must not have conflicting interests. Thus, membership in Parliament is exclusive: except for members of the cabinet and state secretaries, members may not be employed by the central administration, nor can they serve in the police or armed forces, as judges, prosecutors, members of the Constitutional Court or the State Audit Office, or as president of the Republic.

Parliament is authorized to act on a broad front. It may enforce the constitution, enact laws, develop national socioeconomic plans, approve the state budget, determine the government's program, ratify international agreements, deploy the armed forces at home and abroad, call referenda, grant amnesty, and dissolve any local representative body operating unconstitutionally.

The procedural control of Parliament is in the hands of a speaker and three deputy speakers. A parliamentary quorum consists of half the total membership; parliamentary decisions require an affirmative vote by a majority of members present, although constitutional amendments or issues regarding local government, the media, or the police require two-thirds approval. Ten standing and four special parliamentary committees are the principal consultative, advisory, and control bodies of Parliament, as well as the main initiating sources of legislation. The composition of these committees reflects electoral outcomes, with committee membership and chairmanship allocation proportional to party strength. The parliamentarian membership on such bodies tends to be large, sometimes greater than 25, a circumstance which, along with their political character, is unlikely to improve the committees' speed or effectiveness in policy formulation.

The present parliamentary structure as a whole, in fact, is viewed by many as inefficient. That Parliament should have its share of problems is hardly surprising, given the scope of changes being undertaken. Buried beneath a backlog of bills, Parliament is forced to review an overwhelming volume of legislation in great haste, without time for adequate preparation or strategic planning. As elsewhere in Eastern and Central Europe, the very pace of reform efforts threatens the coherence of the reform process itself. How to address this legislative bottleneck is yet another challenge reformers have to face. The committee staff support structure is inadequate, given the tasks it must deal with, and requires strengthening to meet this huge demand more efficiently. One proposed solution is to grant ministries authority to pass temporary decrees on matters that are in urgent need of regulation, subject to subsequent parliamentary review and approval.

Parliament is, of course, not the only mechanism of system accountability within the government. Other bodies have been established in the form of oversight agencies directly responsible to the legislature. These include the Constitutional Court, the State Audit Office, and the Office of the Ombudsman.
The Constitutional Court was established separately from the “ordinary” courts to develop the rule of law, to protect the fundamental rights set out in the constitution, and to provide for the separation and balance of powers. It has become, in fact, one of the most important institutions in the Hungarian system of checks and balances. It undertakes both preliminary and ex post review of government actions to determine constitutionality and conformity with international treaties. It can nullify any law deemed unconstitutional and it can rule on issues of conflicting competencies among state organs. Court decisions are final and without appeal. Membership consists of 11 judges elected by Parliament for nine-year terms subject to one re-election (only nine of these positions are filled at present). Although, in principle, the court is above politics, the bench’s composition tends, in practice, to break down along party lines, and observers have noted the politicization of many decisions. Rulings in the spring of 1996, striking down some aspects of the government’s economic stabilization program as unconstitutional, raised the profile of the Constitutional Court, prompting the prime minister to agree to consult the court in advance of any future reform proposals.

Another, somewhat less politically visible institution that serves to oversee administrative activities is the State Audit Office, established in 1989 under parliamentary supervision to monitor financial integrity and economic efficiency throughout the public sector. Some of this work is carried out through regional offices with small staffs. The office consists of four divisions: the Analytical, Methodological, and Information Division, which collects and analyzes financial and business information; the Central Government Division, which reviews ministries’ expenditures, special state funds, state subsidies for foundations, the Tax and Financial Authority, and the Customs and Excise Office; the Local Government Division, which monitors local government expenditures working primarily through regional offices; and the Property Management Division, which audits the business assets of the state and monitors privatization, domestic and foreign national debt, the social security fund, and other organizations partially or entirely supported by the budget. While the State Audit Office mainly keeps track of compliance with relevant legislation and checks the probity of government spending, it is now increasingly applying cost-benefit analysis to selected public expenditures. The office also monitors the activities of the State Property Agency.

The chief complement to the State Audit Office is the Government Financial Control Office, established in 1993 to perform a central audit function exclusively for the executive branch and to ensure compliance with existing legislation. Unlike the State Audit Office, the Financial Control Office deals only with central budget institutions and separate state financial funds. It cannot, in principle, initiate its own inquiries but responds instead to government requests for specific audits. In practice, its responsibilities often overlap.
with those of the State Audit Office. Although its staff try to avoid duplicating efforts by coordinating work plans with the State Audit Office, a clearer delineation of roles is needed if the agencies are to do their respective jobs effectively.

Recently, a significant expansion of the Financial Control Office’s activities has been proposed. Indeed, the office was poised to play a key role in Hungary’s public administration reform effort. The office began to develop performance and efficiency criteria for the country’s line ministries, devising a set of output and outcome measures for government performance. Both the general methodology and the goals would be determined centrally by the Financial Control Office, and teams were to be set up in each ministry to assess efficiency. These reviews were to form the nucleus of functional audits to be carried out as part of government’s ongoing right-sizing exercise. The Financial Control Office is also likely to figure prominently in cost-benefit reviews of new legislation, now required by Parliament for all regulatory policies. In the light of these proposals, the office’s current staff of around 50 is perhaps inadequate, in terms of both number and skill profile.

In addition to the Financial Control Office, the 1989 constitutional reform created the Office of the Ombudsman, which operates under the aegis of the Parliament. Two kinds of ombudsmen were created: one dedicated to the protection of civil rights, another for the protection of the rights of national minorities. The ombudsman officials are to be elected by Parliament and are empowered to initiate redress in either general or particular matters. Several years after the office’s establishment, however, the posts have still not been filled.

This web of institutions represents, to be sure, significant progress in building a system to ensure fiscal and constitutional accountability in government and probity in public expenditures. Although problems of coordination and political independence remain, Hungary’s situation, in comparison with that of other Central and Eastern European countries, is one to be envied. Political and constitutional accountability has largely been established through the empowerment of Parliament and the Constitutional Court. Both the State Audit Office and the Government Financial Control Office are moving ahead to employ methodologically advanced techniques, including cost-benefit analysis and improved performance measures to assess government activities. The main challenge for these two agencies, once a clearer division of labor is defined, will be how to provide for the extensive training and technical assistance needed to put these techniques into practice.

Restructuring Line Ministries

In addition to core government structure and policy coordination and accountability mechanisms, restructuring efforts have also targeted the machinery of line ministries. The objective has been to match ministerial
structures and institutional capacity with the new functions associated with the transition. These efforts have included various centrally determined measures such as shifts in assignments among ministries and modifications in ministerial hierarchies and reporting relationships. Restructuring initiatives have also developed within agencies themselves, addressing such questions as organizational mission and functional duplication, as well as the need to decentralize decisionmaking and to substitute policy guidance for direct execution (from "rowing" to "steering"). Although in purely numerical terms the extent of ministerial restructuring since 1989 appears minimal—the total number of ministries has declined only from 13 to 12—significant changes have begun to take place at the line ministry level. Some recent experiences in ministerial reorganization, and the mixed lessons they offer, are examined below.

Changing the ministerial hierarchy. Changes in the hierarchical structure of ministries, aimed at ensuring the right balance of political responsiveness and impartial professionalism, were among the first administrative reforms of the early transition period. It was toward this end that Law XXXIII of 1990 created the new intraministerial structure touched on above, consisting of a minister, a political state secretary, an administrative state secretary, and several deputy state secretaries. The point was to draw a clear delineation between political and civil service positions and to assign functionally distinct responsibilities to different bureaucratic posts. This was a conscious departure from the previous system, with its proliferation of various sorts of advisers at higher ministerial echelons, were distinguishable from each other only by their particular personal and political connections.

Under the new system, only the minister and political state secretary, both members of Parliament, would be political appointees. In addition to the functions discussed earlier, the political state secretary may be assigned responsibility for a particular brief within a ministry. Day-to-day ministry management is overseen by the administrative state secretary. The post is filled by a senior civil servant appointed by the minister and approved by Parliament. Three to four deputy state secretaries (the maximum established by Parliament), with management responsibilities for particular areas, report to the administrative state secretary.

Various other new organizational mechanisms were also introduced into ministries under the transition. Cabinets, for example, were established in a number of ministries as permanent advisory bodies, although in some cases these have come to function merely as secretarial organs without policy-making characteristics. Ministers frequently supplement this advice and support with that of outside experts (usually of the ministers' own political affiliation), who are mainly retained to work on specific tasks. The system operates, in fact, very much on an ad hoc basis.
This new model of ministerial organization has been evolving with many potential problems still to be worked out. For example, the rule of a single political state secretary per ministry would appear to put small ministries on the same political footing as larger ones. The latter, however, with their large and varied portfolios, demand far greater political attention; the present system thus hampers comprehensive representation by large ministries before Parliament. Some solutions to this problem are currently under discussion, such as allowing for a variable number of political state secretaries depending on the size or complexity of the ministry, or introducing a new category such as junior minister or parliamentary secretary. Observers also note that the coexistence of political and administrative state secretaries, each with their own staffs, encourages divisiveness and hinders cooperation within ministries. The tendency for these two camps to compete over bureaucratic turf is exacerbated by the lack of clearly defined roles for the two positions.

Changing missions and functions in line ministries. Restructuring reforms have also involved changes in the scope of activities, as well as in the overall objectives or “mission” of individual ministries. As discussed below, the Ministry of Interior expanded its purview to include the supervision of key aspects of public administration reform. For other agencies, functions have been stripped away and reassigned elsewhere. The Ministry of Education, for example, has sought to transform its role from that of disseminating a state-controlled curriculum to one of formulating policy and facilitating educational service provision. The Ministry of Industry, in its mission shift, is moving away from hands-on management of industrial regulatory activities. Sometimes these mission changes imply simply a transfer of assignments among ministries. The Ministry of Environmental Protection, for instance, relinquished its water management responsibilities to a new Ministry of Transport, Communications, and Water Management in exchange for a wider role in regional development activities.

As the reform process goes forward, it is likely that further functional consolidation and a clearer delineation of authority among different organs will need to take place. Housing policy issues, for example, span the purview of four to five ministries; conflict and confusion in this area suggest that greater clarity is needed in assigning ministerial competencies. The coordination of public administration reform, which is currently divided among various agencies, also suffers from this lack of clear functional attributions. The problems of unclear attribution and poor coordination affect both policy and implementation tasks, a situation exacerbated by the long-standing tendency of vertically organized ministries to work more comfortably with their own subordinated institutions than in horizontal collaboration with other line agencies.
Examples of Ministerial Restructuring

A window on administrative restructuring is provided by examining two key ministries still undergoing significant transition adjustments: the Ministry of Industry and Trade and the Ministry of Interior. While testifying to the advances Hungary has made, the experiences of these ministries also illustrate the difficulties of balancing reform demands with the legacy of earlier administrative practice, as well as the potential for conflict among the different goals that make up the reform agenda as a whole.

The Ministry of Industry and Trade—During the previous regime, the Ministry of Industry and Trade (MOIT) was one of the largest and most important ministries. Indeed, it was a superministry created in 1980 by combining the three smaller Ministries of Light Industry, Heavy Industry, and Foundries. As in most communist economies, the ministry worked within general production targets determined by the State Planning Agency, setting detailed goals for individual factories and monitoring the fulfillment of these objectives. The overall planning process in Hungary was looser than in other countries of the region, however, and the ministry's direct intervention into state enterprise activities had gradually begun to give way to greater on-the-ground management control over production. Supply, pricing, and marketing activities, as well as responsibilities for cost control, had already moved beyond the ministry's realm by the beginning of the transition.

The nature and scope of the ministry's function have continued to evolve since 1990. In the early days of the transition, privatization resulted in a significant contraction of the MOIT's sphere of activity. But with many large firms sold off and individual enterprise debts consolidated, senior MOIT officials do not foresee significant further reductions in the number of enterprises in the ministry's portfolio in the immediate future.

For the state enterprises that remain within its purview, the ministry continues to shift away from direct management to the indirect use of market stimuli, monitoring performance not by production quotas but with market indicators such as turnover, profitability, export potential, and rate of return. Such reforms are proceeding unevenly within the MOIT, however. The tradition of the social market has widespread appeal among ministry staff, many of whom continue to advocate use of employment measures in criteria of enterprise performance. This lack of consensus within the MOIT has stymied the development of a framework to standardize performance assessment approaches across firms.

Still, even these initial shifts in MOIT orientation have meant hard decisions in the context of industrial downturns and dislocations. It is noteworthy, for example, that the prolonged depression in the northeastern region, associated with aging mines and industries and the collapse of traditional
markets, does not seem to have elicited ministerial intervention. Instead, the new official position has been to encourage firms to try to expand into new markets and develop innovative product lines. Even in the face of considerable political pressure to intervene more forcefully, the ministry has argued the responsibility for reorienting production now rests with the enterprises themselves.

Perhaps the most fundamental structural change in the Ministry of Trade and Industry took place formally on July 15, 1994, when it was merged with the Ministry of International Economic Relations. Under the previous regime, the former ministry was responsible for foreign economic relations with the Soviet bloc and the latter was in charge of trade with non-Soviet countries. With the collapse of the Council for Mutual Economic Assistance (CMEA), this division of labor became moot. In addition, a slimmer Ministry of Foreign Affairs took over the noneconomic aspects of foreign relations. Although organizational structures and staff were joined through the initial merger, redundancies in various functional departments, such as those involved with international industrial cooperation and development, as well as economic analysis, remained.

Not surprisingly, there was resistance to consolidation in both ministries, mainly from department heads, who were the most likely target for retrenchment in the context of merged functions. Although self-interest clearly drove a good deal of this resistance, the timing of what might prove to be a disruptive reorganization was also criticized. The concern was that the restructuring would be more time-consuming than anticipated and would drain energy from urgent substantive tasks such as stimulating exports. Indeed, the earlier merger between the Ministries of Light Industry, Heavy Industry, and Foundries is reported to have required adjustments over a 10-year period. Thus, the fear of senior ministry staff that the current consolidation would take five to six years was not entirely baseless.

Other concerns more clearly reflect entrenched bureaucratic values. For example, standardized limits on the number of deputy administrative secretaries per ministry (no more than four) were also resisted, and widespread circumvention of this rule occurred. The demand for embellished titles and salaries led, at the same time, to the proliferation of additional positions (apparently equivalent to deputy administrative secretary (DAS) posts), such as those of secretary general, creating additional bureaucratic layers and reporting relationships.

Despite these practices, sharp reductions in staff levels continued. Staffing was initially about 1,000 for both ministries. As of early 1996, the number of positions in the MOIT was around 800, of which 750 were actually filled. The downsizing program announced in March 1995 had foreseen a further reduction of staff in the MOIT by more than 25 percent. Additional rationalizations were expected later in 1996, in the context of overall reviews of gov-
ernment functions and structures. Staffing composition was also to be reviewed through this process, as discussed below. At this writing, there was a surplus of engineers and economists; lawyers and management specialists, however, were in short supply, as were technical experts with up-to-date skills in a variety of specialized fields.

The Ministry of the Interior—Reshaping the Ministry of Interior (MOI) involved the reorientation of what had been a powerful ministry with deep roots in Hungarian history. Dating to the Austro-Hungarian Compromise of 1867, the ministry was traditionally among the most powerful, with vast authority and responsibilities. Under the communist regime, its three major tasks were the maintenance of public order, control of local administrative bodies, and the issuance of public law through preparation of government decrees and regulations. Most important, from 1948 through 1989 the ministry was a key instrument of Communist Party control over civil society.

During the period immediately following the 1990 elections, the new leadership of the Ministry of Interior faced the task of bringing what was in essence a paramilitary security apparatus under civil control and supervision. In the reorganization, civilians were introduced into the ministry and great care was taken to separate the police from other ministerial offices and functions. The previous system of using military ranks for all personnel was abolished, the use of special uniforms and sidearms was discontinued for large categories of staff, and many special privileges previously enjoyed by the police were halted or curtailed. In 1992 the Interior Ministry’s special compensation scale, which had provided better pay than the other ministries, was harmonized with that of other government agencies.

The reorganized ministry’s responsibilities include oversight of relations between the central administration and local authorities, including local government financial management; preparation and execution of the portion of the state budget relating to local authorities; preparation and issuance of government decrees; and oversight of the civil service. In addition, the ministry oversees the national police, the customs service, the frontier guards, and the college for police officers. A political state secretary and an administrative state secretary serve directly under a minister who has a personal cabinet with a small staff. There are three deputy secretaries with responsibilities for, respectively, municipal affairs, public law affairs, and economic affairs.

Reorganization has not inevitably meant loss of personnel. At the outset of the transition, in fact, staff migrated to the Ministry of Interior from other government agencies, particularly the Ministries of Environmental Protection and Regional Development and of Industry and Trade, and some staff were recruited from local government. Most of the new staff were hired to replace police personnel who left government in 1991.
In all these changes, a major challenge has been to transform MOI staff attitudes from a security mentality to a service orientation. The emphasis on service has been coupled with a push to decentralize and deconcentrate various ministerial functions. Such traditional MOI functions as passport processing and motor vehicle inspection, for example, have undergone considerable modification. The former, once a key instrument for controlling Hungarians’ access to the West, has now been decentralized and computerized, due in part to growing citizen demands for facilitated freedom of movement, as well as the desire to meet standards set by the European Union (EU) for passport administration. Motor vehicle inspection has also been decentralized. Now, instead of one agency registering and controlling the licensing and inspection of automobiles, this function has been delegated to car retailers, who are responsible for forwarding registry information to the designated MOI bureau. This decentralization of the registration process may have created other problems, however. Some dealers have, in fact, failed to register sold vehicles properly, and the number of unregistered cars reportedly has been on the rise in Hungary. The Ministry of Interior has been grappling with question of which responsibilities should be handled by the center and which should be devolved to decentralized levels of government.

Institutional Framework for Modernization of Public Administration

As these two examples show, reforms in line ministries reflect real progress but also the continuing presence of a range of both old and new bureaucratic and political obstacles. To reinforce their efforts, reformers across government have sought support from a set of institutional mechanisms that can guide the administrative reform as a whole. These mechanisms have themselves been in a state of flux. Until recently, responsibility for public administration modernization was concentrated entirely within the Ministry of Interior, headed by the ministry’s administrative state secretary. But in the wake of parliamentary elections in May 1994, the strategy and planning functions for public administration reform were shifted to the Prime Minister’s Office, where they are directed by a newly established Government Commissioner for the Modernization of Public Administration, supported by a small advisory staff. The rationale here was to create a primus inter pares, raising the profile of public administration policy to supraministerial status. In this arrangement, the Ministry of Interior retains implementation responsibilities with regard to both the civil service and relations with local governments. The Ministry of Labor (MOL) oversees the public service, which includes the majority of service providers such as teachers and health workers.

There are also two interministerial committees directly involved in public sector reform: the State Committee on Deregulation, chaired by the Government Commissioner for the Modernization of Public Administration with
participation by the Ministry of Interior, and the Committee on Public Finance Reform, chaired by the Ministry of Finance (MOF). The Committee on Deregulation, established in response to the dramatic increase of statutes and regulations during the transition (from over 2,500 in 1990 to nearly 5,000 in 1994), is charged with the task of eliminating unnecessary government rules. The committee’s mandate also includes the re-engineering of government processes to find the simplest and most cost-effective procedures—for example, replacing state intervention, when possible, by market mechanisms; imposing deadlines; prescribing simpler rules and obligations; and decentralizing administrative authority. The work of the committee has only just begun; current plans envisage a three-year deregulation effort. The work is aided by deregulation activities within the line ministries. Each ministry has an individual ministerial deregulation council, which advises ministers on specific deregulation steps.

The Committee on Public Finance Reform oversees the work of seven subcommittees. The main focus of its work is tax administration modernization, pension reform, and budgetary reform, which are to be achieved through the introduction of a treasury system and a modernized financial management information system. There is also a subcommittee focused on public administration modernization, with participation by the Government Commission for the Modernization of Public Administration, the Government Financial Control Office, and the Ministries of Interior and Labor.

Important as such efforts to rationalize and coordinate public administration reform are, the activities of the agencies themselves are not well coordinated at present. One reason for this is that there is no central body with comprehensive responsibilities for the entire reform process. The position of the Government Commissioner for the Modernization of the Public Administration is limited: the commissioner has the authority to plan reforms but not to implement them, and the commissioner’s office has only a small staff and a limited budget, both of which are inadequate to the task of managing reform efforts. The division of responsibilities among the government commissioner, the MOI, the MOF, and the MOL has yet to be worked out. As a result, various important reform initiatives were put on hold. For example, draft regulations on legislative procedures, on the definition of competencies of senior government officials, and on conflict of interest rules have been postponed.

The problem of coordination is made more complex, and more urgent, by another issue that pervades all aspects of the reform process. This is the growing pressure of fiscal considerations. The impetus for public administration reform has been emanating principally from the MOF, which spearheaded the a national austerity program to stem the growing budgetary crisis. A program of public administration reforms, announced in March 1995,
included staff downsizing in the public and civil service, the rationalization of government functions, and changes in the provisions of the Civil Service Act, particularly with regard to compensation. The program called for a 3 percent cut in wages for central budgetary institutions for the remainder of 1995 and proposed a 15 percent cut in authorized civil service employment. These plans appear compatible with earlier 1994 proposals drawn up by the Government Commissioner's Office, which also emphasized the need for further ministerial consolidation, downsizing, the elimination of some deconcentrated agencies, and the streamlining of various service providers and support institutes linked to ministries. How closely such proposals matched those contained in the recent reform package is not clear.

Further reforms were also called for in 1996. More staffing reductions, from 15 to 20 percent, were mandated for central government. Reductions were to be based on functional reviews of the public administration structure. Similar rationalizations and downsizing were prescribed for the local administration, although the constraints on central control of local employment discussed above are still a problem. The 1996 budget guidelines also proposed the removal from the budget of a number of central budgetary institutions (CBIs), which were to be eliminated, merged, split, or restructured, resulting in the transfer or reduction of staff. The real fiscal impact of such a measure would be difficult to gauge, however, if these agencies continue to operate within the public sphere, albeit with extrabudgetary subventions.

Fixing the Machinery: Directions in Central Government Reform

Significant steps have been taken to restructure the machinery of government in Hungary. Constitutional and political institutions have been installed, providing for the separation and balance of powers among the legislative, judicial, and executive branches. Mechanisms for core decisionmaking are evolving, and shifting missions are shaping new organizational structures in line ministries, in an effort to achieve equilibrium between political responsiveness and administrative continuity.

These advances notwithstanding, much work on reorienting and restructuring government lies ahead. Despite the development of deliberative and coordinating mechanisms for decisionmaking in cabinet government, policy fragmentation persists, causing critical delays in reforms. Formal decisionmaking structures are frequently circumvented through informal personal networks, and, in spite of concerted efforts to distinguish between political and administrative structures and personnel, political factors continue to impinge unduly on administrative operations. Reforms in the machinery of government are taking place both ad hoc and within the context of budgetary restraints imposed by the fiscal crisis. The degree to which a careful consideration of the functional attributes of various parts of government
is incorporated into this fiscal restructuring program may depend on the ability of the institutions charged with public administration and civil service reform to mobilize and organize their efforts.

**Government Employment and Remuneration**

The rationalization of government employment and remuneration in light of redefined state responsibilities is a critical aspect of public administration reform in Hungary. As in machinery-of-government reforms, Hungary has advanced considerably in this respect compared with other Central and Eastern European countries. Further progress is needed, however, if the reforms currently under way are to be consolidated. To achieve the right fit between government staff and government functions, a better understanding of the present deployment of personnel throughout government and of the kinds of incentives currently in force for state employees is needed. Such incentives play an especially crucial role in the face of increasing private sector competition for valuable skills. This section looks at the structure of public employment and aggregate government wage bill trends. It then considers government remuneration practice, noting issues affecting the government’s ability to attract and retain high quality personnel. Finally, the institutional capacity of government to manage the personnel establishment is assessed, and conclusions on current wage and employment policy are offered.

**Structure of Public Sector Employment**

To grasp the full dimensions of government employment in Hungary, the different employment groups that constitute government need to be identified. Aside from the employees of state enterprises, there are essentially three categories of government employees: civil servants, public servants, and a heterogeneous “other” category. The civil service includes employees of central government ministries and agencies and their deconcentrated bodies, as well as county and local government employees, all of whom are regulated by the Civil Service Act.

As of 1994, the civil service represented only about 12 percent of general government employment (table 4.1). Approximately 60 percent of these civil servants are employed at the central government level, with one-third in core ministries and central budgetary institutions in Budapest, and the remainder in regional and local deconcentrated offices of the central government; 40 percent are employed in local government administrative organs. Within the central government’s share of civil service employment, a large minority, 29.2 percent, was employed in central administration. Over half, or 56.7 percent, were in deconcentrated organs and regional offices, while 12.3 percent were in the local offices of state administration. The remaining 1.8 percent
were distributed among nonexecutive government bodies, such as Parliament and the State Audit Office.

Table 4.1 General Government Employment, 1991-94
(thousands of employees)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public servants</td>
<td>—</td>
<td>—</td>
<td>650</td>
<td>648</td>
<td>71.6</td>
</tr>
<tr>
<td>Civil servants</td>
<td>—</td>
<td>—</td>
<td>106</td>
<td>105</td>
<td>11.6</td>
</tr>
<tr>
<td>Central</td>
<td>—</td>
<td>—</td>
<td>64</td>
<td>63</td>
<td>7.0</td>
</tr>
<tr>
<td>Local</td>
<td>—</td>
<td>—</td>
<td>44</td>
<td>42</td>
<td>4.6</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>—</td>
<td>155</td>
<td>152</td>
<td>16.8</td>
</tr>
<tr>
<td>Economic sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>13</td>
<td>11</td>
<td>10</td>
<td>9</td>
<td>1.0</td>
</tr>
<tr>
<td>Administration</td>
<td>215</td>
<td>240</td>
<td>270</td>
<td>270</td>
<td>29.9</td>
</tr>
<tr>
<td>Education</td>
<td>302</td>
<td>294</td>
<td>301</td>
<td>300</td>
<td>33.2</td>
</tr>
<tr>
<td>Health</td>
<td>224</td>
<td>262</td>
<td>252</td>
<td>246</td>
<td>27.2</td>
</tr>
<tr>
<td>Culture and sports</td>
<td>48</td>
<td>40</td>
<td>39</td>
<td>38</td>
<td>4.2</td>
</tr>
<tr>
<td>Other</td>
<td>53</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>4.5</td>
</tr>
<tr>
<td>Total</td>
<td>900</td>
<td>888</td>
<td>913</td>
<td>905</td>
<td>100.0</td>
</tr>
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</table>

Memorandum

<table>
<thead>
<tr>
<th>Populations</th>
<th>10,355</th>
<th>10,337</th>
<th>10,410</th>
<th>—</th>
<th>—</th>
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</thead>
<tbody>
<tr>
<td>Labor force</td>
<td>5,304</td>
<td>4,796</td>
<td>4,352</td>
<td>4,136</td>
<td>—</td>
</tr>
</tbody>
</table>

— Not available.

Note: There is a 1,000-person discrepancy between total employment by category and total by sector in 1994 (the sectoral total is 904,000).

Source: Ministry of Labor, Central Statistical Office.

By far the single largest employment group in government is the public service, which includes teachers, health care workers, and other service providers primarily employed by local authorities. Public service employment, regulated by the Public Service Act of 1992, made up over 70 percent of general government employment in 1994. Predictably, education and health sector workers are the largest component of the public service, representing 60 percent of general government in 1994. The “other” 17 percent of general government includes judges and prosecutors, the military, the police, the civil defense service, the fire service, border guards, customs and finance guards, and the national security services. Each group is regulated by a separate statute that establishes specific pay and employment conditions.

Taking all these elements together, total general government employment in Hungary amounted to 905,000 in 1994. This represents a small net increase of 5 percent, or 4,000 employees, from 1991. General government employment represented 8.8 percent of Hungary’s total population and 21 percent of its total labor force in 1993 (see table 4.2). Although still within the range found in other transition countries and in advanced industrial countries, Hungary’s general government employment levels are comparatively high, falling in the upper half of country rankings. Indeed, of the 12 countries
listed in table 4.2, only 3, Denmark, France, and Sweden, showed proportionately higher general government employment levels.\(^\text{20}\)

**Table 4.2. Government Employment and Wage Bill: Selected Countries**

(\(\text{percent}\))

<table>
<thead>
<tr>
<th>Country</th>
<th>General government Employment</th>
<th>Central government Employment</th>
<th>Wage bill</th>
<th>Wage bill</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total population</td>
<td>Total employment</td>
<td>Share of GDP</td>
<td>Share of expenditure</td>
</tr>
<tr>
<td>Australia</td>
<td>7.0 16.2</td>
<td>-- --</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Belgium</td>
<td>7.2 19.3</td>
<td>12.8 22.7</td>
<td>2.9 7.9</td>
<td>9.3 18.5</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>-- --</td>
<td>6.4 10.1</td>
<td>2.3 4.7</td>
<td>4.7 11.7</td>
</tr>
<tr>
<td>Denmark</td>
<td>15.1 31.1</td>
<td>17.3 23.8</td>
<td>2.3 4.7</td>
<td>4.7 11.7</td>
</tr>
<tr>
<td>Germany</td>
<td>6.7 14.7</td>
<td>10.3 19.3</td>
<td>0.6 1.3</td>
<td>2.5 7.6</td>
</tr>
<tr>
<td>Hungary</td>
<td>6.6 21.0</td>
<td>7.6 11.6</td>
<td>0.6 1.5</td>
<td>3.3 6.4</td>
</tr>
<tr>
<td>Japan</td>
<td>3.2 5.9</td>
<td>-- --</td>
<td>0.2 0.5</td>
<td>-- --</td>
</tr>
<tr>
<td>Poland</td>
<td>6.3 16.2</td>
<td>6.1 12.7</td>
<td>0.2 0.5</td>
<td>-- --</td>
</tr>
<tr>
<td>Romania</td>
<td>-- --</td>
<td>6.3 15.9</td>
<td>0.2 0.4</td>
<td>5.8 16.4</td>
</tr>
<tr>
<td>Spain</td>
<td>5.3 16.1</td>
<td>10.4 21.6</td>
<td>2.1 6.4</td>
<td>5.4 16.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>16.1 32.4</td>
<td>17.8 26.2</td>
<td>4.6 9.2</td>
<td>2.6 6.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>8.5 19.3</td>
<td>10.5 20.3</td>
<td>2.7 6.0</td>
<td>4.9 12.5</td>
</tr>
<tr>
<td>United States</td>
<td>6.6 14.7</td>
<td>9.6 21.1</td>
<td>1.2 2.7</td>
<td>2.7 5.4</td>
</tr>
</tbody>
</table>

--- Not applicable.


In contrast, the size of Hungary’s central government is among the smallest in the sample. With approximately six civil servants in the central government per 1,000 inhabitants, the civil service comprises just 1.5 percent of the labor force. Of the Organization for Economic Co-operation and Development (OECD) countries, only Germany and Japan have comparably small levels of central government employment. Small central government appears to be characteristic of the region; both Poland and Romania have central governments that are, in fact, proportionately smaller than Hungary’s.

Redundancy—mainly a public service problem? Such aggregate measures can yield only limited conclusions for example, redundancy in employment is extremely difficult to detect on this basis. But what these comparisons do suggest is that, to the extent overstaffing exists in Hungary, it is more likely to be found in the public service rather than among civil servants in the central administration.
A deeper examination of employment patterns in education, for example, strongly suggests redundancy in this sector of the public service. Estimates indicate that there are about 290,000 employees in the education sector, including public education (kindergarten through secondary) and higher education. About 95 percent of these personnel are government employees; an estimated 69 percent are teachers and the remaining 31 percent assistants. According to Ministry of Education estimates, redundancy in education may be as high as 15–20 percent; MOF estimates run even higher, at 25–30 percent. If such a degree of overstaffing actually exists, it may stem in part from the steady decline since 1982 in the population below age 15 and the accompanying fall in school enrollment rates.

At the same time, the degree to which employment in education would in fact be amenable to central directives remains unclear. The responsibility for staffing schools lies not with the ministry but with local authorities. Teachers’ salaries are financed through central-local transfers, conveyed in bloc form according to norms set out in the Law on Local Government. These funds are generally supplemented by additional local revenues to cover the full wage bill. Thus, central prescriptions for employment levels in the sector (with the possible exception of higher education, which is a federal function) can operate only through setting policy guidelines for staffing or class size norms or by reducing the bulk funds transferred to local authorities.

Health is another major public service sector that may harbor personnel excess. Organizational inefficiencies in the health delivery system, such as a surplus of highly labor-intensive hospitals and the inappropriate use of hospitals for nonacute care, may account for some redundancy. This is borne out by staffing ratios, which at 33 physicians per 10,000 population and 101 beds per 10,000 population exceed EU norms of 25 doctors per 10,000 population and 90 beds per 10,000. Estimates suggest that restructuring the hospital system would yield personnel reductions of 14,000 to 15,000 (of an estimated total of 250,000 health and social service public employees). Further reductions might result from a program of policy and management actions, including, inter alia, reforming financing arrangements for hospital care; restructuring facilities at local, regional, and national levels; and enhancing managerial autonomy of health facilities.

Central government reductions. Although central government redundancies are not easily identified through aggregate analysis, there is a real likelihood that surplus exists even in parts of central administration, particularly in light of the altered missions of individual agencies. The merging of the Ministry of International Economic Relations into the Ministry of Industry and Trade, for instance, produced approximately 300 redundancies among the 1,100 employees who made up the two agencies. A combination of retire-
ments and involuntary separations was employed to achieve the reduction in force.

One potential route to further downsizing across government, especially in view of the large concentrations of older employees in all areas, would be to encourage early retirement. Among civil servants with university degrees, for example, 30 percent have completed 25 or more years of service and may be presumed to exceed 48 years of age. A similar proportion is found in the upper reaches of the salary structure of the public service. Because salaries are largely a function of years of service, targeting older employees for retirement would have the advantage of reducing the wage bill in a proportion larger than the reduction in employment. There are costs to such a program, however, to the extent that experienced, capable personnel are lost to the system. That older staff are still in demand is evidenced in anecdotal reports of personnel being employed as senior advisers well past retirement age. Such employees continue to receive their pensions but can be paid for active service as well. In all likelihood, these pensioners are willing to accept lower wages and therefore represent a low-cost, high-benefit option for employers.

**Functional structure of civil service employment.** Another way to determine redundancy is to analyze the managerial structure of government. An examination of Hungary’s civil service personnel structure, for example, suggests the need for selective staffing rationalization. One impression that emerges is that government is top-heavy, with too many “chiefs” directing too few “indians.” In the central administration, for instance, almost 17 percent of employees occupied senior leader (presumably managerial) positions in 1993, yielding a ratio of about six employees to each higher official. Such a modest ratio of employees to managers may indicate surplus at the managerial level. The problem seems less acute at the regional and local levels, where, ratios are considerably higher. Of course, the strong possibility that the large number of managers in central administration is merely an artifact representing a response to the rigidity of the remunerations system cannot be discounted: appointments to managerial ranks would permit salaries more competitive with those in the private sector, helping agencies retain valued employees. This concern, as will be seen below, also plays a role in other personnel practices, such as the maintenance of artificially high vacancy rates to free up resources for bonuses and other incentives.

Among ministries, manager-staff ratios varied widely. The Foreign Ministry reported the highest ratio, with over 8 employees per manager. At the other extreme was the MOF, with a ratio of 3:1. The Ministries of Agriculture, Environment and Regional Development, and Social Welfare all had ratios of under 5:1. If these genuinely reflect staffing allocation rather than indirect remuneration mechanisms, ministries with particularly low staff-manager
ratios merit a careful look to determine whether such allocations are justified. Again, ratios in deconcentrated government stand in some contrast to those found at the central ministerial level; a detailed ministry-by-ministry breakdown shows fewer managers per employee in the deconcentrated sphere. Ministries with significant numbers of deconcentrated staff reported ratios mainly between 10:1 and 13:1 for their territorial offices.27

Still another way of viewing the allocation of human resources is to examine the ratio of managers and professional and technical staff to support staff. Among the central ministries, ratios of managerial, professional, and technical staff to support staff ranged widely, from 2:1 to 13:1 in 1993, with most ministries falling within the range of 4:1 to 6:1. This ratio may reflect more the size of administrative units than overall efficiency levels. The more numerous and smaller the units are, the greater the likelihood of a lower ratio of higher-level to support-level personnel. Deconcentrated ministry offices, again, tended to report higher ratios of higher-level to support staff than in the central offices, in most cases above 6:1.28

Vacancy rates and part-time employment in the civil service. Data on vacancy rates and part-time employment offer additional insights into the personnel structure of ministries. While authorized positions in core government ministries numbered over 6,600, less than 6,200 of these were occupied by full-time employees. The remaining personnel, just under 400, were employed part-time. If the latter were occupied, on average, half time, they would be the equivalent of almost 200 full-time employees. Thus, the ministries collectively employed about 6,400 full-time equivalents, implying a vacancy rate of around 3.5 percent. A similar calculation for deconcentrated employment yielded a vacancy rate of about 3.8 percent, comparable to that found in core government offices. Part-time employment in local government administrations was higher, representing between 5 and 6 percent of total employment. Over half of this total is to be found in decentralized civil service institutions. Almost half of all part-time employees (around 46 percent) were manual workers; just over 16 percent were clerical or support staff, and some 35 percent were professional or technical personnel. A tiny proportion of just over 2 percent occupied managerial posts.

The 3.5 percent figure represents about the same vacancy rate as is maintained by other ministries. The significance of this figure lies in the funds that are released to finance bonuses and other fringe benefits to civil service employees. To the extent that part-time employees are not eligible for fringe benefits, employing the equivalent of 200 full-time employees in that capacity releases additional resources for benefits to those in permanent positions. Ministries deliberately manipulate vacancy levels and part-time employment to enhance the resources available for staff incentives.
Directions in government employment. The above analysis can be used to draw some initial conclusions about government employment in Hungary. One is that while general government employment is up slightly over the last four years of the transition, employment levels have by and large remained relatively stable. Is Hungary's government sector overstaffed? The answer must be cast in disaggregated terms. Taking general government as a whole, Hungary is at the middle-to-high range of the distribution for OECD members and for other transition countries. Looking at central government in particular, the Hungarian civil service is actually relatively small. Redundancy is more likely to be found in the public service. Indeed, further analysis of sectoral employment may well reveal considerable redundancy, particularly in the education and health sectors, where a significant reorganization of the provision of services could open the way to large personnel reductions. Even for the central and deconcentrated administrations, the key question may not be overstaffing across the board but rather misallocations among functions. This could mean, of course, that some functions are actually understaffed or inappropriately staffed. Other indications of inefficient staffing patterns are the high ratios of managerial to other personnel in some ministries, suggesting that reorganization of small units into larger ones could result in economies of personnel. Finally, the current practice of manipulating vacancy rates needs to be considered in any revamping of the government employment system. This practice forms part of agencies’ strategy to release funds for salary supplements and bonuses. The employment of part-time workers serves a similar function. While such practices are less than desirable, enhancing the incentives available to public sector employees is a real concern, especially in response to competition from the private sector. Alternative mechanisms for pay flexibility would need to be introduced if the present ones were eliminated.

Wage Bill Issues

Given the intricate relationship between the structure of government employment and the financial incentive system for public personnel, I now take a closer look at the nature of the public sector wage bill. Current attention to issues of labor redundancy in government is, as already mentioned, largely the product of fiscal concern about the wage bill. Is the wage bill a problem? One conventional warning sign would be a spurt of explosive wage growth, but this has not been the case in Hungary. General government wages in the aggregate actually decreased in real terms, by about 12 percent between 1988 and 1994, with the bulk of the decrease taking place during the 1988–91 period, although in nominal terms the wage bill more than doubled because of inflation. For the period 1990–94, wages essentially remained constant, although a slight upward trend of just under 2 percent can be discerned.
Wages and salaries as a percentage of total expenditures and of gross domestic product (GDP) have remained relatively stable, hovering around 14 and 8.5 percent, respectively. These indicators suggest that Hungary falls in the middle range of OECD and transition countries with regard to wage spending, giving little cause for alarm.

Still, government wage trends may be worrisome to the extent that they raise affordability concerns. Wages have increased as a share of total revenues, from 13.8 percent in 1988 to 16.3 percent in 1994, largely as a function of the dramatic decline in revenues by nearly 25 percent over this period. Expenditures have decreased as well, by 16 percent since 1988; they spiraled downward for most of the period through 1994 but, as was true for revenues and GDP, the biggest decreases took place during the first years of the transition (table 4.3). The resulting budgetary deficit amounted to 15 percent of total revenues in 1993 and was estimated at 12 percent in 1994. This financial strain was also apparent in the disconcerting trend in the ratio of wages and salaries to other goods and services; this ratio increased by over 30 percent between 1988 and 1994. It appears that in the context of increasingly limited resources, other types of essential current expenditures have been crowded out by wages. Pressure to reduce the government wage bill in Hungary appears to result more from the need for overall fiscal restraint than from dramatically exorbitant personnel expenditures.

Remuneration and Incentives

As the above discussion indicates, government employment and wage bill policy issues cannot be fully understood without analyzing the nature and distribution of financial incentives to individual government employees. These incentives determine, in large part, the ability of the government to attract, retain, and motivate quality personnel. This section will examine in greater detail the remuneration conditions for civil and public servants in Hungary. First, I describe the legal provisions for and basic policy on remuneration. Then, the status of government compensation is assessed, both with regard to compression and erosion of salaries and in comparison to alternative labor markets. Finally, I look at practices within government to retain scarce skills and examine some strategies that might help mitigate distortions in remuneration practices.

Legal framework. The remuneration of government personnel is governed by the provisions of two pieces of legislation, the Civil Service Act and the Public Service Act.

