PARASTATAL PAY POLICY IN AFRICA

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Abstract

Public enterprises have grown to represent a significant share of modern sector employment in many African economies, yet little is known about public enterprise compensation and employment policies and their consequences. This paper both documents pay and employment outcomes for parastatals in a subset of sub-Saharan economies and describes the institutions which govern these outcomes. Evidence of parastatal pay premia over government counterparts is presented, while public/private enterprise pay differentials exhibit considerable cross-country variance. Whether or not such differentials inhibit parastatal performance or economy-wide resource allocation is evaluated in terms of two policy alternatives, parastatal wage-setting autonomy or unified public sector salary schemes.
Parastatal Pay Policy in Africa

I. Introduction

Public enterprises have grown to represent a significant share of modern sector output and employment in many developing nations, yet there have been few attempts to evaluate systematically enterprise compensation and employment practices. 1/ While there has been widespread criticism of government wage and employment policies, especially in Africa, few studies distinguish between the treatment of civil servants and public enterprise workers. 2/ This distinction is important because in many economies the institutions which govern these two groups of employees are significantly different and pay and employment outcomes which characterize one group may not pertain to the other.

Policies directed at parastatal compensation practices take on added significance in Africa given the expectations associated with the parastatal sector. State enterprises are often seen as major contributors to employment growth, the creation of backward and forward linkages, and the generation of public savings. Compensation or employment practices which inhibit public enterprise performance, therefore, may be especially costly. In addition, given the current size of the public enterprise sector, in many sub-Saharan economies often accounting for one-third of all wage employment, policies influencing enterprise behavior affect the allocation of labor and other resources throughout the formal economy.

In this paper a number of dimensions of parastatal pay policies are examined. Public enterprise employment policy will receive far less attention, given the lack of information on employment practices. The paper proceeds as follows. Section II briefly discusses the role of public
enterprises in developing economies, and documents the rapid growth in employment in African parastatals. Section III presents available evidence on parastatal pay differentials relative to government and private enterprises. There is widespread evidence of parastatal pay premia relative to government employment across all occupations, while parastatal/private differentials exhibit considerable cross-country variance. In Section IV the difficulties in interpreting available evidence on wage differences are reviewed and some of the specific pay-setting institutions which condition parastatal compensation in African economies are examined. Section V attempts to abstract from these institutions by evaluating the impact on economic performance of two opposing approaches to parastatal pay policy—unified salary schemes and wage-setting autonomy. Section VI provides some concluding remarks.

II. The Growth of Parastatal in Africa

Economists cite a variety of factors which encourage the formation of state enterprises as an alternative to either private enterprise or other forms of public regulation. Jones and Mason (1982) note four broad categories of determining factors: (i) ideological predilection; (ii) acquisition or consolidation of political or economic power; (iii) historical legacy or inertia; and (iv) pragmatic response to economic factors. Among the economic factors are the potential for greater reinvestment of profits due to the absence of shareholder claims; a response to monopoly elements in industrial structure; a mechanism for achieving social, as opposed to strictly commercial goals in production; and a complement to private enterprise in situations where entrepreneurship is both thinly developed and highly risk averse.
All these factors are apparent in the growth of parastatal firms in Africa over the past 20-30 years. Examples of noneconomic determinants might include the impact of African socialism (Tanzania) or the consolidation of domestic political and economic power (Malawi). More economic considerations probably account for the widespread use of state enterprises in such natural monopolies as railroads and power. Capital market imperfections may account for the frequent formation of state-run financial intermediaries, while concern over noncommercial objectives may motivate adoption of public firms in produce marketing.

