PUBLIC MANAGEMENT SERVICE
PUBLIC MANAGEMENT COMMITTEE

EMERGING TRENDS IN PUBLIC EMPLOYMENT MANAGEMENT

Activity Meeting on Human Resources Management
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1. This note is based on the information and data available in PUMA on recent developments in human resource management systems and related issues in the public sector in some OECD countries. It reflects the OECD analysis on HRM issues in the public sector. Its purpose is to highlight relevant issues to provide a basis for debate during the meeting. For further information concerning the purpose and objectives of each session, the participants may refer to the Annotated Agenda [PUMA/HRM(98)1].

Background

2. Many OECD countries reformed their public personnel management systems during the 1980s. In addition to identifying emerging models and promising practice, it is important to seek explanations for the trends and for new or persisting problems. Conditions in the labour market as a whole cannot be disregarded when looking at public employment management, since the latter is bound to be affected by general labour market conditions.

3. Research on the operation of the labour market and its relationship in terms of economic performance generally focuses on the private sector labour market. Public sector employment is rarely considered. Yet the public sector made significant contributions, until the early 1990s, to job creation in most OECD countries. During this period, public sector recruitment needs clearly had an impact on the labour supply available for recruitment by the private sector. The environment has now changed, with policies aimed at reducing or limiting public sector employment leading to increased competition for recruitment, in particular for young skilled people, and the distinction between public and private labour markets is now a more pertinent question than before.

More flexible public labour markets

4. Broadly speaking, the public sector (here taken as excluding state-owned enterprises) was separated from the private sector until the early 1990s in most OECD countries by human resource management systems that provided guaranteed employment and uniform treatment. These features (along with others) created a special internal labour market. With the removal of these features, a question arises as to whether this becomes an external market. The report on Public Sector Workforce Adjustments [PUMA/HRM/RD(98)1] describes a wide range of experience in changing recruitment methods, terms of employment and separation procedures. The changes have taken place either as a direct result of policy moves to cut public employment and make it more flexible and/or as part of a broader reshaping of the functions of government, combined with efforts to increase efficiency.

5. The report looks in detail at experience in Sweden and the United States, where two quite distinct strategies have been pursued. In Sweden the authorities have endeavoured to establish a single labour market. From the mid-1980s onwards they introduced a package of measures designed to help labour move from the private to the public sector and vice versa. One of the most effective measures was the reform of public service job classification. More recently, as part of the policy to cut public employment, the Swedish Government set up an agency to help redeploy surplus staff, outside the public sector. Recent practices shows that governments are not according priority to redundant public employees in hiring decisions.
6. In the United States the main aim was to cut federal government spending. The authorities accordingly moved to cut federal employment over the period 1993-1999, with all federal agencies being required to cut staffing by about 12 per cent over the period, whatever their specific requirements and financial position. More recently, with staff-cutting programmes virtually completed, the question of mobility has received growing attention. Recruitment from the private sector and placing federal officials in the private sector are recent initiatives which have won support. Until the early 1980s the federal government pension scheme operated against mobility of this kind. The full effects of measures to increase flexibility have not yet been realised, in particular because large numbers of officials are still covered by the earlier pension provisions. Financial incentives for staff to move within the federal public service, and between it and the private sector, have also been proposed by Congress.

7. Other significant examples of changes in the functioning of the public labour market can be found in OECD countries. In New Zealand the 1991 Employment Contracts Act applies to private and public sector employees alike, creating a largely uniform labour market. All vacancies in government service are open to all, for instance, and recruitment is strictly on merit whatever the origins. At the same time, the significant pay differentials weighted towards the private sector, in particular for middle and top management posts, suggest that the labour market is not entirely deregulated, at least as far as pay setting is concerned. In Canada job security provisions were amended in the 1990s. Government departments most heavily affected by programme cutbacks were exempted from the requirement to make “a reasonable offer of employment”. That concept was subsequently revised to take into account offers from the private sector. Emphasis is placed on the principle of continuity of employment, whether within the public service or outside.

Reducing the quantum of public employment

8. In the United Kingdom the first major changes on the public employment scene occurred in the early 1980s, when a number of changes were introduced including widespread contracting out to the private sector. The introduction of compulsory tendering procedures in those years contributed significantly to making the public labour market more flexible. Employment was reduced not simply because bids from in-house teams were not successful, but also because successful in-house teams made cutbacks to bring their costs down. The outcome was a fall in public employment of around 14 per cent between 1985 and 1996, one of the largest reductions among OECD countries.

9. It is difficult to evaluate precisely the number of staff involved in changes of duty or changes of status in the absence of full data. The report on Impact of Privatisation and Corporatisation on Public Pay and Employment (Hand Out 3) provides a picture of the types of institutional change that have occurred in the provision of public sector goods and services in OECD countries, and endeavours to evaluate their impact on public employment and on total employment as well.

10. Figure No. 1 illustrates employment trends in the public and private sectors over the periods 1985-1990 and 1991-1996 in a number of OECD countries. Over the earlier period, jobs were created in both sectors in most countries. There were a few exceptions, however. Three countries showed falls in public employment -- the United Kingdom, for the reasons mentioned earlier, and Ireland and the Netherlands, which imposed a bar on public service recruitment. Finland and New Zealand, at low points in their economic cycle, showed a fall in total employment -- in both private and public sectors for Finland, and in the private sector alone for New Zealand. Over the later period, a combination of fiscal

1. To allow comparisons over time and with other countries, employment in National Health Trusts is included in public employment.
Trends in wage dispersion

11. The degree of wage dispersion found in the private sector in a number of OECD countries (Australia, Sweden, the United Kingdom, the United States) is more than that in the public sector (cf. Pay and Employment Data Update [PUMA/HR(98)2], Table 6a). This appears to reflect: (i) the real wages of the lowest-skilled staff in the public sector have probably risen proportionally more than in the private sector; and (ii) the remuneration of top public service officials has not risen as much as the remuneration of their private sector counterparts.