The civil service—The Civil Service Act of 1992 governs remuneration for the civil service, which is categorized in four classes based on educational
attainment. The two upper classes (I and II) correspond to professional staff with university degrees and with secondary school degrees, respectively; the two lower classes (III and IV) include clerical personnel and manual workers. Classes are further divided into grades and steps. In 1993 professional staff represented 71 percent of civil servants, clerical staff 12 percent, and manual laborers 17 percent.

Table 4.3 General Government Budget, 1988–94

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<tr>
<td>Nominal forints (billions)</td>
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<td></td>
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<tr>
<td>Total revenue</td>
<td>892.9</td>
<td>1,019.0</td>
<td>1,204.2</td>
<td>1,292.1</td>
<td>1,619.8</td>
<td>1,914.8</td>
<td>2,254.3</td>
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<td>1,778.1</td>
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<td>2,534.6</td>
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<td>Wages and salaries</td>
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<td>141.6</td>
<td>158.7</td>
<td>209.7</td>
<td>249.6</td>
<td>300.8</td>
<td>368.2</td>
</tr>
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<td>179.6</td>
<td>208.6</td>
<td>231.3</td>
<td>215.1</td>
<td>268.9</td>
<td>398.1</td>
<td>422.8</td>
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<tr>
<td>1991 forints (billions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,672.1</td>
<td>1,604.7</td>
<td>1,510.9</td>
<td>1,292.1</td>
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<td>1,235.9</td>
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<td>1,498.7</td>
<td>1,345.6</td>
<td>1,452.3</td>
<td>1,396.4</td>
<td>1,396.4</td>
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<tr>
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<td>223.0</td>
<td>199.1</td>
<td>209.7</td>
<td>205.0</td>
<td>198.9</td>
<td>202.9</td>
</tr>
<tr>
<td>Goods and services</td>
<td>336.3</td>
<td>328.5</td>
<td>290.2</td>
<td>215.1</td>
<td>220.9</td>
<td>263.2</td>
<td>232.9</td>
</tr>
</tbody>
</table>

Wage bill as a percentage of:

| Total revenue         | 13.8 | 13.9 | 13.2 | 16.2 | 15.4  | 15.7  | 16.3  |
| Total expenditure     | 13.8 | 13.6 | 13.3 | 15.6 | 14.0  | 13.7  | 14.5  |
| Goods and services    | 68.4 | 67.9 | 68.6 | 97.5 | 92.8  | 75.6  | 87.1  |
| GDP                   | 8.6  | 8.3  | 7.6  | 8.5  | 8.6   | 8.6   | 8.5   |

Average public sector wage:

| Nominal               |       |       |       | 19,768 | 23,736 | 27,134 | 34,355 |
| 1991 forints          |       |       |       | 19,768 | 19,330 | 18,005 | 19,369 |

Not available.


Source: Ministry of Finance; Ministry of Labor; Work Bank estimates.

Civil service compensation consists of the basic wage and additional supplements. The basic wage is determined by multiplying the standard base, established by Parliament for the civil service as a whole, by the appropriate coefficient corresponding to the individual's class, grade, and step. Central government ministries and agencies must adhere to this base wage in calculating basic salaries; local government authorities, in contrast, can alter the standard base wage, although the multipliers remain the same.

In addition to the basic wage, civil servants are entitled to a complex array of supplements and benefits, most of which are awarded either universally or according to length of service. While some benefits are specified in the Civil Service Act, others are established by individual ministries, result-
ing in considerable variance across agencies. Standard benefits specified by the act include a 13th-month salary, a jubilee bonus after 25 years of service, hazard pay, and night-shift pay. Civil servants also receive clothing allowances and premia for special expertise, such as knowledge of foreign languages. Civil servants employed in the central administration get a monthly 15 percent supplement to their base wage, and those at regional offices receive 10 percent. Most ministries offer a variety of other salary supplements, including a canteen allowance and, in some cases, a vacation allowance.

It has been customary to distribute bonuses two or three times a year, generally coinciding with national holidays or vacation periods. Financed from unused wage funds, such bonuses introduce a rare element of flexibility into a generally rigid wage system. Informants' reports on the criteria for distribution of these bonuses conflict somewhat. Some suggested that bonuses were awarded across the board to lift remuneration for all employees in a given ministry. Others indicated that such bonuses were allocated on a more differential basis. The degree to which such bonuses might be tied to performance, however loosely defined, is difficult to gauge. As will be discussed later, the mechanisms for performance evaluation in Hungary are not well developed. No data exist on the relative weight of bonuses in the overall civil service remuneration package, although reports suggest they are declining in importance, now amounting to roughly the equivalent of one to two months' salary.

The total value of cash benefits (including bonuses) varies in size relative to the basic salary among different classes of employees and salary grades. Since some fringes benefits are equal for all employees, they loom relatively larger for lower-salaried personnel. Thus, for clerical employees in the lowest salary grade, fringes and supplements together were over 50 percent of total remuneration; for manual workers in the bottom two wage grades, nonwage elements were also substantial, at over 35 percent of remuneration. For most employees, fringes and bonuses played a less important role, amounting to between one-fourth and one-third of compensation.

The public service—Public service remuneration is regulated by the Public Service Law of 1992. The public service is divided into six categories, A through F, based primarily on general educational qualifications. Within each class there are 12 to 15 steps. As figure 4.1 shows, the majority of public servants (58 percent) fall into the two lowest classes, which include workers with primary and secondary school degrees, respectively.

Each class and step combination in the public service has a corresponding salary multiplier used to calculate the base salary. The base wage is established by Parliament, following discussions between the MOL and the public sector unions. The standard base wage for the public service base, originally set at 8,000 forints per month, was recently raised to 8,500 forints. Unlike the
rigid base civil service wage, however, the legal base wage for the public service represents a minimum that must be paid. Any institution may erect a structure on a higher base wage, although the original multiples must be retained. The base wage has real significance in the higher classes of public service employees, since their salaries are defined as a multiple of that base. It is less significant for employees at the bottom five steps of the wage scale, whose base wages fell below the national minimum wage (10,500 forints per month in 1994). By law, these employees must be paid at least the minimum wage, thereby superseding the base wages established in the public service law. Thus, there is little differentiation in the earnings of the employees in the five lowest grades.

The public service allowance system is similar to that of the civil service. Public servants also receive a range of benefits—hazard pay, foreign language premia, jubilee bonuses, and so on. Public service unions participate in the determination of allowance criteria. But nonwage benefits and allowances are relatively more important for public than for civil servants: supplements amount, on average, to between 30 and 40 percent of public service remuneration.

Comparing civil service and public service remuneration. A comparison of civil and public service salaries yields a mixed picture. Compared with earnings of civil servants in the central administration, those of public servants are clearly lower. However, since most public servants are located outside of the capital and are paid by local or country authorities, they are more appropriately compared with civil servants in deconcentrated offices. For professional and clerical workers at the deconcentrated level, civil and public service salaries are roughly the same, although there are exceptions. By comparison, manual workers, fare, on average, 40 percent better in the civil than in the public service.

Both civil and public sector wages are compressed, but salary compression is greater in the public service. For the civil service, the official basic salary scale provides a theoretical ratio between a department manager and the most junior clerical worker of 7.5 to 1. The actual compression ratio for 1994, incorporating (mainly across-the-board) nonwage supplements that further flatten the wage structure, is a more compressed 5.9 to 1.

Within civil service classes, the basic salary differential between the highest and lowest salary classes varies substantially, with the professional classes showing the greatest salary compression. University graduates can look forward to a theoretical maximum basic salary at the end of their careers equal to only 2.6 times their entry salary. For secondary school graduates this ratio is smaller, at 2.2, while for clerical and manual workers the ratios are larger, at 3.4 and 3.9, respectively. Again, actual salaries are even more compressed; compression ratios in 1994 ranged between 1.5 and 2.0, indicating that the
highest-paid members of each of the four civil service classes earned, on average, no more than twice the amount earned by the lowest-paid members of each class.

Salaries for the public service are even more compressed than for the civil service. In 1994 the actual salary differential between senior leaders and the most junior member of the lowest category (A) was almost 5 to 1. As in the case of the civil service, salary differentials within public service categories vary. Theoretical compression ratios for basic salaries ranged from 2.3 at the bottom to 1.4 at the top; actual salaries in the lower categories are in fact more compressed, in part because the base wages of some grades have been raised to the level of the national minimum wage.

A proposal to revise the public service wage structure as well as to clarify the basis for appointment to a given grade has been under development by the MOL. The proposal would decompress wages by adding two grades to the highest class. Appointment to these grades (and to all those below) would be based on clear educational criteria to mitigate the effects of cronyism. The base wage would also be raised but this would not compress the wage structure because the multiplier coefficient would be decreased. This scheme is thought to be palatable to public service unions. Thus, although there would be a slight increase in the nominal wage bill for the public service under this scheme, in real terms public service wages would decline, on average, due to inflation.

Recent trends—Changes in government employees' remuneration over the transition present a similarly mixed picture. Table 4.3 shows that average real earnings for public and civil servants declined between 1991 and 1994 by about 2 percent. But this average does not capture significant differences in wage evolution for different employee groups. Variable experience can be explained, in part, by the differential impact of the Civil and Public Service Acts of 1992, which, as discussed earlier, established new base salary scales substantially above the government base wages already being paid. The government was given until January 1994, in the case of the public service, and January 1995, in the case of the civil service, to bring actual salaries up to the newly approved levels. The degree to which these legal stipulations have been translated into salary increases varies with the type and level of employee.

For the civil service as a whole, pre-1992 salaries averaged only 60 percent of the newly prescribed level, resulting in an initial gap between total actual and prescribed salaries equivalent to about 50 billion forints. By 1994, this gap was down to 15 billion, but nearly 7 percent of civil servants in the central government still fell below the scheduled minimum for their grade. In deconcentrated offices, over 20 percent of public servants were still paid
below legal norms; in local government offices, close to 9 percent of government workers fell short.

The initial gap between the legally stipulated wage and the actual wage had been greatest among employees in the lower-paid, nonprofessional grades. These groups have realized the largest wage increases in the past three years. In contrast, higher-level civil servants, whose salaries were above the mandated levels of 1992, have received proportionally smaller increases. Indeed, all workers who reached their mandated salary level after 1992 have had no increases in basic salaries, unless by virtue of passage to a higher step in the wage structure. With cost of living increases of nearly 50 percent in the two years since the last change in the basic civil service wage, real basic wages of many employees have actually declined sharply. Moreover, the declines have not been offset by increases in salary supplements or bonuses, since these have been shrinking in size and frequency.

Since 1994, actual salaries in the public service were also lower than the legally prescribed levels until 1994. The gap was greatest among lower-level employees; in 1993, for example, individuals at the lowest rung of the category B scale earned 66 percent of the legal base, whereas individuals at the bottom of the higher-level E and F categories earned 94 and 79 percent of their respective legal minimums. The only exception occurred, again, in the case of individuals in the five lowest grades, who were paid the national minimum wage even though this exceeded their public service base wage level. This last category of workers has also realized annual increases as the minimum wage has been adjusted upward each year.

**Government versus enterprise remuneration.** This intricate scheme of salary and benefit incentives has crucial implications for the government's ability to hire and retain well-qualified employees and the degree to which it can compete with alternative labor markets for needed skills. Anecdotal reports suggest that the government in Hungary has become less competitive with both the state enterprise and the private sectors in a variety of professional areas. In particular, losses of personnel are said to occur among younger civil servants in the junior professional categories with several years of experience. An even greater concern is that fully fledged professionals with administrative experience can earn three or more times their current salaries outside the government and are said to be leaving government service in droves. Such anecdotal reports of a "brain drain" are difficult to substantiate empirically, however, as there are real difficulties in comparing the remuneration levels for government employees (civil and public servants) with those in the rest of the economy. As noted earlier, the government pay structure is based on educational qualifications and years in post rather than occupation, which is the basis for most published information on nongovernment workers. Thus,
comparing these types of employees requires assumptions about the likely educational attainments of those holding specific occupations in the nongovernment sectors, as well as about the length of service needed for a government employee to achieve the comparable earnings level. Furthermore, the number of occupations that can be clearly identified as existing both in and out of government is rather limited.

Some inferences can be made, nonetheless. Average wages in the enterprise sector as a whole were higher than average government salaries (including both civil and public servants) in 1994. Table 4.4 compares actual wages in government with those in companies by occupational group. For the 25 occupations listed, only 4 earned more in the government sector. Another 5 in government fall in a range of between 90 and 99 percent of firm earnings, 3 within the 80–89 percent range, and 4 within the 70–79 percent range. Nine government occupations are reported to earn less than 70 percent of enterprise levels. It is difficult to discern any consistent pattern in the size of the differential by skill or presumed educational level.

Since salaries are generally higher in the central government than in the rest of the public institutions, the gap between the former and the enterprise sector is smaller. Nevertheless, only five of the occupations listed earned more in the central government than in enterprises, and three fell below the 70 percent level.

Table 4.5 compares civil service salaries by rank to salaries for roughly equivalent positions in the enterprise sector in 1994. It is clear from this comparison that entry-level salaries for all government employees except manual workers are below those in companies. However, the average earnings of all government employees above the entry level appear to exceed company levels. These data suggest that the pay gap between the government and the enterprise sector may be less generalized than was reported in interviews. Since the enterprise sector cannot be disaggregated into private and public firms using these data, the relative attractiveness of the private market cannot be gauged, but data from a survey of 50 large modern firms from the manufacturing, trade, services, and banking sectors indicate that significant pay differentials do exist between the government and some firms for certain specialized or scarce skills (table 4.6). The widest discrepancies are in upper management ranks, where civil servants' salaries are, on average, less than half their private sector equivalents. Moving down the occupational hierarchy, the gap narrows considerably. However, there is a very wide range of reported salaries between the minimum and maximum within the enterprise sector. In most cases, earnings in government are above the minimums paid in the enterprise sphere but are well below the maximums. Salaries in the banking sector, in particular, exceed by a considerable margin those paid in the enterprise sector. In managerial posts, bank salaries are at least twice as high and, at top levels of management, several times higher.
It is plausible that a perhaps small but functionally important number of civil servants do have an opportunity cost that is a multiple of their present salary. The banking sector may provide attractive alternatives for employees with skills applicable to the financial sector. This is consistent with MOF reports of the loss of experienced employees to banks. Similarly, the Ministry of Education has reported difficulties in retaining language teachers, given the heavy competition from the company sphere for translators. Most employees, however, do not have realistic alternatives at sharply higher wages in the enterprise sphere, since the absolute number of very high wage companies is still small. 

Table 4.4 Government Earnings by Occupation, 1994

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<thead>
<tr>
<th>Occupation</th>
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<th></th>
<th>Central government</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Forints</td>
<td>Percentage of enterprise</td>
<td>Forints</td>
<td>Percentage of enterprise</td>
</tr>
<tr>
<td>Animal breeding</td>
<td>28,719</td>
<td>72.7%</td>
<td>28,719</td>
<td>72.7%</td>
</tr>
<tr>
<td>Forestry</td>
<td>49,166</td>
<td>89.9%</td>
<td>49,166</td>
<td>89.9%</td>
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<td>Publications</td>
<td>42,905</td>
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<td>High-skill construction</td>
<td>29,680</td>
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<td></td>
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<tr>
<td>Maintenance</td>
<td>45,644</td>
<td>103.9%</td>
<td>46,644</td>
<td>103.9%</td>
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<td>Hotel</td>
<td>29,359</td>
<td>62.0%</td>
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<td>29,396</td>
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<td>26,647</td>
<td>59.0%</td>
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<td>Transport maintenance</td>
<td>40,060</td>
<td>95.2%</td>
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<td>Communications</td>
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<tr>
<td>Public servants</td>
<td>30,346</td>
<td>62.8%</td>
<td></td>
<td>30,656</td>
</tr>
<tr>
<td>Social services</td>
<td>38,230</td>
<td>91.6%</td>
<td></td>
<td>38,230</td>
</tr>
<tr>
<td>Kindergarten and elementary education</td>
<td>30,567</td>
<td>57.1%</td>
<td></td>
<td>30,952</td>
</tr>
<tr>
<td>University</td>
<td>39,104</td>
<td>71.9%</td>
<td></td>
<td>39,104</td>
</tr>
<tr>
<td>Health care</td>
<td>32,960</td>
<td>72.8%</td>
<td></td>
<td>32,982</td>
</tr>
<tr>
<td>Social services</td>
<td>25,060</td>
<td>61.1%</td>
<td></td>
<td>25,240</td>
</tr>
<tr>
<td>Entertainment</td>
<td>48,181</td>
<td>99.4%</td>
<td></td>
<td>48,250</td>
</tr>
<tr>
<td>News</td>
<td>53,267</td>
<td>110.2%</td>
<td></td>
<td>53,437</td>
</tr>
<tr>
<td>Library, archives, and museums</td>
<td>36,496</td>
<td>69.6%</td>
<td></td>
<td>43,049</td>
</tr>
<tr>
<td>Sports</td>
<td>29,404</td>
<td>69.2%</td>
<td></td>
<td>31,213</td>
</tr>
</tbody>
</table>

— Not available.
Source: Ministry of Labor.

Among the firms in the independent survey, there were substantially wider differentials between top and bottom salaries than those prevailing in
the government or, on average, in the enterprise sector as a whole. For example, a department head in an enterprise earned almost 9 times as much as a lower-level clerical worker in 1994, whereas his colleague in the civil service earned less than 5 times as much. These differentials become more pronounced at higher levels, where a managing director was paid, on average, 14 times more than a lower-level clerical worker, while a state secretary in the civil service earned only 6 times more than a comparable clerical employee.

Table 4.5 Civil Service—Enterprise Earnings Comparisons by Rank, 1994

<table>
<thead>
<tr>
<th>Occupational category</th>
<th>Civil service</th>
<th>Forints</th>
<th>Percentage of company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director-secretary of state</td>
<td>110,264</td>
<td>153,840</td>
<td>139.5b</td>
</tr>
<tr>
<td>Deputy director-deputy</td>
<td>105,041</td>
<td>139,818</td>
<td>133.1b</td>
</tr>
<tr>
<td>secretary of state</td>
<td></td>
<td>125,860</td>
<td></td>
</tr>
<tr>
<td>Head, important department</td>
<td>98,220</td>
<td>107,326</td>
<td>109.3</td>
</tr>
<tr>
<td>Deputy head, important department</td>
<td>75,805</td>
<td>92,963</td>
<td>122.6</td>
</tr>
<tr>
<td>Division head</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University graduate, 0–1 years experience</td>
<td>42,691</td>
<td>39,335</td>
<td>92.1</td>
</tr>
<tr>
<td>All university graduates, 1+ years experience</td>
<td>54,066</td>
<td>66,011</td>
<td>122.1</td>
</tr>
<tr>
<td>Secondary school graduates, 0–1 years experience</td>
<td>30,210</td>
<td>26,300</td>
<td>87.1</td>
</tr>
<tr>
<td>All secondary school graduates, 1+ years experience</td>
<td>37,539</td>
<td>40,975</td>
<td>109.1</td>
</tr>
<tr>
<td>Clerical, 0–5 years experience</td>
<td>26,067</td>
<td>21,325</td>
<td>81.8</td>
</tr>
<tr>
<td>Clerical, 0.5–15 years experience</td>
<td>27,997</td>
<td>33,833</td>
<td>124.4</td>
</tr>
<tr>
<td>Manual, unskilled</td>
<td>21,096</td>
<td>27,214</td>
<td>129.0</td>
</tr>
<tr>
<td>Manual, semiskilled</td>
<td>25,777</td>
<td>27,856</td>
<td>108.1</td>
</tr>
<tr>
<td>Manual, skilled</td>
<td>30,738</td>
<td>34,077</td>
<td>110.8</td>
</tr>
<tr>
<td>Manual, highly skilled</td>
<td>45,179</td>
<td>38,103</td>
<td>84.8</td>
</tr>
</tbody>
</table>

--- Not available.

a. Includes civil servants in the central government only.
b. "Actual" earnings are estimated by attributing the same percentage increase over expected gross earnings as was earned by the heads of important departments.

Source: Ministry of Labor.

The level of salary compression suggested by this survey may be an underestimate, since it concerns only a relatively small set of the most modern businesses. The fuller universe of firms analyzed by the MOL may be more representative in this respect. Although salary differentials were not calculable from the ministry's figures, these data might point to a somewhat higher level of compression in the enterprise sector. Indeed, it is likely that the socialist egalitarian legacy still exercises considerable influence in remuneration practice throughout the economy, flattening wage structures in governmental as well as nongovernmental spheres. With a growing reliance on, and
response to, market forces, however, it is reasonable to expect that skill differentials will tend to widen throughout the economy. As a result, the government sector will thus be in an increasingly difficult position if current rigidities imposed by the present civil and public service laws are not relaxed.

Table 4.6 Comparison of Earnings, Civil Service and Prominent Enterprises, 1994
(thousands of forints)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Enterprise Average</th>
<th>Enterprise Minimum</th>
<th>Enterprise Maximum</th>
<th>Civil service</th>
<th>Ratio of civil service to enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing director -</td>
<td>451</td>
<td>240</td>
<td>858</td>
<td>154</td>
<td>0.34</td>
</tr>
<tr>
<td>secretary of state</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director, finance -</td>
<td>307</td>
<td>113</td>
<td>644</td>
<td>140</td>
<td>0.45</td>
</tr>
<tr>
<td>deputy secretary of state</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director, marketing -</td>
<td>274</td>
<td>74</td>
<td>480</td>
<td>126</td>
<td>0.45</td>
</tr>
<tr>
<td>deputy head</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchasing manager -</td>
<td>121</td>
<td>59</td>
<td>290</td>
<td>93–107</td>
<td>0.77–0.88</td>
</tr>
<tr>
<td>division head</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting department -</td>
<td>120</td>
<td>54</td>
<td>191</td>
<td>93–107</td>
<td>0.78–0.89</td>
</tr>
<tr>
<td>head - division head</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance department -</td>
<td>123</td>
<td>70</td>
<td>264</td>
<td>93</td>
<td>0.76</td>
</tr>
<tr>
<td>head - division head</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting clerk - class II clerk I</td>
<td>44</td>
<td>24</td>
<td>106</td>
<td>32</td>
<td>0.75</td>
</tr>
<tr>
<td>Finance assistant/</td>
<td>50</td>
<td>23</td>
<td>109</td>
<td>32</td>
<td>0.64</td>
</tr>
<tr>
<td>clerk-class II clerk I</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D director-senior researcher</td>
<td>167</td>
<td>78</td>
<td>290</td>
<td>93–107</td>
<td>0.56–0.64</td>
</tr>
<tr>
<td>Researcher-less</td>
<td>102</td>
<td>66</td>
<td>140</td>
<td>45–66</td>
<td>0.44–0.65</td>
</tr>
<tr>
<td>senior researcher</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research assistant -</td>
<td>39</td>
<td>22</td>
<td>68</td>
<td>39</td>
<td>1.00</td>
</tr>
<tr>
<td>junior clerk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Information System manager</td>
<td>157</td>
<td>78</td>
<td>486</td>
<td>93–107</td>
<td>0.59–0.68</td>
</tr>
<tr>
<td>Management Information System expert</td>
<td>61</td>
<td>29</td>
<td>111</td>
<td>56–68</td>
<td>0.92–1.03</td>
</tr>
<tr>
<td>Foreign language senior secretary</td>
<td>89</td>
<td>43</td>
<td>125</td>
<td>49</td>
<td>0.55</td>
</tr>
<tr>
<td>Foreign language secretary</td>
<td>56</td>
<td>35</td>
<td>94</td>
<td>41</td>
<td>0.75</td>
</tr>
<tr>
<td>Hungarian language senior secretary</td>
<td>54</td>
<td>25</td>
<td>95</td>
<td>44</td>
<td>0.81</td>
</tr>
<tr>
<td>Hungarian language secretary</td>
<td>38</td>
<td>20</td>
<td>57</td>
<td>38</td>
<td>1.00</td>
</tr>
<tr>
<td>Administrative assistant -</td>
<td>32</td>
<td>20</td>
<td>64</td>
<td>30</td>
<td>0.94</td>
</tr>
<tr>
<td>clerk II</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production foreman</td>
<td>60</td>
<td>30</td>
<td>117</td>
<td>48</td>
<td>0.80</td>
</tr>
<tr>
<td>Skilled laborer</td>
<td>41</td>
<td>22</td>
<td>98</td>
<td>34</td>
<td>0.83</td>
</tr>
<tr>
<td>Unskilled laborer</td>
<td>25</td>
<td>17</td>
<td>54</td>
<td>27</td>
<td>1.06</td>
</tr>
<tr>
<td>Company lawyer</td>
<td>120</td>
<td>50</td>
<td>220</td>
<td>68</td>
<td>0.55</td>
</tr>
</tbody>
</table>

Note: Civil service includes central government only.
Current practices for retaining scarce skills. In the face of increasing competition for scarce skills, the government has yet to develop effective, systematic procedures for ensuring the retention of employees with skills valued in the private sector. As a result, ministries have had to develop ad hoc, informal arrangements to retain such employees.

Within the civil service, for example, one method for augmenting the earnings of valued personnel has been to secure for them remunerated appointments to the boards of directors of state-owned enterprises, thus potentially doubling their incomes. But this practice is subject to significant limitations. The Civil Service Law prohibits those in executive positions from participating in any but a limited number of other income-producing activities (for example, lecturing, artistic expressions, editing, and other intellectual activities). Individuals who are appointed to company boards can often earn more than their superiors; thus, managerial ranks are not easily protected from erosion. Another limitation of this response to skill shortages is that it may be short lived. As firms in the public domain are privatized, such appointments will become increasingly difficult to obtain.

Ministries also have the option of paying an exceptional individual a “personal salary” that deviates from the officially established levels. “Personal salaries” have no upper limit, offering, in principle, a useful mechanism for targeting scarce skills. In practice, however, such arrangements are apparently extremely rare and are difficult to effect. In both the civil and public services, a minister or agency director can also confer honorary titles with exceptional salary status; these titles, too, appear to be highly unusual.

Ironically, the most readily available performance incentive, the annual bonus, does not appear to be widely used as a means of retaining valuable employees. Although systematic information on the distribution of bonuses has not been collected, it would appear, as discussed previously, that at least some, and perhaps most, bonuses continue to be awarded universally, depending on the funds available. These bonuses are paid through the pool of discretionary funds, equivalent to the difference between authorized position allocations and actual posts filled. With the likely introduction of a cash accounting system, these funds will probably revert to the MOF, eliminating this element of managerial flexibility. MOF officials claim that under the new treasury system similar allocations would be distributed to ministries periodically to pay bonuses, the advantage being that savings would accrue from accumulated interest that is forgone in the present system.

Managing Wage and Remuneration

Although the aggregate wage bill actually decreased slightly during the transition, declining GDP and revenues have made government personnel expenditures unaffordable in Hungary, spurring the government to initiate a
downsizing program. At the level of individual incentives, average government wages have declined only slightly during the transition, although different groups of government employees have fared differently. Wages for both the public and civil services appear compressed. Remuneration is further flattened by an array of universal nonwage benefits, still an important, albeit diminishing, feature of government compensation, particularly for the public service.

The implementation of the new laws governing the employment of civil servants and public servants has had a significant, although variable, effect on wage levels and differentials. Because the formula defining the minimum wage for each employee category or classification found many employees below that salary, most of the increases in the wage bill have gone toward bringing all employees up to the legal minimum. Thus, while average earnings in the public sector have roughly kept up with inflation since 1990, the increases in earnings have been disproportionately realized by those in the lower salary classifications. This has resulted in some further compression of the effective salary structure.

Although wage levels in government are competitive with the nongovernment sectors for most employees, a number of managerial and occupational skills that are in short supply in the economy are better remunerated in some nongovernment sectors. The rigidities in public sector salary determination mechanisms allow for little discretion to meet the competition for such skills, with seniority playing a more important role than performance in the current incentive system. As the private sector expands and markets grow more competitive, the government will have to find ways of adapting to changing market conditions to keep capable individuals who possess skills that are in wide demand. Ministries have responded to this challenge through a variety of ad hoc measures, but a governmentwide approach is still lacking.

Civil Service Development

Competition from the private sector remains a serious concern, but it is only one of a number of issues facing the evolving state sector in Hungary. Perhaps the most important administrative change required in the transition is the creation of a professionalized, apolitical civil service. The development of a high-quality civil service corps should benefit greatly from the very developed human resource base in Hungary. Beyond this raw material, however, civil service development requires a range of initiatives that must be translated into coordinated policies and management systems. A comprehensive legal and institutional framework must be put in place, and improved strategies for selecting, advancing, and training civil servants have to be devised. Reforms should emphasize merit and stress the development of skills that will match the task of moving from command structures to democratic
markets. Hungary has made important strides in this direction, and its achievement is perhaps unparalleled in the region. But lack of follow-through on initial reforms, an inclination toward the establishment of overly rigid systems, and difficulties in setting up a solid institutional apparatus for directing civil service development could stall the next phase of reform efforts.

This section examines current civil service development initiatives in Hungary, reviewing aspects of the present mechanisms for civil service management and assessing the prospects for future administrative modernization. I begin with an analysis of the legal and institutional framework, followed by a discussion of efforts to modernize instruments for the recruitment, promotion, and evaluation of cadres. Finally, efforts to develop civil service training programs are examined.

**Legal and Institutional Framework of Civil Service Management**

The 1992 Civil Service Act signaled a strong commitment to establishing a modern civil service system. The law defines the structure and boundaries of the civil service, providing the legal basis for a stable bureaucracy. It also eliminates the explicit use of political criteria for the selection and promotion of civil servants, laying the basis for the development of a politically neutral, professionalized civil service cadre.

This legal foundation has introduced several important new elements that will form the basis for future civil service development, though it leaves other, equally crucial issues still to be addressed. Entrance and in-service qualification exams, for example, are stipulated for all civil servants. The law also prescribes standardized conditions of employment across ministries and government agencies, and, as discussed earlier, raises basic salaries for low-level civil servants. In theory, the Civil Service Act also establishes some oversight institutions, such as a Public Administration Board, to act in an advisory capacity regarding civil service procedures and public administration matters. The powers and responsibilities of this body have not been clearly defined, and it has not yet been formally constituted. Beyond this, the law, in fact, makes little provision for the agencies that will supervise and manage the civil service. Responsibilities for policy coordination, central personnel management, and disciplinary actions are largely unassigned. Although the law specifically delegates administrative appeals matters to the court system, the procedures by which many grievances and appeals should be adjudicated are not spelled out. This vagueness, coupled with limited court capacity and the absence of legal statutes governing many aspects of administrative relations, has resulted in an inadequate mechanism for dealing with administrative law issues.

Its real contributions aside, the Civil Service Act represents, for the most part, a modest rather than a radical break with the past, systematizing and
codifying many pre-existing practices while leaving many crucial areas of administrative law uncharted. Where significant modifications have been introduced, they have tended to reinforce a rigid civil service structure that lacks incentives for good performance. For example, the act prescribes a grading system characterized by employment classes defined solely by broad educational criteria rather than job-related qualifications and it stipulates promotion procedures based on years of service rather than merit. These inflexible systems of remuneration and advancement are already causing difficulties in retaining and rewarding capable staff. Moreover, even those arrangements that could potentially promote higher standards of quality, such as performance evaluations or examinations, are reduced in the act to mechanistic instruments with minimal content.

Responsibilities for civil service management are diffused in Hungary. Although not specifically defined by law, a de facto division of labor and power is currently being worked out among several central agencies for civil service policy formulation and oversight and for execution of various personnel management functions. The Government Commissioner for Public Administration Modernization, who reports directly to the prime minister, has been assigned broad responsibilities for public administration matters, including the overall direction for civil service development. The commissioner’s official remit includes responsibilities for reviewing the organizational and regulatory framework for the public administration, as well as for setting uniform policy on the modernization of the management and internal structures of ministries. The commissioner is also charged with creating modern information networks for central administration, updating the legal framework for government administration, and developing effective civil service systems, including those for examination and training and for implementing the compensation and promotion provisions of the Civil Service Act.

Despite these broad powers, the commissioner and the small staff of the office must, in practice, share some of the above responsibilities with the MOI, previously the main organ concerned with civil service reform and management. The MOI retains oversight of local government agencies and carries out training and personnel and information management functions for the civil service. It also drafts legislation and statutes pertaining to civil service matters. How the commissioner’s activities are to be balanced and coordinated with those of the MOI remains to be worked out. The usual set of institutions for civil service management that might otherwise provide support for this coordination do not as yet exist in Hungary and was not established under the Civil Service Act. For example, a civil service commission with the independence to set standards and review appeals was not created, and there is no overarching personnel management ministry, or even a cabinet office responsible for higher civil service selection. The absence of clearly defined
responsibilities for overall civil service development and the resulting conflicts among various organs with mandates in this area have blocked reformers from moving beyond the initial stage of administrative reform in Hungary. This lack of cohesion is also found in the personnel or establishment management function, discussed below.

Establishment Management

Hungary has a highly decentralized system of personnel management, primarily a legacy of the previous regime's arrangements. Individual agencies, in general, carry out through their own human resource departments routine personnel management functions, including the recruitment, training, evaluation, promotion, discipline, and dismissal of civil and public servants, as well as the maintenance of personnel records.

Within this overall decentralized context, the MOI does have limited governmentwide establishment management responsibilities for the civil service. These consist primarily of the collection and maintenance of some data on civil service employment, including information on educational credentials, length of service, and present grade and remuneration. The ministry recently established a computerized register of civil servants, the first central database of its kind for Hungary. Human resources departments in the various ministries feed the MOI hard copy or information on diskette regarding employment levels, salaries, and vacancy rates. The ministry, however, lacks the capacity to verify or analyze this information. The MOL plays a similar role to that of the MOI with regard to the public service. Its oversight responsibilities include the enforcement of the public service and labor laws. As with the MOI and the civil service, the MOL's role in this area seems to consist primarily of collecting data about public service employment and wages.

The MOF plays a part in government establishment management by exercising limited control over employment numbers in central government ministries and agencies during the annual budgeting exercise. Ministry human resource departments prepare and pass on to their own budget departments annual budget requests specifying the desired number of authorized positions and the total wage bill, broken down by base salary and supplements. Using the previous year's wage bill as the starting point, these requests are then negotiated directly with the MOF Budget Department to establish the agencies' wage and benefit allocation. MOF staff reported that this system has survived previous experiments with zero-based budgeting, which had to be abandoned because of highly unrealistic ministerial submissions. Central government control over the public service wage bill is much less direct because most public servants are paid by county and local authorities. The local authorities, however, are dependent on central government transfers for most of their income. Consequently, although the government
cannot directly mandate cuts in employment levels, it can reduce transfers to
these authorities to encourage them to reduce the number of workers.

Despite its role in determining public sector expenditures, the MOF has
no independent information on actual ministerial wage and employment; it
relies entirely on data provided by individual ministries and the MOI. The
MOF cannot at present directly access the MOI’s central registry of civil ser-
vice employees, though a planned upgrade of the MOF’s computer system
could provide this link. The absence of a reliable, accessible central data source
results in serious discrepancies in employment and wage bill estimates across
agencies, making sound budgetary analysis and forward planning impossible.

Once the above-mentioned budget negotiations are completed, the MOF
has virtually no control over agency wage expenditures. Under the current
system, ministries and agencies receive the entire budgeted amount for wages
and benefits, regardless of how much they actually spend. Ministerial man-
gers therefore have considerable discretion over wage and benefit alloca-
tions within their agency. Indeed, although formal line distinctions exist among
wages and benefits for regular employees, limited-term employees, and funds
for outside contractors, wage expenditures are, in fact, fungible. As noted,
agencies conventionally use the surplus for employee bonuses. The number
of authorized positions established in the budget is similarly flexible. While
the annual budget, in theory, specifies the number, class, and grade of all
authorized positions in an agency, in practice this number merely constitutes
a ceiling. Agencies can and do combine the funds allocated to lower-level
positions, in order, for example, to hire more senior staff at higher salaries.

Given these problems, government recently proposed the introduction
of a treasury system that would allow the MOF to exercise greater control
over government spending. The MOF would release funds only for those
expenses actually incurred. While this is logical from a financial manage-
ment perspective, such a change might in turn be a new source of problems,
since, as discussed earlier, it would eliminate managers’ ability to manipu-
late unused wage funds, thus removing one of the few existing elements of
flexibility in civil service remuneration under the current system.

**Current Civil Service Management Practice**

This section deals with current practices regarding recruitment, promotion,
examinations, and evaluation in the civil service.

**Recruitment.** At present, recruitment into the civil service operates through
somewhat flexible and informal channels. Recruits can be hired simply on
the basis of a review of credentials and an interview with the prospective
manager. No formal competition for a position is required. Although compe-
tency examinations have been introduced as a prerequisite to civil service employment, as stipulated in the Civil Service Law, they are taken only after recruitment has occurred, and within one year of induction. Thus, personal and professional networks are a source of much civil service hiring. Where these networks fail to produce a candidate, a more formal hiring process may occur. Agencies are now turning to advertising vacancies in newspapers and the relevant trade journals. Civil servants also frequently pass from local government to central government jobs. They may be recruited into posts at any time in their career, with outside experience being factored into salary considerations.

The current system, as already indicated, is not without its problems. Government officials report increasing difficulties in recruiting into the civil service and retaining employees with scarce, sought-after skills. Such employees are likely to be lured by better-remunerated jobs in the enterprise sector. In particular, knowledge of foreign languages, economics and finance and accounting and of general managerial and decisionmaking abilities are in high demand. Although no firm data are available about quit rates for the civil service, turnover is estimated to be about 10 percent a year. Quit rates may be even higher for certain categories of civil servants. While ripe for recruitment on leaving school, young, university-educated employees (junior clerks II and I in class I) are more difficult to retain once they reach the three-to-four-year mark. This group is said to be willing to invest a few years in the civil service to gain experience and contacts, only to leave soon after for better-paying jobs in the private sector.

Promotion. Just as initial hiring does not depend on competitive examinations, the formal system of promotion in the civil service appears to be based almost entirely on automatic mechanisms unrelated to performance. The wage category and grade to which an employee is assigned upon entering the service depends solely on the level of schooling completed. Most entrants to government employment are school leavers and enter at the lowest grade of the appropriate structure. After a one-year probation, employees move to a permanent position in the bottom salary grade for permanent employees. Further promotion under these conditions is mainly a function of years of service. The Civil Service Act establishes requisite time in grade for advancement to the next position. The length of these periods varies across classes and, with the exception of class I, increases at higher levels. Salary increases, however, are awarded more frequently, generally every two years.

The mechanical nature of the formal promotion system appears to have been carried over from the previous regime. Rank and age, for example, tend to co-vary in the civil service, as they probably did under the old system (see table 4.7). Indeed, even assuming the overwhelming importance of political criteria in career advancement, automatic promotion based on seniority still
appears to have been a dominant feature of the communist bureaucracy. This is borne out by the continuing preponderance of civil servants over the age of 40 (57 percent) who are presumed to have been in post for many years, as discussed earlier in this chapter. The presence of these long-serving personnel also suggests that turnover with the initial regime shift may, in fact, have been quite limited, reinforcing the characterization of the Hungarian transition as a gradual transformation rather than an abrupt rupture.

Now, however, this formal system of automatic advancement may be starting to change under the weight of practical pressures. With the departure of some key higher-level officials in the early phase of the transition and the current drain of talent into the private sector, critical civil service jobs are increasingly being filled by external candidates who, by virtue of experience, ability, and connections, may be jumping the queue into more advanced positions in the bureaucratic hierarchy. Furthermore, critical positions are now sometimes filled by capable younger staff who can move onto a faster track on the basis of their ability to perform important functions under pressure. This helps explain the growing presence of high-level staff barely in their 30s.

Seniority aside, perhaps the most important factor driving promotions is the desire to increase compensation to civil servants. This has resulted in a generalized structural grade drift, skewing the distribution of civil servants toward the higher grades. In core government ministries in 1993, for example, 30 percent of all employees with university degrees were in the uppermost grade, that of chief counselor. Over 25 percent were in the next highest grades, counselors II and I (table 4.7), and only 18 percent were in the lowest category of permanent employees, clerks II and I. Similarly, 72 percent of secondary school graduates occupied senior positions.

Civil service basic examination. Some improved formal mechanisms have recently been introduced that could, if developed properly, mitigate the rigid, mechanistic norms of current career advancement practice. One such instrument is the basic public administration competency examination, stipulated by the Civil Service Act as a universal requirement for all civil servants. Newly employed civil servants are required to take the exam within a year of being appointed; tenured civil servants were given until 1995 to complete the examination requirement.

While theoretically a measure of merit, the exam, as currently structured, in fact measures very little. The basic exam tests knowledge of the provisions of various legal statutes with relevance to the civil service, including, among other subjects, the constitution, the Civil Service and Public Service Acts, the Local Government Act, and the State Budget Act. Individuals with degrees in law or public administration are exempted from the exam requirements because this material is covered in their training. The exam requires little else
but memorization; modern, analytic topics in public administration and policy analysis are not examined.