Whatever the explanation, African parastatals are a major feature of the economic landscape. Starting from a negligible base at Independence, public enterprises have grown and proliferated across economic sectors. While anyone familiar with contemporary African economies would not deny the significance of parastatals, data that document the current size or growth rates in such enterprises are hard to come by. Not only lack of data but also difficulties in specifying which enterprises are, in fact, "public" complicate attempts to compute such measures. Definitional problems stem from the array of organizational forms that fall between the narrowly-defined government service and fully private establishments. Under Federal systems, there are national, state, and local public corporations. In most countries a distinction is drawn between public enterprises and joint ventures of private concerns and the government, further divided according to whether the government is a majority or minority partner. Statutory boards and the treatment of such organizations as central banks and universities further complicate the analysis of public enterprises as a distinct category of economic activity. These problems, of course, are compounded when making cross-country or inter-
temporal comparisons since national classification schemes vary and specific entities change their classification over time.

With these qualifications in mind, Table 1 presents information on parastatal employment for six sub-Saharan nations. Each nation's own official definition distinguishing parastatals from government and private enterprises is employed. The data are all derived from establishment surveys administered by labor ministries or central statistical bureaus. These surveys tend to rely on establishment registers and usually underestimate employment in most categories, especially in the private wage sector where registers are often outdated and survey response rates may be low. A further problem in making cross-country comparisons based on these data is that survey coverage varies widely. The minimum size of firms surveyed ranges from five to ten workers and inclusion of plantation wage workers differs between nations.

While the data base is admittedly weak, the results are consistent with casual observation. By the late 1970s/early 1980s, parastatal employment accounted for roughly 25 to 35 percent of all wage employment in the countries surveyed. 5/ The one exception appears to be Malawi, with only 11.2 percent of wage workers in parastatals. However, this result is somewhat misleading. Total wage employment in Malawi includes private plantation labor accounting, in 1980, for 43 percent of total wage employment and 64 percent of all private wage employment. If parastatal employment in Malawi is judged relative to total modern sector wage employment, that is, excluding private agricultural wage labor, the share of parastatal jobs nearly doubles to 20 percent. 6/ By comparison, similar adjustments for the other countries merely raise parastatal employment shares a few percentage points.
Table 1. Trends in Parastatal Employment

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Notes
a. A recent study, World Bank (1985), suggests that the parastatal employment share for 1970 is likely to be an underestimate of the situation in 1979.


The significance of parastatal employment in the modern sector was achieved in most cases by differentially higher rates of employment growth than in the private and government sectors. Parastatal employment growth has been especially rapid, over 10 percent per annum, in several nations over periods as long as 7-10 years. However, in interpreting these trends, it should not be concluded that all such employment growth was incremental. In many nations nationalization turned previously private firms into state enterprises, contributing to growth in parastatal, but not total, employment. 7/

What the trends documented in Table 1 highlight is the significance of parastatals as employers of wage labor in many African economies. If for no other reason than these magnitudes, parastatal pay policies should be considered important wage policy instruments warranting further attention.

III. Evidence on Parastatal Pay Differentials

Having documented that parastatals are major employers in Africa, what do we know about public enterprise compensation levels? Evidence on parastatal pay is available from national employment and earnings surveys; manpower, occupation and household surveys; and official salary schedules. These sources also often provide information on compensation in the government and/or private wage-paying sectors, permitting some calculation of relative earnings in public enterprises.

Turning first to aggregate evidence, mean earnings for all employees by employer category are available annually for a number of countries. For example, in 1980 average parastatal earnings in Zambia exceeded average government and private employee earnings by 41 percent and 33 percent respectively. By comparison, in Kenya in 1980 parastatal pay held, on average, no
advantage over government jobs and offered compensation 12 percent lower than that received by private nonagricultural wage workers. Clearly we cannot conclude from this evidence that a significant parastatal pay premium existed in Zambia but not in Kenya. While this may, in fact, be true, by not standardizing for inter-employer category skill differences, aggregated differentials are unreliable indicators of skill-compensated relative wages.

Earnings data for Tanzania illustrate the problem of interpreting parastatal pay differentials without adjusting for employer category occupation mix. Relying on a household survey, Lindauer and Sabot (1983) present the 1971 occupational earnings structure for male African employees in Tanzania by employer category. On average, parastatal workers earned 3 percent more than government workers and 56 percent more than private wage labor. However, when standardized by occupation, median parastatal pay advantages rose to 17 percent over government workers and dropped to 20 percent over the private sector. While occupational classification is only a crude approximation for underlying skill differences, it nonetheless provides more meaningful relative pay estimates across employer groups.

