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Study on Earlier Pay Commissions and Their Impact on Income Distribution in India

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Abstract – The former Prime Minister of India, Dr. Manmohan Singh approved the constitution of the 'Seventh Central Pay Commission (CPC)' for revising the salary and other benefits of eight million central government employees and pensioners after seven years of sixth pay commission. The sitting of Seventh Pay Commission was declared just before the election. The expected benefits to the Government employees and pensioners would be considerable. The main objective of the research is to study the earlier pay commissions and their impact on income distribution in India. The study found that the implementation of earlier Central Pay Commission (CPC) recommendations put tremendous pressure on the state exchequer. Although beneficiaries of CPC recommendations would enjoy good life, the number is negligible. The paper also compiles researcher opinions and comments from industry bodies. In this paper, the author puts forth the stories of exploitation of private employees which the victims described during interaction. This paper aims to help the reader study the impact of seventh pay commission from different angles and would probably suggest to the Government of India to take a fresh look to the issue.

Keywords: Central Pay Commission, Income-Divide, Job Stability, Employee Salary, Job Roles, Social Disadvantage, Redistributive Pressure, Inclusive Growth.

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I. INTRODUCTION

The Seventh Central Pay Commission was comprised on February 28, 2014 to survey and make reasonable proposals on emoluments' structure and related issues of Central Government employees. The Commission has been given a time span of year and a half to present its proposals. The Commission is to analyze the present policies and practices identified with remittance structure in Central Public Sector Undertakings and the best worldwide practices pertinent to Indian setting while at the same time making its make its suggestions.

Keeping in see its command, the Seventh Central Pay Commission needs to comprehend the nature and quantum of absolute remuneration of employment profiles in the government segment opposite likewise put profiles in the central open division endeavours and the private area. It is significant that the Seventh Central Pay Commission takes an educated choice about the pay structure, advantages and stipends, in real money or in kind, of different similar occupations across areas. Analysis of remuneration data across various divisions will give a benchmark to understanding pay structure for various levels and capacities [1]. A survey of existing remuneration structures will likewise assist with supporting and rearrange the remittance structures of the government division. A remuneration structure planned around distinguished elements is relied upon to have noteworthy bearing in drawing in, cultivating, and incentivizing ability too, which identifies with another significant feature of the Seventh Central Pay Commission's terms of reference [2].

A. *Objective of the study*

The main objective of the paper is to study the impact of seventh pay commission from different angles and would probably suggest to the Government of India to take a fresh look to the issue.

II. EMPLOYEE SALARY: COMPONENTS & STRUCTURE

Employee salary is focused on the following fundamentals of paying for Person,

Performance and Position:

- **Person based:** The salary offered to an individual depends on the competencies that a person brings to the job. These competencies can be in terms of knowledge, abilities, and attributes. Under this schema, there can be a variance in the compensation of the individuals performing same job however who possess different levels of competencies. This is more prevalent in private sector. In-demand aptitudes order a premium in the market and person possessing those abilities can have a higher compensation than others. Allowances, for example, ability based incentive and retention allowance figure prominently in person based compensation structure and such compensation structure is normally kept flexible so as to reconfigure as per demand and supply circumstance in the work market.

- **Pay for performance:** The salary offered to an individual is based on relative evaluation of individual performance compared to a benchmark. A hearty performance management system is a pre requisite for such a compensation system. Right now individuals performing same job yet at different levels of performance will get different compensation packages. Such salary structure is normally driven by a blend of fixed pay and performance based variable pay. This variable pay is apportioned to employees on their relative positioning that is arrived after assessing their performance. Like person based pay, performance pay is prevalent in private sector where premium is placed on achieving stretch objectives. For the most part, firms so as to control their wage charge yet in addition motivate their best performers, set a bell curve of relative performances. Normally a predetermined percentage of employees are disbursed the highest packages and the base performers are disbursed lowest. Notwithstanding individual performance, team and authoritative performance are additionally considered for the variable pay [3].

- **Pay for position:** Pay is centered at work and not on the individual. Each position is assigned a pay range based hands on duties. This is the beginning stage for determining the salary structure of the association. Right now, with different level of competencies and performance level may get accommodated in the same compensation levels if the associations don't incorporate the Person and the Performance aspects of salary. This is generally prevalent in government sector associations where premium is placed on equity. Each job requires certain competencies and least level of such competencies is determined and set. Any person meeting these requirements will get the same emoluments as any one outperforming them. Such structure is characterized by extremely high extent of fixed pay. Based on our review of academic and practitioners' literature, we have taken position based components of salary as the beginning stage to analyze salary differential across jobs right now [4].