Table 4.7 Distribution of Government Employees by Title and Putative Age, 1993

<table>
<thead>
<tr>
<th>Grade</th>
<th>Age</th>
<th>Civil servants</th>
<th>Distribution percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Central</td>
<td>Local</td>
</tr>
<tr>
<td>Class I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior clerk</td>
<td>23–24</td>
<td>3.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Clerk I and II</td>
<td>25–33</td>
<td>18.1</td>
<td>22.1</td>
</tr>
<tr>
<td>Secretary I and II</td>
<td>34–40</td>
<td>21.4</td>
<td>22.5</td>
</tr>
<tr>
<td>Counselor I and II</td>
<td>41–48</td>
<td>26.8</td>
<td>27.9</td>
</tr>
<tr>
<td>Chief counselor</td>
<td>over 48</td>
<td>30.2</td>
<td>22.6</td>
</tr>
<tr>
<td>Class II</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior clerk</td>
<td>18–20</td>
<td>5.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Clerk I and II</td>
<td>21–30</td>
<td>22.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Chief clerk</td>
<td>over 30</td>
<td>72.3</td>
<td>76.4</td>
</tr>
<tr>
<td>Public service</td>
<td></td>
<td>Categories E and F</td>
<td>Categories C, D, and E</td>
</tr>
<tr>
<td>Steps 1–2</td>
<td>23–25</td>
<td>11.1</td>
<td>20.6</td>
</tr>
<tr>
<td>Steps 3–5</td>
<td>29–37</td>
<td>25.2</td>
<td>30.6</td>
</tr>
<tr>
<td>Steps 6–8</td>
<td>38–46</td>
<td>31.1</td>
<td>28.1</td>
</tr>
<tr>
<td>Steps 9–11</td>
<td>47–55</td>
<td>24.0</td>
<td>15.3</td>
</tr>
<tr>
<td>Steps 12–14</td>
<td>56–62</td>
<td>8.7</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Ministry of Interior; Ministry of Labor.

Although, in principle, failure to pass the examination results in dismissal, in practice, out of 45,000 civil servants who have taken the exam since 1992, few failures were reported. Those who failed initially were likely to pass on a second try. Rather than serving as a screening device, the exam has become an expensive administrative formality. In addition to covering the cost of administering the exam, the MOI finances programs offered by the Hungarian Institute of Public Administration and the deconcentrated state administration offices to provide exam preparation courses for all civil servants.

The experience with this first basic exam does not bode well for the introduction of a second, specialized examination currently planned for civil servants in classes I and II. Still, the impulse to establish across-the-board measures of merit or competence is laudable. To serve as a useful tool for choosing the best and brightest for civil service employment, future exams need to be carefully designed for content and their results more strictly enforced to weed out poor performers.

Performance evaluation. Other efforts to inject merit criteria into civil service practice in Hungary, such as the development of a performance evaluation system, have been similarly shallow. Performance evaluation was man-
dated by the Civil Service Law for all civil servants in classes I and II. Evaluations, which take place approximately every four to six years, are required for promotion to the next grade. The legally prescribed performance criteria conform to standard performance assessment measures found in most evaluation systems, including knowledge and expertise, analytical capacity, communication skills, and a range of attitudinal factors. Managers are evaluated by additional criteria: performance of subordinates and organization of work. At present, though, no systemwide standards or checks are in place to standardize performance evaluations; ministries determine how evaluation criteria are applied to the actual appraisal process.

Indeed, the theory and practice of performance evaluation in Hungary appear to differ markedly. In principle, four ratings, from excellent to poor, are possible; in actuality, few managers award anything lower than a “good” rating. The legal penalty for poor performance—dismissal—is rarely, if ever, enforced. Performance appraisals are reportedly carried out irregularly and are regarded by many as “content-free.” As with many performance evaluation systems, including those in advanced country administrations, the links between performance and rewards, either pay or career advancement, are poorly articulated. The system is also flawed in that it provides only limited opportunities to appeal the outcome of evaluations. While civil servants are entitled to have a union representative involved in the appraisal, the Civil Service Act does not stipulate an internal review of performance evaluations. The only avenue for a civil servant to appeal an unfair evaluation is through the court system.

Despite all these shortcomings, performance evaluation serves at least one valuable end in Hungary at present; it provides the official basis for “fast-tracking” individuals into higher-level jobs without having to pass slowly through the automatic seniority advancement mechanisms. At the ministry’s discretion, an individual can be evaluated early, well before completing time in grade. If the employee’s performance is rated exceptional, the time in grade can be waived, and promotion to a higher grade and post is allowed. How frequently this occurs is unclear, however.

Training. As mentioned earlier, Hungary’s civil service already boasts impressive human resource capacity. High educational attainment was characteristic of the pretransition era and government employees, like other Hungarians, display a sophistication and, at times, an apparent familiarity with modern approaches to public policy and administration. Despite these advantages, there is still a significant need for reorientation and training of potential, as well as currently serving, civil servants. Most cadres now in post have spent much of their working life in a hierarchical command structure where there was little scope for independent decisionmaking or empirically based policy analysis. For these employees, as well as for new or prospective
entrants, attitudes about government service and performance, political neutrality, and the role of democratic and market factors in client-oriented government require a radical shift in mentality and an improved knowledge base. Moreover, technical and policy skills in economics, finance, management, law, and informatics need strengthening and updating to meet international standards. This section reviews some recent initiatives in public administration-related training in Hungary and assesses institutional capacity to formulate and implement national-level training programs.

The gap between what now exists in Hungary—an already well-endowed bureaucracy struggling with the burden of transition demands—and what is sought—a high performance, professionalized, modern civil service—could be filled, in large part, by improved training opportunities. Training programs are far less developed, however, than one might expect. There are several constraints on the development of effective training for civil servants in the present system. One is the lack of clear institutional responsibilities for training. Several different central-level organs are charged with developing policy in this area; conflict is common, and coordination is difficult. Clear training objectives are hard to establish because no systematic stock-taking of existing civil service skills has been carried out and no national training strategy has been developed. There appears to be considerable duplication of effort—and at the same time no effective competition—among the numerous institutions currently involved in training delivery. Training is not well integrated into the career advancement system as it now operates for the civil service; no rewards are attached to self-improvement through training and, as discussed above, promotion is still largely automatic, unrelated to skill acquisition.

Not surprisingly, public administration training has been in a state of flux since 1990. Before that, ministries provided in-house training for their employees and county governments delivered training to deconcentrated state employees. Each county had a training center with technical staff and expert trainers were brought in from ministries and other sources, as necessary. In general, training was highly legalistic and technical. Most training focused on preparing individuals for specific exams and on explaining new legal regulations or modifications in formal procedures. The Civil Service Act officially delegated responsibility for civil service training to the MOI. The subsequently created position of Government Commissioner for the Modernization of Public Administration appears also to have been assigned responsibilities for some senior civil servants' training, causing confusion over competencies in the training area. As on other issues, the relationship between the commissioner and the MOI with regard to civil service training is still evolving. For the time being, the operational aspects of most ongoing training programs, including those for senior-level officials, continue to be coordinated by the MOI.
Pre-service training—Pre-service training for Hungarian civil servants is provided by various institutions rather than by a single feeder organ. There is no overarching intake strategy, nor is there a well-developed sense of what the new profile of civil servants should be. The typical profile for those who have traditionally entered the civil service consists of training in law, economics, and, to a lesser extent, public administration. Training in the last case has conventionally focused on administrative law, however, rather than on public policy or public management. Hungary has two degree-granting programs in public administration, one run by the College of Public Administration and the other by the Budapest University of Economic Sciences. In addition, there are a growing number of private training providers, most of which focus on business and management training for the private sector; a few, notably the School of Politics, concentrate on training for future government employees.

Hungary was the first Eastern bloc country to have a degree program in public administration that was loosely based on modern approaches. The College of Public Administration was created by an act of law in 1977 and began course instruction a year later. It is still the largest provider of public administration training in the country. Currently, the College offers a three-year program in public administration, a two-year master's degree in public administration, and a continuing education program. In 1993 approximately 1,400 students were enrolled in the undergraduate and master's degree programs and an additional 270 in the continuing education program. Most graduates do not serve in the central administration, however; rather, they mainly enter the civil service at the local level.

In 1991 the Budapest University for Economic Sciences established the Center for Public Affairs Studies. The center offers students a specialization in public policy and management during the last two years of their coursework in the faculties of economics, social sciences, and business administration. About 40 students a year enter the program. Faculty estimate that half of these students will enter public life, possibly as members of political parties or in specialized policy and research institutes that provide information for parliamentarians. The other half of the students take the courses as part of a second major, usually business.

The School of Politics, which began operations in 1991, is a nonprofit organization that functions as a private foundation with loose connections to the Hungarian Academy of Sciences. Its goal is to help train citizens who will manage the new institutions of democratic societies. The school offers two programs: a one-year nondegree political specialist program for advisers, managers of staff of different parties and civic organizations, trade unions, interest groups, and staff members of local governments, and a two-year master's degree program for current and prospective political professionals.
that is conducted jointly with the Budapest School of Economics at the Center for Public Affairs Studies. The school has between 30 and 50 students each year, with an average age of 30. Funding comes from tuition and private sources, including foundation grants.

These institutions operate independently from each other and, for the most part, from the MOI, although the College of Public Administration is formally subordinated to the ministry. All three have aggressively pursued international connections and support. This has taken a variety of forms, including assistance with curriculum development, participation in educational associations, and development of academic exchange programs with schools in western Europe and North America. There have also been turf battles among these institutions and with the Hungarian Institute of Public Administration for a leading role in government-sponsored training efforts, including a proposal currently being discussed to create a new national civil service training center.

*In-service training*—In-service training is carried out by various institutions, although the MOI has the main official role in developing programs. To date, it has focused primarily on the development of a preparatory course for the civil service exam and, to a lesser extent, on training for a variety of specialized exams required for certain positions. These courses are taught at the central government level by the Hungarian Institute of Public Administration, a government-funded institute, and at the deconcentrated level by the state administration offices subordinated to the ministry. The MOI is also largely responsible for delivering training to senior-level civil servants, for the most part in coordination with international donor programs. EU-PHARE, OECD-SIGMA, and the British Know-How Fund (KHF) are among the most active in public administration training in Hungary.

Despite its mandate in the area of training, the MOI has no authority over in-house training programs offered by other ministries. The lack of a central clearinghouse mechanism for training makes it difficult to track the kinds of training programs that are available. But certainly many of the ministry-run upgrading programs that prevailed under the old regime are likely to be still operating in some form, although many have been revised and updated. For example, the Ministry of Justice maintains an institute that provides training specific to its needs. Similarly, the MOF provides in-house training in such areas as tax law.

*Future directions in training*—The future direction of training efforts in Hungary is uncertain. While substantial capacity exists within individual institutions, public administration training remains largely uncoordinated. At the central government level, responsibility for training is fragmented across a number of institutions. Tentative ideas on creating a new national civil ser-
vice training center, combining some MOI resources with other existing training facilities and services, are now being discussed. The purpose of such a training facility will need considerable clarification, however, and would have to be articulated in the context of the development of an overall training strategy for the civil service.

Among the existing academic training bodies, none currently provides comprehensive, state-of-the-art education in public administration. The College of Public Administration comes closest, although its programs still seem to concentrate mainly on training students to work within the existing rigid and heavily bureaucratic system rather than on broader public policy studies that promote more independent conceptualization. While the Center for Public Policy Studies, complemented by the School of Politics, provides an alternative approach, these institutions lack capacity to train in numbers sufficient for national requirements.

International donor efforts to assist training in Hungary have been mainly short-term, thus limiting their capacity for sustained, across-the-board impact. Moreover, despite attempts by the EU and OECD to coordinate the efforts of various donor programs, overall collaboration has been minimal, and considerable redundancy as well as important lapses may have occurred.

Civil Service Development: Problems and Prospects

Although Hungary has made a number of important advances in creating a modern civil service, overall progress in this area of reform has been uneven. Significant gains have clearly been made in creating a formal legal framework for civil service development, but the civil service system established by law is rigid and hierarchical, with few flexibilities in incentives for performance, with respect to either remuneration or career advancement. Similarly, although strides have been taken toward the development of modern and professional mechanisms for recruitment, promotion, competency testing, and performance evaluation, so far these instruments have been lacking in substance and have largely de-emphasized merit. The formal legal framework notwithstanding, the actual operations of the civil service either avoid or modify many official rules, creating an informal system of personal networks that serve mainly to circumvent established procedures. Despite the overall quality of human resources in the civil service, employees with skills in a range of critical fields are lacking and are increasingly difficult to recruit and retain. Training programs are inadequate, and efforts to mount a coherent national training strategy across the government have been largely lacking or uncoordinated. Finally, the institutional framework for civil service development, as for public administration reform more broadly, is weak and fragmented. Responsibilities for civil service management and for reform initiatives are diffuse, split between the Commissioner for Public Administration Modernization and the
MOI. While the latter is nominally in charge of reform policy formulation, its skeletal staff and minimal resources have constrained the commission’s capacity. This lack of institutional coherence is paralleled by the largely uncoordinated assistance offered by international donors, most of which has been focused on the development of local, rather than central, government capacity.

Conclusion

This chapter has tried to take stock of Hungarian reforms in public administration. One aim has been to help clarify the direction of the next steps in this area. While Hungary began the reform process with significant initial advantages, it is necessary to build on these to ensure the development of a fully functional public administration staffed by quality civil service cadres, and to ensure that the progress already made will not be lost.

Although Hungary has seen significant progress on all three fronts of public administration reform—machinery of government, pay and employment, and civil service development—the advances have not, in fact, been as dramatic as might have been expected. Analysis of problems in these three areas reveals some common themes that help explain the, at times, halting pace of reform efforts. To begin with, despite considerable success in establishing legal frameworks through constitutional reforms and the Civil and Public Service Acts, new laws have frequently been more constricting than empowering, and have sometimes introduced or perpetuated rigidities or perverse incentives.

Another explanation of why reforms have lagged lies in the instinct of preservation. The tendency toward conservatism has meant that some reform measures have been less bold and imaginative, and more wedded to previous tradition, than might have been predicted, given the radical nature of the broader regime change. The impulse to preserve has been strong, at times because old systems work best but also perhaps because old systems are more familiar and comfortable, despite their dysfunctionality in newly changed circumstances. Another constraint on the Hungarian reform may be, ironically, the more open character of Hungary’s pre-transition regime. These initial advances may have been as much a hindrance as a help, lulling policymakers into complacency about the need for radical institutional reform. The comparative sophistication of Hungarian bureaucrats may have encouraged the misconception that mere exposure to modern management approaches would result in rapid internalization of these new concepts. It appears that while modern management terminology is widely used in conversation, the application of techniques of, for example, “performance-based management” is not as easy. Indeed, the interjection of “merit” criteria into
many basic functions of human resource management has been slow, and incentives to high-quality work are still not systematized.

Finally, a common feature of most aspects of the administrative reform process is inadequate cooperation and coordination. Difficulties in information management have also been widespread—a problem perhaps most acute at the core government decisionmaking level, where timely inputs for policy deliberation are often lacking. While some of these constraints may be purely technical, others seem linked to long-standing difficulties in developing mechanisms for collaboration, rather than conflict, both in government and in the broader polity. There has also been considerable tension between the impetus to decentralize functions, both operationally and geographically, to lower levels of government, often with somewhat chaotic results, and the still strong tendency toward overcentralization, sometimes yielding rigid and unresponsive policies.

Overcoming these constraints will be critical to developing the institutional foundation for reform policy formulation and implementation. Although, as this chapter shows, important movement toward this goal has already taken place, some midreform adjustments may be necessary if Hungary is to modernize its public administration to meet international standards.

Notes


5. Verebelyi et al., IV.4.


8. It would appear that this staffing level has been reduced further still in the context of the most recent retrenchment, but final numbers are, at this writing, still unavailable.


10. Where chairmanship is concerned, this proportional approach to assignments applies systemwide rather than within individual committees. Thus, a committee dominated by members of one party may actually be chaired by a representative of another.


13. This cut was to be achieved in two phases. Phase one was to achieve a first 10 percent cut through across-the-board reductions. These appear to have been made, and, in some cases, even larger cuts were achieved, in part as a result of earlier restructuring initiatives, discussed in the text. The Ministry of Industry and Trade, for example, reduced staff by 27 percent as a result of its merger with the Ministry of International Economic Relations and the Central Statistical Office was cut by 20 percent and the Prime Minister’s Office by 17 percent. Phase two of the program would carry out the remaining 5 percent cuts. These cuts were to be allocated differentially, with some agencies undertaking reductions of greater than 5 percent and others less than 5 percent.


16. Central budgetary institutions, identified as subchapters in the budget, are dependencies of central ministries but appear to operate with somewhat more autonomy than do core ministries themselves. Examples include the customs and tax administrations and the airport. Together, approximately 1,400 CBIs (excluding about 650 for defense) employ 476,026 personnel. Sufficiently disaggregated information was not available to determine the exact employment status of these individuals. While most are likely to be public servants, some portion probably falls in the civil service or “other” categories.

17. The proliferation of deconcentrated offices of central government agencies is a potential target of restructuring reforms. Many of these employees are working at the county level. Each of the 19 counties has approximately 37 deconcentrated offices or agents of the central administration. It is possible that considerable redundancy exists at this level. Consolidation of these offices into single prefectures based on the French system and the reduction in the number of counties are proposals currently under discussion to address this problem.
18. Employment data in Hungary are not consistent across sources. The data in table 4.1 come from the Ministry of Labor; data from the Ministry of Finance would put aggregate public employment at 1.02 million in 1993 and 979,000 in 1994. The cause of these discrepancies is not completely clear but they most likely reflect the difference between authorized and actual positions, as well as differences in the definition of employees in the "other" category. In addition, the MOL compiles data from multiple sources and sometimes estimates totals on the basis of a series of assumptions.

19. These data should be interpreted cautiously because methodology for data collection vary widely across countries.

20. The high level of public sector employment as a percentage of total employment may reflect, in large part, the sharp decline in the size of the labor force in recent years, as large drops in employment in public sector enterprises and the limited growth of private employment have led to significant withdrawals from the labor force.


22. Redundancy may also be reinforced by the legal framework. The Public Education Law specifies only maximum class size (ranging from 35 to 12, depending on the level and type of course). Although actual average class sizes vary from 30 to 8, averages for each level appear to be high by international norms, suggesting some scope for downsizing. See Ivy Papps and Clive Sinclair, "Financing Public Schools in Hungary" (Washington, D.C.: World Bank, June 1995, photocopy).

23. Even the central administration's direct intervention in staffing prescriptions at the university level has been challenged in a recent constitutional court decision which ruled that university autonomy regarding personnel was constitutionally inviolate.

24. PSAL Concept Paper, ibid.


26. Calculations are based on 1993 employment data provided by the Ministry of Interior.

27. Social welfare proved to be an outlier, with 17:1. Figures include both local and deconcentrated employees.

28. The ratios of all other employees to manual workers were even more dispersed than in the case of support staff. Ratios here stretched from a meager minimum of under 4 employees per manual worker to nearly 32. Two ministries were in the low 20s, while seven others reported fewer than 10 employees per manual worker. Low ratios of both classes may indicate overstaffing or, again, fragmentation into too many administrative units. The ratios of other employees to manual workers were also higher at the deconcentrated level.

29. The standard base wage was initially set at 15,000 forints per /month in 1992 and was subsequently raised to 18,000 forints per /month. Unlike the multiplier for classes I and II, the base wage multiplier for clerical and manual laborers is given as a range rather than a single figure. In practice, the actual multiplier appears to be a
function of years of experience, with some flexibility for rewarding merit. That is, the youngest or newest individuals in a particular grade will tend to earn the minimum for the grade, whereas the senior people in the grade will tend to earn the maximum.

30. As discussed below, this is now likely to be raised to 20,000 HUF/month.

31. The government, in its amendments to Act XXIII/1992 submitted to Parliament in April 1995, has proposed giving office directors the authority to pay civil servants up to 20 percent more or less than the official base wage for their class and step. The criteria by which these base salary increase and cuts would be awarded are not clear. As of this writing, these amendments had not been approved by Parliament.

32. Ministries receive salary allotments from the Ministry of Finance on the basis of the number of authorized positions; therefore any job vacancies that exist free up funds that can be distributed in the form of bonuses. Vacancies include unfilled positions, generally about 3 percent of authorized employment, and vacancies created by workers on long-term leave. The salaries of workers on leave are paid either by the social security fund (maternity leave, long-term sick leave) or the defense establishment (military service), so the ministry can apply the funds allocated to their positions to other purposes. The sum of the savings from these two vacancy sources generally amounts to about 10 percent of the authorized wage bill. In addition, it appears that ministries have some discretion to shift funds among line items in their budgets, so that savings realized in other activities can be diverted to employee bonuses.


34. In making these comparisons, I have assumed that class I of the civil service is comparable to categories E and F of the public service; class II to categories C, D, and, with some caveats, E; class III to category B; and class IV to category A.

35. For example, salaries for professionals with more than 30 years of service tend to be higher in the public service. Public servants in category E have salaries that are 20–25 percent higher than the civil service equivalent; however, this category accounts for fewer than 20 percent of employees with secondary school degrees.

36. Some of the reforms stemming from Government Resolution No. 1023/1995 are also likely to have an impact on civil and public servants. Greater managerial flexibility in remunerating better performers has been amended into the Civil Service Law through the institution of a 20 percent pay adjustment above or below the basic wage. This would theoretically be linked to performance at the manager’s discretion. At the same time, through amendments to the Civil and Public Service Laws, some across-the-board nonwage benefits, such as jubilee bonuses and 13th month salaries, were reduced.

37. These data are based on the results of the Ministry of Labor’s annual survey of earnings. All private and public establishments with 20 or more employees are included, as well as a reduced sample of firms with between 10 and 20 employees.
38. The lowest ratios of government to company earnings are to be found in the education establishments, though one would not expect to find large numbers of private sector employees with whom to compare these, especially, for example, among university professors.

39. The result of this 1994 survey appear in two Price Waterhouse-Budapest reports: *Fizetési Felmérés 1994* and *Fizetési Felmérés 1994 - Bankok*. The survey data are presented by occupation. Except for the managerial positions and a few occupations for which we have earnings in the government, the comparisons must be made on a more intuitive basis, estimating the educational level the occupation is likely to require and choosing a salary class of the civil service salary structure. I have tried to do this by assuming that positions of high skill and responsibility in government are likely to be occupied by persons with longer tenure and vice versa. The comparisons are, at best, impressionistic.

40. A general manager of a bank, for example, could earn a maximum of 1,120,000 forints, compared with a secretary of state at 154,000 forints; a deputy general manager could earn 763,000 forints, compared with a deputy secretary of state at 140,000 forints.

41. The disparities between civil service and modern firm salaries appear to be greatest at the central government administration level (that is, in Budapest), rather than in deconcentrated offices. Data from the Price Waterhouse survey suggest that large enterprise wage levels in the regions are below those in Budapest by at least 10 percent for virtually every occupational group. For higher-skilled occupations, the differential is generally considerably greater. Thus, although deconcentrated civil servants earn somewhat lower wages than their core government colleagues, they appear to be more generously paid relative to local enterprise alternatives than is the case in Budapest. Of course, it may also be that part of the salary differential in the enterprise sphere between Budapest and the regions reflects differences in the quality of labor.

42. The enterprise sector includes both state-owned enterprises and private companies.

43. Personal communication with Kim Lane Schapelle, University of Michigan, Budapest, July 18, 1995.

44. Among public servants a similar situation exists. Almost 30 percent of all employees have been in government service for 24 years or more. In the categories in which most teachers and health workers are classified, a smaller proportion of employees, approximately 24 percent, has enjoyed such long tenure. This may reflect a greater concentration of women in these occupations and an earlier withdrawal from the labor force for family reasons.

45. In the Hungarian educational system, colleges occupy an intermediate position between secondary schools and universities. Colleges generally offer three-year degrees, whereas universities offer five-year degrees.
References


Transforming the Prototype: A New Administrative Order for Post-Soviet Russia?

Barbara Nunberg

Government's ability to perform its crucial role in Russia's economic and political transformation hinges largely on the creation of a modern, effective, performance-based civil service. As with administrative changes occurring throughout the former Eastern bloc, this calls for radically altered definitions of the state in relation to the private economy and civil society. Staffing newly defined state structures means the introduction of a suitable institutional framework for civil service development, the installation of well-functioning management systems and organizational norms, and the recruitment and training of properly prepared and motivated staff to carry out both policy and implementational activities.

After three-quarters of a century of communist rule, these types of required changes are more dramatic in Russia than in the other countries examined in this study. With such a long socialist legacy in Russia, new government institutions cannot be expected to be built upon a tabula rasa. More likely, successful reform will involve the adaptation of existing structures and behaviors and some degree of administrative continuity in order to carry out essential tasks of the transition. For this reason, civil service development initiatives in Russia must begin with an accurate understanding of prevailing administrative conditions and of the overall dimensions of the current public sector. The objective here is to provide an initial view of the post-communist public service. Although the picture that emerges is far from complete, even a partial rendering of the status quo can help identify areas where more information is needed as well as highlight problems that future reforms will need to address.

Like its CEE neighbors, Russia faces enormously complex challenges in establishing a modern public administration and civil service. Obsolete ad-
ministrative structures and dysfunctional ways of doing business need to be abandoned without total repudiation of the old system that would leave gaping holes in the state’s ability to carry on vital functions. The ad hoc procedural norms and rules of bureaucratic behavior and cadres management that have been operating since the breakup of the old Soviet state need to be routinized and formalized into transparent, merit-based systems. And, a small professionalized civil service core must be carved out of an undifferentiated public sector. New financially sustainable incentive systems must replace old, politicized ones in order to attract and retain good staff, and even well-educated personnel will need retraining to adapt their skills to market requirements and service-oriented government. A legal framework to guide reforms, along with institutions to manage the civil service and push for radical change, will have to be consolidated.

Again, these challenges are not unique to Russia, but one encounters them here in the extreme because of the longevity of the communist experience. Unlike other parts of CEE, there is virtually no living collective memory in Russia of pre-socialist laws, institutions, or behaviors that could be usefully retrieved and adapted to modern requirements. As the center of the Soviet empire, Russia’s isolation from non-communist forms of government was more complete than that of many of its satellites. Thus, Russian framers of transition institutions have to travel a greater cultural and technical distance to appropriate elements of successful foreign administrative systems to which they’ve had little prior exposure. With the loss of empire and prestige, some Russians are frankly disquieted by the prospect of “learning” from abroad; their discomfort even extends to the terminology of foreign aid: technical “cooperation” is easier to swallow than “assistance.”

Russia’s volatile politics have unquestionably slowed the country’s efforts at civil service reform in comparison with the other country cases. Macro-level debates about basic political game rules, separation of powers, rule of law, and constitutional limits have taken precedence over more mundane questions of public service definition and performance. Inside the bureaucracy, micro-politics operate with factionalism and turf wars determining many institutional reform choices.

Russian idiosyncracy and instability pose formidable difficulties for would-be civil service reformers. But, for those who would see a glass that is half full, they also present unprecedented opportunities for profound transformation, if only because a system that has come unhinged can be more readily changed than one that is solidly entrenched. The difficulties, of course, remain, and serious government commitment and sustained external support for civil service development programs are vital to facilitate this process of administrative change.

The present chapter probes these issues at greater length. I begin with an analysis of public service employment in general, as a first step toward delin-
eating civil service boundaries. Next, remuneration and incentives are examined. The discussion then turns to current public service management practice. Finally, I offer some conclusions about initial reform efforts in Russia and make some comments on future requirements.

Defining Civil Service Dimensions: Government Employment Issues

The professionalized cadre of public employees needed to formulate policies and implement programs in Russia conforms to what most countries define as the “civil service.” This has been an unknown concept in Russia and the rest of the former USSR, where public administration was dominated by the monolithic apparatus of the Communist Party. In this system, all Soviet workers were deemed to be public servants.

History thus bequeathed a post-communist Russia largely undifferentiated public sector. True, nominal distinctions were drawn among the budgetary sphere, which was formally defined to include both central, sub-national governments and “budget-supported” institutions, the state enterprise sector, and the expanding private sector. But, in reality, there were only hazy notions of which and how many employees were carrying out what jobs in government and who paid them. A clear understanding of the skills, job classifications, and conditions of service of employees in various parts of government was also largely missing. Ironically, crucial decisions about the composition, responsibilities, and incentive system for a new civil service cadre in Russia depend on precisely such information. These decisions involve choices as to which of the present state structures and personnel the civil service should include, what is a rational allocation of professional skills across different government structures, and how and by what institutions this core, as well as other personnel establishments across government, should be managed.

This section uses available data to provide a preliminary, still quite partial map of government employment in Russia, highlighting issues involved in the task of unbundling different parts of the public sector, with regard to both sectoral and regional distinctions, as well as questions related to the skills and quality of government personnel. It then examines existing institutional capacity for establishment management, including data requirements and assignment of institutional responsibilities for personnel information management and forward manpower planning.

Several important caveats apply to the discussion that follows. First, data on government employment are scarce and often of questionable reliability. For example, no single source, such as the Ministry of Finance, could provide comprehensive data on the number of employees paid by the consolidated budget. Thus, this section relies upon composite data supplied by Goscomstat, the Ministry of Labor, and the Institute for the Economy in Transition. These
sources often conflict, however, and categories of government employment from one entity or level of government to another tend to elude common definition. Even where internal consistency is achieved, comparing Russian figures with international standards is hindered by the extraordinary semantic and conceptual chasms between Russian bureaucratic and budgetary definitions and prevailing conventions in the rest of the world. Thus constrained, the portrait of public employment presented here should be viewed only as a "first cut," outlining general dimensions and identifying prominent issues. As will be stressed elsewhere in this chapter, reinforcing and refining this initial effort with more systematic data collection and analysis is key to the successful transformation of Russia's public administration.

Government Employment: A Fragmented Picture

Ideally, the first logical step in developing an accurate view of the dimensions of government employment in Russia would be to assess budgetary sphere employment, which theoretically conforms to definitions of general government (that is, local and central government) in the industrialized world. In Russia, the budget sphere should refer, in theory, to all state employees paid directly from the consolidated budget (that is, territorial plus central expenditures). It would therefore comprise government administration, nonproductive "budget-supported" institutions and agencies, as well as a range of other sectoral employment categories (for example, health, education, science and culture, waste management, etc.). In practice, however, reliance on employment figures for the "budget sphere" has proved problematic, due to the Soviet legacy of central planning. Goscomstat records employment only by branches (that is, sectors) of the economy, without reference to location or financing of staff. Thus, an undefined number of employees nominally paid through the budget are, in fact, employed and paid directly by state enterprises. Conversely, unknown numbers of employees now categorized in nonbudget sphere branches inherited from the central planning era actually have been paid through the budget and should therefore be reclassified under budget sphere employment. For example, some portion of postal service employment appears to have been disguised within the general category of the communications branch. Fire protection employment was reportedly under "housing," and the police force was buried under a number of sectors.

The budget sphere appears to be, at best, only an artificial construct that cannot really even be approximated by using available data for individual sectors, given the methodological limitations described above. Within these constraints, however, some employment figures can be assembled for the following major budgetary sphere sectors: state administration, the social sectors, and science and research. These categories, discussed at greater length
below, together employed 15.4 million people in 1992, comprising almost 22 percent of civilian employment (table 5.1).

**Table 5.1 Sectoral Employment, 1980–92**  
(millions of 'le)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employed</td>
<td>73.3</td>
<td>74.0</td>
<td>73.3</td>
<td>73.2</td>
<td>72.3</td>
</tr>
<tr>
<td>Total budgetary</td>
<td>13.0</td>
<td>14.0</td>
<td>13.4</td>
<td>13.6</td>
<td>13.4</td>
</tr>
<tr>
<td></td>
<td>3.3</td>
<td>3.7</td>
<td>0.4</td>
<td>7.2</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>0.0</td>
<td>6.4</td>
<td>7.2</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>3.3</td>
<td>3.4</td>
<td>3.1</td>
<td>72</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>1.0</td>
<td>1.1</td>
<td>0.2</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>30.1</td>
<td>60.0</td>
<td>32.0</td>
<td>37.1</td>
<td>33.0</td>
</tr>
<tr>
<td></td>
<td>11.0</td>
<td>10.07</td>
<td>10.0</td>
<td>10.0</td>
<td>9.7</td>
</tr>
<tr>
<td></td>
<td>30.2</td>
<td>31.3</td>
<td>31.2</td>
<td>30.9</td>
<td>30.1</td>
</tr>
<tr>
<td></td>
<td>7.0</td>
<td>7.3</td>
<td>2.2</td>
<td>2.2</td>
<td>5.6</td>
</tr>
<tr>
<td></td>
<td>6.1</td>
<td>6.2</td>
<td>6.9</td>
<td>6.6</td>
<td>7.7</td>
</tr>
<tr>
<td></td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>3.2</td>
<td>4.1</td>
<td>3.0</td>
<td>4.4</td>
<td>3.9</td>
</tr>
<tr>
<td></td>
<td>0.3</td>
<td>0.3</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

— Not available.

**Government administration.** What might be classified as “government administration” employment in some industrialized countries (that is, federal and sub-national administration, the legislative branches at all levels of government, and the judicial system), must in Russia be derived from the larger construct of “state administration.” The latter includes the above categories as well as the administrative apparatus of “sectoral organizations” (for example, trade unions and professional associations), “economic management bodies” (for example, directors of public enterprises), and “cooperative and public organizations” (for example, directors of cooperatives and high-level operatives of political parties). Such employees may be, but are not necessarily, paid through budget appropriations. As the data in table 5.2 indicate, between 1990 and 1992, the state administration increased from 0.87 million in 1990 (equivalent to 1.2 percent of civilian employment) to more than one million in 1992 (1.5 percent of civilian employment).

Excluding the latter categories, remaining employment in government administration appears to be relatively small, but it is on the rise. Employment increased from 666,000 in 1990 (0.9 percent of civilian employment) to 881,000 (1.2 percent of civilian employment) in 1992. The same coverage of employment in the government administration in the United States amounted to 1.26 million in 1991 (equivalent to 1.1 percent of civilian employment).
Changes in government administration during 1990–92 were mainly due to the dramatic shifts in sovereign responsibilities that occurred with the dissolution of the USSR and the creation of the Russian Federation. Several important modifications took place. First, some off-budget functions, including those carried out by the press, agriculture, and trade departments, were placed within the central state apparatus. Other functions linked to the new economic reforms, including land reform, antimonopoly policy, state property management, and tax inspection, were assigned to the state administration and staffed accordingly. Although personnel transfers from other state organs did take place, some new recruitment also occurred. In addition, new responsibilities assigned to existing entities, such as the social security departments and arbitration tribunals, also required staffing increases. Certain sovereign functions once reserved to the Soviet Union, including those performed by the Ministry of Nuclear Power, the Ministry of Railroad Communication, and the Informatics Committee, were also assumed by the Russian government. Some speculate that employment increases may also be due to the return of Russian government employees from other CIS republics when the USSR split apart. Numbers are not available, and the degree to which this influx was offset by the departure during this period of many apparatchiks is not known.

These changes in functional attributions may account for positive shifts in the number of employees in the federal administration. As table 5.2 shows, federal personnel increased from 383,000 to 536,000 between 1990 and 1992. Only a small portion of these federal employees is located in the central apparatus in Moscow. Although a reliable breakdown of this employment is not available, estimates for central state apparatus employment (ministries and departments) equal roughly 33,000 employees, approximately 2,000 of whom were reportedly engaged by the Presidential Administration. Ministry of Labor estimates for the number of central state ministries and departments were 62, having grown from the 1989 level of 55. Based on these data, central ministry employment in Moscow grew from 19,200 in that year to 33,400 in 1992. The average ministry reportedly employed between 500 and 1200 people; committees and departments were smaller at about 100 to 350, respectively.

As table 5.2 makes clear, federal personnel are overwhelmingly decentralized. Ninety-four percent worked at sub-national levels of the administration. Deconcentrated employment of the federal apparatus in the republics, krais, and oblasts numbers about 144,000. Federal employees were most numerous at the okrug, rayon, and city level, amounting to 358,000. Regional and local governments and legislative branches at all levels of government employed about 271,000 in 1992, substantially up from 168,000 just two years earlier. This 61 percent jump reflects the increased importance of the sub-national governments in Russia in the context of significant decentralization.
### Table 5.2 State Administration Employment, 1985–92 (thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total state administration employment</td>
<td>1,347.7</td>
<td>997.3</td>
<td>856.8</td>
<td>870.9</td>
<td>926.3</td>
<td>1,079.6</td>
</tr>
<tr>
<td>Union ministries and depts. (central apparatus)</td>
<td>104.0</td>
<td>82.9</td>
<td>74.3</td>
<td>54.3</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Federal employment (estimate)</td>
<td>442.9</td>
<td>435.1</td>
<td>373.5</td>
<td>383.9</td>
<td>470.5</td>
<td>536.1</td>
</tr>
<tr>
<td>Core - Moscow</td>
<td>29.5</td>
<td>22.6</td>
<td>19.2</td>
<td>13.2</td>
<td>56.8</td>
<td>33.4</td>
</tr>
<tr>
<td>Regional - krais, republics and oblasts</td>
<td>166.8</td>
<td>156.9</td>
<td>114.1</td>
<td>114.0</td>
<td>130.2</td>
<td>144.4</td>
</tr>
<tr>
<td>Local - okrug, rayons and cities</td>
<td>246.6</td>
<td>255.6</td>
<td>240.2</td>
<td>256.7</td>
<td>283.5</td>
<td>358.3</td>
</tr>
<tr>
<td>Regional and local employment</td>
<td>155.6</td>
<td>154.9</td>
<td>152.6</td>
<td>168.2</td>
<td>182.9</td>
<td>271.4</td>
</tr>
<tr>
<td>Apparat of rayons, cities and rural soviets of people's deputies</td>
<td>—</td>
<td>—</td>
<td>144.2</td>
<td>157.4</td>
<td>168.9</td>
<td>197.3</td>
</tr>
<tr>
<td>Other state employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Judicial bodies and legal offices</td>
<td>52.2</td>
<td>56.9</td>
<td>578</td>
<td>59.6</td>
<td>66.8</td>
<td>74.1</td>
</tr>
<tr>
<td>Apparat of sectoral organizations (concerns associations and unions)</td>
<td>—</td>
<td>—</td>
<td>1.8</td>
<td>10.5</td>
<td>11.1</td>
<td>12.6</td>
</tr>
<tr>
<td>Apparat of economic management bodies</td>
<td>404.5</td>
<td>85.8</td>
<td>36.0</td>
<td>30.8</td>
<td>28.6</td>
<td>13.4</td>
</tr>
<tr>
<td>Apparat of coops and public organizations</td>
<td>188.5</td>
<td>181.7</td>
<td>162.6</td>
<td>163.6</td>
<td>166.4</td>
<td>172.0</td>
</tr>
</tbody>
</table>

*Not available.*

Note: Includes military and law enforcement personnel.

a. Estimates.
b. Includes apparat of Supreme Soviet government.
c. It is paid out of the budget.

Source: World Bank 1993; Ministry of Information; staff calculations.

...of governmental functions. That federal employees still outnumbered sub-national personnel by 2 to 1 underscores the continuing preeminence of the central administration in performing important core government functions. Indeed, some essential tasks in the transition—tax collection, for example—are being carried out exclusively by federal employees. Although not likely to alter dramatically the composition of federal employment, it is worth noting that there may be substantial numbers of local government employees presumably on the federal payroll (that is, those performing local government services, such as police and fire protection workers) who are not captured by these data.

**Other government employment.** The bulk of budget sphere employment is concentrated in the two mega-sectors of health (including physical culture and social security) and education (including arts and culture). Employment in these two sectors amounted to 11.7 million (16.3 percent of civilian employment in 1992, see table 1). Setting aside the relative share of public...
versus private employment in these sectors, the overall dimensions of health and education employment in Russia were comparable to employment in these sectors for other industrialized countries. In the United States, total employment in these two sectors amounts to 20.8 million (excluding physical culture and culture and art) or 17.8 percent of civilian employment. Government employment alone in these two sectors amounts to 10.7 million, which represents 9 percent of civilian employment in the U.S.

A more complete breakdown provides further comparative perspective on sectoral employment dimensions. It becomes clear, for example, that Russia’s health sector is small and its education sector large in comparison with other industrialized countries. In Russia, employment in the health sector amounted to 4.2 million (equivalent to 5.9 percent of civilian employment) in 1992. In the United Kingdom, health sector employment as a whole amounts to a much larger share—about 8.2 percent—of civilian employment. In the United States, the health sector (excluding physical culture and including social security) accounts for an even larger proportion—10.4 percent—of civilian employment. The nature of the comparison shifts considerably, however, when the issue of private versus government participation in these employment figures is considered. Whereas virtually 100 percent of health employment in Russia is public, the government share of people employed in the U.S. health sector is only 20 percent. Although future reform of both systems might result in greater convergence of these numbers, perhaps approaching Northern European levels, some policy shifts would likely be needed in Russia to adjust the public-private ratio to the new economic requirements.

In education, overall sectoral employment in Russia amounted to 7.5 million (equivalent to 10.4 percent of civilian employment) in 1992. This outstrips both the U.K., where public and private education employment accounts for 6.7 percent of civilian employment, and the U.S., where education employment (95.3 percent of which is public) represents 7.4 percent of civilian employment. These numbers can be inflated by recreational and entertainment activities to more closely approximate the Russian comparators, but even in so doing their relative share (8.7 percent) of civilian employment is still dwarfed by the Russian figures.

Another important sectoral employer in Russia is science and research, which, though still very important, is in conspicuous decline. Although science and research employment amounted to 2.3 million or 3.2 percent of total employment in 1992, this represented a 25 percent decrease from 1991 levels. The decline is associated with a major exodus of researchers and scientists from government and state enterprises into more lucrative private business activities. Despite this decline, the relative share of research and science employment in Russia remains significantly higher than in other industrialized countries: 1.6 percent of the total population was employed in science and
research in 1992, compared with an average of 0.4 percent of total population working in research and development activities in developed countries.7

Quality and Skills in Government Employment

Although they are a critical input to the development of a civil service reform strategy, aggregate employment trends do not capture information about professional skills and social background profiles of public servants. Few data exist on these aspects of Russian government employment. The educational profile of public servants varies very little among sectors (table 5.3). Age distribution for most sectors conforms to the pattern found in the employed population as a whole, with mean age falling in the late 30s, and the largest cluster of workers in the "thirty-something" range (table 5.4). This type of data is important for developing civil service manpower planning strategies. For example, a large representation at early to mid-career levels might orient civil service training strategies toward in-service training programs as opposed to pre-service development programs, which might be appropriate if the age distribution were more skewed toward older employees. Even with this large middle-aged cohort, longer-term skill development considerations may still encourage the induction of talented young career civil servants, because younger cadres are less well represented than more seasoned staff. These data also suggest that early retirement (that is, for those within close range of eligibility age) offers only limited prospects for renovation of the public service, because older staff constitute a relatively small group.