Occupational earnings data by employer category are available for a number of countries. In some cases (for example Mali, Sudan, Zambia) these comparisons can be drawn from official salary schedules for government and public enterprise employees. Comparable data, however, are not provided by the private sector. More complete coverage requires establishment or household surveys which include and report occupational pay according to employer category. Such surveys have not been widely undertaken in African economies, but are available for Kenya, Nigeria, Tanzania, and Zambia.
Evidence on relative parastatal pay by occupation is presented in Table 2. In Mali, Sudan, and Zambia, parastatal employees generally received wage compensation which exceeded that of government counterparts, although the positive premia had considerable variance, ranging from 2-48 percent of government pay. Nigeria appears to stand as a counterexample, exhibiting pay parity between the government and parastatals. However, some parastatal employees, most notably in the Nigerian National Petroleum Corporation, receive considerably higher total compensation than do government counterparts. Apparently such workers are not included in the sample from which the data in Table 2 are drawn. While public sector pay parity was supposed to result from the unification of all public pay scales following the Udoji pay reforms of the mid-1970s, significant exceptions to the parity rule appear to have occurred.

Estimates of parastatal/government pay differentials are also available from econometric studies of prevailing earnings structures. Lindauer and Sabot (1983) first provided such estimates for Tanzania in 1971, while a recent study by Knight and Sabot (1984) permits an estimation of the direction of relative parastatal earnings for Kenya and Tanzania in 1980. 10/ Both studies estimate earnings functions which account for worker and firm characteristics including employer category. Using a variant of the standard semi-logarithmic specification of earnings as a function of education, experience and other worker attributes, the results for Tanzania indicate a parastatal over government pay advantage which varies inversely with level of educational attainment, ceteris paribus. The results for Kenya are similar, although pay parity characterizes government and public enterprise workers with no formal education. 11/
Table 2. Pay Ratios in the Government, Parastatals and Private Firms for Selected African Nations

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<tr>
<th></th>
<th>Parastatal/ government</th>
<th>Parastatal/ private firm</th>
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<tbody>
<tr>
<td>I. OCCUPATIONAL PAY DATA</td>
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<tr>
<td>Mali (1984) a/</td>
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<tr>
<td>Higher-level staff</td>
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<tr>
<td>Lower-level staff</td>
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<td>n.a.</td>
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<tr>
<td>Nigeria (1982) b/</td>
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<tr>
<td>Permanent secretary/chief executive</td>
<td>1.00</td>
<td>0.50</td>
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<td>University graduate</td>
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<td>0.57</td>
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<td>Unskilled</td>
<td>1.00</td>
<td>0.95</td>
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<tr>
<td>Sudan (1983) a/</td>
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<tr>
<td>Deputy undersecretary/senior management</td>
<td>1.21 d/</td>
<td>n.a.</td>
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<td>1.04 d/</td>
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<tr>
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<tr>
<td>Supervisor</td>
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<td>0.80</td>
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<td>Zambia (1983) c/</td>
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<tr>
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<td>II. ECONOMETRIC STUDIES a/</td>
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<td>Uneducated</td>
<td>1.00</td>
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<tr>
<td>Tanzania (1980)</td>
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<tr>
<td>Educated</td>
<td>&gt;1.00</td>
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<tr>
<td>Uneducated</td>
<td>&gt;1.00</td>
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Notes

a. Refers to starting basic salaries. Information drawn from official salary schedules.
b. Refer to median and starting basic salaries in Nigeria and Zambia, respectively. Data drawn from establishment surveys: in Nigeria by a Federal pay research unit; in Zambia by a parastatal (copper mine conglomerate, ZCCM) pay research unit.
c. Refers to earnings/hour. Zambian data are from a special manpower survey of all establishments in four provinces covering some 100,000 individuals. (In 1980, total wage employment in Zambia was estimated to exceed 350,000.)
d. Refers to the common pay scale applicable to all public enterprises covered under the Public Corporations Act of 1976. Other public enterprises, for example Sudan Railways and the National Electricity Corporation, have their own pay scales. They indicate that these enterprises also share pay advantages over government workers at all occupations.
e. See text.

