Pay commission gains may not come from back date

The windfall government employees receive by way of pay commission award arrears may no longer be forthcoming. The government is examining a proposal to implement pay commission awards prospectively on the lines of finance commission awards, as large arrears throw the finances of both the Centre and states in disarray.

It is reported that the Government is considering the suggestions of 13th Finance Commission to avoid payment of arrears arising out of retrospective implementation of Pay Commission in the future . It is also reported that final call on the issue would be taken when the next pay commission is constituted. Pay commissions are usually set up at intervals of 10 years. The Sixth Pay Commission, the most recent, gave its recommendations in March 2008. It had proposed pay raises between 20% and 40% for government employees.

The finance ministry had told a parliamentary panel last week that the issue should be deliberated upon as retrospective implementation of pay commission awards has had adverse impact on the finances of the Centre as well as the states, a government official privy to the meeting said. Many state governments had expressed concerns over the issue of arrears. States set up pay commissions for their own employees after the pay commission for the central government employees submits its report.

"While many reforms can and should be contemplated to end this self-inflicted distortion, one action that could be taken immediately is that of making the pay award commence from the date on which the recommendations of future pay commissions are accepted by the government," the 13th FinanceCommission had said in its report.

The burden of arrears on the central government from the Sixth Pay Commission award was Rs 28,160 crore on a salary base of Rs 44,360 crore. This was because the recommendations of the panel announced in 2008 were implemented retrospectively from January 1, 2006.

To save itself from a larger fiscal trouble, the Centre disbursed the arrears in two installments: 40% in 2008-09 and 60% in 2009-10. The arrears contributed significantly to the Centre overshooting its target in 2008-09, ending the year with a fiscal deficit of 6% of the gross domestic product (GDP) against the budgeted 2.5%. The fiscal deficit rose to 6.4% of GDP in 2009-10 as pay commission arrears pushed up the expenditure when the government was battling slowdown in revenues.

The Centre had to readjust its fissense but can work only if pay commission reports come well in time for implementation prospectively," said D K Srivastava, director, Madras School of Economics. Unlike the private sector, the government does not give annual salary hikes to its employees . Instead, it gives out dearness allowance twice a year to compensate for the rise in prices. The periodic pay commissions help adjust government salaries to market benchmarks. Most experts find the system flawed, as the performance benchmarks are not included in the salary revisions. The Sixth PayCommission had recommended a performance related pay for government employees.

It has budgeted a fiscal deficit of 4.6% of GDP for 2011-12, which is projected to drop to 3.5% in 2013-14. The finance commission had said if the Centre implemented pay awards prospectively, it would give state governments an opportunity to time their awards in a way that the need for arrears does not arise.

"If finance commissions are able to present their inter-governmental recommendations without any need for retrospective fiscal transactions, then the same should be possible in the case of paycommission as well," the commission had reasoned in its report.

Source: The Economic Times