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# NEWSLETTER



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## Employment in the Public Sector: International Comparisons

### Summary

According to figures from the International Labour Organisation (ILO), in 2008 Croatian general government employed 17% of all people in work, while the average of other countries was 19%. In the same year, 12.5% of all employed people worked in Croatian public corporations, while the average in other countries was 6.2%. In 2008 compensation of employees in Croatian general government came to 9.8% of GDP, which is lower than the average of other countries, which came to 11.2%. But because of the various problems related to the definition and scope of the public sector, particularly of public corporations, figures from international comparisons need to be treated with circumspection.

### 1. Methodological problems in the analysis of the public sector

Measurement of the total size of the public sector of individual countries and comparisons in international

terms do not constitute a simple task. Problems come into being because of the different methodologies for measuring and the manner of defining the public sector and employment. In addition, countries differ in their geographic and demographic characteristics, political organisation, level of fiscal and institutional decentralisation, structure of governmental activities, tradition and level of subcontracting to the private sector and the development of the non-governmental sector. All of this affects the size of the public sector.

In an analysis of employment in the public sector, the most important research is that of the ILO and the Organization for Economic Cooperation and Development (OECD), but their investigations are marked by many methodological problems. For example, ILO data are unreliable for they have been collected from various kinds of sources and differing methods (labour force surveys, business and administrative units surveys, from administrative registers and linked sources, official estimates and combinations of different sources) and the number of employed people is expressed in various units (total, only employees with full contracts, full

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time equivalent employees). In the working materials of the ILO Statistics Office, the methodology, structures and trends of public sector employment are described (Hammouya, 1999). Because of the importance of employment in the public sector for every economy, it is surprising that the official statistics of many countries are of very low quality (Hoffmann, 2002). Since figures that the ILO collects for various countries are not always of equal quality, increased circumspection is required in interpretations of international comparisons.<sup>1</sup>

For these reasons, measurements of the number of those employed in the public sector are fairly complex, and the quality and reliability of the data are questionable. Since each method for collecting data has some drawbacks, it would be more accurate to say that it is in fact estimates that are concerned.

## 2. Definition of the public sector

The greatest problem in the analysis of the public sector is posed by the varying definitions and methodologies for the calculations.

Government Financial Statistics (GFS, 2001) of the International Monetary Fund (IMF) distinguish, in the context of the overall public sector, between general government and public and quasi-public companies.

General government comprises all levels of government (central, federal i.e. provincial or regional states, and local government units), government units and nonprofit institutions that collect revenue and create expenditure for the state that, mostly, controls them, and producers for the market, which are not limited liability companies and cannot be classified as quasi-corporations. The System of National Accounts (SNA<sup>2</sup>) uses a broader and more general definition according to which “the general government sector consists of the totality of institutional units, which, in addition to fulfilling their political responsibilities and their role of economic regulation, produce principally non-market services (possibly goods) at low prices for individual or collective consumption and redistribute income and wealth”.

The IMF Manual on Government Finance Statistics (1986, 2001) considers public corporations units owned by the state and/or under state control that sell industrial or commercial goods and services to the general pu-

blic and that are formed like corporations. The definition is neither unambiguous nor detailed for it is much easier to determine the owner of some firm than to define state control over it. Usually public government or a private person who possesses all or over 50% of the shares or other kind of equity of a firm is considered the owner of the firm, while the control of public authorities is determined as the real influence of government on the fundamental aspects of the firm’s operations. But a further problem is that in the definition and determination of public firms state minority ownership can be combined with state control, and in some cases this control is extremely hard to ascertain, for which reason it can happen that majority state ownership fundamentally defines a public company. The IMF Manual says that ultimately the legislations in the individual countries allow a firm in private ownership to be a public firm, on condition that it is controlled by the state, and that it produces for a wide circle of consumers. But most often it is assumed that public firms are those that are owned by the state. Public firms exist because of market failure (for example, natural monopolies that without government regulation would produce an inadequate quantity of goods at too high a price) and because of the need for state regulation. Although it is precisely for these reasons that a state founds public firms in public municipal economy services (power supply, communications, transportation, water supply and ports) they also appear in other sectors. In practice the procedure is pragmatic and not too much account is paid to the complexity of the definitions, and all statutorily defined firms that are most often majority state owned or under state control, including in the domain of the provision of public and municipal economy services are considered public firms.