Turning to parastatal/private relative earnings, Nigeria exhibits a private sector pay advantage for all occupations, an advantage which increases as one moves up the occupational hierarchy. In Zambia and Tanzania, employer pay differentials vary by occupation and educational attainment, respectively. The least-skilled workers are best remunerated in the parastatal sector, while white-collar occupations do better in private wage employment. It should also be noted that the reported differences in Zambian relative earnings between 1980 and 1983 are likely to reflect differences between the coverage of the two surveys more than changes in relative wages during this three-year period. Lastly, pay parity appears to characterize parastatal/private pay in Kenya in 1980.

The evidence on parastatal pay differentials in the 1980s can be summarized as follows. At a minimum, the available evidence suggests that employer category, *ceteris paribus*, affects relative earnings. Specifically, in no instance does government pay surpass parastatal earnings, and in five if not all of the six nations some parastatal over government pay advantage is evident. It should be realized that, while the parastatal/government differential is generally in the same direction, the magnitude of the wage benefit across countries ranges from almost insignificant percentages to substantial amounts. Turning to comparisons of public and private enterprises, the limited available information exhibits some tendency (three out of four cases) for private in excess of parastatal pay for the managerial and administrative positions held by educated labor. For unskilled workers, the direction of parastatal pay relative to private firms shows no consistent cross-country pattern; however, unskilled labor generally receives more of a relative pay premium over private sector counterparts than do parastatal managerial staff.
IV. Evaluating Parastatal Pay Differentials

A number of questions arise from the evidence on parastatal pay differentials. Why, for example, do pay differentials exist across employer categories for workers of roughly similar occupations and what implications do these differentials have on the ability of employers to maintain and attract qualified workers? Furthermore, in those cases of parastatal pay premia, what is the source of the pay advantage and do such compensation practices represent the best use of scarce resources? Clearly, answers to these questions are important in assessing how prevailing systems of wage determination affect both parastatal performance and, more generally, the allocation of resources throughout the wage economy.

In trying to interpret the available information it is important to emphasize the difficulties in evaluating any set of relative earnings data. For one, wage payments may be a poor approximation of total compensation. Especially when making cross-employer category comparisons, differences in hours worked, nonwage pecuniary compensation, and unofficial perquisites of office confound government/parastatal/private wage sector comparisons. The hours worked problem is especially significant when relying on earnings and not wage data, and is further complicated by the notorious laxity of work rules in government relative to other employment. Nonwage pecuniary compensation may vary across employer groups, making relative nominal pay an imperfect index of relative compensation. In the African context, employer-provided housing, for example, often represents a significant fraction of total remuneration. Furthermore, provision of housing may well be correlated with employer category, being more prevalent in public than private employment. Finally, unofficial perquisites of office, especially for govern-

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ment officials, can involve potentially remunerative access to scarce goods and services which can easily reverse any pay differential suggested by nominal salary comparisons.

Beyond problems of accurately measuring total compensation, interpreting relative pay is complicated by problems of equalizing or compensating differentials. To assess adequately employer category premia requires standardization of relative wages by more than the crude occupation and education categories employed in the previous section. Unfortunately, many of the relevant worker and job characteristics which should be accounted for are often unmeasurable. Beyond the difficulties in defining both general and specific human capital, one should account for the hazards and unpleasantness of particular jobs and, especially in the context of public and nonpublic jobs, differential job security may be a significant source of compensating differentials.