III. IMPACT OF PAY COMMISSIONS ON INDIAN ECONOMY

Pay commission is a panel consisting of the members of the Union Cabinet of India for hiking the salaries of the government employees. The First Pay Commission was constituted in May 1946, which submitted its report in a year. The Second Pay Commission was constituted in August 1957 and it gave its report after two years with a financial impact of Rs 396 million. The Third Central Pay Commission came into being in April 1970 and it gave its report in March 1973. The financial burden to the exchequer was Rs 1.44 billion. The Fourth Central Pay Commission was established in June 1983, which gave its report in three phases within four years. The proposals of the fourth Pay Commission cost the government Rs 12.8 billion [5]. In 1997, the fifth pay commission (FPC) was constituted. Its recommendations were expected to cost the government Rs 170billion (http://www.tradechakra.com/indian-economy/pay-commission.html).But, the liability on the Central Government as a result of implementing the FPC award was estimated to be Rs.185billion by the end of February 1998.The impact was spread over the period from 1997-98 to 2000-01, rather than being a mere one off impact in 1997-98.The proportion of wages, salaries and pensions of the Central Government employees, as a proportion to the gross domestic products (GDP), increased from 2.7 per cent in 1996-97 to 3.3 per cent for three years up to 2000-01.But, it tapered back to about 2.7 per cent by 2003-04.Thus, the impact of the FPC approximately amounted to about 0.6 per cent of GDP per annum over a four-year period –a cumulative impact of 2.4 per cent –for the Central Government.

In respect of the State Governments, owing to the absence of budgetary data on salary expenditure, the impact of FPC was ascertained from its proxy taken as the non-plan revenue expenditure in social, economic and administrative services. The impact was visible from the year 1999-2000 when the proxy indicator as a proportion to GDP rose from 6.6 per cent in 1998-99 to 7.0 per cent in 1999-2000 andto7.2 per cent in 2000-01.Subsequently, it declined back to 6.7 per cent in 2001-02. Thus, the impact of FPC for the States amounted to approximately 0.4-0.6 per cent of GDP (a cumulative impact of 1.0 per cent over the two-year period).The combined impact of FPC recommendations on the Centre and States, thus, approximated to around 1.0 per cent of GDP (a cumulative impact of 3.4 per cent for four years).At the same time, it would probably not be unfair to mention that there was a decline in the tax-GDP ratio in the late 1990s.It exacerbated the impact on the Government finances (http://mostlyeconomics.wordpress.com/2008/03/03/impact-of-sixth-pay-commission-on-fiscal/).

In July 2006, the sixth pay commission was set up. The high fiscal impact of the Sixth Pay Commission – an annual recurring expenditure of over Rs 220 billion at the centre excluding states –was one of the factors that triggered high inflation and the subsequent growth slowdown. R. Jagannathan opines that Seventh Pay Commission would ensure that inflation gets worse, the exchequer gets into a mess, and the growth slowdown gets accelerated. He also mentions that if the last Commission (Sixth Pay Commission) raised the salary costs by Rs 220 billion a year, after the double-digit inflationary regime of United Progressive Alliance-2 (UPA-2), one can safely assume that the Seventh Pay Commission-imposed costs would not be less than Rs 500 billion as additional annual salary costs for the centre only (http://www.firstpost.com/politics/7th-pay-commission-upa-gives-up-on-2014-queers-pitch-for-next-govt-1134547.html).On the other hand, Central Government(CG) employees complain that out of total revenue of Central Government, the share of CG Employees towards salary, perks, and pension amount is just 10.47 %. It was 16% at the time of 6th CPC. They demand that the dearness allowance and all other allowances maybe paid free of net taxes as per the Fifth Central Pay Commission report vide Para no. 105.12 and 167 (http://www.govtempdiary.com/2014/03/indian-tax-system-and-effect-on-central-government-employees/).

The Seventh Pay Commission recommendations, as per the terms of reference, have to be made keeping in view the economic conditions in the country. The need for fiscal prudence becomes a priority. It is necessary to ensure that adequate resources are available for developmental as well as welfare measures. But, the Commission, it is said, would make its recommendations within 18 months of the date of its constitution. It may consider if necessary, sending interim reports on any of the matters when the same is finalized. It has been said in the Central Pay Commission's (CPC) term of reference (http://7thpaycommission.in/wp-content/uploads/2013/10/7th_pay_commission.jpg) [6]. The projected pay scale is given in Table.

