The Public versus Austerity

Why Public Sector Wage Bill Constraints Must End

ActionAid International, Public Services International and Education International, October 2021

Methodology notes

1. OVERALL APPROACH

- Our research focuses on the following 15 countries: Bangladesh, Brazil, Ghana, Kenya, Liberia, Malawi, Nepal, Nigeria, Senegal, Sierra Leone, Tanzania, Uganda, Vietnam, Zambia, Zimbabwe
- These countries were selected on the basis that Action Aid has staff and partners working in country on issues related to the Public Sector Wage Bill and/or public sector workers (particularly in the health and education sectors).
- In total, our consultant Emma Seery reviewed 69 IMF Article IV and loan documents across 2016 to 2021 relating to these 15 countries.

To select and review relevant documentation, we:

- Identified all Article IV Staff Reports (and accompanying documentation, as published) from 2016 onwards via the **IMF Country Information** pages. (Accessed between May and July 2021).
- Used the **IMF's database of lending commitments**, (accessed between May and July 2021) to identify loans that are active, and/or have been active over the last 5 years, and then searched for the most recent Request and Review documents relating to these loans.
- Reviewed the documents with a combination of a) a keyword search, and b) a detailed read of the relevant sections of the documents, (including the Executive Board Assessment, background, fiscal policy, staff appraisal, EDs statement, and relevant annexes).

When assessing the steer given through the budget ('IMF budget steer analysis' and 'Rating Table' tabs)**:**

- We took figures from the country's **previous FY** (to when the staff report and budget table was produced) as the baseline, except when the document was produced in the last quarter of the FY, in which case we took the country's **current FY** as the baseline. We did this even where the current FY PSWB figures are named 'projection', as a) we judged that this is too late to be giving a meaningful steer for the current budget year b) we found that the term 'projection' was sometimes used in relation to past years, highlighting that this label alone does not always constitute future forecasting.
- Where the PSWB did not have a consistent upwards or downwards trend year-on-year, we summarised steers as net cuts or net increases over the medium-term.

To assess 'actual' trends in the PSWB over time:

- We used 'actuals', or the most recent 'preliminary' or 'estimated' figures provided across all budget tables in the documents reviewed.
- When assessing the impact of adhering to the most recent PSWB medium-term projections, we took as our baseline the figure from the country's previous FY (to when

the staff report and budget table was produced) in the earliest document we reviewed, except when the document was produced in the last quarter of the FY, in which case we took the country's **current FY** as the baseline.

- Where documents from different years quote differing 'actual' PSWB figures for the same FY, we have either a) judged it impossible to assess actual trends over time (where the variation is significant, which implies genuine data inaccuracy), or b) taken the figure from the most recent document, (where the variation is small, which implies it is likely the variation is due to an audit or finalisation process rather than an error).

On assessing what is 'IMF advice' in the documents

- The documents we reviewed are the result of negotiations between government and IMF staff, but where the IMF tends to hold more power.
- Therefore, where decisions on the PSWB are explained in the text of the document, and are characterised as commitments the government is making, rather than explicitly advice from the IMF, we have still classed this as IMF advice *unless* the IMF explicitly disagrees with what is portrayed as the government's position *or* there are other indications from the text or from our experience on the ground that the position was strongly owned or pushed by the government.
- Also it should be noted that, in some countries government staff involved in negotiations with the IMF are from the same 'school of thought' as IMF staff, either having been through education and/or training with the same neoliberal underpinning, or having been exposed to interaction with international and regional financial institutions where neoliberalism remains dominant. This means that in some cases, government and IMF staff will coalesce around positions such as cutting the PSWB as they buy into the same faulty ideological position that this is good for 'economic development'.

2. THE 'TRAFFIC LIGHTS' TABLE ON IMF POLICY STEERS

The traffic lights table presents advice given on the PSWB in the documents we reviewed, presenting our findings according to the calendar year that the document was published in. These can be viewed in 'IMF budget steer analysis' and 'Rating Table' tabs. For example, a 2018 Article IV that was published in Jan 2019, would be categorised as '2019 advice' in the table.