Lastly, even if all the measurement problems just addressed could be resolved, prevailing wage differentials alone do not necessarily reveal sources of distortion in the earnings structure. While wage parity across employers for homogeneous workers and identical jobs is consistent with the efficient allocation of labor under assumptions of perfect competition, wage parity under alternative market structures might not produce the same efficient outcome. In fact, wage parity could coexist with open unemployment. This result is simply analogous to the product market case where equal output prices across firms is consistent with both perfect competition and perfectly collusive pricing behavior among oligopolists. Clearly, the efficient use of resources and the absence of price differentials are not synonymous. Given the limitations of interpreting relative wages alone, information on pay set-
ting institutions and policies and on employment practices should be combined with available earnings data to evaluate parastatal compensation.

Just as pay outcomes across employer categories vary across countries, so too do the rules governing parastatal compensation. Since parastatals are legal public entities, some policy position regarding compensation in state enterprises must be adopted. Usually this entails defining the relationship between civil servant compensation and public enterprise pay scales. The two polar cases appear to be unified salary structures and wage-setting autonomy. Under unified systems, pay parity by occupation between government and enterprise employees may be mandated. In principle, all forms of compensation are covered and no pecuniary wedge between civil servants and parastatal workers should exist. As already noted, such a system was prescribed after the Udoji Commission (1974) in Nigeria.

A weaker form of the unified salary system employs extended scales to the civil service salary structure, permitting some relative pay differential for similar occupations between government and state enterprises. Such a system has been employed in Zambia for parastatal management and most white-collar jobs following the recommendations of the Mwanakatwe Commission (1975). Nonetheless, even with the imposition of extended scales, parastatal pay levels are centrally determined as part of public salary review exercises.

In contrast, public enterprises can be permitted to operate under wage-setting autonomy, in essence behaving as if they were private firms. As with private firms, they must comply with existing labor legislation such as minimum wage orders and wage guidelines. According to Abdin et al (1983), in Ghana and Kenya parastatals have been allowed such autonomy, at least through the late 1970s. In addition, in Zambia, unionized parastatal employees,
representing the vast majority of production and hence all workers in Zambian public enterprises, engage in free collective bargaining with parastatal management. One outcome has been variance in intra-parastatal sector occupational wages, with mining and some manufacturing enterprises offering higher pay than, for example, state-run service corporations. Direct government involvement is in the form of ratification of collective agreements. Since 1983 ratification required that contracts fall within the prescribed ceiling for increases in enterprise nominal wage bills. The coupling of ratification procedures with restrictive wage guidelines did decrease the autonomy of parastatal pay setting. Private firms faced similar constraints, however; given that all public enterprises are unionized while all private firms are not, parastataals experienced differentially greater reduction in wage-setting flexibility over this period. 15/

Many nations appear to grant considerable freedom in wage setting to at least a subset of state corporations and statutory boards. Central banks, for example, are often treated in this manner. Sudan has institutionalized this process by granting some public corporations the special status of "public companies". One of the primary benefits of this status is the removal of specific government intervention in enterprise wage setting.

Between the cases of wage-setting autonomy and unified salary structures just described lie situations which offer parastataals different degrees of wage rigidity versus flexibility. In the Sudan, the flexibility permitted the "public companies" is the exception. Other Sudanese public corporations engage in direct negotiations on salary structures with the Ministry of Industry, that is, directly with the government. This system has led to separate settlements for some enterprises (for example, Sudan Railways
and the National Electricity Corporation), while other state enterprises are simply covered by a national wage act which defines a common 18-grade salary structure. In general, the Sudanese seem to be moving toward a more flexible pay-setting system through an increasing number of enterprise classifications. 16/ In Senegal parastatal pay determination shares much in common with the Sudan. An array of public enterprise categories exists, with differential legal status implying varying degrees of wage-setting autonomy. Layered on top of this system is a worker classification scheme which defines a worker's "attachment" to the civil service even though the worker is actually currently engaged in the public enterprise sector. While such a system permits considerable wage flexibility, it also imposes significant administrative burdens. Recognizing this problem, the Senegalese government hopes to overhaul the current system and establish a unified salary structure for most parastatal workers. Unlike the Sudanese, the system seems to be moving toward less flexibility. 17/