Table 1.1: 7th Pay Commission Projected Pay Scale

SIXTH CPC PAY STRUCTURE				PROJECTED PAY STRUCTURE FOR 7th PAY COMMISSION		
				Projected entry level pay using uniform multiplying factor of '3'		
Name of Pay Band/ Scale	Corresponding Pay Bands	Corresponding Grade Pay	Entry Grade +band pay	Band Pay	Grade Pay	Entry Pay
PB-1	5200-20200	1800	7000	15600-60600	5400	21000
PB-1	5200-20200	1900	7730	15600-60600	5700	23190
PB-1	5200-20200	2000	8460	15600-60600	6000	25380
PB-1	5200-20200	2400	9910	15600-60600	7200	29730
PB-1	5200-20200	2800	11360	15600-60600	8400	34080
PB-2	9300-34800	4200	13500	29900-104400	12600	40500
PB-2	9300-34800	4600	17140	29900-104400	13800	51420
PB-2	9300-34800	4800	18150	29900-104400	14400	54450
PB-3	15600-39100	5400	21000	29900-104400	16200	63000
PB-3	15600-39100	6600	25530	46800-117300	19800	76590
PB-3	15600-39100	7600	29500	46800-117300	22800	88500
PB-4	37400-67000	8700	46100	112200-20100	26100	138300
PB-4	37400-67000	8900	49100	112200-20100	26700	147300
PB-4	37400-67000	10000	53000	112200-20100	30000	159000
HAG	67000- (ann increment @ 3%) -79000	Nil				201000
HAG+ Scale	75500- (ann increment @ 3%) -80000	Nil				226500
Apex Scale	80000 (Fixed)	Nil				240000
Cab. Sec.	90000 (Fixed)	Nil				270000

IV. JOB ROLES: GENERIC & SPECIFIC

In order to understand the framework for identification of job families in the government sector we first introduce the concept of Job Family, Job Function and Job Role.

Table 1.2: Definitions of Job Family, Job Function and Job Role

Job Family:	A job family can be regarded as a collection of similar jobs at the uppermost level that typically consists of multiple job functions. It is the first level in the pyramid of job breakdown within a workforce. The purpose is to divide the labour force into coherent and concrete segments to permit for deeper workforce analysis.
Job Function:	A job function is a subdivision of jobs in a job family that need similar skills, abilities, knowledge and training.
Job Role:	A job role is a subdivision of jobs within a job function that permits for additional refining and combination of required skills, abilities, knowledge and training.
Source: Australian Public Service Commission http://www.apsc.gov.au/publications-and-media/current-publications/workforce-planning-guide/segmenting-your-workforce accessed on February 5, 2015	

In order to explain further, we consider an example:

Job Family: Human Resources, Job Function: Recruitment, Job Role: Recruitment Officer

Job family based framework has been conceptualised in many advanced countries for compensation and human capital management [7].

A. Classifying Job Families in the Government Sector in India

In order to isolate job families, we first need to make a broad segmentation of various syndicates or functions of government so as to develop a way to classify the family accordingly.

Going by the list of departments that are required to prepare result framework documents, the departments/ ministries have been grouped into seven syndicates. These seven syndicates are:

► Syndicate 1: Agriculture & Rural Development

- Syndicate 2: Human Development
- Syndicate 3: Resource Management
- Syndicate 4: Trade, Industry & Services
- Syndicate 5: Infrastructure Management
- Syndicate 6: Social Welfare

Based on the functions and as per demands made in the memoranda and the Oral

Submissions to the Sixth Central Pay Commission, the functions executed by ministries/departments are classified into Sovereign, Regulatory, and Commercial.

The Sixth Central Pay Commission has defined certain jobs under the normal category and for which sourcing is done by different departments as indicated by their requirements. Employees on these roles don't have any planned career progression. The Sixth Central Pay Commission suggested that employees belonging to basic categories must be given basic pay scales which are assigned based on the entry level capability. These pay scales and the specified structure must be consistently applied in all departments. These ought to be equality with the pay scale of comparative personnel in the central secretariat. Coming up next were classified as normal categories by the Sixth Central Pay Commission: Accounts Staff belonging to unorganized records cadres; Artists; Para Medical Staff; Canteen Staff; Photographers; Caretaking Staff; Police Personnel; Drawing Office Staff; Printing staff; Drivers; Receptionist; E D P Staff; Store Keeping Staff; Fire Fighting Staff; Teachers; Library Staff; Veterinarians; and Laboratory Staff [8].