Government employees appear to be well-educated compared with the employed population as a whole (table 5.3). In 1989, budget sphere employees, especially in the science and research, education, and culture sectors, and state administration, showed a significantly greater proportion of specialists with higher education (57, 46, and 48 percent, respectively) than the general employed population (27 percent). At a minimum, managers and specialists were required to have a Diploma of Higher Education in addition to prior work experience to qualify for upper-level positions. These high educational standards notwithstanding, the degree to which traditional types of educational background and skills adequately prepare staff to perform new tasks of the transition remains to be determined. Updated data with more sector- and skill-specific information would be needed in order to formulate civil service training, recruitment, and staff planning policies.

It is also worth noting that, despite modest overall increases in budget sphere employment, particular sectors with well-trained employees, such as those in science and research, have lost personnel. Even in cases where absolute numbers have not decreased, overall professional quality was reported to be declining, as highly qualified individuals leave government permanently for, or moonlight temporarily in, private activities. Some ministries that em-
ploy staff with scarce professional skills, such as the Ministry of Finance and the Central Bank, reported a significant qualitative drain. Beyond aggregate data, little detailed information is available on manpower movements. Ministry of Labor figures suggest that, overall, 5 to 7 percent of Ministry positions are vacant, mainly due to natural attrition. However, this says little about the types of skill gaps that have developed in government. More information on quit rates in relation to professional qualifications would be needed to understand the real nature of skill deficiencies throughout the system.

Table 5.3 Employment of Specialists with High and Secondary Education, 1989

(annual average in millions and in percent)

<table>
<thead>
<tr>
<th>Total employed</th>
<th>Total employed with high and secondary degrees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>Total employed</td>
<td>75,168</td>
</tr>
<tr>
<td>Total budgetary sphere employment</td>
<td>15,853</td>
</tr>
<tr>
<td>Health, physical culture, and social security</td>
<td>4,135</td>
</tr>
<tr>
<td>Public education, culture, and art</td>
<td>7,140</td>
</tr>
<tr>
<td>Science and research</td>
<td>3,204</td>
</tr>
<tr>
<td>State administration</td>
<td>1,374</td>
</tr>
<tr>
<td>Total nonbudgetary sphere employment</td>
<td>59,316</td>
</tr>
<tr>
<td>Agriculture and forestry</td>
<td>10,048</td>
</tr>
<tr>
<td>Industry and construction</td>
<td>32,351</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>5,921</td>
</tr>
<tr>
<td>Trade, catering, material supply and procurement</td>
<td>5,941</td>
</tr>
<tr>
<td>Crediting and state insurance organizations</td>
<td>396</td>
</tr>
<tr>
<td>Other</td>
<td>4,664</td>
</tr>
</tbody>
</table>

a. The employed population includes those employed in the budget sphere, state enterprise leased enterprises, joint-stock companies, economic associations, social organizations, joint ventures, collective farms, cooperatives, individual labor activities, private subsidiary agriculture, and private agriculture. The sectoral breakdown between total employed and total educated might vary slightly (especially in the "other" category).
b. Excluding the military and law enforcement.
c. It is possible that some military and law enforcement is hidden under this category.

Little is known about support-staff employment in the public service. Informal estimates of state administration employment suggest that clerical staff (that is, secretaries, stenographers, typists, etc.) comprise about 20 percent of all staff. However, in practice, distinctions among support and higher-level personnel are not clean because many staff are not rigidly divided into these groupings.
Table 5.4 Age Distribution of Employed Population by Sector and Age, 1987

<table>
<thead>
<tr>
<th>Age</th>
<th>25 to 29</th>
<th>30-39</th>
<th>40-49</th>
<th>50+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>National economy</td>
<td>38.2</td>
<td>13.5</td>
<td>15.5</td>
<td>29.5</td>
<td>21.0</td>
</tr>
<tr>
<td>Health, physical culture, and social security</td>
<td>39.0</td>
<td>15.2</td>
<td>14.0</td>
<td>26.7</td>
<td>20.0</td>
</tr>
<tr>
<td>Education</td>
<td>38.1</td>
<td>14.6</td>
<td>15.5</td>
<td>28.1</td>
<td>21.3</td>
</tr>
<tr>
<td>Culture and art</td>
<td>37.5</td>
<td>15.5</td>
<td>16.3</td>
<td>30.0</td>
<td>18.8</td>
</tr>
<tr>
<td>Science and research</td>
<td>39.1</td>
<td>10.4</td>
<td>14.3</td>
<td>30.1</td>
<td>24.4</td>
</tr>
<tr>
<td>Government administration and economic management</td>
<td>38.4</td>
<td>11.1</td>
<td>15.1</td>
<td>22.3</td>
<td>22.7</td>
</tr>
</tbody>
</table>

Source: Institute of Economy in Transition; staff calculations.

Establishment Management

Establishment management appears to have fallen into disarray in post-transition Russia. One serious problem is the lack of basic information about the employment numbers, quit rates, and recruitment patterns referred to above. This data gap may result, in part, from the breakdown of a prior system of establishment control that, some informants contend, had worked reasonably well. If this was indeed the case, astonishingly little of the old system appears to have survived the early transition period. Under the old regime, establishment control appears to have been mainly exercised by the Ministry of Finance of the Union, which approved ministry staffing lists and job grading levels, and occasionally reviewed candidate qualifications. The Ministry’s budget department historically held tight reins over post approval. Descriptions of the typical process involve each minister and personnel department finalizing the staff list, and submission of the total (numbers and budget), with personnel annexes, by the ministry’s personnel department to the budget department in the Ministry of Finance. Within each ministry, a detailed and comprehensive breakdown of personnel was reportedly available, including staff lists for all regional offices. The lists were said to be examined without representatives of the department, and superfluous posts highlighted. Disagreements on staffing levels and on specific salary excesses were resolved through phone calls and meetings for each department, with the ministry’s central personnel department representing regional branches.

Despite the allegedly effective control of numbers through this system, it was discontinued, possibly due to the increasing workload involved and the general systemic collapse of administrative order. Currently, verification of establishments, even within ministries, is difficult, although some ministries’ control departments run periodic spot-checks and audits. As elaborated in...
the following section, many observers have commented that ministry estab-
lishments are deliberately inflated to pay individual workers more with the
surplus cash provided for extra positions. Ministries such as Economy and
Industry are reported to have inflated their establishments considerably. Al-
though no virement between budget heads (for example, into personnel) is
permitted, Ministry of Finance discipline over personnel expenditure allo-

cation appears to have broken down completely. However, there does not seem
to be widespread incidence of "ghost" workers, whereby paychecks are col-
lected by individual abusers who misrepresent themselves as valid payroll
employees or, though actually on the payroll, do not, in fact, report to work—
a problem common in many countries where establishment management has
collapsed.

Whether reports of the USSR's formerly functional system of establish-
ment control can be credited, clearly no mechanism of centralized control or
information management has been at work in post-transition Russia. Person-
nel departments in individual ministries have exclusive responsibility for
personnel record maintenance, which is, for the most part, carried out manu-
ally. Virtually none of the personnel department staff have been trained in
modern techniques of public personnel and information management. Per-
sonnel data are not currently fed into the central state budget, making mean-
ingful wage bill management at the Ministry of Finance level all but impos-
sible.

A Picture of Government Employment

The picture of government employment in Russia presented here is a tentative
one. Some broad outlines are evident, however. Government employment is
mainly federal in nature, but the deconcentrated portions of that employment
are the fastest growing. As in most of the world, the biggest sectoral employers
are health and education. The former is comparatively smaller than the latter,
however, in relation to international standards. Government staff are well-
educated relative to the general population, and they are solidly middle-aged.
For the most part, public employment continues to be undifferentiated, and
data limitations constrain serious attempts at unbundling and therefore
rationalizing the public sector. With the transfer of USSR sovereignty to Russia,
and the introduction of a market economy, significant personnel shifts have,
in fact, taken place throughout government. But, whether staff changes have
been appropriate or sufficient is not clear. Indeed, although the dimensions
of aggregate government employment in Russia broadly conform to patterns
in the industrialized and middle-income world, closer scrutiny of the
functional and regional allocation of staff may reveal shortages or excesses.

Developing sound employment policies and practice is fundamental to
improvements in other aspects of civil service performance. This task is mul-
A New Administrative Order for Post-Soviet Russia?

faceted and faces major obstacles in Russia. First, defining the boundaries of constituent parts of government, critical to getting on with the job of creating a civil service cadre, would be difficult without serious data improvements. Countries facing similar information vacuums have sometimes collected the necessary baseline data through a country-wide government census, under consideration when this publication went to press. A personnel information management system linked to the budget would ideally be installed in parallel with census activities, so that data could subsequently be maintained on an ongoing basis. The technical equipment and training to manage such a system, and the analytic capacity to utilize information for policy formulation and forward staff planning, would have to be acquired at various (centralized and decentralized) points throughout the system. This capacity could be enhanced through early investigative work to assess the types of professional skills currently available in government. Such an inventory could provide a basis for designing sounder civil service training and recruitment policies. It would allow policymakers to make decisions about which parts of government require priority professionalization and whether this should be achieved through recruitment or training. Staff rationalization could also benefit from information gathered through a functional review of government. This would entail a systematic analysis of functions currently being carried out by government organs, and an in-depth assessment of the staffing requirements for performing these tasks.

At this writing, Russia lacked a clear assignment of institutional responsibilities for establishment management. An appropriately staffed and equipped organ to carry out policy functions and oversee routine personnel administration could, in concert with the Ministry of Finance, assume these duties. The prevailing model in many countries, a public service or personnel management office with links to deconcentrated personnel management units in ministerial or regional entities, might well suit Russia’s already decentralized personnel administration.

Incentive Structures in the Russian Public Service: Wage Bill Management and Remuneration Practice

An important element in creating a quality professional civil service is the development of a well-managed incentive system that is affordable and transparent and is able to attract, retain, and motivate good staff. The section that follows first assesses aggregate wage developments, identifying some methodological problems in understanding recent wage policy, and highlights the roots of current remuneration issues in past Soviet practice. It then reviews some key features of the remuneration system presently operating under the transition, analyzes institutional aspects of government remuneration policy, and poses some reform options.
Assessing the Wage Bill: Some Problems

Many of the same data limitations that inhibit accurate assessment of public employment practice constrain wage bill analysis. Budget sphere wage bill figures, based on estimates from the Institute for the Economy in Transition, offer a snapshot of the wage bill but do not permit dynamic analysis of trends over time. In 1992, the budget sphere wage bill, including the military, amounted to an estimated 6.9 percent of GDP. Excluding estimated military wage expenditure, wages as a share of GDP were a significantly smaller 5.2 percent (table 5.5). The important share of wages attributable to military personnel notwithstanding, it would appear that Russia's largest wage expenditure for that year was, in fact, on education (inclusive of culture and art), accounting for 33 percent of all wage expenditures, and 2 percent of GDP. Wages in health (inclusive of physical culture and social security) constituted the next biggest item, comprising 22 percent of the budget sphere wage bill and 1.5 percent of GDP. Estimated law enforcement wages were nearly 10 percent of budget sphere wages for the same year and close to 0.7 percent of GDP. Wage expenditures on the quite small apparatus of the government administration amounted to far less than wages on the other sectors, representing only 0.3 percent of GDP.

Table 5.5 Budgetary Sphere Wage Bill, 1980–92
(billions of rubles)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public health, physical culture and social security</td>
<td>6.1</td>
<td>6.8</td>
<td>10.9</td>
<td>18.4</td>
<td>268.6</td>
</tr>
<tr>
<td>Public education</td>
<td>6.1</td>
<td>6.9</td>
<td>10.6</td>
<td>23.7</td>
<td>328.3</td>
</tr>
<tr>
<td>Culture and art</td>
<td>0.4</td>
<td>0.6</td>
<td>0.8</td>
<td>5.2</td>
<td>77.6</td>
</tr>
<tr>
<td>Science and research</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>1.7</td>
<td>77.6</td>
</tr>
<tr>
<td>State administration bodies</td>
<td>0.7</td>
<td>0.8</td>
<td>1.3</td>
<td>3.5</td>
<td>59.7</td>
</tr>
<tr>
<td>Law enforcement</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>3.7</td>
<td>124.0</td>
</tr>
<tr>
<td>Defense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>310.4</td>
</tr>
<tr>
<td>Total excluding military</td>
<td>13.6</td>
<td>15.5</td>
<td>24.1</td>
<td>56.2</td>
<td>935.8</td>
</tr>
<tr>
<td>Total including military</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,246.2</td>
</tr>
<tr>
<td>GDP</td>
<td></td>
<td>473.4</td>
<td>644.0</td>
<td>1,300.1</td>
<td>18,064.0</td>
</tr>
</tbody>
</table>

Note: The budgetary sphere wage bill overestimates the actual budget-financed wage bill because some sectors include partial financing from non-budget sources.

Source: Ministry of Finance; Institute for the Economy in Transition; staff calculations.

As with employment figures, however, these wage bill estimates may be seriously inaccurate because the identified budget sphere wage bill does not correspond to the budget-financed wage bill. On the one hand, the consoli-
dated wage bill of the defined budget sphere *overestimates* the budget-financed wage bill because of the many sources of wage financing in the budget sphere. As suggested above, an undefined number of employees of the identified budget sphere (for example, many of those in health, education, and research and science) are hired and paid by enterprises. What is more, even wages paid out of the budget may be topped off by other sources of revenue recently authorized through the "new economic mechanisms." Under the provisions of these new mechanisms, budget-supported institutions are encouraged to find commercial sources of revenues (for instance, a school can rent its premises for extra-curricular activities and keep the revenues; a research institution can contract studies, etc.). On the other hand, the identified budget sphere wage bill *underestimates* the budget-financed wage bill because it excludes a number of budget-financed public services.

Moving beyond the wage bill as a whole, analyzing the regional composition of wage expenditures also poses real challenges in Russia. Available data suggest that regional government wage expenditures tend to be roughly similar in nature for different regional entities, with the largest expenditure categories falling in the spheres of education and health, which generally account for about two-thirds of the regional wage bill (table 5.6). Average wages for the budgetary sphere in different regions do show some dispersion. They are highest in the Far Eastern Region, followed by the Northern, West Siberia, and East Siberia Regions (table 5.7). The lowest average budgetary sphere wages were paid in the Central Chernozemniy and North Caucasus Regions. This pattern is roughly consistent with the variance in the cost of living across the regions.

*Soviet Roots of Present Remuneration Practice*

Present remuneration practice in Russia has its roots in the USSR incentive system, in which salary played a relatively minor role in motivating public servants’ performance. For most of the Soviet period, conditions of suppressed inflation signified minimal changes in personal incomes, and thus shifts in salaries and pensions were not decisive factors in public personnel management. Nor were financial incentives germane to career advancement. Public servants’ relatively low salaries also reinforced an ascetic public image, encouraged by communist elites for propaganda purposes. Much more important than salaries was privileged access to goods and services, the volume and quality of which were strictly regulated, though often they were non-formalized and undocumented in character. These in-kind benefits pervaded all spheres of life: food and consumer good distribution, consumer services, public transportation, allocation of housing, public health facilities, holiday facilities, *state dachas* (country houses), health centers, etc. Some privileges were retained by civil servants after their retirement, and many continue to flourish in the present administrative context.
### Table 5.6 Share of the Regional Wage Bill in Regional Budget Expenditure by Sectors, 1992

(Percent)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Education</th>
<th>Culture and media</th>
<th>Health and physical culture</th>
<th>Social security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern region</td>
<td>16.4</td>
<td>36.1</td>
<td>21.3</td>
<td>29.9</td>
<td>12.9</td>
</tr>
<tr>
<td>Northwestern region*</td>
<td>9.8</td>
<td>27.1</td>
<td>7.8</td>
<td>17.3</td>
<td>15.6</td>
</tr>
<tr>
<td>Central region</td>
<td>12.5</td>
<td>28.0</td>
<td>14.8</td>
<td>28.2</td>
<td>13.9</td>
</tr>
<tr>
<td>Volgo-Vyatkskiy region</td>
<td>12.8</td>
<td>30.2</td>
<td>23.3</td>
<td>27.1</td>
<td>11.6</td>
</tr>
<tr>
<td>Central Chemozemniy region</td>
<td>17.2</td>
<td>35.5</td>
<td>25.5</td>
<td>29.0</td>
<td>15.7</td>
</tr>
<tr>
<td>Povozhskiy region</td>
<td>12.7</td>
<td>32.1</td>
<td>17.9</td>
<td>26.3</td>
<td>13.0</td>
</tr>
<tr>
<td>North Caucasus region</td>
<td>15.7</td>
<td>36.8</td>
<td>21.7</td>
<td>29.6</td>
<td>17.9</td>
</tr>
<tr>
<td>Uralskiy region</td>
<td>13.8</td>
<td>30.5</td>
<td>16.6</td>
<td>26.3</td>
<td>13.8</td>
</tr>
<tr>
<td>Western Siberia region</td>
<td>15.3</td>
<td>35.7</td>
<td>20.8</td>
<td>32.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Eastern Siberia region</td>
<td>18.7</td>
<td>37.2</td>
<td>25.1</td>
<td>35.4</td>
<td>15.7</td>
</tr>
<tr>
<td>Far Eastern region</td>
<td>15.6</td>
<td>36.4</td>
<td>22.0</td>
<td>36.1</td>
<td>10.9</td>
</tr>
<tr>
<td>Kaliningradskaya Oblast</td>
<td>15.1</td>
<td>32.5</td>
<td>23.8</td>
<td>31.3</td>
<td>17.0</td>
</tr>
<tr>
<td>Average</td>
<td>14.3</td>
<td>32.9</td>
<td>19.0</td>
<td>29.2</td>
<td>12.6</td>
</tr>
</tbody>
</table>

Total regional budget (billions) 1,253.4 449.8 56.8 315.0 50.0
Regional wage bill (billions) 323.3 148.2 10.8 121.0 6.3

a. The regional wage bill in the northwestern region is surprisingly low, particularly in the culture and mass media sector. It is possible that the federal budget pays wages to employees in the cultural sphere who reside in the St. Petersburg and Leningrad oblasts.

Source: Ministry of Finance; staff calculations.

### Table 5.7 Regional Average Wages by Sector of Budgetary Sphere, 1991

<table>
<thead>
<tr>
<th>Region</th>
<th>National economy</th>
<th>Health</th>
<th>Education</th>
<th>Culture and art</th>
<th>Science</th>
<th>State admin.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern region</td>
<td>676</td>
<td>518</td>
<td>482</td>
<td>455</td>
<td>760</td>
<td>570</td>
</tr>
<tr>
<td>Northwestern region*</td>
<td>525</td>
<td>421</td>
<td>387</td>
<td>365</td>
<td>487</td>
<td>583</td>
</tr>
<tr>
<td>Central region</td>
<td>509</td>
<td>394</td>
<td>369</td>
<td>347</td>
<td>477</td>
<td>541</td>
</tr>
<tr>
<td>Volgo-Vyatkskiy region</td>
<td>475</td>
<td>355</td>
<td>348</td>
<td>292</td>
<td>481</td>
<td>483</td>
</tr>
<tr>
<td>Central Chemozemniy region</td>
<td>467</td>
<td>359</td>
<td>332</td>
<td>287</td>
<td>457</td>
<td>476</td>
</tr>
<tr>
<td>Volga region</td>
<td>477</td>
<td>357</td>
<td>330</td>
<td>264</td>
<td>473</td>
<td>465</td>
</tr>
<tr>
<td>North Caucasus region</td>
<td>468</td>
<td>372</td>
<td>340</td>
<td>301</td>
<td>468</td>
<td>493</td>
</tr>
<tr>
<td>Uralskiy region</td>
<td>539</td>
<td>416</td>
<td>325</td>
<td>328</td>
<td>548</td>
<td>583</td>
</tr>
<tr>
<td>Western Siberia region</td>
<td>675</td>
<td>484</td>
<td>439</td>
<td>393</td>
<td>623</td>
<td>602</td>
</tr>
<tr>
<td>Eastern Siberia region</td>
<td>655</td>
<td>505</td>
<td>443</td>
<td>485</td>
<td>625</td>
<td>594</td>
</tr>
<tr>
<td>Far Eastern region</td>
<td>792</td>
<td>577</td>
<td>540</td>
<td>523</td>
<td>788</td>
<td>612</td>
</tr>
<tr>
<td>Average</td>
<td>552</td>
<td>416</td>
<td>389</td>
<td>353</td>
<td>515</td>
<td>540</td>
</tr>
</tbody>
</table>

a. Excluding Moscow oblast.

Source: Ministry of Labor, Institute for the Economy in Transition.
The Soviet bureaucratic apparatus operated through a system of rigid hierarchical subordination. Individual public servants depended exclusively on immediate superiors for promotions and perquisites, often irrespective of work performance results. This system persisted with only minor changes through the end of the 1980s until, under Gorbachev's economic reforms, inflation accelerated and, for the first time, the curtailment of in-kind privileges for middle-ranking public servants meant that base salaries began to attain greater importance relative to their income.

Inflation spurred the state to embark on a policy of public service salary increases and to install a somewhat rough-hewn pay and grading system. In September 1989, the USSR Council of Ministers passed Regulation No. 803, "On the Improvement of the Remuneration System for the Employees of the State Administration Apparatus," which detailed conditions for the employment, promotion, and remuneration of state administration employees of different levels.

As the disintegration of the Soviet Union accelerated in 1991, state remuneration policy was further altered. In breaking away from the dominant center, various republics launched efforts to secure increased compensation benefits and to augment decentralized autonomy over remuneration policy. These efforts reinforced an already strong tendency toward erosion of centrally established norms and rules for remunerating employees of local administration bodies that had been growing for some time. In response, the state was prompted to reconsider budget sphere remuneration practice as a whole.

It was in this climate that the RSFSR Council of Ministers issued Resolution 436 on August 19, 1991, establishing a unified salary scale for all state administration employees except executive staff. This unified scale represented an attempt to simplify centralized norms. It was based on ten basic grades with differentials of between 10-20 percent among them. Current remuneration practice in the Russian Federation budget sphere continues to be governed by the above regulation, subject to modifications decreed through various resolutions.

Remuneration in the Transition: Current Policy and Practice

Understanding how financial incentives operate in the Russian public service requires an examination of remuneration practice beyond the aggregated level of the wage bill. In its broad dimensions, present government compensation in Russia is characterized by further erosion of centralized norms, continued proliferation of informal and non-wage elements, and the apparent disadvantage of government sphere incentives compared with budding opportunities in the private sector. This section reviews some formal and
informal features of prevailing compensation practice in the budget sphere, with observations about the potential impact of various system characteristics on staff recruitment and retention as well as motivation and probity.

**Overall developments in monetary remuneration levels.** From 1990 to 1992, annual average real wages of budget sphere employees declined significantly, more than both the country’s average (which declined by about 26 percent in real terms; see table 5.8) and the average industrial wage (which was down by just under 19 percent for the same period). Wage decreases in the identified budget sphere varied by sector, the sharpest decline affecting science and research and state administration categories. As a result, the average wages of both sectors—the highest paid categories in 1990, both for the budget sphere and the national economy—fell below the industrial sphere by 1991; the gap widened further in 1992. The disparities between these two categories and other budget sphere branches decreased over the 1990–92 period. During the second half of 1992, dispersion among budget sphere sector wages lessened: the average ratio of budget sphere wages to the minimum subsistence basket ranged from 1.7 (culture and art) to 3.4 (state administration). By the third quarter of 1993, these numbers had fallen to 1.4 and 2.9, respectively. All budget sphere sectors were falling below the national average (table 5.9).

### Table 5.8 Annual Average Real Wages, 1990–92

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>310.9</td>
<td>313.6</td>
<td>252.2</td>
<td>-0.9</td>
<td>-19.6</td>
<td>-18.9</td>
</tr>
<tr>
<td>Health, physical culture, and social security</td>
<td>202.5</td>
<td>216.2</td>
<td>139.2</td>
<td>6.8</td>
<td>-35.6</td>
<td>-31.3</td>
</tr>
<tr>
<td>Education</td>
<td>202.9</td>
<td>201.9</td>
<td>132.4</td>
<td>-0.5</td>
<td>-34.4</td>
<td>-34.7</td>
</tr>
<tr>
<td>Culture</td>
<td>180.4</td>
<td>183.2</td>
<td>104.2</td>
<td>1.6</td>
<td>-43.1</td>
<td>-42.2</td>
</tr>
<tr>
<td>Art</td>
<td>215.1</td>
<td>222.8</td>
<td>126.8</td>
<td>3.6</td>
<td>-43.1</td>
<td>-41.1</td>
</tr>
<tr>
<td>Science and research</td>
<td>251.9</td>
<td>267.1</td>
<td>161.6</td>
<td>-24.1</td>
<td>-39.5</td>
<td>-54.1</td>
</tr>
<tr>
<td>Administration</td>
<td>363.6</td>
<td>280.6</td>
<td>201.2</td>
<td>-22.8</td>
<td>-28.3</td>
<td>-44.7</td>
</tr>
<tr>
<td>Average</td>
<td>296.8</td>
<td>286.6</td>
<td>218.8</td>
<td>-5.4</td>
<td>-23.7</td>
<td>-36.3</td>
</tr>
</tbody>
</table>

Source: Goskomstat, Narkhoz 1991.

The relative wage levels in state administration improved after mid-1992. As shown in table 5.10, average wages in this category progressively caught up with wages in the industrial sphere during the second half of 1992 and became almost equivalent in 1993. It should be noted, however, that this relative improvement resulted from the erosion of the average wages in the industrial sphere rather than an increase in the purchasing power of govern-
ment employees. Average wages in other branches of the budget sphere continued to lag significantly behind the national average, and the disparity between the state administration and other branches of the budget sphere widened. In particular, real wages in culture and art, and in science and research continued to fall behind other categories. The precipitous relative erosion of wages in these categories explains the significant depletion of science and research personnel observed earlier.

Table 5.9 Ratio of Monthly Wages to a Minimum Subsistence Basket, 1992–93 (quarterly averages)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1992</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td>National economy</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Health, physical culture, and social security</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Public education</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Culture and art</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Science and research</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>State admin. and economic management</td>
<td>2.1</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Memo items
Minimum subsistence basket\(a\) $4.73 $10.80 $11.23 $8.50 $11.70 $13.50 $24.00
Average ruble exchange rate 179 134 177 396 580 968 1,028

\(a\) Minimum subsistence basket is based on a methodology derived by the Ministry of Labor with the assistance of the World Bank. The basket includes basic food and non-food items.

Source: Institute for the Economy in Transition, Center for Economic Reform and Center for Economic Performance, Russian Economic Trade, Monthly Update (June 24, 1993); Goskomstat, staff calculation.

Government salaries appear to be moderately compressed. Table 5.11 shows the official salary scale for different parts of the bureaucratic hierarchy of the state administration. As discussed earlier, this scale was established through regulatory decrees for general budgetary sphere employment and for executive officials in the state administration. For the state administration, the compression ratio, that is, the relationship of the highest to lowest pay level, is about six to one.\(^1\)

Remuneration in Russia is further determined by an assortment of prescribed monetary increments above the basic wage including allowances (8 percent of total salary), bonuses (3 months' salary), and "material assistance" (2 months' salary). Together, these can add up to more than 40 percent of total remuneration. The system operates on a monthly basis and distribution is determined by the chief of each government agency, often in consultation
with the personnel department and the trade union committee. In principle, managers have discretion to increase or withhold these bonuses, but in practice they are distributed automatically with proportionate shares adjusted for overtime or hardship duty.

### Table 5.10 Average Wages, 1991–93

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December</td>
<td>Q1</td>
<td>Q2</td>
</tr>
<tr>
<td><strong>National economy</strong></td>
<td>1,195</td>
<td>2,056</td>
<td>3,921</td>
</tr>
<tr>
<td>Real wage</td>
<td>1,195</td>
<td>408</td>
<td>502</td>
</tr>
<tr>
<td>Real wage index*</td>
<td>1.00</td>
<td>0.34</td>
<td>0.42</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td>1,200</td>
<td>2,611</td>
<td>4,676</td>
</tr>
<tr>
<td>Real wage</td>
<td>1,200</td>
<td>518</td>
<td>601</td>
</tr>
<tr>
<td>Real wage index*</td>
<td>1.00</td>
<td>0.43</td>
<td>0.50</td>
</tr>
<tr>
<td><strong>Health, physical culture, and social security</strong></td>
<td>820</td>
<td>1,207</td>
<td>2,680</td>
</tr>
<tr>
<td>Real wage</td>
<td>820</td>
<td>242</td>
<td>341</td>
</tr>
<tr>
<td>Real wage index*</td>
<td>1.00</td>
<td>0.29</td>
<td>0.42</td>
</tr>
<tr>
<td><strong>Public education</strong></td>
<td>768</td>
<td>1,260</td>
<td>2,903</td>
</tr>
<tr>
<td>Real wage</td>
<td>768</td>
<td>257</td>
<td>366</td>
</tr>
<tr>
<td>Real wage index*</td>
<td>1.00</td>
<td>0.33</td>
<td>0.47</td>
</tr>
<tr>
<td><strong>Culture and art</strong></td>
<td>714</td>
<td>1,110</td>
<td>2,340</td>
</tr>
<tr>
<td>Real wage</td>
<td>714</td>
<td>223</td>
<td>298</td>
</tr>
<tr>
<td>Real wage index*</td>
<td>1.00</td>
<td>0.31</td>
<td>0.42</td>
</tr>
<tr>
<td><strong>Science and research</strong></td>
<td>1,008</td>
<td>1,523</td>
<td>2,807</td>
</tr>
<tr>
<td>Real wage</td>
<td>1,008</td>
<td>302</td>
<td>360</td>
</tr>
<tr>
<td>Real wage index*</td>
<td>1.00</td>
<td>0.30</td>
<td>0.36</td>
</tr>
<tr>
<td><strong>State administration and economic management</strong></td>
<td>1,099</td>
<td>1,737</td>
<td>3,453</td>
</tr>
<tr>
<td>Real wage</td>
<td>1,099</td>
<td>349</td>
<td>438</td>
</tr>
<tr>
<td>Real wage index*</td>
<td>1.00</td>
<td>0.32</td>
<td>0.40</td>
</tr>
</tbody>
</table>

* a. Quarterly averages.  
  Source: Institute for the Economy in Transition; Goskomstat Ministry of Labor; staff calculation.

In addition, personal bonuses, awarded on unspecified criteria, can comprise 15–20 percent of the basic wage and are incorporated permanently into the salary. The links between bonuses and improved motivation, and performance, or both, are tenuous, as they are vestiges of the old system in which they were meted out according to political determinants. Bonuses may have taken on more importance lately, as they provide a mechanism to boost re-
muneration levels considerably above the official norms; this is becoming increasingly critical in attracting staff under current economic conditions.

Pay dispersion is another important feature of government pay practice in Russia. Despite official standardizing pay policies, salaries vary significantly among different budgetary sphere entities. Salary dispersion is notable among budgetary sphere sectors, among ministries of the state administration, and between central and regional and among regional organs. Marked discrepancies exist among sectoral salaries, with pay levels (in 1992) ranging from 51 percent of the national economy average for culture and art to 99 percent for state administration.

Table 5.11 Ministerial Pay Scale for State Administration Employees

<table>
<thead>
<tr>
<th>Position</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister</td>
<td>580</td>
</tr>
<tr>
<td>First deputy minister</td>
<td>231</td>
</tr>
<tr>
<td>Deputy minister</td>
<td>494</td>
</tr>
<tr>
<td>Head of department</td>
<td>469</td>
</tr>
<tr>
<td>Head of division</td>
<td>420</td>
</tr>
<tr>
<td>Head of section</td>
<td>346</td>
</tr>
<tr>
<td>Chief specialist</td>
<td>271</td>
</tr>
<tr>
<td>Leading specialist</td>
<td>234</td>
</tr>
<tr>
<td>Specialist, 1st category</td>
<td>186</td>
</tr>
<tr>
<td>Specialist, 2nd category</td>
<td>137</td>
</tr>
<tr>
<td>Simple specialist</td>
<td>100</td>
</tr>
</tbody>
</table>

a. Lowest salary (simple specialist) = 100.
Source: Institute for the Economy in Transition; staff calculation.

Dispersion among different organs within the central state apparatus can also be significant, the uniform tariff and standardized executive pay scales for government ministries notwithstanding. For example, the Ministry of Finance, which has a "long service" payment of 20 percent and a "qualifications" allowance of 20–30 percent, provided chief specialists a monthly income of around 33,000 rubles; the Ministry of Education would pay the equivalent professional around 22,000.13 Even regional branch offices of central ministries, with increasing autonomy and greater ability to claim higher establishments, may, in practice, pay better salaries for equivalent workers. This is in contrast to the official policy, according to which equally graded workers in regions receive salaries approximately 20 percent below federal levels.

Digression from centralized salary policy occurs in local representative as well as executive government. The regional Supreme Soviets frequently exercise autonomy in raising salaries of heads and staff members of both legislative and administrative organs, for example.
This decentralized autonomy may be rooted in the old Soviet pay system, in which public service salaries were reportedly financed by multiple sources, including not only regional and local budgets but also Communist Party and trade union revenues, as well as "subordinated" organizations such as hospitals, enterprises, etc. This proliferation of paymasters reinforces a highly differentiated remuneration system and, while promoting flexibility, also inhibits budgetary accountability.

Non-wage benefits. Unfortunately, analysis of monetary remuneration in Russia tells us relatively little, because salaries historically comprised, and continue to comprise, only a small part of a complex web of remuneration that includes an array of non-wage allowances and benefits, such as those as mentioned earlier. Although these non-wage benefits have reportedly been reduced significantly from former USSR practice, they still contribute to a far more variegated and opaque wage structure than that defined by formal regulations. Non-wage remuneration still includes such items as medical, educational, recreational, and housing benefits, and still provides dachas in some instances. Access to subsidized goods and services also remains an important benefit for public servants. Also, of course, pensions, calculated on the basis of set formulae by the Ministry of Labor and reviewed several times a year for inflationary adjustment, constitute a non-salary item. In general, these benefits are reported to be significantly more generous at the senior levels, such as for ministers and heads of departments, decreasing in quantity and quality as the hierarchy descends.

Although some report that strained state resources and repudiation of the excesses of the previous regime have led to a sharp curtailment of non-wage benefits, others claim that numerous formerly highly-placed officials, many of whom have been displaced from their government positions or demoted, nonetheless continue to reap the privileges of their halcyon days, such as retention of their dachas, access to first-rate medical clinics, etc. Anecdotal reports suggest, however, that where benefits once constituted as much as 90 percent of remuneration for high officials, they have now fallen to roughly 50 percent of the total package. For lower-level staff, indications are that benefits may amount to as little as 10 percent of full remuneration, having decreased from a level of 30 to 40 percent. Whatever the precise post-transition status of non-wage remuneration, it is clearly not what it once was. Thus, many public servants have found themselves considerably worse off than before.

Behavioral impact of remuneration practice. The decrease in non-wage benefits, along with substantial wage erosion, lend credibility to persistent anecdotal accounts of worsening conditions for public servants. Reports of a government-to-private sector brain drain are widespread. Many high-level staff
are said to be leaving the public service in light of the relative financial disadvantage of budget sphere workers in comparison with state sector and private employees.

These unfavorable comparisons were widely reported in interviews, which elaborated some rough dimensions of the problem, showing why the private sector is increasingly able to draw the most talented public servants into its ranks. For example, whereas a public service department head might earn R35,000 per month (figures for March 1993, based on Ministry of Labor and other estimates) and have superior-grade housing and access to a dacha, the head of a significant state enterprise would be paid one to two million rubles and receive numerous benefits. A similarly qualified head of a small private sector firm might receive R500,000 (most likely in the cash hard currency equivalent) and important benefits including excellent housing, a car, and foreign travel (the per diem for which constitutes an important source of hard currency and access to foreign goods); a Deputy Prime Ministry official might receive around R150,000 and substantial benefits.

Unattractive remunerative conditions have not only driven qualified professionals to abandon government jobs; they have also led to moonlighting by government officials in other economic activities and, many report, corruption. The involvement of bureaucrats in commercial activities is said to have begun soon after the transition. Much moonlighting takes the form of consulting to the private sphere or international organizations. Mid-level professionals, such as Ph.D. scientists or economists, can earn US$300 in hard currency for consulting services, and higher-level staff can exceed this level. Such payments amount to many multiples of government employees' salaries (in March 1993, a Ph.D. economist earned somewhere in the neighborhood of US$50 a month). The understandable pressure to undertake lucrative extra-official assignments can distract officials from daily assigned tasks and result in an overextended and ultimately inefficient staff. In addition to these moonlighting activities, bureaucrats also are reported to engage in illicit rent-seeking activities. In a recent survey, nascent private entrepreneurs complained that the payment of bribes to civil servants was becoming a widespread and costly practice.14

Institutional aspects of government remuneration. Institutional responsibilities for government pay policy and administration, once reportedly the domain of the Ministry of Labor in consultation with the Ministry of Finance, have become blurred since the transition to post-communist rule. Technical documentation for revision of pay, and grading and benefit policies, along with drafts of legislation detailing civil service pay proposals, are still produced by the Ministry of Labor, which is also officially empowered to issue decrees on remuneration matters on a par with those emanating from the Presidential Administration. But, in general, policy decisions appear to be
made by a more diffuse set of administrative and political bodies, including not only Labor and Finance but also the Presidential Administration, the Supreme Soviet, and individual budget sphere ministries and departments. In addition, once all-powerful trade unions, whose links to the party have been severed, continue to influence government remuneration patterns through their continued control over social security funds.

Remuneration administration continues, in practice, to be highly decentralized. Within the state apparatus, and at the local and regional government levels, considerable discretion is given to heads of entities and their department chiefs with regard to the award of cash bonuses and allowances and benefits discussed earlier. Some entities also exercise managerial flexibility by using discretionary funds derived from non-budgetary sources, such as reserves or profits, to top up salaries and benefits for employees. For example, the Privatization Agency, the GKI, takes 2 percent of all its sales proceeds to defray its internal expenses, including salaries. This is an application of the "new economic mechanism," promoting commercial activities among government institutions. Similarly, the State Anti-Monopoly Committee uses its reserves to pay market rates to short-term consultants with scarce expertise. In some cases, reserves are generated simply by underfilling sanctioned posts and retaining the budget allocation for personnel expenditures in an unallocated fund. The Anti-Monopoly Committee, for example, intentionally maintains a 10 percent vacancy rate in order to safeguard this reserve. The State Committee on Industry keeps almost 30 percent of positions vacant for similar purposes. Other ministries or departments are also reported to be raising their vacancy rates in order to increase budgetary maneuverability.

Increasingly decentralized managerial autonomy and greater flexibility in remuneration determination might be viewed positively in a structure where policy coordination and information management are present at the heart of the system. In Russia, however, the trend toward decentralization, in the absence of coherent, standardized norms and without strong institutional capacity in the administration's center, has created a chaotic environment in which to develop a national corps of professionalized civil servants.

Wage and Remuneration Management in the New Russia

Wage bill management in Russia has been, for the most part, haphazard. Institutions with clearly assigned responsibility or adequate capacity to formulate wage policy in the context of larger budgetary concerns have not yet been developed. The scarcity of data, moreover, makes robust conclusions about wage trends exceedingly difficult. Although aggregate wage figures suggest that personnel costs impose a relatively weighty fiscal burden, questions about the role of personnel expenditures for particular sectors
A New Administrative Order for Post-Soviet Russia?

(especially social), for different branches of government (regional versus central), and for previously undisclosed parts of government where data are unavailable or unreliable (the military and law enforcement), may be the most critical to completing the picture. Data on remuneration policy are sketchy and anecdotal, but a portrait emerges of a decentralized system in which non-wage elements continue to figure significantly, where wage differentiation is considerable, and criteria and mechanisms for wage determination remain unclear in the wake of the collapse of the highly politicized USSR system. Finally, inadequate financial incentives in the budget sphere may be pushing capable professionals into the private sector, with potentially crippling effects on government performance.

In order to meet the needs of the new Russian state, government remuneration policy and practice would need to be significantly overhauled. Such an overhaul would require a range of measures in order to create a viable system. As with establishment management functions more broadly, institutional responsibilities for wage policy would need to be clarified. Although the Ministry of Finance would likely remain the dominant player for some time to come, links with designated policy-making organ(s) of civil service and public personnel management would have to be forged. It is likely that the Ministry of Labor's role in pay policy would diminish as differentiation among distinct parts of the public sector, and among the employed population as a whole, increases. Whichever institutions assume responsibilities in this area, they would need vastly improved data collection and maintenance, and analytic capacity to provide inputs to the budgetary policy framework. To address these macro-level considerations, a system for monitoring data from central as well as decentralized sources would be required; institutional capacity to monitor remuneration relativities between governmental and private sectors (conducting pay surveys, for example) and mechanisms and methodologies for public sector pay determination would also be needed for ongoing pay policy formulation.