Use of a common pay scale for state enterprises distinct from government scales is also the system employed in Tanzania. An organ of government, the Standing Committee on Parastatal Organizations (SCOPO), has been responsible for determining this scale since 1967 under a mandate to move parastatal compensation "in line" with government pay levels. 18/

These descriptions of parastatal pay-setting regimes suggest considerable variance in parastatal pay policies across countries. It is likely that these policy differences contribute to the relative earnings outcomes discussed above. However, there does not appear to be any simple one-to-one correspondence between the degree of wage-autonomy and the direction of pay differentials reported in Table 2. Nonetheless, the degree
of autonomy should have some bearing on enterprise performance and resource allocation.

V. Parastatal Pay Policies and Economic Performance

Unified salary structures and wage-setting autonomy have been identified as opposite approaches to parastatal pay determination. In order to evaluate the impact of these two approaches on public enterprise performance and on the allocation of resources throughout the wage economy, first consider parastatal autonomy in wage setting. In the current development policy environment, pay-setting autonomy may have special appeal given the widespread support for such initiatives as liberalizing trade regimes and exchange rates, removing price controls and, in general, "getting the prices right" by allowing market forces to operate. At least on the surface wage-setting autonomy for state enterprises would be consistent with this policy direction.

If parastatals could be assumed to behave as profit maximizers within an environment of competitive factor and product markets, then complete wage flexibility would help to generate an efficient allocation of resources. However, if these assumptions are violated, wage-setting autonomy may pose problems for the allocation of resources and enterprise performance. Whether profit maximization is a good approximation of enterprise behavior depends upon the objectives and constraints which condition enterprise decisions. As has been pointed out in other studies, parastatal managers are often influenced by political as well as purely commercial factors. 19/ As government appointees, such managers may desire to enhance their own reputations. While enterprise profits may contribute to reputation,
maintaining high levels of production or minimizing enterprise labor problems
may also win considerable favor with government authorities. In such an
environment it is easy to see why parastatal pay might exceed compensation
prevailing elsewhere in the wage sector. Higher wages can be used to minimize
vacancies and worker turnover, thereby ensuring uninterrupted production.
Relative pay advantages may also be instrumental in securing labor peace. 20/

A more sinister view of parastatal wage autonomy is that parastatal
managers will award compensation packages consistent with increasing personal
material well-being. An example of this problem arises in Zambia where
parastatal management may have an incentive to offer generous terms to
unionized workers. Such agreements may then be used in negotiations with
government officials over extended salary scales to secure higher compensation
for white-collar parastatal workers citing internal wage structure arguments.

Clearly all managers, be they in government, parastatals, or private
enterprises, face many of the same incentives for awarding compensation in
excess of prevailing levels. However, what may distinguish these different
employer categories from actually doing so are the constraints which confront
them. For private establishments, firm profitability may determine long-run
survival; for government, fiscal austerity and the institutions of wage
setting may impose greater limits on wage determination than those faced by
individual public enterprises. Parastatals may be less constrained because
their long-run survival may not be based on profits. The ability to pass on
losses to the government treasury removes some of the discipline of the market
place in conditioning factor pricing decisions. In addition, many parastatals
operate either behind tariff or other trade barriers, or as domestic
monopolies. Economic rents earned in product markets, therefore, increase

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their ability to pay. If the parastatal desires to surpass prevailing wages, it may have more freedom to do so relative to other employers.

If parastatal pay advantages exist they are likely to generate a flow of workers away from other wage employers. Especially for scarce managerial and technical skills, the resulting cross-employer category distribution of labor may not be as efficient as the distribution which would be forthcoming from a more competitive labor market environment. In addition, the commercial profitability of state enterprises may be impaired by such pay and employment outcomes as the premia which are frequently awarded unskilled workers over both government and private counterparts. The apparent economic rent earned by such workers is difficult to justify, given the usual excess supply of this type of labor.