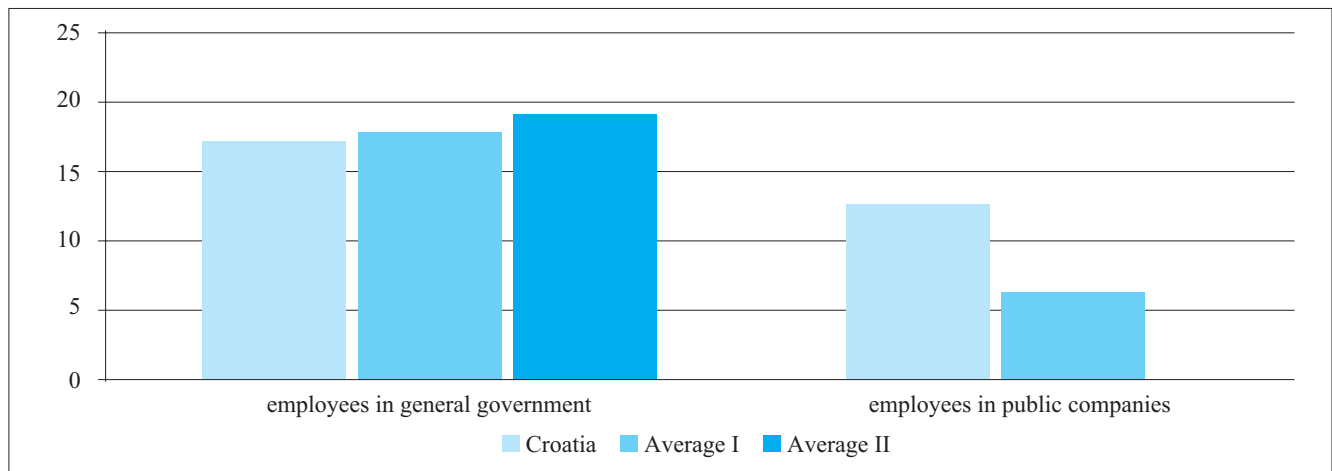
Accepting the IMF definitions of the public sector, we can say that the Croatian public sector consists of two parts: of general government and of the public firms (companies). General government comprises central government (spending agencies and extra-budgetary funds) and local and regional units of government. Croatian public corporations according to the Budget Law (Official Gazette 87/08) are made up of all legal entities in direct majority or indirect state ownership, shares or equity of which are in the Republic of Croatia portfolio, or in which the Republic of Croatia has founder’s (owner’s) rights, and are divided into financial and non-financial.

In spite of the methodological and terminological problems, in the sequel we shall endeavour to position the Croatian public sector in international terms.

<sup>1</sup> The ILO collects information on the basis of the concept of the public sector contained in the System of National Accounts (SNA), according to which the public sector is divided into general government and the public corporation sector.

<sup>2</sup> International statistical standards and methodologies of the UN.

Graph 1 Employees in general government and in public firms as a proportion of overall employment, 2008, in %



NB: Average I in the case of those employed in general government refers to 13 countries of the EU for which the data were accessible. In Average II, two EU countries with unreliable data were excluded. In the case of public firms Average I refers to 10 EU countries for which the data were accessible. A similar figure is obtained by a comparison of the data for the 2005-2007 period, data being accessible in that period for a larger number of countries.