Coming up next are generally considered belonging to basic cadres in administrative offices: General Helpers, Lower Division Clerks, Upper Division Clerks, Data Entry Operators,

Stenographers, Assistants, Senior Assistants, Personal Assistants, Private Secretaries, Senior

Private Secretaries, Office Superintendents, Administrative Officers in Grades III, II and I, etc.

With the above foundation the job families going under the Central Government can be comprehensively classified as: generic job families and specific job families. The generic job families are regular across sectors and job competencies have high transferability. An example of generic arrangement is given below:

Job Family: Accountant, Job Function: Costing, Job Role: Cost Accountant

The specific job families are not so common across sectors and job competencies have low transferability. An example of specific classification is given below:

Job Family: Tax Enforcement, Job Function: Investigation, Job Role: Tax Inspector [9].

V. PAY COMMISSION AND INCOME DIVIDE

By the recommendation of Seventh Pay Commission, some five million government servants and three million pensioners will benefit. It is considered to be a vote bank, even if the resulting deficit busts the government's own fiscal bank. As a result, an already stretched Fiscal Deficit could worsen further, giving rise to downgrades by international rating agencies. It is safe to conclude that pay revision in the government sector will lead to a revision of wages and salaries in the private sector making the economy high cost. Seventh Pay Commission is one of a piece with the earlier two initiatives of the UPA –the food and land bills. The food bill, ostensibly intended to tackle hunger and malnutrition. The author has the feeling that malnutrition is not going to go away by giving rice and wheat cheaper to the poor. They need protein-based foods, better sanitation and healthcare. By cutting entitlements (from 35 kg to 25 kg per family of five) and extending the subsidy to two-thirds of the population (more than double the current recipients), the bill will give benefits to the non-poor, even while making the budget deficits worse. The land bill too is intended to make things worse for the economy (http://www.firstpost.com/politics/7th-pay-commission-upa-gives-up-on-2014-queers-pitch-for-next-govt-1134547.html) [10].

In a recent paper titled, 'The Official Poor in India Summed Up' Shukla (2011), gives estimates of income inequality and poverty utilizing NCAER's household income surveys data (MIMAP 1994-95 and NSHIE 2004-05).The figure is a departure from the conventional estimation of poverty based on NSSO's household utilization expenditure data [11]. One of the striking discoveries of the paper is the increase in inequality in both rustic just as urban India. However, the sharper decline is noted in the middle than the base. The share of base 20% was 7% in 1993-94, it declined to 6% in 2014-15. The expected yearly increase in average Indian household income would be about Rs 11,000 between 2011and 2015, Shukla estimated. The urbanites would increase 3 times more than rustic. Shukla (2011) observed that the top 20%in both country and urban India would pick up Rs 24,000 and Rs 75,000 in their yearly income. Then again, people at the base of the pyramid would be increasing just about Rs 2,100, irrespective of place of residence.

VI. STUDIES ON PAY COMMISSION

The Sixth Pay Commission's recommendations were implemented in 2008.There used to be an average gap of 11to13 years between two pay commissions, hence, the seventh pay commission was expected after 2017. Despite what might be expected, it is the main pay commission that was set up soon after seven years and barely five years after its implementation. The economy, actually, was not allowed to have enough time to change the excesses of the last pay hike. R. Jagannathan discovers the impropriety of setting of Seventh Pay Commission. From the start, setting up a pay commission just before the elections indicates a mala fide political motive. Secondly, it is completely irresponsible. The government's finances are in the most noticeably terrible possible shape at this moment. The monetary deficit is worse than it was in 2003-04, the most recent year of the National Democratic Alliance (NDA). Third, it is an inappropriate thing at an inappropriate time, says R. Jagannathan. The high monetary effect of the Sixth Finance Commission – a yearly recurring expense of over Rs 220billion at the center excluding states – was one of the components that triggered high swelling and the subsequent development lull. R. Jagannathan opines that a politically bankrupt government is ensuring that it leaves a bankrupt treasury and a whole host of ticking time bombs for the next government. According to him, it makes one wonder if the UPA has the country's interests in mind. No government which believes it has a chance of coming back to power would ever do what the UPA did over the last few months (http://www.firstpost.com/politics/7th-pay-commission-upa-gives-up-on-2014-queers-pitch-for-next-govt-1134547.html) [12].