In many African economies there is evidence of a movement of workers out of government and into parastatals. Whether or not such movements represent an inefficient allocation of resources remains an open question. However, the decision in many of these economies to move away from systems of relative public enterprise pay-setting autonomy to more unified salary schemes between government and parastatals often appears to have been in reaction to the exodus of government personnel to the public enterprises. This exodus was often related to parastatal pay which dominated government compensation. As the parastatal sector grew, government employment problems mounted, impairing the performance of the government sector itself. 21/ A move toward pay parity between state enterprises and civil servants was seen as removing parastatal pay advantages which in turn would reduce worker preference for parastatal over government jobs.

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The intent of unified schemes is to reallocate labor skills between government and nongovernment employers. Unfortunately, the use of de facto wage-fixing usually does not resolve the fundamental problem of allocating scarce resources. While in principle the unified salary approach removes wage competition as a rationing device, the underlying problem of excess demand for certain labor skills remains. As long as excess demand characterizes the market environment, some mechanism for allocating scarce manpower skills will evolve, with alternative mechanisms having different implications for wage sector performance.

By not solving the problem of excess demand for labor, the unified salary systems appear to break down in one way or another. Countries, Sudan being a good example, begin to devise new institutional categories for state enterprises which sanction exceptions to the rules. In other situations, departure from prescribed compensation is achieved through a range of practices. For example, nonwage benefits including housing, transport, education and entertainment allowances, and opportunities for foreign travel are designed to circumvent the intent of the unified salary system. Since parastatals are generally more autonomous than are individual government departments, public enterprises are in a better position to offer these nonwage perquisites. Job classification and the placement of workers within prescribed salary structures are other mechanisms available to parastatal employers for creating pay differentials over would-be government counterparts. The resulting levels of relative parastatal compensation again serve an allocative function, but in an analogous manner may generate the types of problems which exist under systems of wage-setting autonomy.
Alternatively, if the guidelines of unified systems are respected, cases of excess demand for particular labor skills can result in public enterprise production bottlenecks. By not being able to offer pay incentives to secure critical manpower, especially vis-a-vis the private wage sector, parastatal performance is compromised and unified scales fail as an allocative device. While in principle this need not occur, in practice uniform and centrally administered pay scales cannot effectively reward as diverse a workforce as is present in the government and public enterprises combined.

Uniform systems may be associated with problems of restraining parastatal wage offers and, hence, creating problems associated with excess demand for labor. However, pay parity schemes may also be responsible for generating public versus private employer pay premia. For example, cases of public sector pay advantages for unskilled workers may occur under unified salary systems just as they do under conditions of parastatal wage autonomy. This will occur if the entire public sector's pay offer is in excess of worker reservation wages in the modern sector. Unified systems should, therefore, not be automatically associated with a government policy of either low wages or wage restraint.

Clearly there are weaknesses in both the unified and wage autonomy approaches. Unified salary schemes can be used to check potential abuses under autonomous systems, while more autonomy may be a device for improving allocation. Is a hybrid combination of the two approaches a necessary compromise? The task before government is to try to check abuses of parastatal autonomy while encouraging the best use of scarce labor skills. Increasing the commercial accountability of enterprises by promoting the competitiveness of the product market environment and reducing enterprise
subsidies may be more effective than centrally administered factor pricing rules. Given the obstacles to rapid liberalization of the economy, the imposition of some review and/or control over parastatal wage and employment policy may nonetheless be required to reconcile the labor requirements of all wage sector employers.

VI. Conclusion

The purpose of this paper was to draw attention to parastatal pay determination as a policy issue. Evidence was presented on the significance of parastatal employment in the wage sector of many African economies. Evidence was also presented on parastatal pay relative to other modern sector employers, namely government and private establishments. Parastatal pay advantages over government appear to be quite common, while parastatal/private differentials exhibit considerable cross-country variance. It was also noted that the institutions which condition observed pay outcomes appear to vary across nations according to the degree of wage-setting autonomy afforded the public enterprise sector.

