# The Seventh Pay Commission Report*

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The central government sets up a Pay Commission about once every ten years to recommend what the structure of salaries, allowances and pensions for its current and retired employees should be. The seventh Pay Commission had been set up accordingly by the UPA government before it left office and it submitted its report to the Finance Minister on Thursday the 19th of November, with the suggestion that its recommendations should be implemented with effect from January 1, 2016. While the precise implications of the report it has submitted remain to be fully worked out, a number of things are already very clear.

First, the Seventh Pay Commission has imposed a drastic squeeze on salary increases of central government employees. In fact it has been far more niggardly in this respect than perhaps any other previous Pay Commission since independence. Even a cursory comparison between the sixth and the seventh Pay Commissions makes the severity of this squeeze clear.

Between 1995-96 and 2005-06, which is the interregnum between the fifth and the sixth Pay Commissions, the rate of inflation according to the official Consumer Price Index for Industrial Workers had been 73 percent. By contrast, between 2005-06 and 2015-16, the rate of inflation by the same index is likely to be at least 120 percent. The seventh Pay Commission in other words had to reckon with an the erosion in the real emoluments of central government employees that was far greater than what the sixth Pay Commission had to reckon with (and such an erosion necessarily occurs despite the institution of Dearness Allowances).

Since, between 2005-06 and 2015-16, the ratio of the government sector's salary bill to the total GDP of the country has not gone down, but has instead gone up, given the much higher inflation in the latter period, one would have expected the increase in the magnitude of emoluments, relative to GDP, recommended by the seventh Pay Commission, to be significantly larger than what the sixth Pay Commission had recommended. Instead what we find is the exact opposite. While the increase in the ratio of the central government's emoluments bill to GDP recommended by the sixth Pay Commission was 0.77 percent, the increase recommended by the seventh Commission is only 0.65 percent. And this is so despite the fact that the rate of growth of GDP has slowed down considerably between then and now.

The Pay Commission in short has heeded the clamour for "austerity" in public spending which finance capital always generates, and which typically characterizes a neo-liberal regime, and has unfairly penalized the government employees to give effect to it.

The second obvious point is that it has been specifically harsh on the lower paid employees compared to the higher-paid government employees. This is clear from the increase in the ratio of the maximum to the minimum pay it has recommended. While the earlier maximum was Rs.80000 which has been raised to Rs.2.25 lakhs (let us ignore the proposed salary of Rs.2.5 lakhs for the cabinet secretary), the earlier minimum was Rs.6600 which has been raised to Rs.18000. The maximum to minimum ratio which was 12 percent earlier has thus been increased to 12.5. A ratio of 12.5 is itself inordinately large; but the fact that it constitutes an increase at all is a regressive step.

This increase in inequality within the structure of central government salaries is confirmed by other information too. Private calculations suggest that the person with the minimum salary was, together with all allowances, getting around Rs.15750 per month prior to the Pay Commission report. Such a person would now be getting Rs.18000 which represents an increase of 14 percent. Now, the total salary-cum-allowance-cum-pension bill of the central government is supposed to rise by 23.55 percent, of which the hike in pensions alone is about 24 percent, which is of a broadly similar order. It follows therefore that the increase in total salaries-cum-allowances is also around 24 percent, compared to which the 14 percent increase in the emoluments of the lowest-paid is of a much smaller magnitude. It follows that the lowest paid central government employee is even worse affected by the "austerity" practiced by the Pay Commission than the average central government employee.

Both these tendencies, of a squeeze on the real emoluments of central government employees (and hence of state government employees too, since states tend to maintain the relativity of the pay-structures of their employees with those of the centre), and a widening of disparities within these emoluments, are part of the logic of a neo-liberal economy; unless they are resisted, they would accentuate over time.