For the prevailing government remuneration practice to be rationalized, much change would have to take place. In addition to introducing a new pay and grading structure, the different sources of financing of government wages would need to be clarified and simplified, and most non-wage benefits would have to be monetized. Mechanisms for discretionary pay awards such as bonuses and allowances, if retained, would have to be tied to clear, meritocratic criteria. Also, some hard policy decisions would need to be made with regard to inter-regional and inter-agency salary dispersion, either by standardizing pay for similar work or making discrepancies explicit and transparent as well as linked to meritocratic or market criteria. Most federal systems elsewhere allow for considerable regional variance with respect to compensation levels, in consideration of standard of living distinctions, labor market differ-
nces, and recognition of sub-national constitutional autonomy. In Russia, such a system would serve to inject predictability into the existing system by providing formal rules for informal patterns already in operation.17

Finally, decisions about how much managerial autonomy the system should devolve to decentralized levels in setting remuneration would be needed. Various successful pay determination models can be found in industrialized country administrations. As ideal types, centralized systems boast better control of staffing levels, but decentralized systems afford flexibility and responsiveness to prevailing market conditions. Most countries operate with some kind of hybrid of the two. To the extent that a truly federal administrative, political, and economic system is rapidly developing in Russia, considerable devolution in tandem with requisite resources and capacity to manage establishments at the sub-national level, as found in other federal systems such as the U.S. or Brazil, might prove a good fit.

Civil Service Management: Creating a Professionalized Government Cadre

The types of employment and pay reforms just discussed—defining the limits of civil service employment, building an establishment management system, and putting in place appropriate financial incentives to attract and keep good staff as well as motivate performance—are essential first steps to creating a professionalized civil service cadre. A complementary package of personnel management tasks is also vital to building an able civil service. This includes the consolidation of a legal and institutional framework for civil service management; the installation of systems for merit-based recruitment, promotion, and career advancement; the development of effective training institutions; the design of new models for financial and personnel management; and new approaches to organizing and evaluating work.

Again, it is important to emphasize that a sound system of civil service management is more likely to evolve out of the status quo rather than from a clean slate. Although a comprehensive review of bureaucratic behavior is beyond the scope of this analysis, this section highlights some features of current public service management practice in Russia.

Russian public personnel practice has not yet emerged from a state of disequilibrium. The system has been operating according to an amalgam of old rules set up under the Soviet system, informal customs, and ad hoc regulations decreed on a provisional basis. Although, at this writing, a civil service law has been passed by the Duma, its impact on personnel procedures was yet to be felt. This section elaborates some of the approaches being used to manage government staff and identifies changes that would be needed to
transform public personnel management in Russia into a modern and fully functional system.

Staffing Government Functions: 
Skills Mix Issues, Training, and Recruitment Approaches

To meet the new economic and political demands it faces, government would need to assess, and undoubtedly adjust, the mix and allocation of skills currently at its disposal. This task is made more difficult because no integrated picture is readily available of what types of skills exist and where they are located in government.

Assessing skill allocation in government would be easier if guided by a real job classification and grading system. Russia's state administration still operates with a fairly simple grading arrangement, as depicted in table 5.10. Introduced under Gorbachev and revised with the recent resolutions discussed above, this system ranges from specialist to minister. It does not include a generalist administrative class (such as those that "run" civil services in countries such as Japan, France, and the U.K., and that might be expected to fill higher administrative or policy posts in those systems). Instead, scientists, engineers, and economists predominate in higher grades, often having ascended to their posts after experience in state enterprises. Thus, a simple examination of the personnel complement of any given ministry or department cannot reveal the actual nature and distribution of professional skills, because professional criteria did not generally predict placement under the old system.

The strong staffing bias toward scientific and technical backgrounds reflects Russia's higher education system and, for some departments, poses a problem for achieving the right human resource balance for government. The State Anti-Monopoly Committee, for example, has reported difficulties in staffing posts that require economic or, in particular, legal expertise—two occupations for which relatively few were trained in the Soviet era but that are in high demand in the transition. To fill this gap, more state administration officials (especially economists) have been recruited from academic or scientific institutes whose links to the policy-making arena were often attenuated under communism.

One route to skills transformation in Russia could be through training. In the early transition, training programs for civil servants were undertaken only on a limited basis, however, without benefit of a well-defined training strategy or a stable institutional framework. Early policy direction and coordination of public administration training had been assigned to Roskadry, created in 1992 but abolished through a recent decree. Roskadry had about 100 Moscow staff and provided the umbrella organization for regional training institutes (formerly Communist Party training schools) that employ nearly
2,000 staff, providing training for mainly regional staff at lower and middle ranks of the public service. In 1994, these institutes were reassigned to the Moscow-based Russian Academy of Management, formerly the premier Communist Party training school, to oversee their activities. Various other academic institutes, such as the Academy of National Economy, have also provided training to senior cadres. In addition, numerous facilities, including many within ministries, have continued to provide “upgrading” programs for government staff. The lack of coordination among these programs, as well as their ties to communist-era institutions, points to the difficulties confronting such efforts to narrow Russia’s skills gap.

Another approach to transforming the civil service skill mix is to replace old cadres with new ones. Although all posts in the Russian public service are, in theory, permanent, recent political changes have reportedly led to administrative purges, particularly of bureaucratic elites with former high party status. The degree to which such housecleaning has effectively emptied government of these personnel is not clear. Reports suggest that although many former communist elites have left, others remain in government, though perhaps in lower or marginalized positions, but, in many cases, retaining the extensive benefits of their former rank. The re-entry of many former Communist Party officials into pivotal government posts has also been reported. Precisely because of their extensive administrative experience in the previous system, those with superior bureaucratic and managerial skills have been permitted to return to public service, due to the tremendous political pressures and performance requirements of the transition. How the widespread presence of former Soviet-era bureaucrats will affect administrative developments in Russia remains difficult to predict.

Recruitment provides another route to skills adjustment. As we have seen, recruitment is clearly taking place within the budgetary sphere as a whole, especially in the state administration. But, the mechanisms for recruitment and appointment, both at senior and junior levels, are virtually all ad hoc, informal, and still very closely associated with practices inherited from the Soviet system, which are driven by informal networks as well as ideological determinants.

The situation clearly presents difficulties for the development of a coordinated, merit-based scheme of staff recruitment. Unlike systems recruiting mainly at entry level, it appears that the Soviet system made extensive use of middle and senior appointments. Historically, access to these positions involved the relevant party committee or Central Committee organization dealing with the ministry. Some ministries (such as Foreign Affairs) would submit almost all staff hiring to the Central Committee for approval. Little paperwork accompanied appointments, and most discussion and decisions took place over the telephone.
Candidate selection in this system was based mainly on political factors. Aptitudes were not explicitly examined, except with respect to ability to meet production quotas or familiarity with relevant political events. Because performance relied heavily on the ability to establish good personal contacts, it was difficult to incorporate discussion of these traits into an official recruitment process. Still, some performance-based criteria do appear to have been applied in selected circumstances; for example, before appointment to very senior administrative positions, officials were usually expected to have demonstrated competence through a prior posting to a demanding job, such as an assignment abroad on a special Soviet project.

Many of these practices remained in force during the transition. Unstable political conditions have, of course, affected senior appointment practice, increasingly carried out largely on factional bases. With no effective distinction between administrative and political appointments at high levels, recruitment into senior posts depends on loyalty to one or another political figure whose power currencies are enhanced by the number of supporters in key bureaucratic positions. Some observe a more pronounced tendency of late toward politicization of top public service positions.

Under the Soviet system, the induction of new, junior recruits into the public service was also dominated by the party and the security apparatus. Junior officials usually entered the state administration after two to five years working in a state enterprise or research institute. In exceptional cases, a small number of top-performing university graduates entered a few key ministries directly, with endorsement of senior university officials. This expectation of a period of practical experience before public service appointment still prevails. The more popular posting choices for new recruits are in the high profile ministries: the Ministry of External Economic Relations, the Apparatus of Government and Administration of the President, Foreign Affairs, and the Ministry of Finance.

As at more senior levels, the recruitment of qualified junior staff has also presented difficulties. The main entry grade into ministries is the specialist level, although recruitment can, in principle, take place at any grade. Applications are reported to have decreased for some ministries and the quality of applicants is widely perceived to be down. As mentioned earlier, reports suggest that older staff forced out of the service during recent changes are now being re-hired to fill this gap. All recruitment and assessment of public service candidates is ad hoc, often conforming to the predilections of individual managers. This is so despite a recent presidential decree calling for rigorous and competitive staff selection. Unfortunately, but perhaps not surprisingly, no mechanisms or details regarding this selection process were elaborated in this decree.

For an effective, modern system of staff selection to be put in place, many changes will have to be made in current procedures. Informal recruitment
mechanisms will need to be supplanted by meritocratic systems for inducting new civil servants both at entry and higher levels. Some government organs are already moving in this direction, especially those newly created entities whose mandates reflect the reforms of the transition. In its efforts to staff an entirely new function, for example, the State Anti-Monopoly Committee has introduced a series of psychological and executive competency tests into their recruitment screening process, although candidates continue to be identified through informal contacts. Prospective recruits are interviewed and hiring decisions are the result of consultation between the personnel department and the head of the recruiting department. Approximately 70 percent of applicants are selected on this basis.

Similarly, the State Committee on Industry, reconstituted with a new mission upon the dissolution of various industrial branch ministries, has had to deal creatively with the problems of staffing new functions. It retained 30 percent of its staff from the former Ministry of Industry, recruited 20 percent more from other ministries, attracted 30 percent from scientific research institutes, and 20 percent from industrial (state-owned) enterprises. The recruitment process has changed dramatically since August 1991. Previously, the Communist Party made decisions about recruitment at the level of department chief and above. Now the committee itself makes the decision, with joint input from the relevant supervisory department and the personnel department. The official application process includes a questionnaire and the submission of a curriculum vitae, as well as personal recommendations and direct interviews of the candidate by the deputy chair, the chief of personnel, and the department head. The personnel department has veto power over all appointments. Positions are not advertised but are announced informally to other relevant organs in the budget sphere, state enterprise sector, or both. Some skills, such as legal expertise, remain difficult to recruit. The State Committee on Industry has, therefore, been paying consultants through their reserve salary fund to contract scarce skills.

Performance Evaluation and Promotion

Once administrative staff have been recruited, the next question becomes how they are evaluated and promoted within the bureaucratic hierarchy. In the Soviet bureaucracy, a combination of informal and ideological criteria were applied to promotion and career advancement. A politicized "performance evaluation" was carried out every three to five years by a special party commission consisting of a senior party representative, senior department heads from the unit (including the officer's manager), and a representative of the personnel department. Although this commission examined both the employee's compatibility with the current post and his promotion prospects, judgments were largely political. Some documentation
was kept by the personnel department on the process; again, personal contacts also figured importantly.

The USSR performance evaluation system has now broken down, but no formal "objective" performance appraisal system has replaced it. In this void, personal contacts have become an even more important determinant of assessment and, ultimately, advancement. As in the case of recruitment policy, a variety of new systems have been introduced on an ad hoc basis. Agencies can choose to promote on the basis of qualifications, and they sometimes also use results of training courses; training every five years is still obligatory, and some training programs have introduced "test centers" that score participants' abilities in various areas, furnishing some empirical basis for decisions. Some organs and municipal bodies have also introduced a new system of psychological tests, administered by special test services, that are taken immediately prior to promotion.

Even so, job performance over the long term receives little consideration. Career advancement is not related to cumulative achievement based on a personnel record. Indeed, few longitudinal personnel files appear to be kept on individuals. Historically, most documentation was of a political nature and maintained by the security apparatus. Some personnel officials keep their own private personnel databases but do not use a formal system. Filling this gap in long-term performance appraisal will be especially crucial to any future staff evaluation scheme.

Bureaucratic Culture and Work Organization: Adapting to New Requirements

Beyond the need to construct new formal systems and mechanisms for civil service management, successful civil service development will also depend substantially on how well the informal behavior of bureaucrats adjusts to the new demands of the transition. Although a sizeable literature studied the behavior of political elites in the USSR, there has been little analysis of the organizational culture of Russia's post-communist bureaucracy. The social and attitudinal norms of administrative cadres discussed below may significantly influence the course of civil service modernization in Russia.

One important determinant of the organizational culture now evolving in the transitional public service in Russia is the social and political background of the bureaucratic class. A persistent question about this group concerns the degree to which it still includes former members of the nomenklatura, who might be expected to try to sabotage administrative reform. Although reports are widespread of a mass exodus of higher-level party officials from the state apparatus into commercial activities, the impression remains, as discussed earlier, that many party officials have now found new positions in the middle ranks of the state administration. Indeed, some observers suggest
that the composition of the new administrative elite, at both regional and central levels, typically mirrors a political compromise that permits the new administrative leaders to be recruited from the supporters of "Democratic Russia" (Yeltsin's political support coalition), whereas technical experts tend to be drawn from the ranks of old party apparatus. It turns out that even those bureaucrats who are holdovers from the old regime, however, have been recruited in the last years of the communist period. Indeed, there appears to have been considerable personnel turnover in the initial phase of Perestroika, ushering in a younger, more reform-minded class of bureaucrats.

In any case, the reincorporation of former communist elites into the bureaucracy may be inevitable and ultimately even desirable for building an effective civil service. These cadres may still have access to scarce information or expertise that is important to government performance. And, comparative analysis of regime transitions predicts that they will undergo successful "bureaucratic adaptation" to new political and economic realities.21

The lingering presence of the nomenklatura notwithstanding, the elimination of the Communist Party's iron ideological and organizational grip on the public administration has left a huge void in the Russian bureaucracy. Under the ancien régime, this grip was exercised through a pervasive net of parallel or double structures that penetrated all government units, as well as through the party's tight control of a highly centralized decision-making system. The breakdown of this system left a confused organizational aftermath in which independent decision making is the exception. Russian bureaucrats have not been accustomed to organizational behavior that is neither control nor directionless chaos. Learning to operate in some middle range between these two poles collaborative planning and delegation of authority requires an adjustment for many government officials.

Russia's post-communist bureaucratic culture carries other handicaps from the past as well. Most public servants continue to view "information" as an instrument of oppression rather than an empirical management tool for policy making, much less a civil right. Clearly, new, more open perspectives on information will be required if government is to mount effective programs to build databases and other informational resources for civil service management.

If today's bureaucracy operates on the basis of pervasive personal networks and informal behaviors, these are widely regarded as the legacy from the Perestroika years of Soviet rule, when government control over public servants deteriorated. During this period, the chains of command and mechanisms of enforcement from the old system began to collapse; familiar political, financial, and ethical practices were disrupted. Forced to live more and more by their wits, bureaucrats worked out new clientelistic arrangements with new patrons inside the new apparatus. Soon, many officials began to regard instructions from line supervisors as advisory rather than mandatory.
With the dismantling of the norms of the previous system, and the lack of a binding social compact based on the rule of law to replace accepted communist practice, individual bureaucrats lost confidence in formal rules or regulations. Instead, they relied on informal cues and personal networks. These networks grew stronger in the legal and institutional chaos following the fall of the Soviet Union. Until late 1995, the absence of a law meant that informal behaviors had free rein. Now, it remains to be seen as to whether formal rules will be able to replace informal ones in the foreseeable future, given the widespread skepticism about the legitimacy and the durability of legal, political, and administrative institutions of the transition.

An Emerging Legal Framework: Empowerment or Constraint?

Changes in bureaucratic culture need to be supported by a solid but flexible legal and regulatory framework for civil service development. The passage of the Civil Service Law in 1995 raised hopes that some of the fundamental issues of civil service design might be resolved. The law was intended to be enabling legislation which would provide the basic legal underpinning for the civil service. Benefitting from exposure to civil service models from abroad and discussions with foreign experts, the legislation made a good start in establishing the essential functions and public service ethos of the civil service corps. But, the law is not without problems, and serious consideration of amendment or clarification through subsidiary legislation or regulation may be needed to ensure that robust civil service institutions are created and maintained.

One of the chief drawbacks of the new law is that it opts for the broadest possible scope and definition of the civil service, including employees of military, judicial, banking, and parastatal organizations. Building a tight, professionalized civil service corps that is fiscally sustainable may require clearer distinctions between a small central cadre—the civil service—and the rest of the public sphere. Such distinctions would need to be stipulated in an appropriate legal framework. The civil service law, as currently framed, does not clearly accomplish this.

The civil service law has other shortcomings. For example, the law is also overly restrictive. It covers a number of civil service management areas that should be dealt with through lesser administrative rules or regulations rather than the umbrella enabling legislation. The law contains, for example, detailed provisions on pay and grading, promotion, and recruitment procedures as well as pension provisions for civil servants. None of these has been elaborated in the context of fiscal or budgetary considerations. Locking in such detailed policies could prove financially costly if implemented. The law also enshrines some questionable practices stemming from past procedures, such as increments based on length of service, which could undermine the possi-
bilities of introducing performance-based incentives into Russia's new civil service in the future. Many of the provisions on remuneration, moreover, appear to be focused on rewarding currently serving public employees rather than establishing transparent, generic standards for the future civil service.

The act has other problems. It outlines an extremely complex, rigid, and steeply hierarchical grading structure, violating the prevailing wisdom that simpler structures are easier to administer and that promotion should be equitable and transparent. Given the predilection already demonstrated in Russia for informal and indirect subversion of formal rules and constructs, this inflexible grading system seems doomed to circumvention from the start.

The law also commits sins of omission or vagueness. For example, it fails to draw clear distinctions between political and administrative appointments. It is also silent on the assignment of responsibilities for various aspects of civil service policy and management, leaving unresolved critical questions of institutional roles. For example, the oversight role of Parliament and the executive branch, the precise attributes of civil service committees, the functions and powers of a civil service court, and the responsibilities of a civil service department have not been clarified.

In sum, the legislation is both too detailed and compromising on certain points of privilege and remuneration, which are better left to subsequent codes, and too loose and non-committal on certain crucial definitions of institutional roles and division of powers that are fundamental to a clear course of reform and civil service development. Although the law responds to a very understandable and admittedly urgent need to clarify rules and behavior of serving state employees, it was advanced before adequate resolution on fundamental civil service model choices had been reached. The danger is that the law could lock in place potentially unhealthy and unworkable assumptions about the way Russia's future civil service should function. The preferred course of action, though one that may be extremely difficult politically, would be to amend and simplify the existing act, leaving in place only the broadest enabling constructs. At the same time, an intensive, systematic investment in developing the more detailed elements of the civil service model could be made. This enterprise might be a high priority on the work agenda of an institution with assigned responsibilities for civil service management and administrative reform. Some issues related to constructing this institutional framework are discussed below.

Institutional Capacity for Personnel Management and Reform

At present, Russia lacks adequate institutional capacity to manage the various essential civil service and establishment management functions discussed in this chapter. Deficiencies can be identified in several areas. The wage and employment data problems have already been identified. The need for an
up-to-date, computerized personnel information management system with links to the payroll and budget framework also has been mentioned. The decentralized personnel departments of most ministries are, moreover, ill-equipped to carry out modern human resource management functions. They keep only minimal files and are staffed with employees whose primary function under the old regime was largely political, clerical, or both in nature.

The main problem, however, is that no institution fully empowered to oversee a national civil service in Russia had, as yet, emerged at this writing. Responsibilities were only loosely assigned to the Ministry of Labor (an inappropriate locus, in any case, in a post-socialist polity), the Ministry of Finance, and (from 1992 until 1994, when it was abolished) the principal entity in the public administration arena, Roskadry. Roskadry was the government organ responsible for public service training and, in theory, for broader administrative reforms as well. But it was a fledgling institution with minimal policymaking capacity and was vastly overstretched by the already considerable weight of its portfolio. Hardly a “first among equals,” Roskadry faced insurmountable difficulties in coordination and oversight of a government-wide civil service reform.

Also pressing is the need for an institutional entity to guide and manage the reform process itself. Worldwide experience in successful civil service reform suggests that the ideal organization to shepherd reforms is a small but highly placed unit, one that is above rather than parallel with other government organs that would themselves be objects of reform, with full technical support and strong political endorsement from the highest levels of government. Such a unit would have responsibility for the formulation of overarching reform policy and would supervise the implementation process, working closely with other relevant organs in the public administration.

For much of the transition in Russia, political and bureaucratic confusion has hindered the emergence of this kind of stable institutional leadership for administrative reform. But there has been some initial movement toward the development of an effective institutional apparatus. A set of four new institutions with responsibilities for public administration replaced Roskadry when it was abolished in late 1994. These included: the Civil Service Department in the Administration of the Government, charged with ruling on high-level nominations and appointments to the Presidential Administration and related institutions; the Civil Service Department in the Office (Apparat) of the Government, with responsibilities for passing on staff appointments for the Council of Ministers and for civil service development more broadly; the Secretariat of the Council of Personnel Policy headed by the First Deputy Chairman of the Council of Ministers and the Chief of the Administration of the President, and having a broad policy mandate focused on issues of coordination among branches of central government, senior appointment policy, man-
agement improvements in the Presidential Administration, and public personnel and staffing issues in the state administration more broadly; and, last, the Department of Civil Service in the State Duma, with responsibilities for the preparation of civil service reform legislation.

With this workable institutional structure solidly in place, the priority task is to formulate a comprehensive strategy for reform, with a sequence of activities for achieving explicit goals over the short, medium, and longer term. A central part of this strategy involves fundamental decisions about the type of civil service model to be developed in Russia.

Civil Service Management: The Transition and Beyond

Developing effective institutions and mechanisms to manage Russia's civil service is a long-term undertaking that will undoubtedly remain on the Russian reform agenda for many years to come. Management of the present public service is in extreme flux and disrepair. Major overhaul will be needed for government to perform its role in guiding the transition. Many systems inherited from the Soviet era, such as those for recruitment, career advancement, work organization, performance evaluation, and training, have either broken down completely or are now invalidated by virtue of their ideological content. Their abandonment has meant, however, resorting to a dysfunctional combination of ad hoc arrangements and ascriptive, personalistic, and often, still quite politicized, practice. Some key requisites for a modern bureaucracy are absent. In addition to the absence of an organizational culture that promotes independent decision making and policy formulation based on analysis of empirical information, various substantive skills, such as those of personnel management, economics, and law, are scarce.

As yet, no civil service model toward which reforms can strive has been agreed upon. This is despite the important advances made of late, such as the passage of a civil service law and the formal creation of a new complex of civil service organs. Nonetheless, an effective, workable legal and institutional framework for civil service management is still to be implemented. Also, cogent, forceful institutional support for the civil service reform process itself is still to be firmly established.

Action on several fronts would be needed in order to begin tackling the myriad of problems elaborated above. First, the reform process itself would have to be institutionalized and adequate political and technical resources placed at its disposal. This means selecting a highly placed unit, fully equipped with staff support and with enough driving power to direct the reform movement. With assistance from abroad if necessary, this unit would oversee the formulation of a rough outline of the civil service model toward which reform might evolve, developing systems for such functions as recruitment, training, career advancement, and establishment and financial management.
This would also be the mechanism for coordinating international assistance on civil service reform. In the absence of such a mechanism, external donor activities have already run the risk of duplication and ineffectiveness.

Next, the legal framework for this model would need to be refined and implemented. The present civil service legislation could be simplified to set out only the broad enabling outlines of the service. Detailed provisions for, say, promotion criteria or the performance evaluation system would then be worked out through preparation of subsidiary codes or regulations as the concrete aspects of their design and implementation were developed.

Reformers would want to address skill mix problems quickly, carrying out an inventory of present capabilities and assessing training needs for the public service. Based on the findings of this analysis, a government-wide training strategy and short- and longer-term recruitment schemes could then be developed. Given the historical emphasis in Russian government service on recruitment of experienced cadres, some counterbalance might be sought through induction and preparation of younger, entry-level cadres. Staff planning activities would have to be coordinated with these programs, and some consideration might be given to the provision of “gold-plated handshakes” for those staff whose skills are inappropriate to the agenda of the new civil service.

With regard to the design of the many programs that need to be mounted, some issues central to the transition from communist rule to a democratic, capitalist-oriented system are worth raising here. First, the chaos of personalism and administrative uncertainty would need to be addressed, if only provisionally. Thus, pending the development of longer-term solutions through the institutional mechanisms suggested above, it might be useful to issue temporary guidelines, manuals, or regulations to guide and stabilize administrative behavior. In contrast to a string of formal decrees, these would offer a loose set of basic rules, specifically focused on getting through the transitional period. This would introduce a sense of common service and encourage movement toward a professionalized cadres system. In the face of understandable but perhaps overstated reactions against the previous system of hypercentralized control, as well as the many other forces favoring decentralization, it is particularly important to retain some standardized norms of behavior and administration, as part of efforts to build a new public spirit ethos and encourage probity among civil servants.

Conclusion

In the turbulence of Russia’s transition from communism to a new democratic, market-oriented order, the existence of a state that can act and react effectively to new and changing requirements is vital. The performance of this new state will depend on, among many things, how well it succeeds in building a
modern, professionalized civil service cadre upon the ruins of the former bureaucratic superstructure. The view adopted here is that the first step in this process is to take stock of the current administrative situation and to begin to break down and sequence the many tasks that will be required to change it. Although the chapter has dealt separately with three major aspects of public administration, employment, remuneration, and civil service system management, these distinctions are arbitrary. They belie what is really an interrelated set of problems that must be solved in concert. All the various facets of current public service conditions will need to be addressed on parallel tracks for the foreseeable future. It would be naive to imagine that the disarray associated with the lack of sound establishment management practice, distorted remuneration patterns, and the absence of any but informal or obsolete systems of civil service management, which all stem from the radical break with the now delegitimized past, could be dispelled without a long struggle. The objective here has been to provide a starting point for this work.

Notes


2. This included all employees of representative (including staff apparatus) and executive branches, as well as the Communist Party nomenklatura, the youth organization (the All-Union Leninist Youth League), the trade unions (the All-Union Central Trade Union Council), and other "public" organizations.

3. In principle, the budget sphere includes the government administration as well as non-productive or "budget-supported institutions and agencies," including those involved in specific sectors such as health, education, culture, science and research, and also federally financed services such as police, fire protection, waste management, postal service, etc.

4. State administration includes local and regional government bodies; the central state apparatus refers only to central government agencies.

5. The figures come from the Institute for the Economy in Transition's interpretation of data from the Ministry of Labor; the Ministry's data come from Roskadry's report, "Analytic Report on Public Administration," authored by Vjacheslav M. Vesselov and Vladimir N. Mikheev (June 1993). Figures on the number of ministries and their employment are extremely difficult to reconcile. Other estimates (Ministry of Labor) suggest that more than 120 to 140 ministries, state committees, and federal government agencies have recently been reduced to around 24 sector-oriented ministries. These
are one of three broad groups of central agencies, which also include state committees (previously of slightly lower status than central ministries, but frequently controlling significant staff and resources), and federal government services, numbering around 50, and including the former Goscomstat, the Meteorological Service, the Safety Inspectorate, and External Intelligence. According to these estimates, these services employ approximately 100,000 people. Historically, they have tended to demand slightly lower educational qualifications on entry than the bodies above, and have slightly lower pay scales. See Parison and Burton (1993).

6. Unfortunately, more disaggregated data on the components of these sectors were not available.


9. The remuneration conditions for these personnel were to be regulated by Ordinance No. 4249-1/1042 of the Presidium of the Supreme Soviet of the Russian Federation and of the Government of the Russian Federation, “On Regulation of Remuneration to Employees of Representative and Executive Authorities,” effective December 1, 1992.


11. This compression ratio does not consider support staff salaries.


13. These are 1993 price levels. See Parison and Burton, 1993.


15. Within the Ministry of Finance, the Department of Financing the Social Sphere and the Department for Financing the State Apparatus are the two primary counterparts in discussions with Ministry of Labor about public service remuneration.

16. The grading structure inherited from the Soviet system was driven by political criteria. Although grades were officially determined by function, in fact, posts were often ranked in relation to the size of the party organization of the organizational unit. Proposals for a new pay and grading structure are put forth in the draft Civil Service Law currently before Parliament. The new structure has 18 grades and appears to be excessively complex, perpetuating problems of the old system such as too many increments, automatic increases, and continued non-wage family benefits. Moreover, it proposes to decompress salaries to what is probably an untenable level, creating an excessively hierarchical structure.

17. For a discussion of these issues, see Guzel Anulova, The Scope for Regional Autonomy in Russia, Oesterreichische National Bank Working Paper No. 12 (Vienna:
18. See identification and preparation reports for the Management and Financial Training component of the World Bank's Market-Oriented Training Project, 1993. Although financing was ultimately dropped for civil service training, analysis of training issues was part of initial project preparation.

19. The absolute dominance of the Communist Party was expressed, first, by the nomenklatura system, in which the party had the sole power to make appointments for all key elite positions in the Soviet Union. This included elite political, administrative, and economic positions, and all other posts. The term nomenklatura refers to a list of key positions and appointments to be made by the higher authorities in the party, and lists of persons appointed to those positions or held in reserve for them. Thus, the party was a gatekeeper for, and the master of, all elite positions in the country. See Hellmut Wollman, "Change and Continuity of Political and Administrative Elites in Post-Communist Russia," Governance 1993: 325.

20. A recent Order of the President on Social Protection of Civil Servants sets out the intention to develop a new contract system for appointing civil servants, entry competition by merit, and a revised appraisal system. A further directive asks ministries to examine which staff should be retained or dismissed over coming months.

References


It is often observed that after 1989 Eastern European countries underwent a dual revolution: they abandoned the totalitarian communist political system during the velvet revolution, and transformed centrally planned economies in the direction of market-based ones. The fate of the GDR is different in that it was exposed to a triple revolution: constitutional and economic revolutions were followed by national unification, in 1990, with the Federal Republic of Germany. This meant a sudden loss of statehood and political identity. At the same time, accession to the Federal Republic offered the possibility of importing institutions, elites, and capital to an extent unknown elsewhere in Eastern Europe.

All public institutions necessary for a civil society and making a market economy work were either automatically in place at the national level or were available to aid restructuring at the sub-national level; furthermore, federal institutions were at hand not just as blueprints but as workable models proven effective over the past 40 years. Thus, in contrast to other Eastern European countries, a constitution was available, or rather, applied to East Germany that enshrined the principles of representative democracy, separation of powers, rule of law (Rechtsstaat), federalism, and a social welfare state. A central government was in place to guide the transformation. In other words, designing new institutions, "reinventing government," was not necessary in the German case.

Among the institutions that became effective in the eastern part of the country on October 3, 1990 was the traditional German public service system. No invention or experimentation were necessary. However, for the East German public service that remained after privatization was completed, which
was functionally necessary for implementing public tasks, the challenge was to integrate former state functionaries into a western civil service system, and to transform their operations into those of a classical European bureaucracy under the rule of law.¹

Contrary to other Eastern European countries, which saw the re-emergence to power of converted communists, East Germany experienced a thorough circulation of the political elite. This was due to the abolition of central government institutions in the process of reunification, and the unique chance of a massive elite import from West Germany, in particular for top administrative and judicial positions.² This supply of personnel from the western part of the country allowed for a thorough purge of the public sector and became, at the same time, a precondition for instilling life in the new institutions.

Finally, capital import, fiscal incentives, and public transfer payments accompanied the massive privatization of formerly public tasks, in particular, the decentralization of the planned central economy, the selling of public property and stocks to private enterprises, and the shifting of the provision of public goods onto private groups and organizations. Decentralization and privatization meant, in the medium term, releasing huge numbers of employees from the formerly all-embracing public service. Privatization of a centrally planned and regulated economy also implies de-bureaucratization, as thousands of former state functionaries either lose their jobs or are changed into private employees. To the extent that private capital is available to buy industries and make investments to strengthen competitiveness, mass unemployment can be mitigated. Alternatively, subsidies to smooth economic transformation can help preserve certain industries and keep people employed. In the German case, both private capital and public subsidies were available on an unprecedented scale. To the extent that unemployment could not be avoided, the West German social security system helped to alleviate hardships, therefore allowing privatization to be carried out in a much more rigorous way than in other post-socialist countries. The bureaucratic privatization model, which was based on a federal government agency (as opposed to the Czech model of distributing shares), meant selling 12,000 firms to the highest bidder, notwithstanding subsidies, and contractual guarantees that jobs were secured. This task was, in principle, accomplished by the end of 1994.

This chapter is concerned with the first two factors: institutional and elite transfer. How were the policies carried through in these areas, and how much did they contribute to the process of transformation in eastern Germany? Despite favorable antecedent conditions, the management of transformation did involve, as we will see, minor adaptations of the western institutional structure, as well as operational problems in the East.
Changes in the Structure of Government

The Federal Republic of Germany is not a unitary state but a system with vertical separation of powers between federal and Länder governments. Local governments, although legally part of the Länder, are constitutionally granted autonomy “within the confines of the laws” (Article 28, Section 2 of the Basic Law); their political organization (constitution) is legislated by the individual Länder. Thus, there is a high degree of variation of formal structures between units on the lower levels of government. Since the foundation of the second German Republic in 1949, however, the trend had been to harmonize not just specific substantive Länder policies, but also the structure of local units towards a core model of organizing subsystems, specific ramifications notwithstanding. The primary effect of unification was territorial enlargement of the country and consequently an increase in the number of subsystems (Länder and local governments).

Federal Government: The Parallel Political Structure

The federal level, which is composed of the federal government and its 15 to 18 ministries and 21,000 public servants in Bonn, remained basically unaffected. Furthermore, federal non-governmental institutions have traditionally been distributed throughout the country; these include some 50 quasi-autonomous governmental agencies and 300 quasi-autonomous non-governmental agencies (predominantly social insurance systems) as well as the five federal courts of justice, the military, federal rails, and postal service. Typical of German federalism is a functional division of labor that delegates the implementation of federal laws and programs to the Länder. With a few exceptions, the federal government does not maintain field offices, but has to rely on the Länder (and the Länder, in turn, on local governments) for the execution of federal policy. Therefore, the administrative structure is characterized by a high degree of geographical, vertical, and horizontal differentiation, requiring strong coordination activities or integrative mechanisms to prevent fragmentation. Traditionally, such mechanisms are represented by formal institutions like the administrative hierarchy, conferences of Länder ministers, joint federal-Länder committees, and the Federal Chamber. Federal and state parliaments, as well as local councils and political party organizations, complement the system by providing a parallel political structure. In fact, the major political parties, which since 1989 have expanded into eastern Germany or merged with their surviving eastern “sister parties,” are among the basic informal integrating forces in the vertically and territorially differentiated system.
New Branches of Government

Two functional areas of the public sector were extended to the new Länder that had either been unknown to the GDR (the labor administration) or at any rate organized on a completely different basis (the judiciary). Both cases are typical of the state transformation process brought about by unification. As a result of the introduction of a market economy and subsequent privatization, a public employment administration was established—something that, according to official doctrine, the socialist state had previously not needed (despite hidden unemployment and concomitant low work productivity). Second, the concept of Rechtsstaat required some reorganization of the judicial branch, including the creation of hitherto completely unknown courts, such as the social and labor, fiscal, and administrative courts. Furthermore, a revenue administration had to be established as a branch separate from the centrally planned economic units.

Remaining Central GDR Institutions

The only central GDR institutions that persisted were creations of the transition period in 1990. The Treuhand-Anstalt was created in March 1990 for the privatization of state enterprises; since July 1990, following the first state treaty with the GDR on the economic and social union, this agency has been under the purview of the finance and the economics ministries in Bonn. The federal agency completed its mission by the end of 1994, though a successor organization remained occupied with monitoring privatization contracts and selling land. Another central GDR agency inherited by Bonn is the Agency for the Protection of the Stasi Records, established in mid-1990 to scrutinize the villains of the ancien régime and to give citizens access to files of the state security service (Staatssicherheit, Stasi). The operations of this agency were specified by federal law in 1991 and the agency staff has since grown to 3,000. Also part of the GDR legacy are two newly established institutions, the Federal Agency for Unresolved Property Issues and the “Debt-Legacy Fund” (Erblackentilgungsfond). These are of no particular interest to the problems treated here, since they concern policy issues and not administrative or public service matters.

Institutional Mergers

According to the principle of congruence that determined the distribution of the GDR heritage between federal, Länder, and local governments, the military, railways, and postal services of the GDR came under Bonn’s control and were merged with the respective West German organizations. Of course, many other central GDR agencies were also merged, for instance the statistical office. But, none had the importance of these three organizations, either in terms of political significance or number of personnel.
Relocation of Federal Agencies to the East

Apart from maintaining a field administration in the policy areas mentioned, a number of federal agencies are in the process of being moved to eastern Germany, according to Article 36 of the constitution, which demands a fair representation of "all German tribes" in central federal offices and recruitment to regional and field offices according to the "homeland principle." In the past, federal agencies were concentrated in three geographical areas: West Berlin, Frankfurt-Wiesbaden, and Cologne-Bonn. By May 1992, there were 305 federal agencies (275,000 employees) in the old Länder and 42 agencies (5,000 employees) in the new, not including Berlin. By the year 2000, the federal government itself, along with 10 ministries and 12,000 staff, is to move to Berlin. Bonn will be compensated by 8,000 personnel, predominantly from agencies presently located in Berlin.3

Adjusting Federal Government and Bureaucracy for the Management of Integration

While the Ministry for Inner-German Affairs had become obsolete with unification, and its remaining staff was absorbed by the Ministry of the Interior, no new department or significant structural changes were needed to cope with the problems of unification; a new cabinet committee was created for coordinating departmental policies aimed at the East. All problems were dealt with by the traditional line organization. This included, in particular, the Ministry of the Interior, which had already coordinated the negotiations with the GDR government4 because of its responsibility for matters of state organization and the civil service, and the Finance Ministry, which was responsible for, among other matters, compiling the federal budget and, since 1990, for supervising the Treuhand privatization agency.

Adjustments to the challenges of unification were made rather in procedural terms. Federal-Länder cooperation was intensified, particularly in the area of personnel policy, and a task force on unification was established in the Ministry of the Interior. The major challenge turned out to be of a financial nature, and the Finance Ministry became strongly involved in debt management. Also, in order to provide the new Länder with revenues, the system of revenue distribution in the federation was re-arranged for 1995, when the unity fund, largely financed by federal debts, was to expire.5

Restructuring Länder Administrations

Along with the import of personnel, Länder partnerships that had been formed between western and eastern Länder resulted in a process of institutional transfer, which involved copying the structure of the ministerial bureaucracy of the western German provincial capitals. Obviously, the pressure in October
1990 to set up bureaucracies for the newly elected cabinets in order to quickly provide imported experts with a familiar working environment, ruled out major reform considerations. This was particularly true because petty technical problems, like finding adequate buildings and modern communication equipment, were paramount. Also, by extending the civil service code to the East and adopting western German budgetary law, the same constraints were established that had previously impeded experimentation in the West.

The 16 Länder governments are composed of 8 to 12 ministries, each under a prime minister (or Bürgermeister in the case of the city states) and his office. Länder government personnel naturally vary in number according to size of the territory, as do state legislative personnel. Likewise, the Länder are differently structured internally and in administrative terms, since they are responsible for their own organization in these respects. Most territorial states have a three-tiered administrative structure, with the ministerial departments on top, general regional authorities in the middle, and the local (self-) government level at the bottom.

Remolding Regional Authorities

There was some experimentation on the regional level in the process of reconstructing the Länder administration. Although some western Länder had previously abolished (in the case of Saarland and Schleswig-Holstein) or reduced the number of regional coordination agencies, the Napoleonic prefect system adopted in 1806 by Prussia is the rule. In eastern Germany, the same pros and cons were discussed as in the West and decisions were made partly under the influence of the partner-Länder. Thus, Mecklenburg-Vorpommmern followed the example of Schleswig-Holstein and abolished the regional authorities, not least because they were strongholds of the communist administrative system. Thuringia and Brandenburg, on the other hand, did not create regional authorities, even though their western partners had them, since it was feared that regional authorities would be perceived by the public as continuations of the 16 unpopular former communist regional agencies. Furthermore, the Social Democrat–Green-Liberal coalition in Brandenburg wanted to leave as much public administration as possible on the local level, where the revolutionary grass-root movements would have a say. Thus, by 1993 there were only an additional 6 Regierungsbezirke (regional authorities) in two of the new Länder, increasing the total number to 32 (table 6.1). According to the German principle of giving territorial specialization superiority over functional specialization in structuring the macro-system, these regional authorities are intended to coordinate sectoral ministerial policies in their respective area. Apart from comprehensively implementing government policy in the particular region, they also have the task of
Table 6.1 Administrative Units in Länder

<table>
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<tr>
<th>Land unit</th>
<th>Regional authorities</th>
<th>Cities</th>
<th>Countries</th>
<th>Municipalities</th>
<th>Municipal associations</th>
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<td>87</td>
<td>237</td>
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<td>137</td>
<td>425</td>
<td>24,371</td>
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<td>329</td>
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---Not available.

n.a. Not applicable.
a. Cities and municipalities not differentiated in official GDR statistics.
b. 189 rural and 38 urban countries.

supervising counties and cities with regard to the legal aspects of their autonomous operations, as well as the substantive aspects of programs carried through by local authorities “on behalf of the Land.”

Restructuring the Local Government Level

Below the regional authorities, which belong to what Germans think of as state administration, is local government, which within the administrative hierarchy is subject merely to legality reviews of genuine local government affairs and substantive supervision in implementing state and federal legislation. The extent to which local governments can engage in self-
administration, by (for instance) launching specific recreational or cultural projects or improving the quality of roads, depends on the revenues available. In the GDR, however, there was nothing like local self-government; local authorities received orders from the regional authorities and were under tight party control.

Merging Local Governments

Besides the 115 cities, there are presently 329 counties in the rural areas, incorporating 14,666 municipalities. The smallest of these municipalities, in most Länder, have come together in municipal associations; these take care of administrative affairs that require professional staff, while policy matters continue to be decided in individual local councils, thus preserving some degree of local political identity in the countryside. As table 6.1 shows, the number of local governments was considerably reduced in West Germany in the process of so-called territorial reforms (1964–1978). The same process of concentrating local government that had reduced, with great political pain, the number of local units in the West from roughly 24,000 to 8,500 within 14 years, had to be achieved in the East in only 4 years, between 1990 and 1994, when the next local elections were scheduled. Compared to standards in the West after the amalgamation, East German local units were far too small to afford a professional public service.7

The corresponding reduction in the number of counties with full-time administrative staff will be politically more painful. On the one hand, county and city administrations were almost the only administrative structures that survived the fall of the GDR and they faced the burden of transition problems from the beginning; on the other hand, the county commissioners, elected in 1990 and frequently part of the political counter-elite, feel legitimized to preserve their fiefdoms.