12. As there are more employees on low and medium-range remuneration in the public service, average earnings in the public sector should in principle be expected to rise more quickly than in the private sector, if current dispersion trends continue. That is in fact what has happened in a number of countries, including Australia, Canada and the United Kingdom ([PUMA/HRM(98)2], Table 8). But the opposite occurred during the 1990s in New Zealand and the United States. In the absence of data on wage dispersion\(^2\) no firm conclusions can be drawn, but it may be argued that specific structural factors (changing age or grade distribution) have affected the public service population in these two countries. The possibility of a change in wage dispersion as a result of public sector management policy is an emerging issue for analysis\(^3\).

Recruiting and retaining staff

13. Holding down public sector pay dispersion has significant consequences for personnel management. Despite efforts by some governments to open up the public employment market and encourage mobility between the public and private sectors, it seems likely that low-skilled vacancies in the public sector will attract a growing number of applicants (because the public sector pays more). In the case of high-skilled posts, as the public sector pays less than the private sector, recruiting and retaining staff at this level will become more difficult.

14. Empirical research in the United States and France (by Alan Krueger, 1993, and Dominique Meurs, 1993, respectively) has demonstrated that application rates for public posts reflect the sector’s pull, and vary according to the scope for employment in the private sector. The writers show that relative public/private compensation and numbers of applicants move in the same direction, and that higher unemployment raises the number of applicants for public sector jobs. The relative significance of these two variables (financial pull, labour market conditions) probably varies from country to country and over time. In France, for instance, more applicants than before are sitting public service competitive examinations. Unfavourable conditions on the labour market have brought about widespread “over-
“skilling” in the public service, a mismatch between successful applicants’ skills and the posts to which they are assigned. The sidelining of less qualified applicants (who are nonetheless adequately skilled for the posts on offer) and the keenness of over-qualified entrants to reach higher grades without delay will place pressures on management.

15. It is not uncommon for a country to have difficulties in recruiting for some occupations (or some skills) and at the same time have a surplus supply for other occupations. When there is manifest competition between the public and private sectors, governments are drawn by a variety of means to raise the level of compensation for posts attracting fewer applicants. Where that country has a system based on internal equity, increases paid to some categories of staff will drive up remuneration as a whole over the longer run, thereby generating a financial pull towards sectors less affected by competition as well.

16. This goes some way to explain why a number of countries, seeking to control wage costs, to adjust staffing levels to the requirements of each particular agency and to take account of conditions in local and occupational labour markets, have opted to decentralise personnel management, including wage determination, to the workplace.

Human resource management at the workplace

17. Budgetary pressures and the increasing importance attached to results and the effective use of resources, including human resources, have caused an increased awareness of the role of the workplace. It appears that other pressures - such as new forms of work organisation due to increasing use of information technologies; changes in required qualifications and description of public jobs; the ageing population and increased competition with the private sector for recruiting young employees - are best dealt with at workplace level. Restructuring Government Human Resource Issues at the Workplace Level (Hand Out 2) identifies issues related to changes in the Federal Canadian government and raises a number of workplace issues.

Changing structure of the public workforce

18. Public management reform has also affected the structure of public employment. The contracting-out of some service activities (catering, cleaning, maintenance and so on) has changed the skill and gender structure, inasmuch as many of the low-skilled jobs exiting from the public sector are held by women. All forms of incentives to leave or take early retirement are another significant factor in changing the composition of the public workforce. Some age groups (e.g. 35-44 years and 45-54 years) are over-represented. Recruitment freezes in many OECD countries have also influenced the share of young employees (25-34 years) in public employment. However, young recruits will have to be brought in for some of the vacancies at one time or another. These younger, more qualified employees, more concerned with building up skills than with a guarantee of lifetime employment, call for development programmes tailored to their needs and expectations.

What is expected of the new personnel management systems in the public sector?

19. There is a growing variety of organisational forms in the public sector, and new working methods are developing. Accordingly, one of the main challenges for government authorities is to build up an effective workforce, capable of adjusting to change and responding to new requirements. It seems likely that over the coming years government bodies will have to manage a diversity of staff (with
“permanent” officials working alongside colleagues from the private sector). One particular challenge will be to still offer all employees a common framework that takes the skills and competencies of each individual into account. Such a common framework might operate either at the central government level or the agency or department level. Determination of the best point for employment - the central government or agencies or departments - is an open issue which depends on national decision. Public employers will continue to have a need to access the appropriate skills and knowledge relevant for their operations. This will continue to rely - to a large extent - on targeted training programmes.

![Average annual changes over the period 1985-1990](chart.png)
Changes in private sector employment

Average annual changes over the period 1991-96*

-5 -3 -1 1 3 5 Changes in public sector employment

Changes in private sector employment

* 1991-93, for Iceland and Luxembourg
1991-94, for Portugal
1991-95, for Germany, Canada, Denmark, Italy, Netherlands and Sweden.