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Seventh Pay Commission

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1 Introduction

The 7th Central Pay Commission, headed by Justice A K Mathur, which submitted its report to Finance Minister in November, 2015.

- The commission, headed by Justice A K Mathur was formed in February 2014.
- The other members of the commission are Vivek Rae, a retired IAS officer of 1978 batch, and Rathin Roy, an economist. Meena Agarwal is Secretary of the Commission.
- The committee's recommendations are scheduled to take effect from 1 January, 2016.
- The government constitutes the Pay Commission almost every 10 years to revise the pay scale of its employees and often these are adopted by states after some modifications.
- Nearly 48 lakh central government employees and 55 lakh pensioners will be befitted by the pay commission.

2 Key recommendations

- 23.55 per cent increase in pay and allowances recommended.
- Minimum pay fixed at Rs 18,000 per month; maximum pay at Rs 2.25 lakh.
- The rate of annual increment retained at 3per cent. Also, a 24 per cent hike in pensions recommended.
- One Rank One Pension proposed for civilian government employees on line of OROP for armed forces.
- Ceiling of gratuity enhanced from Rs 10 lakh to Rs 20 lakh; ceiling on gratuity to be raised by 25 per cent whenever DA rises by 50 per cent.
- Performance benchmarks for Modified Assured Career Progression (MACP) have been made more stringent from “Good” to “Very Good”. The Commission has also proposed that annual increments not be granted in the case of those employees who are not able to meet the benchmark either for MACP or for a regular promotion in the first 20 years of their service.
- The Commission has recommended introduction of the Performance Related Pay (PRP) for all categories of Central Government employees, based on quality Results Framework Documents, reformed Annual Performance Appraisal Reports and some other broad Guidelines. The Commission has also recommended that the PRP should subsume the existing Bonus schemes.
- Commission recommends abolishing 52 allowances; another 36 allowances subsumed in existing allowances or in newly proposed allowances.
- Considering the issues raised regarding the Grade Pay structure and with a view to bring in greater transparency, the present system of pay bands and grade pay has been dispensed with and a new pay matrix has been designed. Grade Pay has been subsumed in the pay matrix. The status of the employee, hitherto determined by grade pay, will now be determined by the level in the pay matrix.
- The commission recommended that the financial edge accorded to the Indian Administrative Service (IAS) and the Indian Foreign Service (IFS) be extended to the Indian Police Service (IPS) and Indian Forest Service (IFoS). However, the commission lacked unanimity on the issue with Vivek Rae opining that the financial edge was justified only for IAS and IFS.
- Military Service Pay (MSP), which is a compensation for the various aspects of military service, will be admissible to the defence forces personnel only.
- Short service commissioned officers will be allowed to exit the armed forces at any point in time between 7 to 10 years of service.

3 Financial burden

- Financial impact of implementing recommendations will be Rs 1.02 lakh crore – Rs 73,650 crore to be borne by Central Budget and Rs 28,450 crore by Railway Budget.
- Implementation of 7th Pay Commission to impact fiscal deficit by 0.65%, compared to 0.77% of 6th Pay Commission.

4 The Empowered Committee of Secretaries

- On recommendations of the Cabinet, Government has formed a 13-member Committee of Secretaries (CoS) to review the recommendations of the Pay commission and analyse their feasibility and impact on the exchequer.
- The empowered screening committee will include secretaries from ministries of Home Affairs and Defence, Department of Personnel and Training, Pension and PW, Revenue, Expenditure, Health, and Science and Technology. Chairman of Railway Board, Deputy CAG and Secretary (Security) are also included in the panel.
- The Empowered Committee of Secretaries will be headed by Cabinet Secretary P K Sinha and is expected to submit its report by June, 2016.

5 Analysis: The need to look beyond Pay Commission

- Among the terms of reference before the Seventh Pay Commission was to design a "framework for an emoluments structure linked with the need to attract the most suitable talent to government service, promote efficiency, accountability and responsibility in the work culture, and foster excellence in the public governance…" It missed the opportunity to do something about this.
- India needs to build state capacity to meet the challenges of the new century. It needs to build an efficient civil service that knows how to regulate a modern economy, provide public goods, and manage a welfare system that needs better human capital. Governance is becoming increasingly complex, and the government needs to attract suitable talent to respond to the challenges of the 21st century.
- However, the commission did not significantly deviate from the past in "principles of pay determination" and, as a consequence, it is unlikely that civil administration will change either. The commission, as has been the practice in the past, relied on need-based wage calculation. Clearly, the quality of output is not relevant in the exercise.
- The nature of challenges and complexity of governance demands greater flexibility in hiring and wage setting. Today, there is no mechanism where high-performing individuals can be rewarded and non-performers can be reprimanded on a regular basis. The commission has recommended introducing a performance-related pay (productivity-linked wages) mechanism for all categories of central government employees. The last three commissions had stressed the performance-related pay (PRP) concept as a far better system than the periodic increase in salaries. The commission has also suggested linking bonus payments to productivity (individual, group or organisation). However, unlike the private sector, which is guided by profit motives, the government is guided by social considerations. This makes the measurement of productivity problematic. The commission has recommended phasing out non-performers after 20 years of service, meaning annual increment be stopped for people who don't meet the benchmark for assured career progression. Even if implemented, it is unlikely to have any impact.
- A study conducted by the Indian Institute of Management, Ahmedabad, for the commission showed salaries in the private sector are much smaller at the lower level compared with government jobs, and that it is at the higher level where the government falls short in compensating employees.
- However, the recommendation ignores this reality. The minimum wage recommended is more than double that of the going rate in the market, and since the structure of the government is bottom-heavy, it will continue to significantly overpay an average employee with practically no incentive to perform. In fact, the commission in its report said issues of productivity and efficiency should be looked at administratively.
- Perhaps, it is time to debate the kind of changes required in civil administration, which has remained broadly what the country inherited from its colonial ruler.
- Mechanically setting up a pay commission every 10 years is a habit we can ill-afford. It is believed that the major issue of seeking dynamic parity between the private and public emolument structures has been largely addressed over time. The subsisting concerns are attracting domain knowledge, facilitating lateral entry, restructuring the personnel pattern of the government and linking productivity outcomes with the emolument structure.
- A mechanism needs to be constituted for these more important non-financial issues. Administrative reforms and pay reforms are two sides of the same coin. Administrative reforms would by themselves be insufficient,

given the proliferation of regulatory institutions in electricity, telecom, roads and highways, the financial sector, to mention a few. Reinvigorating the bureaucracy by inducing the best market talent needs a mix of both administrative and emoluments changes. An integrated view is necessary. Successive governments have been guilty of turning a blind eye to administrative reform without which economic reform will not have its desired effect. The greatest obstacle to ease of doing business is administrative incapacity and, to this, governments traditionally pay no heed. It is time we brought administrative reform to the top of the governmental agenda and create systems that ensure efficiency and accountability.