Clash of Two Public Service Systems

Designing administrative and political structures is one thing, creating an administrative and political culture another. Given the mismatch between the structure and culture of the western and eastern systems, it was impossible to continue working with the public service of the GDR.

Outline of the GDR Public Service System

The characteristic qualities of the state functionaries or public service of Soviet-type bureaucracies are among the most serious impediments to a transformation towards western democracy and a market economy. While other formerly communist countries struggle with designing new civil service
systems that are compatible with democratic regime types and the rule of law, the problem with GDR state functionaries was one of integrating them into the already existing public service of the Federal Republic.

The GDR public service functioned under special political and constitutional conditions. These included (a) a lack of separation of powers that made itself felt in party interventions in the administration and the judiciary; (b) democratic centralism not just in the Communist Party (SED) but also in the administrative branch; (c) all-embracing political control within a de facto single-party political system, and the absence of party competition and even electoral candidate selection; (d) so-called socialist legality (sozialistische Gesetzlichkeit), a phrase that concealed the supremacy of the Communist Party over written law; and (e) the tremendous scope of public functions as a reflection of the centrally planned economy and the absence of a self-organizing civil society. It was these antecedent conditions that motivated the public service policy elaborated below (see the discussions of “Integrating East German State Functionaries” and “Downsizing the Public Service”).

The Training System: Politicized Incompetence

In 1990, it took western German authorities some time to find out how the public service in the GDR was structured, what the pay system looked like, and how members of the public service were educated. Curricula were classified material and were, for the most part, destroyed toward the end of the GDR. The fact that doctoral dissertations were quite often not made available to the interested public is also significant (Bleek and Mertens 1994).

As far as the general administration is concerned, party dogma was the central substance of training; speeches and resolutions of important party functionaries and organs, as well as the history of the SED and the working class, were required areas of study. These subjects made up about one-third of the most important training course in state science (Staatswissenschaft) taught at the Academy for State and Legal Sciences at Potsdam (Akademie 1988). This program of indoctrination is also reflected in the guidelines of the Central Committee of the SED for cadre policy, as well as in the job requirements for “state scientists” with a diploma. Training for non-technical public servants was based on just one, of course censored, book on administrative law. Between 1958 and 1972, there was no juridical training for public administration at all. It was another 16 years before, in 1988, the collected publications of the academy in Potsdam became available for teaching purposes in the GDR.

There was no regular process of qualification for the general administrative branch. State functionaries were taught in party colleges in the 15 districts of the GDR or at the central party university “Karl Marx” in Berlin (or in Moscow), as well as at the Academy in Potsdam; additionally, there was a
training college in Weimar. Leading public functionaries had to attend these party colleges. As one of the professors involved in this kind of education stated: "Training was exclusively for the purpose of political-ideological education and character formation. Professional qualification in terms of preparation for a job or a career did not take place." Nevertheless, university and college training did gain in importance over time. In 1989, 87 percent of the 24,845 "leaders and collaborators of the central state organs" had achieved a university degree and 24 percent a degree from a training college. On the local level, 16 and 20 percent, respectively, of the 126,740 position holders held such degrees. These numbers, however, contain a large share of those working in economic production, that is, technicians. In addition, training quite often took place in open universities and through private study, on the basis of written material prepared by the central institutions. This is due to the fact that degrees were mostly taken only during the career. Of the 34,154 graduates of the Potsdam Academy between 1970 and 1988, 12,264 (roughly 30 percent) were trained in long-distance courses or "organized private studies."

Juridical training was virtually non-existent for higher public functionaries—a reflection of the lack of importance of the rule of law in the GDR. As far as jurists were produced at all, they underwent specialist training to prepare for work in the economy (Halle), as state attorneys (Jena), or as judges and solicitors (Berlin). In 1987, there were 731 juridically trained officials in regional and local authorities, including 37 who worked as solicitors. This lack of legal training is significant not only because it characterizes administrative practice in the GDR, but because the West German system operates in such a highly legalistic mode. In retrospect, Schulze, the former Prorektor of the Potsdam Academy, stated: "The overwhelming majority of the employees in the state organs did their jobs in a disciplined and engaged way. In appraising their professional expertise, however, it turned out that there were considerable differences in and between offices, in particular on the local level. It was obvious that many employees were deficient in terms of legal knowledge and precise application of the law." This "legal nihilism" was also reflected in the fact that party orders suspended written GDR law.

Personnel policy was controlled and implemented by the Communist Party. The movement of employees within the state apparatus, including the party, was centrally controlled. One hundred percent of those in leading positions were members of the Communist Party SED. Partiality for, and loyalty to, the system were the chief criteria of recruitment and advancement. Apart from the quantity of work and the achievement of certain norms of production, conformity with party doctrine and individual orders was the most important performance criterion. The result was politicized incompetence. It should be emphasized, however, that while politicized incompetence
essentially describes the situation in the general administrative branch, this did not necessarily extend to technical agencies (for example, water authorities, environmental policy, construction site inspection, health administration) or the diplomatic and military services.\footnote{16}

On a structural level, the allocation of personnel in the non-technical services was not determined by job requirements or the prerequisites of specific careers, but followed the demands of party control. Thus, apart from the politicized incompetence due to predominantly ideological training, there was a structurally engendered incompetence due to arbitrary personnel allocation.\footnote{17} Technicians ended up in administrative positions and administrators were often faced with leading technical production units. As early as 1973, an internal GDR survey revealed that 56 percent of university graduates were employed below qualification; on the other hand, 41 percent of the jobs that were supposed to be filled by university graduates were actually occupied by high school graduates.\footnote{18}

\textit{Pay and Perks: The Nomenklatura System}

As in all administrative systems of the "real socialist type," pay schemes were not publicized and failed to reflect the true level of material rewards. In the GDR, there were general guidelines for determining wages in the public service. These calculations\footnote{19} allowed for a high degree of discretion within the stated ranges. Obviously, there was room for performance-related pay, whatever the performance criteria happened to be.

The nomenklatura, that is, the special group of approximately 300,000 people who occupied key positions in the state apparatus, enjoyed a number of privileges that were largely concealed from the public. Special housing, access to western consumer goods and motor cars, and travel opportunities were among the most important. The mass of public service personnel, however, hardly rose above the remuneration level enjoyed by the general public. Notably, in contrast to western standards, university-trained medical doctors, engineers, and teachers were hardly distinguished from laborers in this respect. On the other hand, the cost of staple foods and rent was highly subsidized by the state for the entire population. In general, it might be said that nominal monetary income was hardly a problem in the GDR; the most pressing issue was what to purchase with the income, because few high-quality goods were available.

\textit{Political and Judicial Controls}

While political control was comprehensive, both in terms of hierarchical control within the administration and the secret police operations, independent judicial controls were almost absent. There were no administrative courts of
appeal as in West Germany. The only means available to citizens to complain about or challenge administrative decisions was to talk to the very authorities who had issued those unsatisfactory decisions. The extent to which principles of criticism and self-criticism were practiced within the state and party apparatus is unknown. In general, however, any objection to higher-level orders could be interpreted as non-conformity with party guidelines and thus threaten a career. Legal actions by public servants against their employers were impossible. On the other hand, as there was no free labor policy in the GDR, releasing people into unemployment was also virtually impossible. Consequently, non-conformists were removed from office but put into other sectors of the state apparatus, preferably, for obvious reasons, into production functions. Together with the absence of free media, party competition, and free elections, the lack of independent external controls ultimately resulted in pathological learning.

Central Features of the West German Public Service System

The status of the public service (öffentlichcher Dienst) and, in particular, of the civil service 33 (Beamtenum), with all its principles of training, recruitment, and performance, have basically not changed in West Germany since the country’s rebirth in 1949. However, the German public service system as a whole is anything but transparent and remains difficult for foreign observers to understand.

The Dual Structure of the Public Service

There are two classes of public servants: first, those with the traditional public law status of civil servants, who represent not just the administrative elite (as in Britain) but also include, for instance, policemen; and second, the historically younger group of those working under private law contracts, manual laborers, and white-collar employees. Whereas positions that are defined as entailing authoritative capacity in the law and order branches, for example, the police and revenue service, must be staffed with civil servants, members of the second group are predominantly found in social and health services, in research, and in clerical functions, or do physical work with the railways or in local waste disposal. Often white-collar employees, however, are in jobs that imply authoritative acts and that should be performed by civil servants. In 1992 there were, including the new Länder, roughly 2.1 million civil servants of federal, Länder, and local governments (32 percent of the entire public service), 2.7 million public employees (45 percent), and 1.5 million laborers (23 percent), who were most frequently found in local administration and federal rails. Unification with East Germany was, of course, bound to lead to frictions when eastern functionaries were to be transferred to the equivalent western civil service categories without always meeting the various qualification and loyalty
requirements. Most of them, so far, have remained in public employee and laborer status.

Civil Service Principles

The 14 traditional principles\(^2\) that make up the allegedly privileged civil service status are the following:

- Guarantee of the institution of the civil service as such; unilateral regulation of status and salary by law, as well as unilateral individual public law contracts (those needing the consent of the person to be appointed); some restrictions on basic rights (for example, the right to go on strike).
- Protection and support by “the state.” This entails, among other things, that civil servants’ pensions and, in part, health care are paid for out of taxes, as opposed to the social insurance system used by public employees and laborers. Together with lifelong tenure, these provisions are often regarded as privileges. Salaries are not regarded as payment for work done but as a grant that allows the official to have a standard of living adequate to the status of his office.
- Obligation of the civil servant to devote his or her full work capacity to “the state” without engaging in additional professional activities or working part-time. After 1969, part-time employment became increasingly easy to obtain later in the civil servant’s career.
- Duty of political loyalty to the constitution and to observe party political neutrality when in office; furthermore, political self-restraint in public. Deviations from civil service duties are sanctioned according to a specific disciplinary code and in specific formal procedures. Private conflict with the law can also lead to disciplinary actions.
- Career system (as opposed to job staffing for employees) and lifelong tenure; automatic salary increases every two years as a premium to remain in the service, independent of promotion and normal salary adjustments.
- Professional training; recognition of achievement in recruiting (according to education certificates), and promotion.
- Legal protection against the state as employer by access to administrative courts.
- Co-determination-representation of interest in the agency (since 1959) as far as organizational and personnel affairs (hearing rights) are concerned.

Questions may be raised as to whether the public service is still held together by the same strong *esprit de corps* it allegedly had in pre-democratic
times. It is certainly no longer an estate (Berufsstand), as it was considered to be in Max Weber’s day. The most important bond among modern public servants is probably their function, as well as a common professional background of the sort needed for certain public tasks. A shared sense of role seems most likely to be found in the higher civil service ranks, which are responsible for personnel policy and have encounters with the union-dominated councils of their agencies. On the other hand, “class consciousness” as documented in trade union membership varies along status group lines. Although no solid empirical evidence is available, it might justly be doubted whether there is a coherent and uniform sense of role in the civil service, let alone in the entire public service. While a special sense of professional identity might exist in the highest ranks of the service, regularly preserved for civil servants, it might be their function rather than their legal status that is behind such traditional orientations.

Four Career Groups

There are four categories of public servants, corresponding to the hierarchy of educational institutions in Germany and certificates attained there; civil servants and employees are classified in the same way by the official statistics. First, the university-trained higher civil service and equivalent employees (530,000) amount to 15 percent of full-time personnel (table 6.2). The group beneath them, with A-level certificates, the German Abitur that qualifies for university admission, comprises 31 percent. The next career group corresponds roughly to the British B-level and a U.S. high-school degree; with 50 percent it is the largest career group. The “simple service” comprises those who have completed primary school (Hauptschule) after 9 years of attendance; this group has almost disappeared, representing merely 4 percent of full-time civil service and employee personnel. Public Laborers are not required to have finished primary school.

Table 6.2 Salary Compression in German Civil Service, 1992

<table>
<thead>
<tr>
<th>Salary scheme</th>
<th>DM minimum</th>
<th>DM maximum</th>
<th>Compression ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>E: Public service positions</td>
<td>92,495</td>
<td>200,213</td>
<td>2.16</td>
</tr>
<tr>
<td>R: Judges</td>
<td>94,843</td>
<td>192,539</td>
<td>2.03</td>
</tr>
<tr>
<td>C: University teachers</td>
<td>74,353</td>
<td>115,485</td>
<td>1.55</td>
</tr>
<tr>
<td>A: General public service</td>
<td>31,656</td>
<td>102,929</td>
<td>3.25</td>
</tr>
<tr>
<td>A I vs. B I</td>
<td>74,354</td>
<td>200,215</td>
<td>2.69</td>
</tr>
<tr>
<td>A I vs. A 16</td>
<td>74,354</td>
<td>102,828</td>
<td>1.38</td>
</tr>
<tr>
<td>A I vs. A 13</td>
<td>31,656</td>
<td>74,354</td>
<td>2.35</td>
</tr>
<tr>
<td>Compression between top and bottom: A I vs. B I</td>
<td>31,656</td>
<td>74,354</td>
<td>6.32</td>
</tr>
</tbody>
</table>

Source: Annual salary before taxes in West Germany after 30 years in service; status: married, one child.
New Länder 60 percent of western equivalent from October to May 1992; 70 percent from May 1990 to December 1992; 74 percent from December 1992 to July 1993; 80 percent from July 1993 to October 1994; 82 percent from October 1994 to October 1995; 84 percent beginning in October 1995.

Civil servants proper, it has been said, are recruited for a career. The career path in each of the four career groups consists of four grades or offices (Amt) attainable through promotion. The second and third grades are normally reached automatically after a certain period of service, even without outstanding performance; the performance principle, is, in practice, often replaced by the principle of seniority. Furthermore, as a rule, every applicant has to enter his or her respective career group at the initial grade, irrespective of professional experience acquired in the private sector. Exceptions are, of course, necessary and are also made to recruit experts, such as highly qualified chemists needed to design environmental protection regulations. These persons are then accepted into the civil service above their career group entry level after approval by the federal or Länder civil service commissions.

Pay and Remuneration

The public law status of civil servants is also reflected in the fact that their salaries are legislated by federal parliament (before 1969 by the Länder and the federal government separately), whereas that of the other two groups is negotiated. Public service strikes, however, are extremely rare (1973, 1992). Public employee stratification and their wage groups follow the scheme of civil service career groups. It should be noted that the career-salary groups overlap: the highest grade in one career group is also the entry grade for the next higher group. Furthermore, there are so-called climbers, those who manage to move into the next highest career group on the recommendation of their superiors. Furthermore, there are two salary schemes for the higher general civil service (A and B) and special salary schemes for judges (R) and university teachers (C).

The higher civil service is chiefly contained in the group A13–A15, including junior judges (R1), university assistants (C1/C2), and secondary school teachers, amounting to 373,064 personnel (1992), 32 percent of these climbers.

The highest paid civil servants are A16, members of the B-system, and university professors (C3/C4); altogether they amount to roughly 50,000 civil servants, among these 15,000 university professors. A16, for example section head in a ministry or headmaster of a gymnasium, is for the general administrative service. Salary scheme B contains only top positions in the general administration. B11 is the grade of a state secretary, the highest-paid and highest-ranking civil servant. This is, naturally, a very small group in the public service.
Salary Level and Salary Compression

Table 6.2 gives a sense of the absolute level of monetary rewards for the four salary schemes. Thus, a state secretary (B11) would earn roughly 200,000 DM before taxation, whereas a civil servant in the lowest grade, A1, earns 3,656 DM. Of course, the range increases if one compares A1 with the lowest age grade and B11. The salaries do not include pension and other alimentation rights, for which another 25 percent nominal income needs be added to reach wage levels comparable with private employment.

The overall wage compression ratio is 6.32, expressing the distance between A1 (for example, entry as a postman) and B11 (state secretary). This high ratio reflects the social distance in terms of educational background and distance within the organizational hierarchy. Within the higher civil service, however, the distance between A13 and B11 shrinks to 2.69, which is slightly more than the ratio between the lowest position, A1, and entry-level for higher civil servants (2.35). Within the special R, B, and C schemes, the relatively low compression ratio reflects a lesser degree of status and salary differentiation. However, whereas the lower career groups can only increase their salaries by roughly one-third over the course of a career, the higher civil servants, who are at a much higher level of base income, can almost triple (A13 to B11) or at least double (R and B schemes) their salaries through promotions.

Integrating the East German State Functionaries

The two incompatible systems depicted above clashed on October 3, 1990, when unification came into effect. It is worth mentioning that there was no resistance on the part of the East German state functionaries against losing or adapting their status.

The task at hand was basically twofold. First, it was necessary to purge the politicized eastern service, in particular with respect to those people involved as collaborators with state security operations. It was the East German side that, under the influence of citizens groups, had pressed for the cleaning up of appointed and elected public offices.

Second, there was a need to secure the specific expertise characteristic of the West German system and unavailable in East Germany. This task took on several forms, which will be dealt with in the following paragraphs: (a) retraining those who remained in the public service and training a new generation of eastern German civil servants; (b) administrative aid from western Germany; and (c) the import of elites from western Germany to fill the vacancies at the top of bureaucratic and political-executive offices.
Creation of Special Institutions

With German unification looming, a clearing house was set up in the Federal Ministry of the Interior to coordinate western local government, Länder, and federal activities. Chancellor and Länder prime ministers reached an agreement on this issue on August 29, 1990, which became part of the unification treaty. The task force also came up with standards for the size of agencies and policy areas, as well as organization charts. In addition, it was involved in organizing personnel recruitment and training for the new Länder. First of all, however, there was the challenge of determining the empirical status quo of the GDR administration. Owing to administrative sectorization, even the central ministries in East Berlin did not have figures on the size of the public sector.

The institution of Länder partnerships between—in most cases—two western Länder and one eastern Land was established primarily to create organizational structures, to launch basic policy-related Länder legislation, and, in general, to back the new eastern Länder governments. However, administrative aid was also provided within these partnerships by the transfer of personnel to temporary missions to the eastern partner. Consequently, the new Länder administrations came to be shaped by the model of their western partners.

Local government partnerships that originated in the 1980s took on the job of organizing administrative aid between individual western and eastern local governments and municipalities. The number of formally ratified partnerships increased from 68 in mid-1989 to 680 in 1993, if less formal relations are included the number increases to 1084 (Bartella and others 1992). In addition, the confederation of German cities and municipalities organized a personnel exchange for the transfer of temporary administrative aides to eastern local governments. The Municipal Consulting Center in Cologne (Kommunale Gemeinschaftsstelle für Verwaltungsvereinfachung, KGSt) produced local government organization charts differentiated by types of local governments. Finally, the Federal Academy of Public Administration, which serves as the federal civil service training college, broadened its program for retraining eastern public employees.

Prior to unification, under East German law, a central agency was set up for the “administration of the Stasi files.” This agency acquired the status of a federal agency after unification. It is of importance for understanding the destasification process described below.

Thus, some of the reform institutions were already in existence (the Stasi-file agency); some were set up specifically for easing administrative restructuring in the new Länder (for example, the clearing house); others simply broadened their activities (Federal Training Academy) or extended their standard operations to the new Länder (municipal associations and the KGSt).
Most of these institutions are functionally related to the processes discussed below: purge, retraining, and recruitment.

Purge Under the Unification Treaty

The unification treaty ruled which groups of personnel could be dismissed. Those whose jobs became obsolete when administrative units were dissolved, or for whom there was no demand in surviving units, or who were not sufficiently qualified, could receive an ordinary job cancellation. The dissolution of agencies-offices had to be accomplished within a 3-month period, by December 31, 1990 at the latest. In the universities, the period was extended to December 31, 1991, to be preceded by an official evaluation by the Science Council. With the dissolution of the agencies, individual contracts automatically and collectively expired.

For cancellations because of lack of demand in individual cases, an initial deadline was set by October 2, 1992; this was extended, however, to end of December 1993, because the process proved very time-consuming and cumbersome. What is more relevant in the context of this report is the extraordinary cancellation, in the event Stasi activities or offenses against humanity and legality become known. For these instances, there is no deadline; evidence that turns up at any time, even after civil service status has been granted, will lead to automatic cancellation, legal safeguards notwithstanding.

GDR judges, who had been scrutinized by special committees by October 1990, were at first glance less threatened by these regulations; they had been elected under GDR law for a period of only three years. In the long run, however, they, along with all those aspiring for civil service status, had to meet new qualification requirements laid down in the unification treaty. Also, after the date of unification, their employment became probationary until they were finally cleared and appointed under West German law.

Federal Agency for the Administration of the Stasi Files

Approximately 1.8 million inquiries were submitted for scrutiny by May 1993, of which 57.4 percent were related to the public service. Not contained in these figures, for reasons unknown, are an additional 427,000 cases that were submitted between January 1991 and April 1992 from the federal ministries for traffic (railways), postal services, and defense. In 1990-91, that is, before federal legal regulation, 100 percent of the cases filed, as well as completed, concerned the public service. After the first wave of citizen inquiries in early 1992, the agency again became preoccupied with public service personnel. Nevertheless, even when individual citizens began inquiring about Stasi files, the completion of public service cases remained a priority, amounting to roughly 60 percent of the agency’s activities. By the end of 1994, 64,389 cases
of Stasi collaboration were detected; that amounts to 10 percent of the public service proving to be "Stasi-positive." This, as the Stasi agency comments, represents ten times the average of the general population. The agency further predicts that the proportion of those who will turn out to have been Stasi collaborators will remain at the 10 percent level. However, as the agency is not a judicial body, these results tell only part of the story, for not all those found Stasi-positive were also dismissed from public service. The employers, that is, the ministries or local governments in charge of personnel affairs, have to judge every individual case, evaluate the validity of the information, and assess the seriousness of the incriminating behavior. As a result, only about 1 percent of those accused are finally dismissed.

On the Länder level, the most sensitive sectors besides police and schools were the universities and the judiciary. With the rule of law, the demand for judges and attorneys (solicitors as well as defense attorneys) increased considerably. Already, the last GDR parliament felt compelled to scrutinize the juridical branch and purge it of those judges and attorneys who had helped to stabilize the political system with its "telephone law" and politicized judgements. Two-thirds of the applicants to the judiciary were accepted on probation. However, self-selection seems to have operated strongly: most of those who had held exposed functions or had dirtied their hands did not apply. Reckoned on the basis of the former GDR judiciary, therefore, the continuation rate is actually lower. As data from three of the new Länder show, a total of 989 persons were taken over into the new judicial system by February 1992, that is, 42.3 percent of the entire GDR judiciary continued in office.

In the Berlin education sector, of the 19,601 scrutinized teachers, 4.5 percent were found Stasi-positive; however, only 0.94 percent (184 cases) were subsequently dismissed from the service. The situation was slightly different in Mecklenburg-Vorpommern, where of the 27,978 teachers checked 3.6 percent proved Stasi-positive. However, contracts were terminated in only 316 cases.

The Ministry of Interior of the Land Mecklenburg-Vorpommern made inquiries into 10,057 cases, 7,654 of these involved with police. Among the police personnel, 21.5 percent were Stasi-positive. Five-hundred fifty police personnel were fired from the public service; while in another 107 cases the ministry reached agreements to terminate contracts, and 445 cases remained without consequences. A total of 376 cases were still pending, 74 persons had left the public service, and 7 were re-employed.

Looking at new recruitment and elite import, it should be mentioned that in February 1992 the new judiciary already included 680 new candidates. These were either younger GDR jurists who had just completed their university studies or immigrants who tried to enter a judicial career in eastern Germany. This group amounted to 28.0 percent. Very important, how-
ever, and quite indicative of the transitional period, were another 759 jurists on temporary service in eastern Germany (31.3 percent). While the number of old GDR jurists is not likely to increase, it might be predicted that the number of new eastern jurists will grow and the proportion of those from western Germany will be decreased accordingly.

**Training and Re-training**

Professionalization took on three different forms: new qualification; training in specific areas; and further education.

For the training of future public servants, juridical faculties were established at universities in eastern Germany. The old juridical faculties in Halle, Jena, Leipzig, and Berlin were closed and the professors laid off. Seven new juridical faculties were established with the help of western university professors ("flying faculties"); these began to work effectively in about 1992. Also, training for the "elevated" service was only gradually established in the new Länder, which did not begin to create training colleges until after 1991.

An example of training in specific areas are courses offered to personnel in the office for the protection of the Stasi files. Their aim is to teach the overwhelmingly eastern personnel to apply the law regulating access to the files, to observe data protection rules, and to observe general administrative law. In addition, courses were set up for special administrative branches of the federal administration, for example, for the railways and postal services, federal police, Bundesbank, and revenue administration. Further education to qualify for specific civil service career groups, as demanded in the unification treaty, is geared to the two stages of transfer into civil service status: a basic course on "Fundamentals of Administrative Decisionmaking in the Democratic Rechtsstaat" is obligatory during the initial probation period; four more courses must be attended after appointment as "civil servant on probation." Each of the courses ends with an examination.

The institutional settings for these training efforts were western German training institutions within the bureaucracy, mainly the federal academy of public administration in Bonn (Bundesakademie 1993), but also Länder training colleges. Local government associations offered their clientele special courses as well. Attending these courses was still difficult in practical terms during the period when public administration was being established and reconstructed; also, training programs for local government personnel were less numerous in 1992 than those for federal personnel.

**Administrative Aid and Elite Transfer**

In order to keep public administration working in the new Länder, there was a need to fill the vacuum that had been created by the establishment of new
levels (Länder) and branches of government, or through the purge process. Accordingly, a program of administrative aid was organized, resulting in a massive transfer of personnel. By early 1991, a total of 10,000 federal civil servants were helping in the East, 7,568 in federal agencies and 387 delegated to Länder institutions. The five new Länder relied primarily on partnerships to satisfy their demand importing 2,883 personnel. Going East is encouraged by, among other things, excellent promotion opportunities not available at home, and by special incentives for those staying only temporarily; not only is considerable “bush-money” paid, but special personal efforts are to be taken into account in promotions at home as well.

**Elite Import**

By 1995, a new normality was looming in the justice sector: on the occasion of inaugurating the Court of Appeal (Landgericht) building in the Cottbus district, Brandenburg’s minister of justice, himself an import, declared that among the 106 judges of the district only 12 were westerners on temporary mission (“leased”); he had to admit, however, that 52 judges had come from the western part of the country to take permanent positions, and that most of the leading judges still were westerners. In the universities, reconstruction in the areas of law, social sciences, and economics attracted predominantly West German professors, as already observed above. In the administrative branch, the rule is that the higher the position, the larger the proportion of West German imports; thus, almost every state secretary in the Länder ministries is a West German. For example, although they constitute only 27.4 percent of the 1,428 public servants in the ministerial bureaucracy of Brandenburg, the western share amounts to 52 percent of the higher civil servants, reaching a maximum in the State Chancellory (73 percent) and the Justice Ministry (72 percent); eastern personnel still dominate in the more technical ministries like Agriculture and Environmental Affairs. Among the career groups below the higher civil service the share of westerners goes down to 24 percent, and in the simple service merely 3 percent came from the West.

On the local government level, western officials played a less important role; Wollmann reports findings from local governments in Brandenburg and Sachsen-Anhalt that show between 21 and 9 percent of permanent positions held by westerners. This was somewhat problematic, because local government elections in May 1990 had brought into office mayors and county councillors who were mostly candidates of the reformist groups, and administrative novices with experience in other sectors, including the GDR economy; thus, they faced the challenge of getting along with “old cadres” in the administration.
East German Public Service Modifications

Adaptation to special eastern conditions involved free movement within the legal framework of the civil service system and the pay system. This included: narrowing the career mobility of eastern public servants; only slowly transferring people from employee to civil servant status; gradually reducing the number of public employees; and slowly raising the eastern level of pay to the western standard.

Applicants for the higher civil service, including judges, were put on three years probation before being appointed as civil servants-judges proper and being allowed normal status and privileges. Furthermore, they have to enter the career at the lowest grade, notwithstanding exceptions for quick promotion through civil service commissions. Furthermore, mobility in the internal labor market is restricted: those taken over by the various administrative branches will have to stay in those branches and cannot freely move between sectors as their generalist western counterparts may, in principle, do. Public employees, not being entitled to a career, are in any case stuck in specific positions. Of course, they may apply for posts in other administrative branches and might even be accepted. The candidate's specific qualification as a GDR-trained functionary, however, need not be acknowledged and thus, cannot be claimed as an entry qualification. Clearly, it is assumed that eastern functionaries are qualified only for specific technical and administrative activities, and that they lack the broad, juridically oriented expertise that presumably enables western higher civil servants of the general administrative class to move between policy areas in the course of their careers.

Transfer of personnel to the new career group system did not constitute a problem for the two highest career groups; here, the issue was rather one of professional expertise, as mentioned in the previous section. On the lower levels, however, problems of linking the qualifications of individual employees to appropriate grades were not immediately resolved. Furthermore, difficulties arose in acknowledging previous years of service in East Germany as equivalent to professional years spent in the western service. Because of the automatic biannual wage and salary increases, the loyalty premium mentioned above, previous service time is crucial for the individual wage. In early 1991, there was uncertainty in Länder administrations over how to rate public employees, for the trade unions had not yet negotiated on behalf of eastern employees. This problem has since been solved, however.

Salaries and wages (and not just in the public sector) were and are still somewhat reduced by western standards. Initially (October 1990 to May 1992), eastern public servants received only 60 percent of their western German colleagues' salaries. This corresponded to the generally lower costs of living (rents, reduced fees in various sectors). The public service unions, in June 1992, negotiated for the wage gap to be gradually bridged to 74 percent (De-
December 1992), then 80 percent (after July 1993), then 82 percent (after October 1994). After October 1995, the eastern public service were being paid 84 percent of what their western counterparts received. A final date for when equal pay will be established has not yet been set.

Changing Size and Composition of the Public Service

Although precise figures were not available even in August 1990, the first treaty with the GDR on economic union, effective July 1, 1990, had already ruled that public sector size in East Germany had to be scaled down. With more than 2 million functionaries, of whom 300,000 were with police and state security forces, the GDR had a service/population ratio of 14 percent, as opposed to 7 percent in the Federal Republic.44

According to the vertical distribution of tasks in the federation, the federal government inherited the central services of the GDR. However, the governments of the five new eastern Länder were also responsible for civil service policy, insofar as they inherited personnel customarily in Länder service. The same applied on the local government level. Vertical distribution of the formerly centralized public tasks, public property, and public personnel followed the same principle.

The Länder and local governments, like the federal government, decide on the size of their public service. This system, at the same time, operates within budget constraints. Budgets are submitted to parliaments and local councils by the executive, but they are legislated by each level of government and thus subject to political control and influence. The budgets contain exact numbers of public service positions by rank-salary group, status, and so forth—all the characteristics described above. There is, however, some degree of freedom to substitute employees for civil servants (though not the other way around, because of the implications for tenure and pension rights). Thus, it is to the responsibility of the individual governments and parliaments to set priorities between policy areas with regard to manpower, for example, between education and police. Immediately after unification, however, when the 1991 budgets were set up, this system was not yet fully established in the new Länder, since the 1991 budget was only legislated late in the year. In addition, the size and personnel structure were still volatile; consequently, Länder governments in 1991 worked with “global personnel budgets” that gave them a high degree of freedom for reallocations.45 Only in subsequent years were Länder (and presumably many local governments) able to produce proper “personnel budgets.”

This section will analyze changes in the size and structure of personnel in the East, as well as their impact on the German public service as a whole.
The State After Communism

Downsizing the Eastern Public Service

The East German public service was reduced from 2.1 million in 1990 to 1.3 million (a reduction of 37 percent) by mid-1993 (table 6.3). This development took place at all three levels of government. Not included in these figures are people employed in the economic sector, although the GDR state enterprises remained federal property, before being privatized by the Treuhand agency by the end of 1994. By mid-1993, the federal government had managed to reduce its initially 560,000 eastern personnel by 36 percent.

Table 6.3 Public Service in Eastern Germany

<table>
<thead>
<tr>
<th>Period</th>
<th>Admin.</th>
<th>Railways</th>
<th>Post</th>
<th>Total</th>
<th>Länder</th>
<th>Local gov.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDR 1990</td>
<td></td>
<td></td>
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<tr>
<td>FRG 1990</td>
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<tr>
<td>October 3, 1990</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 3, 1991</td>
<td>104,582</td>
<td>232,000*</td>
<td>124,455*</td>
<td>460,037</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June, 1991</td>
<td>84,880</td>
<td>230,538</td>
<td>120,866</td>
<td>432,264</td>
<td>634,468</td>
<td>661,505</td>
<td>1,741,257</td>
</tr>
<tr>
<td>June, 1992</td>
<td>80,716</td>
<td>195,913</td>
<td>104,124</td>
<td>380,753</td>
<td>583,777</td>
<td>655,974</td>
<td>1,620,504</td>
</tr>
<tr>
<td>June, 1993</td>
<td>74,884</td>
<td>182,732</td>
<td>99,270</td>
<td>355,886</td>
<td>556,387</td>
<td>539,055</td>
<td>1,451,328</td>
</tr>
</tbody>
</table>

Not available.

a. Bordeetge-Dr 12/916.3
b. Bordeetge-Dr 12/304

Whereas the public service in the western Länder increased between 1991 and 1993 by 0.8 percent, eastern German personnel decreased by 12.3 percent (78,081 in absolute numbers). These figures for the new Länder are the result of the abolition of agencies, cancellation of individual contracts, pensioning, and the gradual privatization of services. There are remarkable differences, however, between Saxony (-21.4 percent) and Thuringia (-0.1 percent), reflecting differences in situation and policy among Länder governments. By 1993, the difference in administrative density between western and eastern Länder had shrunk from 7.7 to 5 inhabitants per public official. Saxony and Brandenburg, by 1993, had reached the standard of comparable western Länder. At the local government level, the same reduction of personnel occurred, although much more rapidly, between 1991 and 1993 (a reduction of 35.6 percent).

These developments had a slight effect on the overall composition of the unified public service in the federation, as depicted in table 6.3. With 6.7 million (1992), the public service constituted 18 percent of the total labor force. Ignoring the 352,000 employed in semi-state agencies (mostly pension funds) and the 34,000 employed in legally dependent public enterprises, the remain-
ing 6.3 million are unevenly distributed among the different levels of government, with the Länder predominating (40.1 percent), and federal and local governments employing 27 and 32 percent, respectively. While only 41 percent of federal personnel were working in administrative positions, the rest were employed with the railways and the postal service—branches that, after privatization, are excluded from the public service statistics. Thus, it becomes apparent that the Länder, due to their role in administering even federal law, are carrying the burden of administrative work. Along the East-West dimension, the personnel structure deviates from this traditional vertical distribution in that in eastern Germany local governments are the biggest public employers (40 percent), followed by the Länder (36 percent), and the federal government (24 percent). In particular, federal administrative personnel were still underrepresented in 1992.

Growing Part-time Employment in Eastern Länder

Parallel to the general downsizing of the public sector in the eastern Länder, part-time employment grew by 8.3 percent between 1991 and 1993, while part-time employment in the western Länder increased by only 0.6. Overall, however, part-time employment is far higher in the western than in the eastern Länder: in 1991 only 6.0 percent of eastern Länder personnel were employed part time, compared to 20.9 percent in the western Länder; part-time employment was not, in fact, customary in the GDR. In addition, among the federal personnel serving in the new Länder, only 1 percent were employed part time (1992), as opposed to 3.8 percent in the federal service as a whole. This trend towards part-time employment in the eastern Länder represents a process of leveling that brought down the East-West difference from 14.9 percent in 1991 to 7.2 percent in 1993. On the local government level, part-time employment was even higher in the East than on the Länder level; in 1993 it amounted to 17.2 percent, without, however, reaching the level of western local governments (25 percent).

The different developments on Länder and local levels demand an explanation. Whereas eastern Länder along with many of their institutions were newly created, and thus made the policy decision to shift as many public tasks as possible onto the local level ("lean state"), local governments were already in existence prior to unification. Therefore, it is likely that institutions in the making, like Länder ministries tended to prefer full-time personnel, while local governments not only continued traditional operations but, in addition, took on a sort of "garbage can" function with regard to public tasks; for instance, they had to take over the responsibility for administering and renovating public housing. The resulting fiscal stress and the immediate need to confront high local unemployment engendered by privatization might have inspired job sharing as a social policy measure.
Female public servants have typically been employed part time in Germany (30.5 percent of all women, or 88.5 percent of all part-time jobs). Furthermore, over 90 percent of those in part-time employment on the local level, both in 1991 and 1993, were women. Female public service employment is much higher in the East (60.7 percent) than in the West (41.7 percent); this also holds true for full-time jobs. Thus, it is not surprising that there are also about 5 percent more women employed part-time in the East. On the aggregate level, the East German administration is female-dominated.

Public Employment Changes in Specific Task Areas

The distribution of personnel in three main task areas is roughly comparable in all tiers of government. With 934,329 people, the education and research sector is quantitatively the most important. Among these 46.9 percent are women, the highest female representation in all task areas. Second in size is general administration (44.3 percent female), followed by law and order (18.3 percent female). Education and research are 90 percent Länder matters; in the law and order sector, the Länder are equally dominant, with 68.4 percent. Local governments do not stand out in any of these three task areas. Along the East-West dimension, personnel in education and research are relatively more numerous in the East than in the West. Again, all the above figures are for full-time personnel.

There are two task areas where public employment declined considerably in the new Länder: first, central administration (including the revenue service) fell by 33 percent. Among central agencies, a variety of technical agencies were abolished, foremost of these is the old regional authorities of the GDR in Mecklenburg-Vorpommern and Brandenburg. Second, as in Poland (see chapter 2 in this volume), education (which fell by 12.5 percent) was most affected by the policy of downsizing. The only sector where public employment has grown in the new Länder is justice, comprising courts and prisons. Clearly, this is an indication of the inherited institutional and personnel vacuum in this policy area. An even sharper increase might have been expected here, but in 1992 the personnel structure of the justice sector had not yet been settled and many western aides were helping without being reflected in the statistics.

On the local government level, in part, opposite trends can be found: central administration increased by 7.6 percent, as did law and order (16.5 percent). This development indicates that functions were moved downward from Länder administration to the local level. Schools as well as health and recreation shrunk (by 21.3 percent and 10.3 percent, respectively) as did social services (down by 5.2 percent). The institutions affected include local schools, evening schools, libraries, leisure facilities, Kindergarten, and asylums or local hospitals. This is within the overall trend already observed for
the Länder. By comparison, in western municipalities, counties, and cities almost all these indicators point in the opposite direction.

**Personnel Structure by Career Groups**

The higher civil service and equivalent employees amount to only 15 percent of public service personnel. Below this level, the onion-shaped personnel hierarchy broadens to 31.2 percent in career group 3 (the "elevated" service) and 49.7 percent in career group 2, while the career group at the bottom has almost disappeared. In general, employees corresponding to the higher civil service are less frequently found on federal and Länder levels; this is not the case, however, in local government, where civil servants amount to only 28.3 percent in the already tiny higher service group.

The career groups are unevenly distributed among the three tiers of government: the higher service peaks with 21.8 percent in the Länder administrations (where 70.2 percent are civil servants). Of course, this is not true for the eastern Länder, where the highest career group is 10 percent smaller, and contains only 9.3 percent higher civil servants. Within the federal administration, however, the East-West difference is negligible.

**Female Employment**

Pulling all these threads together, 3.2 million employees of the total public service (6.7 million) are women, that is, roughly one out of two. The eastern public service is, in fact, female-dominated. Furthermore, 70 percent of the women are employed full-time and 30 percent part-time, with the latter constituting the majority of those working only part-time. In addition, females, constituting only 20 percent of the civil servants, are underrepresented in this status group, which makes up 32 percent of the entire public service. They are found among the employees (64 percent). Women are also underrepresented among the federal administrative personnel (19 percent) and the railways (18 percent), although not in the postal services (42 percent). Female employment is equally typical of Länder (48 percent) and local governments (60 percent) because of their roles as teachers and their work in the social services, respectively: almost every second person employed in education and science is female, and among the social service personnel of local governments, women are in the majority.

As to career groups (civil servants plus equivalent employees), women are mostly found in the less-qualified ranks; women are grossly underrepresented in the higher public service (21.7 percent), but to a lesser degree in eastern Germany (33.1 percent) than in the West (19.6 percent). In the second lowest group, however, women are in the majority (54.3 percent), most prominently again in eastern Germany (78.3 percent), where they actu-
ally dominate all career groups except the higher service. Naturally, this is more the case on the Länder and local government level than in the eastern federal administration (with its civilian military personnel and border police). Because of generally higher female employment in the eastern service, women in all career groups are, relatively speaking, more strongly represented in the eastern than in the western part of the country.

Personnel Expenditures

Personnel expenditures increased in all budgets. The federal government, although always the biggest spender, carries, however, the smallest burden of personnel costs. Owing to the huge amounts of money transferred eastward, the relative share of personnel expenditures in the federal budget went down by 1 percent between 1991 and 1994 (to 11 percent), although the number of personnel had grown. At the same time, personnel expenditures in the Länder have gone up by 1 percent in the West (to 40 percent) and by 5 percent in the East (to 24.5 percent). Personnel expenditures are the single most important item in the Länder budgets. Local governments, however, managed to decrease personnel costs (with a reduction of only 1.3 percent), though less so in the West. Due to the 35.6 percent reduction of their personnel that had already taken place by 1993, local governments in the East reduced their share of personnel expenditures by 5 percent to 30.7 percent in four years.

