

# The Australian

## Merry Christmas Canberra fat cats

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Illustration: Eric Lobbecke

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### **WE should pay top dollar for the best bureaucrats but do we need so many?**

SOME years ago, The Belfast Telegraph reported that a Northern Irish public servant had resigned to take up a career as a lap-dancer. Interviewed by the paper, she reported that not only was her new career more interesting and substantially better paid, but "you also feel less abused".

Now, dealing with the Gillard government must require contortion skills worthy of a Brazilian limbo champion. Yet it seems unlikely that it is the lap-dancing option the Remuneration Tribunal had in mind when it bestowed a substantial pay rise last week on Ian Watt, Martin Parkinson and their colleagues in the Canberra heads of department club. But whatever their other employment opportunities may be, attracting the best and brightest to the apex of our public service is eminently desirable.

After all, most areas of government provide services for which there are no commercial substitutes. If ASIO's management is not up to scratch, alternative suppliers cannot enter the market and offer to protect us in exchange for the taxpayer dollars a properly staffed ASIO would otherwise have obtained. It is therefore crucial that ASIO can secure the high-quality people it requires to provide its services.

But therein also lies the dilemma: without marketplace comparators it is difficult to know how well or badly ASIO is run, much less value the required quality of its leadership. Were it possible to carefully measure the output of places such as ASIO, the problem might be solved by putting their functions out to competitive tender. But it isn't, so our mandarins' pay must be determined administratively.

Ideally, that pay should reflect the opportunity cost of using talent in the public sector. It should, in other words, be based on the contribution those skills could make in other pursuits. This is not a question of fairness. Rather, it is

because governments, in determining our bureaucracy's size, should take that decision in the light of its economy-wide consequences. If our public servants are underpaid, governments will want to employ too many of them.

Ultimately, of course, quality would adjust to the low pay. And that provides an added reason for ensuring public service pay is competitive: if it isn't, we risk the senior ranks being populated by amateurs or even worse, by zealots.

Yes, it is good our public service attracts people who value serving the community; but the people at the top should be the public's servants, not its messiahs.

All this points broadly in the direction of the tribunal's decision. For it is a fact that pay in top public service jobs now falls well short of remuneration at major corporates, in leading professional service firms and of the vice-chancellors of our universities. Moreover, the tribunal is careful not to rely on the best paid of those comparators: in the corporate sector, for example, it focuses on the number two in lower-tier firms of the ASX and looks only at base remuneration.

Yet the tribunal's decision is not really convincing. This is especially so as the conceptual framework on which it relies is flawed. That framework views the issue much like a corporate board would: if the firm needs to set the chief financial officer's pay, its remuneration adviser scans the world market for chief financial officers, taking the results as a guide, though not an absolute prescription.

There is obviously good sense in that. But it ignores a crucial point: the public service hires largely from its own ranks. Over the past 15 years, for example, only three departmental secretaries have been appointed from outside. That may to some extent reflect low pay. But it mainly reflects the fact that the public service remains a career, based on specialised skills acquired over years of experience.

The salient feature of that career is that it pays above-market rates in initial career stages and then relies on ever-larger rewards of status and inherent work interest to help compensate the upper ranks. That principle was laid down in the great Northcote-Trevelyan Report of 1854, which shaped the modern public service; while tempered by today's greater labour market mobility, the bargain it embodies remains broadly valid.

The bargain is that what matters is the lifetime return to talent in the public service, not the return to talent at one point in time. As a result, the tribunal should have examined that whole-of-career reward and how it has evolved. And had it done so, it would have noted four facts.

First, overall public sector pay has tended to rise more rapidly than private sector pay.

Second, the senior executive of the public service has expanded greatly, both absolutely and relative to the service as a whole, making it more likely that talented officials secure its rewards.

Third, while secretaries' pay lags the private sector, it has more than doubled over the past decade, further adding to the lifetime compensation ambitious public servants can hope to achieve.

And fourth, it has become common for former mandarins to earn substantial amounts as consultants, making the lifetime returns to reaching the top greater yet.

Unfortunately, the tribunal ignores the lifetime dimension of earnings and gives no attention to related indicators such as the depth of the talent pool and the extent of competition for top public service jobs.

There must therefore be a substantial risk the increase will come as a windfall to existing department heads, who will receive its benefits without any positions being spilled. And it seems only a matter of time before it percolates into the lower ranks. The tribunal argues against this; but it seems difficult to justify an immense gap in earnings between top managers and their direct reports, particularly as that can make getting to the top so valuable as to encourage toadyism while undermining co-operation between the direct reports.

Sure, even taking all this into account, a 50 per cent pay rise for department heads may still be justified. But along with white elephant projects, bloating the public sector is a time-tested way of dissipating the gains from a mining boom.

Then again, in the great scale of waste, overpaying a clutch of hardworking bureaucrats is small change.

And it is Christmas. With festive bells ringing, what scrooge could question our top bureaucrats receiving a modest token of the community's appreciation?

Rather, as Nigel Molesworth, the self-styled "curse of st custards", put it in the aptly named 1950s classic, *How to be Topp*, "xmas is a good time with all those presents and good food and i hope it will never die out. or at any rate not until i am grown up and hav to pay for it." Quite.

## **Have your say**

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