Source: International Labour Organisation, the LABORSTA database: Public Sector Employment, <http://laborsta.ilo.org>

### 3. Comparison of an estimate of employment in the public sector according to ILO figures

Graph 1 shows estimates of public sector employment in the Republic of Croatia in 2008 and the average for EU countries for which the data were accessible. The left hand part of the figure shows those employed in general government, and in the right, those employed in public corporations.

The estimate for those employed in general government in Croatia in 2008 as a proportion of overall employment came to 16.99%, which is a little lower than Average I (17.62%) and than Average II (19.07%). But it needs reiterating that the difference can arise because of the different definitions of the public sector in differing countries, as well as because of the differing methods for collecting data. The problem of comparability of data is still more marked in the case of the public firms. From Graph 1 it can be seen that the proportion of those employed in public firms in Croatia in 2008 was 12.47% of all employed persons, while the average of all the countries covered (Average I) came to 6.2%.

### 4. Comparison of employment in some areas of the National Classification of Activities

The ILO data described above concerning employment in the general government sector and in public firms for Croatia were collected from the labour force survey.

Total data (general government and public firms) from this survey are also presented in the Statistical Yearbook of the Croatian Bureau of Statistics (CBS, 2009; category of employed marked “State sector and sector in transition”, table 6-19) and correspond to the ILO data. It can be seen from this table how many public sector employees are employed in given areas of the National Classification of Activities (NCA). On the other hand, the CBS (2009, 6-2) gives information about how many employees in legal entities within individual areas of the NCA related to persons employed by legal entities owned by the state.

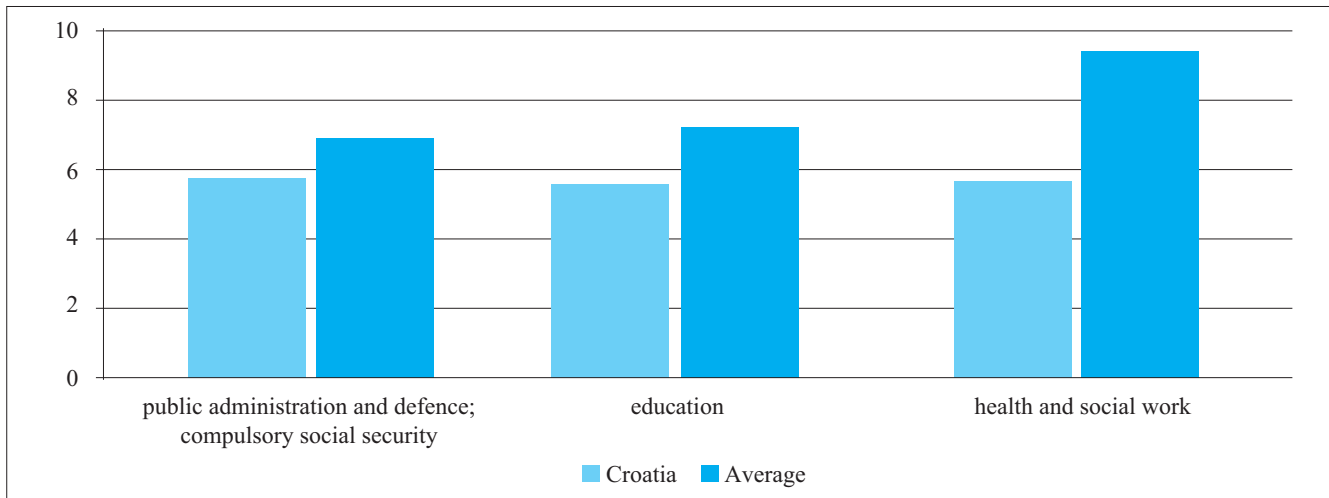
Graph 2 shows (internationally comparable) data about people employed in those areas of the NCA in which in Croatia (and many other countries) a large proportion of employees work in the public sector. Above all these are the activities of: public administration and defence; compulsory social security, education, and health and social work.