While it was not possible to draw any simple correspondence between pay setting regimes and pay outcomes, inherent problems in both unified salary and autonomous systems exist. Neither a system of wage control nor one of wage decontrol will necessarily solve the underlying problem of resource allocation. In evaluating any nation's existing parastatal pay policies attention must, therefore, be paid to the objectives and constraints which motivate enterprise behavior. When such information is combined with data on relative pay and employment outcomes, it should be possible to begin to articulate potential directions for pay policy reforms.
Notes


2. General discussions of government pay policy can be found in Gregory (1975), Kannappan (1983), and Webb (1977). Berg (1967) calls specific attention to the problem of public enterprise pay policy, noting "... the question of intra-public sector wage relationships is in practice extraordinarily complex and a continuing source of difficulty in many less-developed countries." (p. 329).

3. Discussion of the determinants of public enterprises can be found in three collections of articles, Baumol (1980), Jones (1982), and Shepard (1976). See, in particular, the contributions by Roy, Jones and Mason, and Sheahan in each of the volumes respectively.


5. Recall that for most African economies, 80 percent or more of the total labor force is engaged in nonwage agricultural employment. Therefore, in most cases, while parastatal employment accounts for a quarter to a third of wage labor, it accounts for less than 10 percent of the labor force.

6. Inclusion of plantation agriculture labor also explains some of Malawi's relatively high rates of private and total employment growth reported in Table 1. Restricting wage employment by excluding private agricultural wage labor lowers the 1970-80 total employment growth rate to 6.5 percent, still the highest rate experienced by this sample of nations.

7. Similarly, but far less frequently, public divestiture, as recommended in Kenya by the Working Party on Government Expenditures (1982), would decrease parastatal employment while producing no short-run changes in total wage employment.

8. Zambian differentials were computed using the Republic of Zambia, Report on Employment and Earnings, 1980, Table 3.1. For Kenya, the results were derived from Republic of Kenya, Economic Survey, 1982, Table 4.9.

9. Derived from Lindauer and Sabot (1983), Table 1.

10. One specification of the Lindauer and Sabot (1983) wage equation permitted a point estimate of the average parastatal pay advantage over government (12 percent) and private (19 percent) workers in 1971. However, Knight and Sabot (1984) only employ an estimating equation which includes an array of interaction terms between employer category dummy variables and worker and firm characteristics. This specification
permits the earnings structure to vary across employer categories and, hence, provides no estimate of the mean pay ratio across employers.

11. All conclusions on employer category pay differentials on Kenya and Tanzania from Knight and Sabot (1984) are derived from their Table 2 and should not be interpreted as necessarily representing the views of these authors.

12. According to Abdin et al (1983), as a result of the Udoji Commission's recommendations, near-parity in nominal pay between the public (that is, civil service and public enterprises) and private sectors was momentarily achieved in 1974 for the entire range of managerial and professional salaries. However, within a few years private salaries had re-established their lead (p. 26).

13. The role of housing as a pecuniary advantage compensating for otherwise lower pay for civil servants should not be exaggerated. While some nations, for example Malawi and Zambia, have long traditions of housing as part of government employee compensation, other nations, for example Kenya and Sudan, have none. Even in those nations which traditionally have provided housing, mounting fiscal constraints have significantly reduced the number of civil servants who actually receive housing benefits.


19. See, for example, discussions by Aharoni, Escobar and Jones in Jones (1982).

20. Vermeulen and Sethi (1982) advance a similar hypothesis in examining differentially lower levels of strikes and lockouts in public versus private enterprises in India. According to their "soft-management" theory, "public managers have a bureaucratic disposition to avoid open conflict" and are more willing to acquiesce to labor demands. Such managers wish to minimize labor unrest and may do so by granting relatively better pay.

21. By way of an example, in Zambia in the mid-1970s it was reported that 20 percent of secondary school teachers were leaving the government teachers service for administrative positions in public enterprises because of parastatal pay advantages (see World Bank (1977)).
References