On deciding a country's 'traffic lights' rating:

- **RED** is assigned to a country in a year where one of the following applies:
  a) the medium-term budget steer is to cut the PSWB
  b) the medium-term budget steer is a net cut to the PSWB (ie. even where there is an initial increase, followed by a decrease that brings it below the baseline)
  c) the medium-term budget steer is to freeze the PSWB for more than 1 year
  d) there is no budget steer but the document explicitly recommends cutting or rationalizing the PSWB
  e) the medium-term budget steer is a modest increase (0.1-0.2), followed by a freeze of more than 1 year, and results in a medium-term projection that is lower than that given in the previous budget steer
  f) the medium-term steer is to make a significant cut or net cut to the PSWB (of 0.4 or more) OR a freeze for more than 2 years, even where there is language that indicates some level of protection for health and/or education workers

- **AMBER** is assigned to a country in a year where

a) the medium-term budget steer is to freeze the PSWB, but only for 1 year
b) a medium-term budget steer is an increase to the PSWB, but followed by a steer to freeze it for more than 1 year
c) the medium-term budget steer is a net increase to the PSWB of less than 0.2, but also includes advice to freeze it for more than 1 year
d) the medium-term budget steer is to cut the PSWB by less than 0.4 and does not include a freeze of more than 2 years, and there is language that indicates some level of protection for health and education workers
e) there is no medium-term budget steer, nor any other explicit advice on the PSWB in the documents reviewed

- **GREEN** is assigned to a country in a year where
  a) the budget steer is to increase the PSWB

3. DATA TABLES LINKING REVENUE AND PUBLIC SECTOR WORKERS

Produced by Howard Reed of Landman Economics

The main results are in the "Results" tab. For each of the countries, reading from left to right, we have:

Col B: GDP (US $m) - taken from the World Bank's World Development Indicators database. We have used the 2019 figure here because 2020 GDP fell in some countries due to Covid-19, so the 2019 figure is likely to be more accurate as a long-run GDP estimate.

Col C: IMF advised cut in % of GDP spent on PSWB from 2016 onwards. This is taken from the spreadsheet produced by Emma Seery based on the review of Article IVs and loan documents (see the "Ratings Table" and " IMF budget steer analysis" tabs). In addition to this we downloaded the World Bank data on PSWB as a % of GDP from 2000 to 2018 (the latest data). The change in GDP between 2016 and 2018 doesn't always match up with the IMF advised cut (for example Liberia shows an IMF advised cut of 5 percentage points but PSWB/GDP actually increased by 1.4 %pts between 2016-18) according to the World bank (which is notoriously unreliable on this – see below).

Col D: IMF advised cut measured in $m. Note that for Senegal and Vietnam the size of the IMF-advised cut is unclear, while for Malawi the IMF recommends an *increase* in the PSWB.

Cols E-G: Increases in PSWB (in $m) if PSWB were to increase by 1%, 3% and 5% of GDP respectively.

Col H: increase in PSWB if PSWB were to increase to 9% (the global average). Note that for Liberia and Brazil, PSWB as % of GDP is already above 9% so this figure would be negative.

Col J: Average annual teacher salary (taken from the payscale.com and salaryexplorer.com salary comparison websites, except for the Brazil figure which is taken from the OECD's teaching salaries database (the OECD data doesn't cover any of the other countries in this analysis).

Col K-O: Number of teachers that could be employed if 20% of the cut/increase was spent on teachers. Shown for IMF recommended cut (if applicable), 1% increase, 3% increase, 5% increase and increase to global average PSWB/GDP.

Col P-T: Number of teachers that could be employed if 100% of the cut/increase was spent on teachers.

Col V: Average annual nurse salary (taken from the payscale.com and salaryexplorer.com salary comparison websites).

Col W-AA: Number of nurses that could be employed if 15% of the cut/increase was spent on nurses. Shown for IMF recommended cut (if applicable), 1% increase, 3% increase, 5% increase and increase to global average PSWB/GDP.

Col AB-AF: Number of nurses that could be employed if 100% of the cut/increase was spent on nurses.

Note on Data Accuracy

We have used World Bank data for tax to GDP and PSWB as a percentage of GDP, which is available for all countries under study to ensure it was standardised and comparable across countries.. However, in some instances the data differs from that of other sources and hence is not fully reliable, but for consistency's sake, we have stuck to and used the World Bank data to draw out an overall pattern which is significant. The tax to GDP data does not include some additional non-tax revenues, meaning domestic revenue intake for some countries is higher than indicated in World Bank data.

The unreliability of the data demonstrates how important impact assessments of policies are to ensure policies implications in practice on peoples lived realities, needs and living standards. Independently verified tax per GDP ratio would be a valuable addition to the data on tax issues, as would further research focusing on tax to GDP revenue. GDP also does not count unpaid care and domestic work, disproportionately conducted by women and girls, meaning the value of this work in the economy is obscured and ignored in policy decisions, with implications for how funds are prioritised very pertinent to public services. Time use surveys are currently a good way of assessing unpaid care and domestic work.

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