According to the figures of the CBS (2009, table 6-2), of the total number of people employed in legal entities in these areas of the NCA the follow proportions refer to employees of state-owned legal entities:

- public administration and defence; compulsory social security 99.7%;
- education 94.3% and
- health and social work 85.7%.

At the same time, in Croatia in 2008, of the total number of public sector employees, 19.4% of them were employed in the area of public administration and de-

Graph 2 Persons employed in some areas of the NCA as proportion of total employment, 2008, in %



NB: The average relates to 27 countries for which the data were accessible (EU countries save for Bulgaria, Poland, Slovenia and Sweden, as well as Turkey, Switzerland, Norway and Iceland).

Source: Eurostat, Labour Force Survey

fence; compulsory social security; 17.8% in the area of education; and in the area of health and social work, 15.2% (CBS, 2009, table 6-19).

As can be seen from Graph 2, employees in the three NCA areas shown as proportion of the total employment in Croatia in 2008 are lower than the average of the 27 countries analysed. In 2008 in Croatia 5.75% of totally employed persons worked in the area public administration and defence; compulsory social security (average 6.9%), in the area education 5.59% (average 7.16%) and in the area health and social work 5.64% (average 9.43%).

As well as in these areas, in Croatia there is a significant percentage of public sector employees (CBS, 2009, table 6-19) employed in the following NCA areas: manufacturing (9.6%); electricity, gas and water supply (5.4%); other community, social and personal service activities (6.5%) and transport, storage and communication (11.6%).

Also, according to figures from the CBS (2009, table 6-2), of the total number of employees in legal entities in these areas of the NCA, the following proportions related to employees of legal entities that were owned by the state: manufacturing 6.2%; electricity, gas and water supply 92.6%; other community, social and personal service activities 57.2% and transport, storage and communication 42.6%.

It should be mentioned that the proportion of people employed in Croatia in the area of other community, social and personal service activities is lower than the average of the European countries considered. Fur-

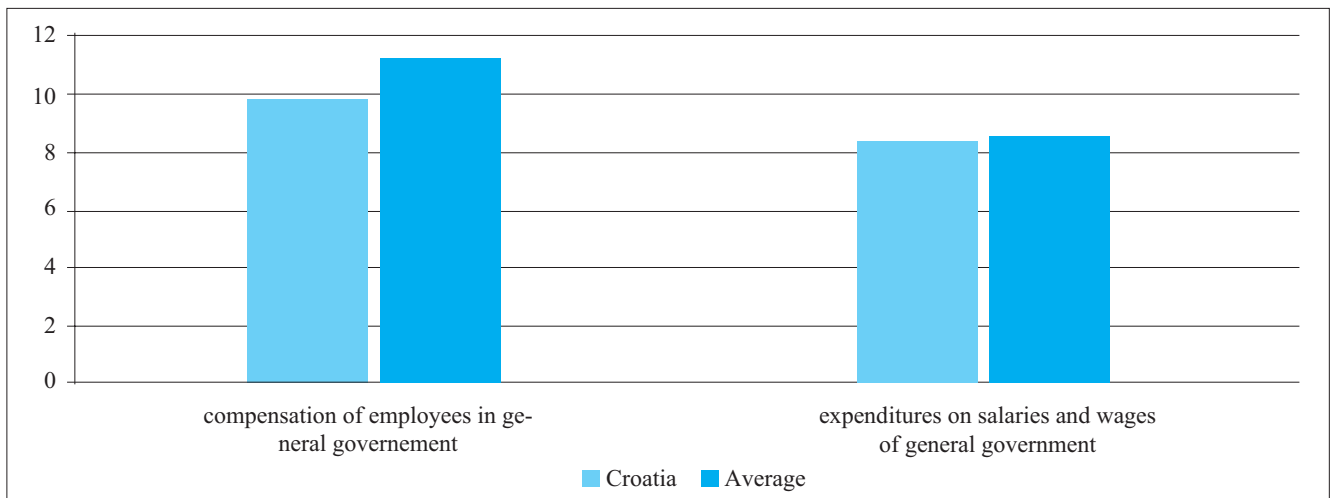
thermore, while for the manufacturing we are probably dealing at least partially with not yet privatised firms that are dealing with ordinary market activities, in the other two areas the great state-owned monopolists dominate, such as Hrvatska elektroprivreda and Hrvatske željeznice. In these areas of the NCA it is not a matter of the typical activities that the state necessarily has to carry out. More often than with for example health or education services it will happen that the government leaves them to the private sector, with appropriate regulation (Cullis and Jones, 2009), and these are thus not shown in an international comparison.