The 15 percent gap between eastern and western Länder in this respect is a reflection less of personnel size than of the composition of status groups. While pensions amounted to 23 billion DM (1992) in the old Länder, only 445 million DM were spent on pensions in the new Länder. This is because the number of newly-appointed civil servants who have already retired is, naturally, very small in the new Länder, while retired GDR state functionaries get their pensions from the general, semi-state insurance fund and not out of current budgets. The new Länder, aware of the increasing pension load in the West, are trying to limit civil service status to the essential task areas where authoritative executive acts are undisputable and civil servants, according to Article 33, Section 4 of the federal constitution, cannot be avoided. In other areas, particularly in the education sector, the new Länder are keeping people in employee status.

To conclude, the overall personnel structure of the public service was significantly affected by reunification and by the integration of the eastern public service, not just quantitatively but qualitatively as well. Lagging civil service appointments, large part-time employment, a relatively high percentage of females, and an oversized education and research sector have put their stamp on the post-unification personnel structure. Some of these traits might be transitory; others, like the lower proportion of civil servants, are likely to
continue, and may indeed anticipate developments that are gaining ground in the western part of the country as well, in particular on the Länder level.

**Adjustment of Bureaucratic Behavior**

Little objective evidence is available as to how the attitudes and behavior of eastern German public servants have adapted to the new circumstances. What mostly gain public attention are media reports about behavior that deviates from western standards of normal administrative practice. Actions that conform to these norms, obviously, do not deserve mention. What has recently been scientifically investigated, however, is public opinions toward the new system; evidence regarding trust in institutions and satisfaction with official conduct will be examined below.

**Response to the Legal Environment**

For the most part, public administration and the judiciary in eastern Germany appear to be functioning in a normal, western way. Nevertheless, there is some anecdotal evidence that under special circumstances, and particularly during the first years after unification, eastern officials had adaptation problems.

Problems created by the introduction of the rule of western laws were not just of a qualitative nature, but also arose abruptly in quantitative terms. Besides the need to deal with unemployment and the problems engendered by social disintegration and individualization, phenomena common to other Eastern European countries as well, high political priority was given to the restitution of property to people disowned under communist rule (or even of Jewish property expropriated before 1945 by the Nazis). At the same time, it was felt that cumbersome property restitution procedures would be an impediment to private investment. Thus “flying offices” came in from western Germany in busses to help sort out old claims. Furthermore, the GDR, like other communist countries, had been very careless with waste disposal and had polluted many properties; not merely did these problems have to be quickly investigated, but the financial burdens placed on new owners due to strict environmental policy regulations also had to be, if possible, alleviated. Concomitantly, a great deal of public investment needed to be planned and decided on, particularly by local governments, since general grants and specific grants (“Program Take-Off East”) were pouring in from the federal budget in order to stimulate the economy. All this, and much more, put the eastern authorities in an exceptional situation with which western administrations, too, would have had difficulties coping.

By unification, almost the entire stock of public programs, most of them legislated, immediately became valid in the eastern part of the country. Ap-
plying the complicated tax law, for instance, created tremendous problems. In this respect, the situation might have been less problematic in other former Soviet Bloc countries, where new programs and regulations were only added incrementally or replaced old ones.

A lack of knowledge of law led not just to inappropriate administrative acts, but made officials feel insecure when interacting with citizens. The police, for instance, tended to look the other way in complicated situations, rather than intervene when problems occurred. Examples of inadequate police response became notorious during the neo-nazi riots in the new Länder in 1992–93.

Even when the new laws were known, they were occasionally not observed. For instance, in the unification treaty it was explicitly stated that, as a rule, conscientious objectors to military service have to be heard before magistrates only in exceptional cases, which need to be explicitly justified. Using a more liberal norm, cases were to be decided on the basis of the records. Nevertheless, eastern authorities in Potsdam (Brandenburg) kept working, in 1995, according to GDR procedures that required individual questioning.

Legal discretion and unspecified legal terms, which give some elasticity to administrative practice, tended to be selectively interpreted in specific instances. Qualitative interviews with eastern German judges and attorneys (as well as with western imports) revealed a special attitude in dealing with increased criminal activity. Eastern jurists favored a broad understanding of what constitutes “disturbance of public order” when coping with political violence. They also were critical about the defendant’s right to withhold information. These attitudes can be interpreted as survivals of a value system that put societal demands before an individual’s basic rights vis-à-vis the state. On the other hand, the predominance of western personnel in the judiciary and a reported low average age of judges is occasionally regarded as a deficiency even by western jurists, as this leads to a lack of understanding of specifically GDR culture and conduct.

Ultimately, a hard indicator of the quality of administrative decision-making behavior in eastern Germany might be statistics about administrative court procedures. Compared to data from western Länder, or indexed on the basis of population density, such measures could tell us something about the willingness of eastern Germans to make use of their civil rights, and (more importantly for my purposes here) about the quality of administrative decisions in terms of legality and efficiency. Unfortunately, such statistics are not available at present, since most administrative court appeals are settled in lower-level courts. But, it is significant that appeals passed on to the federal administrative court, have increased from roughly 3,000 in 1990–1992 to 4,483 in 1993 and 4,278 in 1994. This increase is explained by an estimated 25 percent increase in complaints coming from the eastern part of the country. In absolute numbers, however, East German cases rank far behind those in the
West: in 1993, only 309 cases were referred to the federal administrative court and in 1994 just 386 cases. Most of these (308 in 1994) concerned matters of property attribution in the course of privatization and restitution of confiscated property. By way of qualifying these figures, it has to be mentioned that many cases are brought before the court by western solicitors and often the complainant is a not a citizen but a public authority, for instance a local government fighting Land or federal government over property restitution or planning procedures for state and federal roads.

As to internal bureaucratic behavior, a lack of delegation on the side of leading local administrators was observed; often recruited from the former economic conglomerates or elected without any managerial experience, these officials often feel insecure but are forced into making decisions by their subordinates' inclination to shift decisions upward in the administrative hierarchy.

However, this does not necessarily mean that leading administrators lack courage to make decisions; rather than indecisiveness, the problem is that, as one western administrator reported, they lack knowledge of the law. This particular administrator loathed this type of "progressive-naive ossi" (a nickname for easterners). Decision-making style, it was reported to the author, also frequently displayed traits of the GDR administrative culture, in that over-sized meetings are held on relatively unimportant matters. As one westerner commented, a certain legacy of collectivism plus "round-table" experience appears to remain, without, however, producing the innovations otherwise typical of teamwork. Collectivism is still observable in the celebration of birthdays in the office, although this takes place (as another westerner observed) with much less alcohol than previously.

At least during the first years after unification, the loss of job security generated a high degree of obedience among lower public servants, and reinforced, as it were, the inherited authoritarian behavior of GDR officials towards citizens. Extreme conformity to rules drove out any consideration of rational decisions. In the time since, public servants may have become a bit more relaxed.

Hellmut Wollmann maintains that eastern Germans have a special chaos competence that was learned under the conditions of scarcity and the black market that prevailed in the old system. A lack of predictability under the old system could well have generated a special ability to cope with unstructured, even chaotic situations. It should be added, however, that a proposition like Wollmann’s is not free of value judgements; in everyday language, this chaos competence might also be classified as arbitrariness or opportunism.

In fact, participant observers reported a cleavage in administrative culture between the western dominated Länder ministries and local governments. In the ministries, however, they observed few differences between eastern and western administrators; professional specialization in specific
fields seemed to be a more important criterion for explaining attitudinal differences.

Negative reactions to western advisers are frequently and increasingly observed. Both western arrogance (better wessis) and growing self-assurance in the new Länder seem to have contributed to increased sensitivity. The relatively higher remuneration of western advisers (100 percent salary plus "bush money") also stirs feelings of relative deprivation. Social acceptance of western Germans who had gone East was declining. Whereas in September 1990, that is, shortly before unification, 44 percent of East Germans held eastward migration of "civil servants, managers, and entrepreneurs" fully desirable and 13 percent partly desirable, by November 1992 those welcoming western aides had dropped to less than 20 percent. The level of criticism depended on whether the interviewees had experienced status losses after 1989, voted for the converted Communist Party PDS, or both. Possibly, the responses reflected more western management of the eastern economy, potentially perceived as economic destruction by the Treuhand, than the constructive role of western public servants. Consulting in eastern Germany was sometimes uncoordinated (and possibly contradictory); practitioners talk of "consultation orgies." On the other hand, quite a number of aides were sympathetic with what they found in the East and occasionally even stayed on, moving into permanent positions. Yet East German reaction to developmental aid was mixed in the offices as well; often wessis were regarded as arrogant, lacking in understanding, and domineering.

Overall, however, there seem to be no serious problems as to the application of law, at least not in the Länder administrations. Here leading positions are, in any case, mostly occupied by western civil servants. On the local government level, the situation may be slightly different. As to East-West animosities, these should not be overstated. Conflicts would also arise between Bavarian and northern German public servants if they were similarly bound together. In general, there is in Germany, since unification, a longing for harmony and a tendency to level out social differences between East and West. In federations, to be sure, regional differences in culture and dialect are common. Possibly, some of the casual reports reflect prejudice and local bias.

Response to Political Environment

Research carried out during 1990-91 on the role understanding of higher civil servants in West Berlin and their counterparts in the eastern part of the city revealed that eastern administrators, immediately after unification and with job uncertainty looming, showed less tolerance for pluralist politics, adhered more to a "politics vs. administration" distinction, and tended to be more technocratic than in West Berlin. As always, care should be taken in
generalizing these findings over time; by 1996 attitudes may have adjusted to what is normal in the West.

Incidents were reported where elected officials, such as county councilors, tried openly to bring party political considerations to bear in dealing with state administration. For instance, an elected county councillor belonging to the party in the Land government talked to civil servants in the ministry as though they were his party comrades, as in the old days, thus disregarding their obligation to observe neutrality in office. The lack of a distinction between party and state that underlies this behavior is reminiscent of an occasion, in early 1991, when eastern heads of post offices led their personnel in demonstrations in the streets, with union banners, because the postal workers union was demonstrating for wage rises in Bonn. Consciousness of the conflict between office duties and private collective action and how to resolve such conflicts was, at that time, underdeveloped.

In general, it might be assumed that adaptation to the political environment would be the least problematic issue, for the old party structures, by and large, persisted. Patzelt reports that the role understanding of state legislators quickly adapted to that of their western colleagues. Possibly, given their ingrained authoritarian outlook, eastern administrators simply exchanged their old rulers for the new, parliamentarily legitimated leadership. This might be all the more the case since intermediary political institutions have not yet emerged from civil society; thus, there is no lateral pressure to interfere with hierarchical relations.

On the local government level, where the eastern constitutions have broadened measures to encourage the direct citizen participation practiced during revolutionary days, there are a number of instances when citizens became angry at the way public affairs were being managed; in Brandenburg, plebiscites were prepared, successful in one of the five cases to depose Burgrafiers, some of them western Germans.

When it comes to political behavior, eastern particularities have to be considered against the background of a widespread GDR identity. This, after all, resulted in roughly 20 percent of the electorate voting for the converted Communist Party (PDS), with many of these voters seeming to be in public service. In comparison to other Eastern European countries, however, 20 percent of the vote going to former communists is not dramatic (the same might have been expected after 1945 if the Nazi party had been allowed to campaign). In Poland, Hungary, or Slovakia, converted communists have again taken over the government. Therefore, the eastern German situation has, once more, to be put into perspective; it should be remembered that, on the national level, that is, in Bonn, there are no eastern German administrators in leading positions nor any former communists in the federal government. Consequently, on this level the classical problem of political control versus bureaucratic self-control or emancipation is absent.
Evaluation of Institutions by the Public

How are public institutions perceived by the citizens? In West Germany, from 1984 to 1990, the Federal Constitutional Court, the justice system in general, and the police ranked highest in citizens' esteem, while control and input institutions like the media and trade unions were held in relatively low regard. Bundestag and federal government, as well as the churches, occupied middle positions. Thus, between 1984 and 1990 the majority of institutions were, within this ranking, positively evaluated. Trust in institutions in the five new Länder, between 1991 and 1993, was, not unexpectedly, below the western German level. Only the churches, the press, and the trade unions were on an even level with western rankings. Justice and the police, in 1991, were close to being mistrusted: on a scale ranging from plus 5 to minus 5, the police achieved a mean value of 0.2. In 1991, only television was better appreciated in the East than in the West. More dramatically, however, trust in institutions decreased further in the East by 1993, with only the police improving. Outspoken mistrust reigned towards Bundestag, federal government, and (since 1992) political parties, as well as churches and the press.

However, the level of trust in the old Länder also went down during this period. On average, all institutions lost 0.4 trust points; in particular core institutions like the Bundesrat (0.6), Bundestag (0.9), and federal government (1.0) suffered from a loss of popular confidence. Political parties, in 1993, were overtly mistrusted (-0.5); a clear expression of the general weariness with politics then observable in the German public. In western Germany, however, it was only the political parties that were overtly mistrusted, whereas eastern Germans in 1992 and 1993 mistrusted five institutions.

Most recent data from another survey show that trust in institutions, in both parts of the country, increased between 1994 (an election year) and early 1995. Trust is now only marginally higher in western than in eastern Germany. On a 7-point scale (7 = strong trust), eastern Germans, too, give the judiciary the highest marks (for example, the new labor courts with 4.3 points). Police (4.3) and Länder governments (4.2) as well as local governments (4.1) occupy medium ranks. Even the new labor administration is positively evaluated (3.8), although unemployment in eastern Germany is still at the 15 percent mark. The agency for the protection of Stasi files ranks lowest of all public institutions (3.5); it fares better, however, than employer associations and big business (3.2). Furthermore, trust in that institution is slightly higher in the East than in the West. Thus, after initial mistrust, eastern Germans are now evaluating the new institutions, in particular the judiciary and public administration, rather positively.

Another indicator is the improvement of official-client relations since 1993, when the survey was first undertaken. By early 1995, general satisfaction
with the way offices are working and perception of officials as friendly and helpful had even surpassed the attitudes in western Germany on this score. There, by contrast, official-client relations had deteriorated, for whatever reason, since 1980, when the survey was first done. In 1993, the attitudes of eastern Germans towards administration had been slightly less positive than in the western part of the country; by 1995, however, things must have considerably improved, for now eastern attitudes were more positive than in the West.

If trust in institutions has, as of 1995, approached the western German level and is probably considerably higher than in other countries of the former Soviet empire, this can be attributed to a number of underlying factors, such as the quality of public programs, party preference, or the perceived economic situation. An additional explanation of the improved general acceptance of institutions might be the attribution of legitimacy and effectiveness to the people at the top of these institutions. Perhaps, in other words, it is also the people who represent institutions and not just the perceived function of these institutions that are being evaluated by the citizens. New institutional elites, who are perceived as not connected with the ancien régime and, moreover, as being competent, certainly contribute to the positive image of the institutions they lead, as it was precisely in the most positively evaluated judicial and administrative institutions that massive elite transfer took place. New people at the top effectuate the operations of these institutions even when the rank and file members served under the ancien régime. It would probably not be overstating the case to argue that elites, perceived as legitimate, professionally experienced, or both, are a necessary, although not sufficient, condition of growing trust in institutions.

Notes

6. Thuringia settled for a central administrative agency with three regional offices (Becker, 1993).
The State After Communism

20. Mauz and others, Art. 33.
23. All data for unified Germany, 1992; laborers and part-time employment are excluded from the percentage for lack of data.
24. This uniform length of all careers does not necessarily fit the job differentiation; occasionally job requirements are the same in two neighboring ranks or career/job profiles may have more than just four degrees. This uniformity had also been criticized by the civil service reform commission in 1973. The classical conception is that each rank/grade corresponds to a specific “office” in the hierarchy; likewise, grades are related to official titles. Empirically, thus, offices within career groups and even between career groups are often difficult to distinguish. In this respect, the grading system of employees is very precise and elaborate, thanks to union influence.
25. The B-salary system is constructed in a different way from the A-scheme: the number of years in the public service does plays no role in B-salaries. Most position-holders have reached the maximum number of service years anyway (30 years). At the same time, the B-salary system opens the opportunity to recruit for certain positions younger people who would not enter the higher civil service at grade A13, which is occasionally not competitive on the labor market.
32. By July 1, 1994, 1,164 western judges and attorneys were still working in eastern Germany (on leave or by order); the official figure for January 1992 was 838; cf. Die Woche im Bundestag, May 17, 1995, 4.
33. Leptien (1994, 15) reports that, of the 750 jurists in eastern universities, 75 professors and assistant professors were able to continue in their jobs.
34. The juridical faculty of the Humboldt university in Berlin succeeded in preventing the abolition and professors partly continued their institutional membership.
35. It is worth mentioning that private training facilities were also created for jobs related to the public sector. The German Solicitors’ Academy, by autumn 1993, organized 104 training courses in the new Länder with 5,000 participants (Leptien 1994, 18). The number of solicitors and attorneys had increased tremendously, from
600 under GDR regime to 2000 by the date of unification. Many an ousted jurist, in fact, had established himself as a private solicitor; owing to a 1992 federal law, however, these people are now also being scrutinized.

44. Keller and Henneberger 1993:179.
52. Wollman, 1996.
53. Fourteen percent in Sachsen-Anhalt and 20 percent in East Berlin; "just as popular as Turkish laborers," the author commented (Grundmann 1994, 36).
58. Der *Spiegel* 17, 1995, 81f.
59. The following data were provided by Stefan Löwenhaupt from his ongoing doctoral dissertation.
61. Rose and others, 1993.

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Administrative Change in Central and Eastern Europe: Emerging Country Experience

Barbara Nunberg

The preceding chapters sought to bring into sharper focus what for much of the transition has been a blurred picture of the administrative transformation process in CEE. A definitive view of this experience is beyond the scope of this volume, though, since much of the history of this process is only now unfolding. Still, even a tentative understanding of the current administrative context can help strengthen the analytic basis for decisions about future reforms. In looking across the cases, we have seen that countries shared in common many political and administrative structures and behaviors. In addition, they often faced quite similar constraints in trying to adapt their government institutions to the demands of the transition. At the same time, country responses to these difficulties varied, and the administrative transition played out differently in the distinctive cultural, political, and economic circumstances of each national setting. With due recognition of the unique features of each case for the three reform areas examined, the discussion that follows tries loosely to place these five administrative change processes into a common framework. The chapter draws together some parallel themes that characterized the country experiences and raises some issues about the region's administrative transition more broadly.

Restructuring the Government Machinery

Restructuring of the government machinery has been at the heart of administrative reform in Central and Eastern Europe. Governments have been operating with obsolete organizational structures or government “machinery” left over from the communist past. Several problems are associated with the persistence of this “institutional overhang.” One problem is the continued functioning of institutions whose raison d'être has changed radically or...
disappeared entirely. Another problem is the need to create from scratch organs that can address newly defined functions of the state during the transition. A third problem relates to old institutions that have been grafted onto the new system, often in dysfunctional ways. The case studies presented in this volume have addressed these issues by analyzing three types of government machinery reforms: those dealing with structures and decision-making processes at the very center of government (core cabinet); those related to line ministerial reorganization; and those involving the development of mechanisms of cross-system accountability. Some of the similarities along each of these dimensions, as well as some of the differences, in the cases under discussion are explored below.

The Center of Government

Core cabinet, or the "center" of government, functions have been a key target for reform in all the countries studied. In advanced, industrialized country governments, cabinet structures, in principle, provide a formal intelligence system that supplies "just-in-time" analysis on issues raised for ministerial discussion, so that options may be fully considered in the context of larger government policies and constraints. While perhaps striving slowly toward this ideal model, cabinet development in CEE countries mainly has been focused on the critical problem of reconstructing mechanisms of policy formulation, coordination, and decision making to replace those of the communist era. The former center-of-government structure common to all of the countries was built upon the Communist Party's Politburo and Central Committee, the executive cabinet function of which was carried out by a Council of Ministers or President's Council. Cumbersome, politicized, and incapable of all but the most rudimentary budgetary analysis, these mechanisms nonetheless provided channels for collective input and for the flow of information to support executive decision making. The demise of the party structures left important administrative voids at the center of government that so far have not been filled satisfactorily.

The countries studied display a range of problems in this respect: poor mechanisms for policy coordination; inadequate preparation of inputs for policy formulation; poorly managed, non-transparent decision making processes; and lack of clearly defined roles for different players in the central policy deliberation process. These deficiencies manifest themselves in somewhat different ways, depending upon the center-of-government arrangements that have evolved in each country. These problems are, of course, present to some degree in a wide range of political and administrative contexts. But in these CEE countries, the lack of policy formulation and coordination capacity has often been extreme, crippling government efforts to advance its reform agenda.
Poland's system, for example, had grafted the old communist Council of Ministers onto its new parliamentary cabinet structures. The Council of Ministers was led by a head minister whose staff was large and unwieldy, with many diverse attributions, one of which was policy support to the prime minister. This hybrid set-up was overstretched and unfocused; the result was weak coordination and poor policy preparation for cabinet decisions, which tended to emphasize the immediate rather than the strategic. Poland's 1996 administrative reform took steps to solve these problems. It abolished the position of Head Minister of the Council of Ministers and strengthened the prime minister's powers to bring discipline and coherence to ministerial performance and cabinet decision making. In addition, it created new structures to support cabinet policymaking through the establishment of a chancellery to provide personnel and informational services to the prime minister's inner office and streamline its work.

Romania's center-of-government arrangements have a somewhat different institutional history. Whereas the remnants of Poland's communist structures co-existed in a melange with new institutions for much of the early transition period, Ceausescu's personalistic domination of Romania's central apparatus had already eroded party structures. Thus, the center of Romania's semi-presidential government consisted largely of newly invented institutions, including the prime minister and his office, as well as the Secretary General of Government (SGG) charged with administrative oversight, an executive bureau that serves a mini-cabinet function, and the Council for Coordination, Strategy and Economic Reform. This organizational variant has, however, tended to blur lines of responsibility and has led to the familiar syndrome of insufficient coordination, poor policy preparation, endless high-level debate that is short-term oriented, weak channels of routine communication, inadequate management systems, insufficient interministerial input, and, as in Poland, an overburdened central cabinet office (the SGG).

The Hungarian approach, which evolved through trial and error, has been more successful. Embedded in a modified parliamentary system with an emphasis on cabinet decision making, the center-of-government system relies upon two sets of meetings to coordinate and prepare policy input to cabinet sessions: a meeting of administrative state secretaries to vet the initial proposals followed two days later by regular cabinet meetings to approve the relevant decrees. The approach has been working satisfactorily, although it is not without its problems. The role of political as opposed to administrative state secretaries in the process of policy coordination has not been fully worked out, for example. Some concerns revolved around the implicit politicization of the former—conceived as neutral civil servants, as opposed to the latter, explicitly political appointees—as guardians of the political oversight process. Hungary also has had some initial success in improving the
quality of policy analysis provided to pre-cabinet and cabinet meetings through the application of cost-benefit analysis techniques to policy options by the Government Financial Control Office, which provides staff support to the Prime Minister's office.

The center-of-government issues in the former Federal Republic of Germany (GDR) were largely averted due to the implosion of national government and the transfer of functions to a somewhat expanded federal level at unification. Still, with the application of West German cooperative federalism to the East, some functions that had been executed by the GDR national government's center under the unitary state were assigned to the Länder in the name of the FRG national government. Thus, to a degree, government center restructuring in the eastern Länder corresponded to the process taking place in various other countries' centers of government. In the former GDR, such restructuring operated according to the principle of "structural conservatism." Each eastern Land was paired with two sister Länder from the West. Although wholesale institutional transfer was the rule, some variance occurred, and individual Länder could select one western approach over another, since these were not uniform. This process largely was determined by the politics of unification, however. In the pressure after the 1990 elections to set up administrative organs for the newly elected cabinets, the overwhelming tendency was to select ready-made blueprints for Länder cabinet organization.

Politics were also been key in Russia, where center-of-government problems were, predictably, the most extreme. Here, policy coordination and deliberation mechanisms have been completely overwhelmed by political wrangling. No consensus existed on even the skeletal framework of an effective mechanism for central decision making. Chronic rivalries among branches, agencies, and sub-units of government have held core decision making hostage to an ever-shifting set of precarious alliances bent on maximizing power and influence at the expense of the opposing coalition and at the cost of sound policy outcomes. Not readily amenable to institutional fixes, these problems have been intricately related to unresolved discords about the balance of power among the three primary institutions of state authority within Russia: the Office of the President, the government, and Parliament.2

While the division of powers question has been most contentious in Russia, it resounds in the other countries being considered as well, with serious adverse effects on cabinet performance. Unresolved debates about the appropriate powers and functions of executive and legislative government branches have led to confusion and inefficient distribution of work. In Hungary, for example, the sheer volume of new laws that need to be drafted has overwhelmed the prime minister cabinet office, which is inadequately staffed to carry out this function. As a result, parliamentary committees have had to
assume some of this work, though they themselves have been unable to shoulder it effectively. Some have charged that this constitutes a kind of “over-parliamentarianization,” whereby legislatures’ roles have expanded to fill the functional vacuum created by government cabinets’ inadequacies. In Poland, Parliament has built up its capacity to assume this enlarged role. While the government is still the source of most crucial pieces of legislation, it accounts only for about one-quarter of all bills now offered in the Sejm. A parliamentary secretariat has enlarged and trained its staff to draft legislation, and further training in the evaluation of the fiscal and macroeconomic impact of legislation is being developed.

Also worth noting at the center of government is the widespread reliance on informal or parallel mechanisms for decision making and policy coordination that circumvent formal cabinet structures. In Hungary, interagency task forces and committees, such as the Committee for Budget Reform, have sometimes usurped cabinet and precabinet administrative secretaries’ meetings as the forum for many key policy decisions. Indeed, the 1995 package of economic decisions was prepared mainly by the Ministry of Finance with little prior systematic consultation with other relevant organs before the actions were announced before the full cabinet meeting. In Romania, key governmental policy decisions may emanate from organs other than the cabinet. The Executive Bureau can take decisions outside of regular meetings of the government. The Council for Coordination, Strategy, and Economic Reform provides another, noncabinet forum for important decisions on social and economic programs in the transition.

The circumvention of formal cabinet mechanisms is partly a natural response to the tentative nature of all structures in the transition. It is also an unremarkable characteristic of most cabinet decision making to one degree or another. But extreme informalism and parallelism often occur when the formal rules of the game are impenetrable or irrational—a factor certainly present in the countries analyzed here. In Romania, for example, all government decisions must be cleared formally by all affected agencies. This “hyper-formality,” in part a result of efforts to create transparency and cross-system accountability in decision making, clearly slows down the already cumbersome deliberation process, leading to frequent system avoidance and, ultimately, recourse to nonformal mechanisms.

Indeed, in Central and Eastern Europe, informal decision avenues also have been appealing to policymakers because they seem more likely to lead to consensual outcomes than to formal outcomes. Parallel tracks also are credited with speedier problem resolution. In Hungary, the administrative state secretaries’ meetings have sometimes been short-cut by informal discussions outside the official meeting setting to speed up the deliberation process. It is likely that these informal deliberations will be reinforced by the increasing
availability in CEE of technologies, such as electronic mail, that encourage horizontal networks and freer flow of information. Such technologies might improve the formal deliberation process as well, to the extent that information on policy issues could be made available to cabinet policymakers in a more timely way.

Accountability Mechanisms

Side by side with changes in policymaking procedures, the reform of government machinery in CEE countries also has focused on creating or improving mechanisms that encourage transparency and public probity and that hold officials accountable for their actions. These reforms represent an effort to reestablish government legitimacy as well as to stem abuses that have flourished in the often chaotic circumstances of the transition. In the countries studied, several types of cross-system accountability mechanisms have been developed, in addition to the all-important parliamentary bodies. These include audit agencies, ombudsman organs, and constitutional courts and other judicial mechanisms.

The development of audit institutions has been most prominent in Romania, Hungary, and Poland, though these types of institutions took quite different forms in each country. In Romania, the reform framers revived a preexisting institution, the Court of Accounts, to promote government accountability through aggressive exercise of both ex post and ex ante powers. Extremely interventionist in its zeal to curb system abuse by Romanian officials, court auditors constrained administrative officials from autonomous action by threat of prosecution not only for malfeasance but also for unwitting mistakes or incompetence. Conflicts between the administration and the Court of Accounts have been exacerbated by overreaction among government bureaucrats to the application of control mechanisms that resemble, however remotely, those so badly misused by the previous regime. The uncertainties of the transition, including public servants' concerns about job security, as well as their general anxiety in having to perform a range of new, unfamiliar tasks, also raised the level of tension with regard to the Court of Accounts' activities.

Audit functions in other countries have been less interventionist and broad-reaching in scope. For example, in Hungary, audits are carried out by the State Audit Office, the investigative audit arm of Parliament, and the Government Financial Control Office, the office responsible to report directly to the prime minister. Thus, audit functions reflect basic separation of powers. Cases of wrongdoing or fiscal mismanagement have been identified through these agencies' audits, but they are not perceived to pose the same threat to routine execution of government business as those of the Romanian Court of Accounts. Here, as in Romania, audit institutions appear to have
been more successful at developing measures for financial performance and probity than at setting wider government performance and efficiency standards. In Hungary, both audit agencies have focused primarily on financial auditing, as their staff have lacked the ability to analyze institutional aspects of public bodies. This kind of analysis was included in their mandate, however, and plans were underway for future involvement and training in both cost-benefit analysis and efficiency-scrutiny techniques.

Poland’s audit agency, the Supreme Control Chamber (NIK), was a pretransition institution that now reports to Parliament but has adjusted slowly to the new transition requirements. It has exercised financial control over the activities of the state administration and local governments in their execution of delegated tasks. Unfortunately, the qualifications of its auditors, many of whom are near retirement age and lack knowledge of modern auditing methods to carry out performance assessments, have tended to be weak.

The office of ombudsman is another instrument of public accountability, one that appears to have been fully functional only in Poland, although such posts also exist in Romania and Hungary, where it has yet to be staffed. In Poland, the Commissioner for Civil Rights Protection is an independent organ that protects the civil rights of individuals not only within administrative organs but also in social organizations charged with public tasks.

Judicial organs also exercise an important accountability function. In Poland, a fairly developed system of Administrative Courts, which existed before the transition, has since grown into a visible forum throughout the country for resolving conflicts among administrative organs and between the public administration and private citizens. Such a system has been largely lacking in Hungary, by contrast, where recourse against administrative rulings of the state is constrained not only by lack of institutions but also by the absence of a body of administrative law.

Hungary, however, had another key component of public accountability systems in CEE countries—a highly active constitutional court. These types of courts already existed under the communist regimes, but they have taken on a wholly new character under the democratically altered constitutional provisions of the transition, becoming major upholders of the rule of law. In Hungary, the court was established to protect the fundamental rights set out in the revised constitution of 1989 and to provide for the separation of powers. With the right of universally binding legal interpretation, the Hungarian Constitutional Court has become one of the country’s most important institutions in the system of checks and balances. Recently, rulings striking down aspects of the government’s economic stabilization program as unconstitutional have raised the profile of the Constitutional Court, prompting the prime minister to agree to consult the Court in advance of any future reform proposals.
These new structures of accountability raise several issues for the administrative transition in Central and Eastern Europe. In the context of market-based economies and democratic polities, accountability mechanisms need to balance individual freedoms with system efficiency and control considerations. This has not always been straightforward, as the experience of Romania’s Court of Accounts and Hungary’s Constitutional Court rulings attest. Another critical question is the degree of transparency required for these new accountability structures to work. Transparency depends upon information—a commodity often in short supply, either due to a lack of technical capacity or resistance to sharing open information, a behavior many have retained from the previous era. The Court of Accounts in Romania, for example, would probably have had an easier time if it hadn’t needed to resort to intrusive tactics to gather its required information. In Hungary, the Constitutional Court has ruled that universal tax identification numbers are unconstitutional. Without such a number, however, plans to revamp the tax system to combat an exceedingly high evasion rate could be derailed. To the extent that this or any accountability mechanism comes up against broadly held societal views about the importance of newly won individual freedoms, some paths to economic and administrative efficiency may have to be abandoned or rerouted through less dangerous territory.

Steering Not Rowing: Changes in the Machinery of Line Government

Changes made in line ministry structures to adapt to new transition tasks are perhaps the key element in government machinery reforms in Central and Eastern Europe. Line ministries that once intervened directly in productive activities must now exert influence through indirect regulation and policy guidance. Organizational structures must be revised to reflect this shift from a “rowing” to a “steering” posture. Some ministerial portfolios have become redundant or less important, necessitating the abolition or consolidation of agencies. In addition, newly acquired state functions may require the creation of newly staffed organs.

Even while they have to deal with the structural imperatives of the transition, line organs continue to be plagued by organizational and procedural dysfunctions carried over from the communist period. These include, among other things, overly centralized and hierarchical “command” structures and the concomitant fear of autonomous decision making at lower managerial levels; control-oriented reporting requirements, which absorb time and energy for pointless checks and expenditure approvals; and outmoded and opaque information management systems and technologies.

This study took a broad-brush look at restructuring issues for various line agencies in each country. Progress was seen to vary not only among countries but also within and among organs, as well as over time. In general, re-
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structuring has not progressed as far as was initially expected. Setting aside the case of the GDR, Poland and Hungary appear to have initiated the largest number of reforms. Romania was also poised to undertake significant organizational change at the time of this writing. Despite these variations, however, some common issues can be distilled from the restructuring experience.

At the level of individual ministries, structural conservatism and incrementalism have again been the rule. Some organs whose original mission had been invalidated, such as specialized ministries of foreign trade that dealt with COMECON countries, were extinguished. More often, however, restructuring has emphasized reconfiguration, reorientation, and consolidation. This has particularly been the emphasis for ministries of industry, agriculture, interior, education and culture, and finance, the key targets of restructuring reforms. Ministries of industry and agriculture have tended to reduce their size overall and have shifted activities away from direct supervision of production to indirect monitoring. These changes have sometimes been more cosmetic than real, however. The merger of Hungary’s Ministry of Industry with the Ministry of Foreign Trade resulted in staff reductions and departmental realignment, but the basic functions and organization of the ministry were not significantly altered.

For certain types of functions, reform has meant more far-reaching changes in ministerial mission and organization. Ministries of interior have demilitarized their operations and moved from control to service mode. Ministries of education and culture have shed those aspects of their portfolio that stressed propaganda and indoctrination, and the activities related to the maintenance of state-run cultural institutions have been curtailed, though not eliminated. Some previously centralized educational functions have been spun off to the local authorities, as in Hungary and Poland.

Economic ministries have sometimes expanded with new responsibilities in the reformed economy. Ministries of finance, for example, are plainly in ascendance at present. These are, in the main, reconfiguring, reducing, and consolidating departments to reflect more coherently their new functions. Most have added or strengthened decentralized services, such as Romania’s Financial Guard, to expand the capacity to monitor private financial activity, as well as to enhance revenue collection efficiency and discourage tax evasion. To a degree, this typifies a larger trend toward deconcentration of central ministerial functions and staff to local and regional offices.

Somewhat surprisingly, relatively little restructuring in CEE countries has involved the creation of new agencies, with the possible exception of Poland. Where new bodies have been created, they have mostly been established to deal with completely new activities, such as privatization. In some instances, these new institutions have been introduced as explicitly transitional organs with sunset provisions for their ultimate extinction. This was
the case for the Treuhand in Germany and, supposedly, for the State Ownership Fund in Romania. In addition, various new structures had to be created to accommodate the democratic opening. The introduction of the rule of law has caused judicial functions to expand, and ministries of justice are being created, reformed, or strengthened. This was an important area of institutional development in the former GDR, for example.

The models and motivations driving the direction of ministerial restructuring vary, but the transfer or importation of foreign institutional arrangements appears to have been widespread. Institutional transfer was, as already mentioned, the dominant vehicle for change in Germany, with Länder importing models directly from the West. Variants of this process occurred elsewhere as well. The Romanian Ministry of Agriculture, for example, tried to adapt French and Canadian systems in its restructuring process. In addition, foreign models also have penetrated CEE countries through the delivery of expatriate technical assistance. The restructuring of ministerial machinery also has been significant, both through help to specific departments or particular functions within ministries or through head-to-toe “re-engineering” of entire agencies. EU-PHARE has placed foreign experts inside ministries throughout the region, for example in Poland’s Ministry of Industry and Romania’s Ministry of Finance. This type of assistance was characterized as most helpful in the cases studied when recommendations were tailored to political realities and were supported by follow-up assistance; lamentably, this was all too often not the case. Finally, perhaps the greatest influence from abroad comes as a function of CEE countries’ quest to join the EU. Conformity to EU standards increasingly has driven the reorganization of ministerial functions. Hungary’s Ministry of Interior based the design of many of its new service functions on EU norms. And, of course, Poland’s bold and decisive 1996 administrative reform initiative was no doubt largely driven by the government’s recognition that administrative modernization would be key to the country’s successful entry into the EU.

In some instances, the reform process itself has driven subsequent changes. In Romania, for instance, work on creating the value-added tax system led to the realization that public expenditure management procedures were in need of rationalization and streamlining. This became evident when reformers noticed it took approximately eight signatures to authorize even small expenditures, causing enormous implementation delays.

Predictably, politics is an important determinant of ministerial restructuring choices—both with regard to internal structure and hierarchy as well as the assignment of attributions among different agencies. Hungarian ministerial portfolios and purviews have been determined through a bargaining process within the ruling coalition, maintaining a roughly proportional balance of junior and senior coalition partners among and within ministerial
structures. As discussed earlier, the Russian bureaucratic turf struggles and fragmentation also reflect political party and faction cleavages within the larger polity.

Fiscal considerations have been an overwhelming force for restructuring and rightsizing. In Hungary, the budgetary process associated with the recent government stabilization package has already produced important structural changes, with promises of more to come. The thrust of these economic reforms took the reins from the public administration experts in the Commissioner’s Office. Although this unit would have significant involvement in helping to systematize reforms in the next stage, the Ministry of Finance was now in the driver’s seat.

With these myriad ad hoc factors driving line agency restructuring, redundant and overlapping functions have not been easily erased. For example, government training institutions abound in most of the countries, often duplicating each other’s programs. For the moment, this redundancy may have its advantages, allowing for some competition among organs until a clearer administrative model is agreed upon and the institutional winners have emerged. But, as Poland and Hungary have begun to discover, without a well developed overall administrative reform strategy devised by government, a market approach may prove inadequate to the task of providing appropriate high quality training for public servants.

The question of whether and how to develop an overall reform and restructuring strategy in CEE countries resonates with an ongoing debate in the comparative public administration field. This debate has centered on whether reforms should be undertaken as part of a strategic revamping of the entire government system or on a more focused, limited basis, restructuring individual agencies as opportunities and need arise. Reforms of the 1950s, 1960s, and early 1970s had taken the former approach, with disappointing results. Over the last two decades, reform efforts have increasingly stressed more limited interventions in individual agencies, but have had to grapple with the problem of scaling up pilot successes to the broader administrative system. The fall of communism revived this discussion, as the dramatic transformation of economic and political systems seemed to call for a more holistic approach that provided a grand master plan for administrative transformation. The experience of the cases studied here suggests, however, that, despite initiatives to conceptualize reforms on a system-wide basis, sweeping, comprehensive reforms of the public administration in CEE have not been easily undertaken. Instead, the reforms of ministerial structures that have occurred have taken place on an agency-by-agency basis.

In fact, rather than an explicit decision not to try reforming the entire system at once, the more ad hoc reform approach was taken because of its political and managerial pragmatism. Even so, countries were aware that a
more strategic approach to state reform, one that established priorities with regard to issues, agencies, and sequences of changes might be desirable. Some governments have taken initial steps toward long-term and systematic administrative planning. In Hungary, for example, the Government Commissioner on Public Administration Reform has issued guidelines on the overall structure of government, though without specific recommendations for particular organs or functions. Despite these guidelines, the package of economic reforms initiated by the Ministry of Finance in 1995 may well have pre-empted (or, more optimistically, co-opted) systemic design plans emanating from the Public Administration Commissioner’s office. In Romania, the SGG was working on a comprehensive plan to redistribute functions across ministries, with proposals to reduce the overall number of directorates and, accordingly, the number of political appointees per ministry from 11 to 3. Romania’s draft Law on Organization of the State, a bill that was still pending as of this writing, also proposed structural changes in the distribution of attributions of ministries. Poland’s package of administrative reforms restructured the constitutional role of the prime minister, strengthened core cabinet decision making, consolidated ministerial functions, dismantled the branch ministry system, and further deconcentrated state functions to the voivod level. These changes reflect not only a strategic vision of the reform process, but also the will simply to get on with a substantial set of cohesive changes rather than continuing with the single agency approach. Finally, if any country has pursued large-scale, systematic, and simultaneous reforms, it is the former GDR. With the benefit of the West German blueprint, restructuring has proceeded at the level of Länder ministries. While this certainly must have required careful thinking about how to undertake and implement reforms, the availability of a state model that Eastern governments could be plugged into somewhat belies, however, the notion of independent strategic planning.

Staffing Government:
New Dimensions and Incentives for the Public Service

The public sector encompassed most activities carried out in CEE under communism. With the emergence of a private-public sector divide, a new definition of what constitutes core government has had to be developed. Carving the dimensions of the new state out of the previously undifferentiated public sphere and creating appropriately specialized incentives for what would become the central cadre of public employees—the civil service—is a task that each country in this study has faced. In the cases considered here, some key findings emerged with regard to unbundling different parts of state employment and examining current wage practice.

First, government for the countries studied was not particularly large in comparative terms. Central government employment, roughly equivalent to
the core civil service in western countries, appears in fact rather low relative to OECD comparators. Only Japan and unified Germany had smaller central governments, as measured in terms of government employees per population or as a percentage of total employment (table 7.1). General government employment, including central and local government but not state enterprises, was somewhat higher for countries with available data, but still well within the overall OECD range. Poland fell at the lower end of OECD comparators, while Russia, GDR, and Hungary were at the upper end—but still below Denmark, France, and Sweden.

