MR. VEREKER

1. Recruitment figures are not as well defined or as useful as the voluntary quit rate. Recruitment is usually in terms of number of applicants per job - but the number of applicants can be depressed by various means, such as specifying onerous conditions or forms, advertising in obscure places, etc. And it is easy to exclude applications on the grounds that the applicants "did not satisfy the conditions". In short recruitment data are nebulous.

2. The "quit-rate" is a much better criterion - it is serious since the people concerned do <u>actually</u> terminate their job. [One should not include transfers to other jobs in the Civil Service.]

3. There are data on voluntary leavers for all grades, age, sex and length of service (Annex B paragraph 4a). Then we need to find comparable quit rates in large firms where there are comparators for pay.

4. For a given grade, age, sex and length of service find quit rate in Civil Service (Qs) and quit rate in private sector (Qp) where the wages are Ws and Wp respectively. Then as a simple rule:

$$Ws = kWp \left(\frac{Qs}{Qp}\right) \quad \text{where k is comparability factor.}$$

so that when the quit rates are equal the wage rate in the service is comparable to that in the private firm. This gives true comparability for each grade-age-sex-length of service category. The wage rates will be equal only if k=1. It may well be that k exceeds unity - in which case the civil servants need to receive compensation for the net non-money advantages of the private sector. Conversely k could be less than unity. Only the market will know.

5. The simple rule has obvious attractions in equity. But it might require a considerable leap to get existing pay on this basis. One may design an adjustment. A modified form would be:-

$$Ws = kWp \left(\frac{Qs}{Qp}\right)^{0.5}$$

Then, if for example, $Qs = \frac{1}{2}Qp$

$$Ws = kWp\sqrt{2}$$

$$= kWp/1.4$$

If the quit rate in the private sector is twice that in the civil service, then the wage rate in the civil service should be 70% of the private sector wage. A general formula is, of course,

$$Ws = kWp \left(\frac{Qs}{Qp}\right)^a \qquad o\langle a \underline{\langle} 1$$

where 'a' is the flexibility of the adjustment to quit rates.

6. It is important to note that Qs and Qp are themselves dependent on Ws and Wp. If, for example, Qs were only one half of Qp, then reducing Ws/Wp would itself increase the quit rate in the civil service grade. It is important therefore to avoid an "over-shoot". Thus there is a good argument for adopting a flexibility coefficient 'a' which is quite low. And this means a seemingly gradual adjustment of public to private wages. I would guess that an 'a' of 0.10-0.20 might be acceptable in negotiations. And it would probably be not too far from what I guess is about optimal (on the assumption of annual adjustment). Note whatever the value of 'a', when Qs = Qp, Ws = kWp.

7. An alternative dynamic rule which may be acceptable under inflationary conditions and which has quite a lot to recommend it is:-

$$\frac{1}{Ws} \cdot \frac{dWs}{dt} = \left(\frac{Qs}{Qp}\right) \frac{1}{Wp} \cdot \frac{dWp}{dt}$$

or

$$\begin{pmatrix}\text{rate of increase}\\ \text{of wage in service}\end{pmatrix} = \frac{\begin{pmatrix}\text{Quit rate}\\ \text{in service}\end{pmatrix}}{\begin{pmatrix}\text{Quit rate in}\\ \text{privatisation}\end{pmatrix}} \begin{pmatrix}\text{rate of increase}\\ \text{of wage in}\\ \text{private firm}\end{pmatrix}$$

Thus if the civil service quit rate were half the private sector they would get half the proportionate increase in wages. Note that this will be a self correcting rule. The lower the quit rate

in the service, the smaller the service wage increase - and this will induce a higher service quit rate. Rather neat.

8. The simple objective is to move wages in order to equalise quit rates. We shall only be able to observe k, the comparability factor, when the quit-rates are actually equal. But the appropriate direction of change of Ws/Wp is always given by the relative quit rates.

9. Needless to say this represents only first thoughts -but it might be a basis for more sensible work.

AAW.

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