## 5. Comparison of expenditures for compensation of employees and of expenditures on salaries and wages of general consolidated government

Graph 3 shows a comparison of expenditures for compensation of employees (left hand part) and for salaries and wages (right hand part) from the budget of general consolidated government expressed as proportions of GDP.<sup>3</sup> It is important to mention that these data are not burdened with problems of comparability, and are important in the context of the (relative) burden of financing employees in the public sector whose salaries are paid out of the budget of general government.

<sup>3</sup> Compensation of employees includes expenditures for wages and salaries and employers' social contributions.

Graph 3 Compensation of employees and expenditures for salaries and wages from the budget of general consolidated government as proportions of GDP in 2008, in %



NB: In the case of compensation of employees the average relates to 25 countries of the EU, and in the case of expenditure for salaries and wages to 20 countries of the EU for which the data were accessible.

Source: Eurostat, Ministry of Finance of the Republic of Croatia, CBS

In Croatia, compensation of employees from the budget of consolidated general government as proportion of GDP in 2008 came to 9.83% (average 11.19%). When employers' social contributions are excluded, expenditure for salaries and wages from the budget of general government as a proportion of GDP comes to 8.37% (average 8.63%). A similar result is obtained for earlier years (2005-2007), with the remark that in this period figures were obtainable for a larger number of countries. It can be concluded that expenditures of general government for employee compensation measured as a proportion of GDP do not represent a greater burden for the taxpayers of Croatia than they do (on average) for the taxpayers of other European countries.

## 6. Conclusion

What do these figures about the Croatian public sector tell us? Primarily, they have been useful for an approximate positioning of Croatia as against other countries, primarily members of the EU, but tell us nothing of the performance of employees in the Croatian public sector, or whether there is any possible surplus or deficit in their numbers. It is clear that from the beginning of the current global economic crisis, the proportions referred to in the international comparison have changed. Many countries have felt a considerable fall in total employment (primarily in the private sector) and of GDP, as a result of which some have started to make savings and rationalisations in the public sector (reducing employee wages, restrictions on new employment, and

medium- and long-term reduction in the number of employed people). Accordingly one has to point out that information obtained by a comparison of the Croatian public sector with that in other countries may appear a little different even today, and can change significantly in the coming period, depending on the moves made by those in charge of economic policy.

The problem of employment in the public sector must be addressed, in spite of the seriousness of the present crisis, consistently and objectively, and actions must be made outside the context of party politics, with the objective of long-term improvements in the whole system. The emphasis has to be placed on effectiveness that does not depend exclusively on employees, but also on the organisation, management and rewards system. Short-term, palliative measures of a restrictive nature, on the one hand, can permanently diminish the quality of services of the public sector, if this leads to high-quality human resources leaving it; on the other hand, an excessively expansive policy of wages and new employment can harm the financial stability of the public sector and/or the competitiveness of the private sector with all the negative consequences for the economy.

This short international comparison should be used as an initial signpost in research into public sector employment, entirely for the sake of increased Croatian public sector effectiveness. Although the international organisations that deal with analyses of the public sector incessantly develop comparative definitions, methodologies of calculation and uniform performance indica-

tors, a clear problem in international comparisons will continue to be represented by the specificities of an individual country, which can be understood only through a detailed study of its economic, political and social features and properties.

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