The reason is simple. Prior to economic "liberalization" the government imposed some restraint on the level of salaries of the private sector executives as well. This was done not only through the tax system but also through direct pressure. The marginal tax rate those days on incomes beyond a certain level even exceeded 100 percent! This was often a subject of derision in neo-liberal circles, indicating, according to them, the "irrationality" of the dirigiste regime ("How can you have an above-100 percent marginal tax-rate"!); but what it meant in effect was an income-ceiling, that post-tax incomes simply could not exceed a certain level. No doubt there was evasion of tax payment and hence "black" incomes that were much higher, but the legal position at least amounted to an income-ceiling.

Likewise, quite apart from tax policy, the corporate sector was under direct pressure from the government in the wake of the FERA legislation, to keep down the salaries to its top executives. No doubt again, they made up for such restraint through the provision of "perks" of various kinds, but these too had to be restrained because the government's predilection was clear. With "liberalization" all these restraints have gone.

Newspapers almost every day carry stories about how fresh IIT or IIM graduates are getting recruited at annual salaries of Rs.2 crores or more, which comes to a monthly salary of almost 17 lakh rupees. This is nearly seven times what the highest-paid civil servant of the country, the cabinet secretary, gets. The utter irrationality of a salary-structure where a fresh graduate from an IIT or an IIM can get a salary that is seven times that of the senior most civil servant, is obvious. Such a disparity between private sector and government sector salaries, which exists essentially at the executive level, would either encourage "corruption" among government officers (to "make up for the difference"), or lead to their arbitrary exercise of authority (where the vicarious satisfaction obtained from a sheer display of power is taken as a "perk"), or lead to a drain of talent from government employment to the private sector.

Such a drain has already been in operation for some time in crucial sectors like healthcare. The salaries offered to doctors even in the most prestigious public institutions of the country like the All India Institute of Medical Sciences are just a fraction of what private healthcare facilities offer. Though this has not led to large-scale migration from the public to the private sector, which speaks well of the public medical personnel, it has nonetheless resulted in some outflow of talent. If such an outflow exists even from these prestigious public institutions, the state of public healthcare institutions in the hinterland of the country can be imagined. Devoid, at least in the public perception, of talented personnel, they lose their effectiveness as healthcare providers. The patients too therefore migrate to private facilities, despite having to pay exorbitant fees; and the privatization of healthcare, which fleeces the people, gathers pace.

Faced with this scenario, the government, at least in the sphere of administration, would tend to raise emoluments to some extent in the top echelons to retain its personnel. Indeed among the terms of reference of the seventh Pay Commission there was an explicit reference to the need for retaining the services of officials who might otherwise be lost to the private sector. But even though the government cannot match the private sector in salaries, its efforts to retain personnel who can be potentially lured by higher salaries in the private sector, necessarily introduces greater inequality into its own overall salary structure.

This inequality exists within the private sector already, where some get emoluments amounting to crores while others get a pittance. The logic of neo-liberalism is to reproduce it within the government sector as well, and hence also to effect an overall squeeze. This is because even such an attempt to retain personnel belonging to the higher echelons imposes a heavy demand on the government's resources which are in any case squeezed under neo-liberalism through both the FRBM and the provision of largesse to the corporate-financial oligarchy.

The point I am making is not that the government needs to raise the salaries of its better-paid personnel to prevent their migration to the private sector, or that it has no alternative to what the seventh Pay Commission has done; the point is that the logic of neo-liberalism pushes it in this direction, of "austerity" and inequality, and that this logic must be resisted. Reining in private sector salaries, which have reached absurd levels that are incompatible with the ethos of a democracy, is a part of that resistance. Such salaries however come largely out of the economic surplus, which capitalists choose to share with their top executives; reining in these salaries must necessarily entail controlling the size of this surplus, through larger taxation to start with.

Even the advanced capitalist world is talking these days of the problem of growing inequality, as the buzz following Piketty's book demonstrates. Even the latest Davos summit of the rich listed growing inequality as one of the major problems confronting contemporary capitalism. It is time that the Indian public opinion is roused on this issue.

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