A report quoted the speech of Dr. Rakesh Mohan, the former Deputy Governor-RBI. It analyzed the impact of Sixth Pay Commission. The analysis says assuming that the scale of the impact of the Sixth Pay Commission (SPC) to be similar to FPC in proportionate terms, the pressures on expenditures may amount to about 1.0 per cent of GDP per annum for the Centre and States combined, spread over a 3-4 year period. This means it would add about 1% to the total expenditure for the 3-4 years when it is implemented. This is a pretty big figure (http://mostlyeconomics.wordpress.com/2008/03/03/impact-of-sixth-pay-commission-on-fiscal/). This is equivalent to the absolute yearly health budget of the Union of India. The circumstance was not as terrible as in the time of FPC and would likely become worse during the Seventh Pay Commission period. Rakesh Mohan additionally cautions to keep a watch on charge GDP proportion for averting trouble during the Seventh Pay Commission period.

Federation of Indian Micro, Small and Medium Enterprises (FISME) in its reaction mentions that salaries, perks and retirement benefits of government servants are soaring. In a nation where an engineer in the private sector would be earning Rs 30 thousand or so towards the end of his career, an engineer in government would be drawing a pension of Rs 40 thousand after retirement in addition to other perks after having enjoyed large pay checks, unlimited perks, prestige, power, secured tenure and advancements during active service. Above all, all these go to them nearly without responsibility. FISME apprehends that implementation of pay commission recommendations would increase the expense of working together in India and would make India a significant expense economy. FISME opines that it would likely to have an effect

On India's competitiveness and would have a devastating falling effect on the private sector wages, especially for little and medium firms.

The Economic Times (26.09.2013) reports that the financial deficit rose to 6 per cent in 2008-09 and 6.5 per cent in 2009-10 from 2.5 per cent in 2007-08, a slippage the government is yet to rein in. Chidambaram's announcement to contain financial deficit to 3 per cent of GDP seems a long ways because in 2013-14, it is above 4.8 per cent of GDP and pre-election announcements seem to play devastation to monetary management. An Economic Times report on 'Effect of Sixth Pay Commission on Economy'(August 15, 2008) mentions that the pay round comes generally once per decade and the previous one of every 1997 raised salaries for federal employees by nearly 40 percent, provoking many state governments to go with the same pattern. It blew the combined state and federal deficit to nearly 10 per cent of GDP. Arranging Commission member, Arun Maira said at a FICCI seminar in Kolkata that all government employees might want to enjoy the pay commission recommendations while others may not. He terms it as a major election force and the coming circumstance would be interesting as it is an election time (The Economic Times, 26th September, 2013) [13].

ASSOCHAM Secretary General D S Rawat was of sentiment that the hefty pay hikes for the central government employees as experienced on accepting previous pay commission recommendations would go about as a major channel on government finances and would add to an inflationary pressure.

Suman Jyoti Khaitan, the President of PHD Chamber of Commerce suggests that the government should focus on reforms in improving the supply side economics and on supply chain management because increase in income levels without adequate infrastructure and supply scenario could lead to higher inflation(http://www.financialexpress.com/news/ind ia-inc-warns-govt-over-seventh-pay-commission-salary-hikes/1174237) [13].

CONCLUSION

Market growth is good. It drives production and accelerates consumption. Consumption would increase only when people have the capacity to pay. That means, when people have stable, surplus income; they would start spending for consumer goods. But, Indian economy is not driven by providing stable liveable income to its population. The corporate sector has been successful to force the Government in curbing the coercive power of Indian labor laws. The business world is also interested for inflation driven product-push. It is needless to mention that the action is short-sighted and is against the interest of a stable society. Economists are writing columns on labour reforms. They argue that the ability to fire employees at the demand slump and to hire them at the time of rise in demand would help increase employment generation, better income distribution and poverty reduction. But, they completely ignore stable income generation. In a protected economy like India, if people run pillar to post to get justice in labour disputes; what would happen if recommended labour reforms are implemented? So, it would probably be practical on the part of the Narendra Modi Government to keep India a low cost economy by controlling inflation, reducing compensation gap and by improving job stability.

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