This finding suggests that redundancies or staff misallocation, while plausible for specific functions in central ministerial government, were more likely to be found within broader government sectors, such as among teachers or health workers. This is the case in Hungary, where reforms focused on bringing teacher-student ratios in line with international standards, which have tended to be lower. In the aggregate, government has been shrinking during the transition period. Government employment as a whole has remained constant or has declined in the countries studied (table 7.2). Despite this overall contraction, however, central government employment has been growing—in Russia, Poland, and Romania, for example. At least in the latter two cases, central government expansion was actually due to increases in deconcentrated government, subsumed in the central government count.

This is not to say that downsizing has not been taking place. But, it appears to have resulted less from a systematic matching of functional requirements with skills and manpower than the exigencies of external events. In Germany, the intention to abolish some government functions and to transfer federal administrative tasks from the East to the West led to a very substantial reduction of total government employment by 37 percent, with most decreases at the national level. In Hungary, central government employment cuts occurred in the context of a fiscal stabilization program. While lustration of former communist cadres has been a factor in employment declines in all five countries, it is impossible to specify its relative importance in overall employment decreases.

Curiously, the types of fiscal concerns that might drive redundancy programs in other regions seem less apparent in CEE. In comparison with the high, middle, and lower income countries in table 7.3, the CEE countries studied here have maintained low general government wage bills in relation to both GDP and total expenditures. Data on central government wages were available only for Hungary and Romania; these indicate that central government wage expenditures were proportionally higher in Romania, where decentralization has been less advanced.

In some key respects, wage bills have indeed posed an increasing burden in the CEE country cases. Personnel expenditures are increasing as a percent
age of total expenditures, but they have mainly been mounting as a percentage of GDP and of total revenues (table 7.4). However, it is most likely the relative declines in GDP and revenues that explain the increasing wage bill share, rather than a wage explosion. These changing relativities do show, nonetheless, the growing unsustainability of wages in CEE.

Table 7.1 Government Employment

<table>
<thead>
<tr>
<th>Country and year</th>
<th>As percentage of population</th>
<th>As percentage of employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central</td>
<td>Public</td>
</tr>
<tr>
<td></td>
<td>govt.</td>
<td>admin.</td>
</tr>
<tr>
<td>Australia (1993)*</td>
<td>1.0</td>
<td>—</td>
</tr>
<tr>
<td>Austria (1992/1993)*</td>
<td>3.8</td>
<td>—</td>
</tr>
<tr>
<td>Belgium*</td>
<td>2.9</td>
<td>—</td>
</tr>
<tr>
<td>Canada*</td>
<td>1.1</td>
<td>—</td>
</tr>
<tr>
<td>Denmark*</td>
<td>2.3</td>
<td>—</td>
</tr>
<tr>
<td>Finland*</td>
<td>2.9</td>
<td>—</td>
</tr>
<tr>
<td>France*</td>
<td>4.9</td>
<td>—</td>
</tr>
<tr>
<td>Former GDR, 1992*</td>
<td>0.5</td>
<td>—</td>
</tr>
<tr>
<td>Greece (1992)*</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Hungary (1993)</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Ireland (1992)*</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Italy (1992)*</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Japan (1992)*</td>
<td>0.7</td>
<td>—</td>
</tr>
<tr>
<td>Netherlands (1992)*</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>New Zealand (1992)*</td>
<td>6.0</td>
<td>—</td>
</tr>
<tr>
<td>Norway (1991)*</td>
<td>3.5</td>
<td>—</td>
</tr>
<tr>
<td>Poland (1992)*</td>
<td>0.2</td>
<td>0.7</td>
</tr>
<tr>
<td>Portugal (1992)*</td>
<td>6.1</td>
<td>—</td>
</tr>
<tr>
<td>Romania (1992)</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Russia (1992)</td>
<td>—</td>
<td>0.7</td>
</tr>
<tr>
<td>Spain (1992)*</td>
<td>2.1</td>
<td>—</td>
</tr>
<tr>
<td>Sweden (1992)*</td>
<td>4.6</td>
<td>—</td>
</tr>
<tr>
<td>Turkey (1993)*</td>
<td>2.8</td>
<td>—</td>
</tr>
<tr>
<td>United Kingdom (1992)*</td>
<td>2.7</td>
<td>—</td>
</tr>
<tr>
<td>United States (1991)*</td>
<td>1.2</td>
<td>—</td>
</tr>
</tbody>
</table>

— Not available.

Note: Central government includes core and deconcentrated employees; public administration refers to public administration as an economic sector; and general government includes all budget-financed employees (including, for example, teachers and health workers, but excluding employees of SOEs). 

a. Includes all "Public Service Act" staff. Does not include staff of public trading enterprises, public financial institutions or members of the defense forces. Population data for 1992.
c. Belgium: Includes autonomous public enterprises, teaching staff and professional military (excluding conscripts).
d. Canada: Does not include military.
e. Denmark: Full-time equivalents. Includes some SOEs (e.g. Railways, Postal Service), police and professional soldiers (not conscripts).
f. Finland: Includes municipal public services and professional soldiers (conscripts excluded).
g. France: Excludes SOEs. Includes military and health workers, but excluding employees of SOEs.)
h. Former GDR: Central government does not include postal or railway workers. General government includes federal, Länder and local employees.

i. Greece: Excludes public enterprises.

j. Hungary: Central government includes core and deconcentrated civil servants; public administration includes both central and local civil servants; and general government includes civil servants, public servants and other public employees.

k. Italy: Excludes armed forces.

l. Ireland: Excludes civilian employees of defense forces. Does not include SOEs.

m. Japan: Excludes self-defense forces.


o. New Zealand: Excludes military and SOEs.

p. Norway: Includes military; excludes SOEs.

q. Poland: General Government refers to budgetary sphere.

r. Portugal: Includes military; excludes SOEs and personnel of autonomous regions outside Portugal.

s. Spain: Excludes SOEs and armed forces (except civilian employees of defense agencies).

t. Sweden: Includes some SOEs, professional military (not conscripts) and Church of Sweden.

u. Turkey: Central government does not include the military personnel of the General Secretariat of the Presidency, the Grand National Assembly or the General Commandership of the Gendarmerie. Local government does not include village administrations. Population data for 1992.

v. United Kingdom: Excludes armed forces and SOEs.

w. United States: Excludes armed forces (except civilian employees).

Source: Federal Statistical Office (Germany); Ministry of Labor and Central Statistical Office (Hungary); Central Statistical Office (Poland); National Commission for Statistics and Ministry of Finance (Romania); Institute for the Economy in Transition (Russia); World Bank 1994.

Table 7.2 Employment over Time

(percentage change)

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>General government</th>
<th>Public administration</th>
<th>Central government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former GDRa</td>
<td>1991–93</td>
<td>(16.7)</td>
<td>—</td>
<td>(13.0)</td>
</tr>
<tr>
<td>Hungary</td>
<td>1991–94</td>
<td>0.4</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Poland</td>
<td>1989–93</td>
<td>(76)</td>
<td>27.8</td>
<td>106.0</td>
</tr>
<tr>
<td>Romania</td>
<td>1990–94</td>
<td>—</td>
<td>29.0</td>
<td>75.1</td>
</tr>
<tr>
<td>Russia</td>
<td>1990–92</td>
<td>(5.1)</td>
<td>24.0</td>
<td>—</td>
</tr>
</tbody>
</table>

— Not available.

Note: Parentheses indicate negative number.
a. Central government corresponds to federal government administration.

Source: Federal Statistical Office (Germany); Ministry of Labor and Central Statistical Office (Hungary); Central Statistical Office (Poland); National Commission for Statistics and Ministry of Finance (Romania); Institute for the Economy in Transition (Russia); World Bank 1994.

Despite the increasing weight of the wage bill relative to other indicators, average government salaries do not appear high. Although time series were not available, average public administration salaries hovered mainly around the national average for the economy as a whole. However, these averages do not capture the large salary discrepancies between government and the emergent private sector that have been anecdotally reported for specific skills and jobs. Business management, economics, finance, and legal skills, especially at higher professional levels, are widely believed to be more highly rewarded by private employers.
Table 7.3 Country Wage Bill Comparisons

<table>
<thead>
<tr>
<th>Country</th>
<th>General government</th>
<th>Central government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP</td>
<td>Expenditure</td>
</tr>
<tr>
<td><strong>High-income countries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>12.8</td>
<td>22.7</td>
</tr>
<tr>
<td>Canada (1989)</td>
<td>5.8</td>
<td>11.3</td>
</tr>
<tr>
<td>Denmark</td>
<td>17.3</td>
<td>23.8</td>
</tr>
<tr>
<td>France</td>
<td>10.1</td>
<td>19</td>
</tr>
<tr>
<td>Germany</td>
<td>10.3</td>
<td>19.3</td>
</tr>
<tr>
<td>Spain (1990)</td>
<td>10.4</td>
<td>21.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>17.8</td>
<td>26.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10.5</td>
<td>20.3</td>
</tr>
<tr>
<td>United States</td>
<td>9.6</td>
<td>21.1</td>
</tr>
<tr>
<td><strong>Middle-income countries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil (1988)</td>
<td>8.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Chile (1988)</td>
<td>8.1</td>
<td>27.7</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>6.4</td>
<td>10.1</td>
</tr>
<tr>
<td>Hungary (1990)</td>
<td>7.6</td>
<td>11.8</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Lithuania</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Mexico (1990)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Poland</td>
<td>6.1</td>
<td>12.7</td>
</tr>
<tr>
<td>Romania</td>
<td>6.3</td>
<td>15.9</td>
</tr>
<tr>
<td>Russia</td>
<td>5.2</td>
<td>—</td>
</tr>
<tr>
<td>South Africa</td>
<td>10.5</td>
<td>26.2</td>
</tr>
<tr>
<td>Tunisia</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Low-income countries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt (1989)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ghana (1988)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Indonesia</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Kenya (1990)</td>
<td>9.6</td>
<td>31.9</td>
</tr>
</tbody>
</table>

—Not available.

In Hungary and Romania, surveys suggest the private sector remunerates skilled managers at a level three to four times higher than their public administration counterparts at the departmental director rank. All countries studied reported a “brain drain” of talented professionals to the private sector. Although solid empirical evidence could not be found to substantiate these claims, the private-public salary differentials documented in the surveys, and the prevalence of anecdotal accounts suggest that some sort of exodus has indeed been taking place.12

Salaries were also fairly compressed in the countries examined. Table 7.5 shows compression ratios based on official (that is, theoretical) pay scales to be between 4.5:1 and 6.4:1. Actual pay compression based on real salary
### Table 7.4 CEE General Government Wage Bills over Time

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11.8</td>
</tr>
<tr>
<td>Percentage of total revenues</td>
<td></td>
<td>7.6</td>
<td>8.5</td>
<td>8.6</td>
<td>8.6</td>
<td>8.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of total expenditures</td>
<td></td>
<td>13.2</td>
<td>16.2</td>
<td>15.4</td>
<td>15.7</td>
<td>16.3</td>
<td></td>
<td>23.5</td>
</tr>
<tr>
<td>Percentage of current revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of GDP</td>
<td>4.2</td>
<td>4.2</td>
<td>6.1</td>
<td>6.8</td>
<td>6.0</td>
<td></td>
<td></td>
<td>42.9</td>
</tr>
<tr>
<td>Percentage of total revenues</td>
<td>12.3</td>
<td>9.4</td>
<td>14.7</td>
<td>15.5</td>
<td>13.4</td>
<td></td>
<td></td>
<td>8.7</td>
</tr>
<tr>
<td>Percentage of total expenditures</td>
<td>10.5</td>
<td>10.2</td>
<td>12.7</td>
<td>13.4</td>
<td>12.7</td>
<td></td>
<td></td>
<td>20.8</td>
</tr>
<tr>
<td>Percentage of current expenditures</td>
<td>11.5</td>
<td>11.2</td>
<td>13.6</td>
<td>14.3</td>
<td>13.6</td>
<td></td>
<td></td>
<td>18.2</td>
</tr>
<tr>
<td>Romania</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of GDP</td>
<td>4.5</td>
<td>6.3</td>
<td>7.4</td>
<td>7.6</td>
<td>6.3</td>
<td>6.4</td>
<td></td>
<td>42.2</td>
</tr>
<tr>
<td>Percentage of total revenues</td>
<td>8.8</td>
<td>11.3</td>
<td>17.6</td>
<td>20.4</td>
<td>20.4</td>
<td>19.7</td>
<td></td>
<td>23.9</td>
</tr>
<tr>
<td>Percentage of total expenditures</td>
<td>10.5</td>
<td>16.3</td>
<td>19.1</td>
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<td>18.3</td>
<td></td>
<td>74.3</td>
</tr>
<tr>
<td>Percentage of current expenditures</td>
<td>22.6</td>
<td>21.4</td>
<td>22.7</td>
<td>20.1</td>
<td>23.6</td>
<td>22.2</td>
<td></td>
<td>(18)</td>
</tr>
<tr>
<td>Russia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of GDP</td>
<td>3.3</td>
<td>3.7</td>
<td>4.3</td>
<td>5.2</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of total expenditures</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of current expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Percentage corresponds to the change between the earliest and latest year for which data are given. Parentheses indicate negative number. Source: Ministry of Finance (Hungary, Poland, Russia); Institute for the Economy in Transition (Russia); World Bank estimates.

distribution, however, appears to have been greater for the three countries with available data: Hungary, Poland, and Romania. For these countries, real compression ratios were below 3.7:1.

Analysis of remuneration patterns must also take into account the vast array of non-wage benefits and allowances that persists in CEE countries. In four of the countries examined (Germany excepted), public servants were entitled to a range of bonuses, supplements, and cash and in-kind benefits that make calculating actual salaries extremely complex. Although benefits have reportedly declined significantly in all countries, they may still make up as much as 40 to 50 percent of compensation. To the degree that such bonuses are awarded differentially, as in Russia, or across-the-board, as in Hungary, they may have served either to decompress or further compress the wage structure.
Detecting trends in wage and employment practice is made all the more difficult by the paucity of reliable government employment and wage data. For Russia and Romania, only the roughest estimates are possible, since employment was still categorized by economic branches or sectors rather than by agencies or organizations. But, even Hungarian and Polish data may be questioned, as they were based on second-hand surveys of government institutions rather than direct censuses or head counts.

These data constraints were of more than academic concern; they reflect larger underlying weaknesses in government capacity to manage its personnel establishment. No country examined had a fully computerized personnel information management system linking personnel records to the payroll or budget. Personnel management was highly decentralized. Upon negotiating a personnel budget authorization from the Ministry of Finance, managers had discretion over pay and bonus allocations, and most employees received their compensation in cash. Service-wide forward staff planning to match present and future government personnel requirements with intake and attrition policies did not exist. Indeed, institutions charged with systemic oversight of personnel issues have been mainly absent, although Hungary and Poland recently started moving in this direction.

Civil Service Development

Changes in core government machinery and the rationalization of wages and incentives are, of course, crucial to civil service reform efforts in CEE, but they represent only part of the challenge. Creating modern government in
these countries depends, above all, on the possibilities for establishing politically neutral, technically competent, and professionalized administrations on the ruins of formerly communist-dominated bureaucracies. Two issues are critical in this process. One is the need to develop a set of game rules inherent in a modern civil service model. By conventional definitions, this means replacing corrupt and ideological systems with a legitimate legal framework and merit-based mechanisms for recruitment, advancement, and assessment that reinforce probity and politically neutral competence. The other issue is the need to develop the "new civil servant"—one who can make decisions independently of higher authority and demonstrates effectiveness in carrying out very different tasks than previously required. Just as importantly, the "new civil servant" would also display responsiveness to government priorities, as well as loyalty to, or at least not overt subversion of, the overall objectives of the transition. The countries studied have approached these two issues with varying degrees of preparedness, and the results are, so far, still quite tentative.

New Rules of the Game: Developing a Civil Service Model

For the most part, governments have not explicitly undertaken the development of a wholly new and internally consistent civil service model to replace old bureaucratic systems. Instead, countries have taken several ad hoc routes to constructing a civil service framework. One has been to revert to pre-communist historical precedent. The urge to reconstruct national institutions has been strongest in Poland and Hungary, where pre-war administrations were considered to have been successful, as well as consistent with the then prevailing practice of continental Europe. Implicit model-building has also come about through the ad hoc adaptation of elements of foreign administrative practice, either as a function of proximity (Germany is frequently favored) or the availability of foreign assistance from a particular donor such as French assistance in elite training based on the ENA model, and British help in developing efficiency scrutiny techniques have been influential in this respect.

In the main, administrative practice from the communist era has survived remarkably undisturbed, though, by and large, in a de-ideologized form. While the communist content has been assiduously removed from bureaucratic procedures, the basic elements of compensation, recruitment, promotion, and evaluation mechanisms have remained in place, at least for the time being. While one might expect, in the context of radical political and economic reforms, a bolder embrace of the new public administration approaches of some advanced western countries, CEE countries have, thus far, adopted quite conservative, often atavistic administrative solutions. The exception, of course, is eastern Germany, which was absorbed into the West
German institutional system.

One frequent substitute for systematic design of a larger civil service model has been the drafting and passage of a legal framework for the civil service. These legal frameworks have tended to posit highly centralized administrative systems, with rigid hierarchies of employee classes and little vertical mobility. Much of the legislation is vague in stipulating specific central institutions to manage the civil service, and clear mechanisms to ensure merit as the basis for recruitment, advancement, and remuneration have generally not been provided. Educational credentials and seniority are retained as the principal criteria for career success. At the same time, some of the laws propose quite specific pay conditions for sitting and prospective civil servants, in some cases locking in rights and benefits that could prove unsustainable in the future. Eastern Germany avoided this dilemma by importing the West German legal framework.

Not surprisingly, perhaps, the conflict between rewarding and securing the futures of currently serving public officials and ensuring the neutrality and quality of future civil servants has proved troublesome and politically contentious. The parliaments of Hungary, Russia, and most recently Poland, have passed civil service acts. Lack of political accord in the latter for most of the transition had stymied efforts to push a civil service law through the Sejm, but in 1996 the post-socialist government reached a compromise with the opposition on broad, enabling legislation as part of its larger administrative reform package.

The difficulty in resolving the conflict between present guarantees and future compromises again stems, in part, from the failure of CEE countries to reach consensus on an overall civil service model before legislation was drafted. Hungary, for instance, though given high marks for having successfully maneuvered its civil service legislation through Parliament, was forced, under urgent fiscal pressures, to start a process of amending this same law, in order to remove various overly generous benefits it mandates. Moreover, with several additional years of exposure to performance-based government reforms in the West, Hungarian reformers have now been reconsidering some of the rigidities in pay and promotion arrangements, rigidities that could constrain the development of modern government systems if the legislation is not revised. Poland’s solution to this problem has been to legislate a phased recruitment of a limited number of civil servants to work beside state employees in government—probably for years to come.

Even for those countries with civil service laws now in place, vagueness about their detailed provisions and about the basic operating rules of the system persists. Without a shared vision of what the new civil service should look like, CEE bureaucrats continue to operate on the basis of an amalgam of delegitimized statutes from the ancien régime and informal behaviors widely
practiced before, during, and after communism. While such ad hoc practices are a accepted feature of many bureaucratic settings, in the CEE countries studied, the use of personalistic, clientelist networks that circumvent formal processes has left public servants in a kind of behavioral limbo, one that only reinforces anxieties about their future status and security. One interim solution has been to construct temporary rules of the game until more lasting rules can be credibly developed. Until the recent passage of civil service legislation in Poland, for example, revision of the State Employees Act seemed to have helped reassure sitting public servants while debate about their status continued in Parliament. The Hungarian revisionist solution offers another approach to this problem, but it requires a government coalition with a strong parliamentary majority to ensure that changes in legislation can be enacted as required.

Creating the New Civil Servant

Whatever form the new civil service model takes, its success ultimately depends on how it is staffed. Much of the initial thinking about administrative renovation in CEE has focused on the creation of a new, professionalized civil service cadre, selected and promoted on merit, and oriented toward service to the citizenry and toward public probity. To a large extent, the assumption was that the pre-existing bureaucratic class would resist or subvert modernization and change. Thus, the best starting point was thought to be a tabula rasa, clearing away the habits, characteristics, and values of those who served under communist governments and building new skills and loyalties in those who replaced the old guard. The reality of reform, however, shows this clean slate approach to be both illusory and not necessarily desirable. The "new civil servant," it turns out, is more likely a rehabilitated version of the old bureaucrat.

The goal of creating a new civil service through the expulsion of former communist cadres has, for the most part, eluded CEE governments; indeed, the composition of the public service may not have changed all that dramatically. Purges of the political and administrative elite were most sweeping in the GDR, although the removal of the most tainted echelons of the nomenklatura reportedly occurred throughout the countries studied. The scope of these changes and their proximate causes are difficult to document, however. In Romania’s Ministry of Finance, for example, nearly 95 percent of director level staff have turned over since 1989, but it is not clear whether this change resulted from lustration or a more innocuous “brain drain” to better-paying private jobs. In Russia, top echelon officials were reportedly demoted to lower ranks. Yet throughout the CEE countries, some portion of those officials removed from their posts in the early transition days have reportedly returned to government.
Hopes of creating the “new civil servant” have also been pinned on revamping recruitment, bypassing older bureaucrats, and offering young inductees new opportunities for fast track advancement. Initial efforts to enhance staff quality through recruitment have been quite limited, however, and not without problems. In Hungary, the introduction of a competency exam for entering civil servants was intended to introduce rigor into the recruitment process. But the examination’s formulaic content and the failure to enforce exclusions based on exam results largely invalidated the process. In Poland, recruitment of recent graduates has taken place through a highly competitive feeder institution, the National School of Public Administration. Since the school graduates only 60 students each year, its impact on the public service as a whole is unlikely to be dramatic for the foreseeable future.

An alternative to shaping the new civil service through recruitment is rehabilitation of existing cadres through training. In the countries studied, this option raises some difficult questions. At first glance, there seems to have been no shortage of training, much of it financed by international donors. But, most public administration related training has in fact focused on local level officials; relatively little has emphasized the preparation of central civil service cadres. Moreover, the offerings at the local level have tended to be chaotic, rife with redundancies and inconsistencies from one locality and donor to another.

Moreover, most of this training has been offered in the absence of comprehensive national training strategies. Governments have not clearly formulated their overall objectives in training civil servants, nor have they undertaken assessments of current skill profiles to determine where the gaps are. One important question in the development of such strategies regards the appropriate mix of pre-and in-service training. The most innovative, highest quality civil service training is designed for recent graduates, such as that offered in Poland and Hungary. Again, this training has focused on a small, elite group. High-level policy seminars, particularly with donor financing, have been provided only to the highest echelon officials. By and large, the in-service training needs of the main segments of the public service have not been adequately addressed. These segments continue to be served by the vestiges, still quite robust in some countries, of the former communist training system, which comprised upgrading institutes associated with individual ministries and party training centers, some of which operated in decentralized regions. Although the ideological content of this training may have been largely eliminated, the weak technical substance is still being conveyed by instructors from the previous era.

Merely updating instructors and curricula, however, would not be a sufficient solution. Training experts the world over often lament the waste associated with training civil servants in modern techniques only to re-insert them
into stultifying bureaucratic environments that offer few opportunities to use newly acquired skills. This concern seems particularly apt in the case of CEE countries, where incentive structures for public servants have not yet been substantially modified. Changing the aforementioned rules of the game to incorporate incentives that reward performance or recognize merit is critical to professionalizing the civil service. So far, there has been only limited movement in this direction. Aside from the incipient efforts described earlier to inject an element of rigor and competition into recruitment selection, basic functions of civil service management, including remuneration, career advancement, and evaluation have not yet begun to operate on a merit basis. Although educational credentials play a part in recruitment, hiring is, for the most part, an informal process conducted through personal networks. Educational criteria, it is true, form the basis for remuneration and promotion practice, but rewards and advancement are based mainly on seniority and non-transparent managerial preferences. Although evaluation procedures are on the books, meaningful performance assessment, the essential building block of a results-oriented civil service, has not been developed. Germany, as always, stands somewhat apart. Meritocratic criteria and a competency exam utilized by the western German civil service are being used to screen former GDR bureaucrats for basic skills, and the range of merit-based mechanisms used for assessment, pay, and promotion in the West have been imported as whole cloth.

In addition to such formal and procedural changes, transforming the communist party bureaucracy into a modern civil service depends equally on attitudinal and behavioral changes in the interaction between government employees and the citizen public. This means imbuing civil servants with the "customer" or citizen orientation that currently pervades public administration development discourse. This has not been an easy task where it has been attempted in the West. In CEE countries, it is all the more difficult, as creating a service-to-the-public ethos requires a radical re-thinking of the fundamental purpose of many government activities, a wholly new approach to information management and transparency, and a revised view of accountability and responsiveness in face-to-face interactions with the public. Relatively little concrete progress has been made on this front, although small ad hoc experiments have begun, such as in Hungary's Ministry of Interior, where vehicle inspection and passport issuance services were overhauled to meet more user-friendly standards, and, in the case of the passport services, to conform to EU norms.

Civil society itself plays an important part in fostering this symbiotic relationship between client and public servant. Citizens must learn to place demands on government and to judge the responsiveness and performance of those in government service. It seems logical that these demands will
grow as the client-public’s trust in government increases. At the moment, however, the few studies of civic approval of government administration suggest, on the whole, a low level of public confidence, though country ratings vary, as do ratings for different types of public institutions. Hungary’s public administration enjoys the highest public confidence levels, for example, with 33 percent approval ratings. Russia’s public administration evokes the lowest public trust, garnering only an 18 percent confidence rating. Ratings for the army, police, presidency, and courts were consistently higher across countries; those for labor unions were consistently lower. These variations aside, it is clear that CEE governments in have a long way to go in winning the trust of those they serve. The civil service’s ability to gain public confidence, however, and the public’s readiness to hold the government accountable for its activities will both be crucial to the health and ultimate success of administrative reform efforts now underway.

The Reform Process: Some Decisive Issues

Some issues related to the reform process itself are worth considering in weighing the prospects for, and charting the direction of, administrative transformation in CEE. These involve decisive internal factors in reform success, such as those related to the institutional and political environment for reforms, as well as external variables stemming from international donor assistance and the sway held by foreign administrative models.

Institutional Factors in Reform

Collective wisdom about the organizational requirements of a successful administrative reform throughout the world argues that reforms must be spearheaded by a kind of reform “brain” located somewhere in the “head” of government, with the power to oversee the process of reform implementation by the line appendages of the public administration with staunch and visible support from the chief executive of state. At least formally, a few countries (Romania, Poland, and Hungary) have approximated this arrangement, with reform units highly placed at the top of the machinery of core government. In reality, however, the organizational arrangements and institutional support for reform fall far from this ideal. Reform units have been plagued by “problem overload,” charged with too many diverse tasks and lacking both the number and quality of staff to successfully orchestrate the reform process. In some instances, reform units may have been highly placed—as in the Prime Minister’s Office in Hungary, or, until recently, under the Head Minister of the Council of Ministers in Poland—but the weight and influence of the reform unit’s leadership has tended to be “underwhelming.”
In practice, the real arrangements for administrative reform may be more diffuse than first appearances suggest. In Hungary, Romania, and Russia several organs shared responsibility for reforms without clear delineation of the "first among equals." Again, Germany has avoided this dilemma through the imposition of western leadership. But even here, there is a question about the degree to which external stewardship from the West can suffice in guiding the reform process in the East, and what lasting psychological impact this may have on the body bureaucratic over the longer run.

Another lesson from successful reforms elsewhere is that crisis is, in fact, an extremely useful if not essential driving force behind meaningful change. In some crises, new institutions emerge to play powerful leadership roles. This appears to have occurred in Hungary, for example, where fiscal pressures spurred organizational changes led by a team in the Ministry of Finance. While injecting new energy into the reform process, these initiatives may have risked compromising medium-term administrative objectives by excessive focus on short-term goals, unless the broader reform orientation of the Public Administration Commissioner's Office can be adequately integrated into the fiscal program.

Political Factors

The politics of administrative transformation have been under-analyzed in this study.29 It goes without saying, however, that political factors have decisive impact on the reform process. For example, the nature of the electoral system and voting rules in some countries may have indirectly contributed to slow action on administrative reforms. Proportional voting produced a fragmented party system in which broad electoral fronts have only loose and often incongruous ideological bases, resulting in a rapid turnover of weak governing coalitions. This has meant that the wheel of administrative reform has had to be reinvented afresh with each successor regime, constraining meaningful progress.

Who wins or loses in this electoral game obviously influences the course of administrative reforms, although not always predictably. The most striking electoral results in Poland and Hungary were the post-socialist victories, although the effect was different in each case. In Poland, general public administration reforms were derailed after the initial post-socialist win, and civil service reform slowed. Reform aims became less radical, seeking to preserve the status quo. The subsequent shift of power within the post-socialist coalition toward the more centrist partner (the SLD), combined with the important incentive of joining the EU, restored, and indeed extended, previous reform goals. In Hungary, a "Nixon-to-China" phenomenon occurred. Emboldened by their overwhelming control of Parliament and spurred by fiscal crisis combined with pressure from the international financial commu-
nity, Hungarian post-socialists began an ambitious program of government streamlining and downsizing. These differential impacts may be related to the nature and strength of the governing coalition or to the powerful reform impetus provided by economic crisis. The degree to which the latter can sustain profound administrative transformation over the longer run remains to be seen, however.

Politics has also informed societal and governmental decisions about professionalization of the bureaucracy and policy choices about lustration of former communist cadres. Who left and who remained in public service appears to have been determined to some degree by the nature of the post-communist settlement reached in individual countries. The pacted, gradual character of the political transition in Hungary led to relatively mild treatment of former apparatchiks, especially at the middle echelons. Likewise, in Poland, mid- and low-level personnel stayed in government, although higher echelon bureaucrats were routed out during the initial transition phase. In both countries, post-socialist governments sought to enshrine in civil service laws pre-existing benefits and conditions of service for one of their key constituents—sitting public servants. The more radical break with the communist past led to a severe lustration policy in the former GDR which relied heavily on elite transfer from the West to staff high level posts.

External Influence and Assistance

Exogenous factors also figure in the administrative reform process. International influences come from several sources. Bi-lateral and multi-lateral donors have been active in all but eastern Germany, where a customized form of technical assistance and twinning was developed between eastern and western Länder. For the other countries studied, donor aid has emphasized training and legal assistance. Assistance has been predominantly at local administrative levels and has varied in its degree of linguistic, cultural, and technical appropriateness. Problems of inconsistency of advice, of redundancy of efforts among donors, or both, have resulted from extremely limited cooperation and consultation among aid providers, as well as from country difficulties in developing a systematic, comparative framework to help choose among competing options. Perhaps the most salient feature of donor efforts in supporting administrative transformation has been the limited extent of assistance in comparison with privatization, macro-stabilization, or social safety programs. Administrative reform programs were the stepchildren of the transition; most donors have not viewed them as critical to initial or even overall reform success. Of course, the enormous potential, and, in the case of Poland, actual impact, of EU accession on administrative change is the most striking external influence. This single incentive may have a greater effect on public administration reforms than any fiscal crisis or foreign aid package.
Indeed, it is likely that international technical assistance will focus increasingly on the need to build administrative capacity in CEE countries in order to meet the demands of EU negotiation and membership and to raise public administration performance standards for acceding countries to the prevailing standard for current member states.24

Lessons from the German Experience

Another potential external influence is the German transformation experience. As discussed earlier, Germany enjoyed a number of advantages over the other four country cases. These include, among others: an established, political, economic, and legal framework providing an operational model for eastern German reformers; the availability of administrative elites who could be transferred to the East; high levels of capital infusion and open-ended technical assistance in the form of twinning arrangements with western counterparts; and the consolidation of governmental functions at the national level, thus eliminating the need for hard decisions on the structure, function, and role of national government. The limits on “self-determination” and the already noted social and psychological costs of importing institutions and personnel, sometimes with more advantageous terms of service than locally recruited staff, were negative aspects of this experience, on the other hand.

Can and should any features of the German experience be replicated in other CEE countries? Those who know the German case well caution against overgeneralizing from it.25 But, the unique aspects of the German situation notwithstanding, some cross-applicability might be still be contemplated, and careful analysis of the German transformation process may, therefore, be warranted. The importance to the German success of an existing model strongly argues, for example, that CEE countries pay more attention to working out systems and approaches before taking reform action. This probably requires considerably more in-depth exposure of reformers to advanced and middle-income country experience.

The benefits of twinning could also be applied systematically in other CEE countries. In Germany, there were virtual “identical” twins available who provided a nearly perfect linguistic and cultural match. CEE countries might attempt to replicate this process through “serial fraternal twinning” which could create multiplier effects. A pilot agency or locality might twin with an appropriate foreign organization. This pilot could then twin again with another indigenous body to transfer the knowledge acquired through the original relationship. These relationships could also benefit from the open-ended, ongoing nature of the twinning assistance that seems to have occurred in Germany. This could be preferable to the short-term “body shop” approach utilized in much of the technical assistance that has been offered.
The screening process used by the Germans to qualify civil servants could also be adapted to other CEE circumstances. This means establishing standards and criteria that public servants would need to meet to retain their status or to be eligible for benefits and rights associated with the new civil service positions. Clearly, this is likely to be a contentious issue in some contexts. Poland’s initial consideration of this option in an early draft of its civil service act was mired in controversy and opposition. Although the recently promulgated Civil Service Law now provides for such criteria in principle, achieving consensus in practice on how standards should be applied may prove difficult. But, careful attention to the details of the German program and focused training to help individuals to meet new requirements could ease the difficulties of implementing this type of mechanism.

New Public Management: A Suitable Model?

The major disadvantage of the German experience that other CEE countries could avoid is the lack of choice in selecting a civil service model. One generic model that is, in principle, available to CEE countries is the New Public Management (NPM) approach that has been adopted in several advanced countries (New Zealand, Australia, and the United Kingdom are the model’s most active proponents.) New Public Management reforms have decentralized many central government functions, spinning off executing agencies while retaining policy functions in a much smaller core civil service. Financial and personnel management aspects of these reforms go hand in hand; the devolution of increasing responsibilities within agreed upon performance framework agreements or contracts within clear running cost parameters is based on highly developed, computerized systems of information management. These NPM models require high levels of human resource capacity throughout the system, as well as extensive technical capabilities up and down the line to allow for thorough monitoring of financial and personnel management activities.

The CEE countries examined here have steered curiously clear of the NPM approach. The implicit systems and models adopted so far have been the centralized hierarchies of the Weberian tradition. The strong national and organizational cultural preferences in CEE countries for these classical traditions is an important and quite valid justification for these choices. But, the irony is that, unlike many developing or transitional countries, some prevailing conditions in the countries examined here might lend themselves particularly well to at least partial applications of the NPM or the “new managerialism” more broadly. Personnel management, for instance, and to some extent financial management, are already rather decentralized in these countries. Their human resource endowment is high, enabling quick adaptation of technical and managerial techniques. One important constraint here
is the general disinclination toward independent decision making, but the introduction of rational incentives to reward autonomous behavior could help in this respect. CEE governments are now on the brink of introducing modern personnel and financial management systems into government. While advanced country centralized models may offer CEE nations significant improvements over the status quo, the opportunity to leapfrog to a more flexible system might not come again soon, especially if significant investments are made in centralized approaches. While it is unlikely that any of these countries, even those with such advantages, would be ready for a full-blown NPM system, or would necessarily want to adopt its most radical features, certain aspects of this model might be suitable to current CEE circumstances, particularly in light of changes that have already occurred.

Conclusion

The collapse of CEE communist regimes stirred hopes that profound changes would follow in all spheres of life—political, economic, social, and bureaucratic. From East to West, expectations ran high. In television advertisements broadcast around the world, for example, a multinational electric company sought to underscore its own well-known motto, “Progress is our most important product,” by depicting the dramatic moment when it helped mount, for the first time, electric lights on one of Budapest’s beautiful bridges across the Danube, illuminating the way to a new era. That brilliant flash somehow captured a widely held belief that spectacular and instantaneous transformation was taking place throughout the former Soviet bloc.

In many ways, these expectations have been at least partially realized in the political and economic realms. Social norms in many areas may also be said to have undergone impressive transformation, incorporating values and practices, often for better, and sometimes for worse, from abroad. In other important respects, however, the transition process has been less spontaneous and less penetrating. Many of the institutions that prevailed in the communist period have been slow to adapt to their new circumstances. In particular, bureaucracies of the ancien régime have proved strikingly resistant to wholesale transformation, dashing notions that modern, “western-style” administrations could be installed with minimal effort and maximal speed. Now, deep into the transition, the success of much of the overall reform agenda depends on the ability of these same bureaucracies to manage the tasks of government effectively. How well is this challenge being met in the CEE region? The proverbial choice between the “half-full” or “half-empty” glass could comfortably characterize much individual country progress on administrative reform. The “half-empty” side is that advances have been a long
time coming. More optimistically, the pace of change now seems to be accelerating, and there is reason to hope that reforms will speed up still further in response to both domestic and external pressures and incentives.

This chapter has highlighted some of the important, and often surprising, themes that resonate throughout the administrative reform experiences of the region. One important lesson—especially for those who thought the communist state would wither away as fundamental political and economic changes began to occur—is that administrative reform has not been taking place upon a tabula rasa; both communist and pre-communist structures and practices are still very much a part of today’s bureaucratic order. Instead, the overwhelming tendency has been one of structural conservatism. The “big bang” of economic reforms has not extended to the administrative sphere, where change has been incremental, ad hoc, and, in the main, un-strategic.

In the absence of consensus about the type of administrative models government might choose to adopt, countries frequently have favored purely legal-formal fixes to institutional problems. In so doing, they have run the risk of locking into place short-term arrangements that could compromise longer-term prospects for administrative development. They have also tended to encourage circumvention of unworkable legal restrictions through recourse to informal or parallel mechanisms. As a result of these problems, relatively little progress has been made toward creating a professionalized, performance-oriented civil service in much of the region. Training for sitting public servants has been minimal, and only limited incentives have been introduced to reward merit in promotion or remuneration, or to discourage corruption in office. As a result of these problems, relatively little progress has been made toward creating a professionalized, performance-oriented civil service in much of the region. Training for sitting public servants has been minimal, and only limited incentives have been introduced to reward merit in promotion or remuneration, or to discourage corruption in office. Despite sizeable turnover of personnel and targeted lustration policies, today’s “new civil servant” still bears a considerable resemblance to his or her communist predecessor.

There are, however, signs that this sluggish pace of reform may be picking up. One potential stimulus is fiscal pressure. Even though states are comparatively small in terms of overall employment levels, they are becoming increasingly expensive as revenues fail to keep up with wage expenditures. While forced contraction does not necessarily equal improved performance, a more concentrated focus on restructuring, rationalization, and “value for money” could reinforce efforts to build administrative capacity.

Administrative reform could also gain momentum with a boost from external assistance and incentives. Although foreign aid initiatives, until now, have often been haphazard and indiscriminate, CEE governments are becoming more sophisticated consumers of available international options, creating a demand for more customized, better targeted support. As the case of Poland demonstrates, the EU accession process may prove the most powerful motivator toward bolder administrative reform. This factor is likely to play an increasingly important role for other countries in the region as they...
get closer to EU membership. In addition, there are some as yet incompletely tapped international sources of innovation and wisdom to help guide reform programs in CEE countries. Indeed, CEE governments could accelerate their administrative transformation by learning from other successful transition experiences or by extrapolating useful applications from advanced country models.

Notes


3. Agh., ibid.


6. Joachim Jens Hesse argues that the introduction of external accountability mechanisms has covaried with the degree to which existing government agencies were able to control their abuses internally. See J.J. Hesse, “From Transformation to Modernization: Administrative Change in Central and Eastern Europe,” in *Administrative Transformation in Central and Eastern Europe*, ed. J.J. Hesse (Oxford: Blackwell Publishers, 1993), 240.
7. James Q. Wilson suggests that such organizational conservatism is second nature to most bureaucratic organizations, which resist any but the most peripheral changes; the most common structural modifications, he contends, are “add-ons.” See *Bureaucracy*.


11. Data for central government are based on national definitions of central government, which vary substantially by their inclusion or exclusion of the following groups: national police, defense workers (including civilian defense workers, professional military, conscripts), and employees of public enterprises (including railways and postal service).


14. Amsden, Kochanowicz, and Taylor make an analogy here with economic preferences, suggesting that in rejecting the ancien régime, Eastern Europe has been inappropriately nostalgic, choosing to create a model that by historical standards is already outdated. “[F]ew revolutionary societies have dipped into history so indiscriminately, or abused the past so wastefully, as Eastern Europe’s,” they state (ibid., 3).


17. The relationship between government performance and citizen demand has been the subject of an animated chicken-and-egg debate about whether social capital acts upon government or vice versa. Robert Putnam’s *Making Democracy Work* (Princeton: Princeton University Press, 1993) and “Bowling Alone: America’s Declining Social Capital,” *Journal of Democracy* 6, no. 1 (1995): 65–78, have been at the center of this discussion. Eloquent arguments concerning the active role of government in this equation have been made by Theda Skocpol in “Unraveling from Above,” *The American Prospect* (March–April 1996): 20–25 and *Protecting Soldiers and Mothers*.
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22. See von Beyme, ibid.


25. Both Hans-Ulrich Derlien, a contributor to this volume, and Joaquim Jens Hesse have serious doubts about the replicability of the German experience (personal communication, 1995).

26. For a more extensive discussion of these concepts, see Barbara Nunberg, Managing the Civil Service: Reform Lessons from Advanced Industrialized Countries, World Bank Discussion Paper No. 204 (Washington, D.C.: World Bank, 1995).

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