

Pay Commission - Role and Mandate

Mains: GS II - Governance

Why in News?

Recently, the Central government has constituted the 8th Central Pay Commission (CPC) with retired Justice Ranjana Prakash Desai as the Chairperson.

What is a pay commission?

- **Establishment** - Pay commissions are set up in India by an executive order based on a Cabinet decision.
- **Role** - The role of the CPC is to go into various issues of salary structures, retirement benefits and other service conditions of Central government employees, including defence personnel, and make suitable recommendations on the changes required.
- **Historical background** - The first CPC was set up in 1946.
- **The Terms of Reference (TOR)** - The TOR of the pay commissions are finalised by the Union Cabinet.
- The TOR include:
 - Economic conditions of the country and the need for fiscal prudence
 - Need to ensure adequate resources for developmental expenditure and welfare measures;
 - Unfunded cost of non-contributory pension schemes;
 - Impact of recommendations on State government finances that usually adopt the recommendations of the CPC.
 - The prevailing emolument structure and working conditions available for central public sector undertakings and private sector employees.

What are the international practices and Indian situation?

- **Compensation system** - Globally, till the 1970s, the compensation system for the public sector was aimed at achieving equity by benchmarking them with similar roles in the private employment market.
- **Efficiency** - In the 1980s, efficiency replaced equity as the key principle in determining compensation.
- **Performance** - Starting with the 1990s, performance and incentives became the key principle while balancing them with affordability.
- **Skills and competency** - At present, public sector compensation systems are evolving to recruit and retain individuals with appropriate competencies and skills, while attempting to contain the total cost to the public exchequer.

- As per global standards the key characteristics of fair compensation in the public sector are clear philosophy, ability to attract talent, internal equity, external competitiveness and clarity.
- **Indian scenario** - In India while internal equity is given adequate weightage, external competitiveness lags behind when it comes to compensation for top positions.
- It is interesting to note some comparative data for large democracies on certain parameters of public sector employment *summarised in Table 1.*

Table1: Comparison of public sector employment and expenditure

Country	Public sector wage bill (% of GDP)	Public sector wage bill (% of total expenditure)	Public sector employment (% of total employment)
India	5.48	17.70	8.5
U.S.	9.50	20.58	12.9
U.K.	10.20	20.29	29.0
France	13.37	21.43	31.5
Germany	8.51	16.46	22.4
Brazil	10.65	24.92	12.5

Source: World Bank – World Bureaucracy Indicators - 2022

- It can be observed that while the general perception in our country is that public sector employment and wages are huge with limited efficiency, it is lesser in almost all parameters when compared to other major democracies.

What lies ahead?

- **Comparison of public and private** - The TOR requires the CPC to compare the pay structure of the public sector with the private sector.
- This has been addressed even in earlier pay commissions.
- Entry level posts in the public sector have significantly higher salaries than their private counterparts while it is the opposite for higher posts and specialist roles.
- The compression ratio, that is, the ratio of lowest to highest salaries in the Central government has been fixed at 1:12.5 in the seventh CPC.
- Privileges and perks coupled with job security is a significant intangible that makes up for lower salary packages in top government posts.
- However, this needs to be revisited with respect to certain top posts and specialist roles in order to attract and retain talent.
- **Inclusion of other factors** - Intangibles like learning and development, training, and work environment including flexible working and health promotion are not part of the TOR.
- It may be expected that the Commission will address these issues in its final report.
- Finally, the 8th CPC has been mandated to consider economic conditions, need to ensure adequate resources for welfare, and unfunded cost of non-contributory pension schemes.
- **Impact on exchequer** - The pension bill for the year 2025-26 is estimated at ₹2.76 lakh crore out of the total revenue expenditure of ₹39.44 lakh crore of the central government.

- The impact of non-contributory pension schemes on the government exchequer needs to be borne in mind while making recommendations.
- However, welfare measures are political decisions that keep evolving.
- New schemes are announced by the Centre from time to time.
- Considering these factors, a commission with members from the judiciary, academia and bureaucracy may not be equipped to assess the impact.
- There may also be a case for broad basing the commission with finance and human resource professionals to bring in diverse opinions.

Reference

[The Hindu| Pay Commission](#)

