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ON STRUCTURAL ADJUSTMENT

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Retrenchment policies and labour shedding in Pakistan

International Labour Office Geneva

Interdepartmental Project on Structural Adjustment

The aim of the Interdepartmental Project on Structural Adjustment is to strengthen ILO policy advice in relation to structural adjustment policies in order to make those policies more consistent with ILO principles and objectives.

The project investigates various options to give a different focus to adjustment policies, emphasising major objectives as equitable growth, improved human resource development and social acceptability and it tries to establish how various ILO policies and policy instruments can contribute to such a different focus of adjustment policies.

The range of policy instruments encompasses labour market regulation, social security, wages policies, training policies, industrial relations as well as the employment and income effects of monetary, fiscal and price policies. Greater involvement of the ILO in the area of structural adjustment needs therefore to reflect the inter-disciplinary nature of the adjustment problem by combining activities from different departments in the ILO.

During the 1992-93 biennium, the project concentrates on developing policies for the following five main areas:

— the role of the public and private institutions in structural adjustment;
— the role of fiscal policy in generating employment and favouring equitable growth in a process of adjustment;
— the role and function of compensatory programmes and social safety nets during adjustment;
— public sector adjustment, including issues pertaining to privatization;
— the role and function of the social partners in the adjustment process.

Further information can be obtained from the Project Manager (Rolph van der Hoeven) or the Project Officer (Andrés Marinakis).

Retrenchment policies and labour shedding in Pakistan

Note: Occasional Papers are preliminary documents circulated in a limited number of copies solely to stimulate discussion and critical comment.

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1. Introduction

The structural adjustment and stabilization programmes of the International Monetary Fund (IMF) and the World Bank invariably call for a reduction in fiscal and balance of payments deficits, market orientation of economic activity, and restructuring and privatization of public enterprises. Pakistan has implemented various such programmes but has otherwise acted on the policy advice offered by the IMF and the World Bank without much conviction. Not surprisingly, therefore, trends in the fiscal deficit and in other strategic variables have been quite different in programme periods from those in the non-programme periods.

Efforts to increase public revenues in Pakistan have been quite inadequate to make much impact on the fiscal — or budgetary — deficit. For any sizeable reduction in the fiscal deficit, it has become imperative to reduce public expenditure. Whereas growth in public expenditure can be controlled by avoiding wasteful consumption, that is, wasteful use of commodities in the public sector, Pakistan seems to have relied mainly on restricting employment costs by restricting wage increases and increases in employment. Similarly, instead of restructuring public enterprises to realize the intended objectives of structural adjustment, government has opted to divest — or privatize — public enterprises; as many as 69 public industrial enterprises and two commercial banks have already been divested. Both the containment of public expenditure and the divestiture of public enterprises have serious implications for employment.

With a view to ascertaining the impact of retrenchment policies implicit in the structural adjustment and stabilization programmes on the level of employment in Pakistan, it is useful to distinguish employment in the government (public administration and public service) from that in public enterprises.

A ban on creating new posts and on filling already existing vacancies or vacancies arising from resignation or retirement, together with a policy of encouraging government employees to retire early, may have resulted in a reduction in the number of people employed in the government. Moreover, various government departments and ministries are expected to be merged, which would make a large number of government employees redundant. Reductions in the budgets of autonomous organizations, restrictions on investment in public enterprises, a ban on recruitment in autonomous organizations and public enterprises, and other similar policies have also resulted in job losses in the public sector.

Almost all the public enterprises engaged in manufacturing are being privatized, and some of those engaged in other spheres of activity. Despite an agreement between government and workers to protect jobs for a year after privatization on the same terms and conditions, retrenchment is taking place through encouraging workers to opt for voluntary redundancy.

The present study attempts to determine the extent to which labour shedding has occurred as a result of the policies pursued under structural adjustment and stabilization programmes. The role of government in the economy of Pakistan is reviewed in section 2, while section 3 examines the structural adjustment programmes implemented in Pakistan. Trends in employment in the government and the public enterprises are reviewed in sections 4 and 5, respectively. Case-studies of four public enterprises are presented in section 6. The major findings of the study are reported in the concluding section of the paper.

2. The role of government in the economy of Pakistan

Apart from establishing the parameters for economic activity and the structure of incentives through various policy measures, the Government of Pakistan participates directly in various economic activities, including mining, manufacturing, electricity, construction, trade, transport and communications, finances and other services.[1] These activities account for about 12 per cent of GDP. Prior to the nationalization of industries and financial institutions, the share of the public sector in GDP was less than 5 per cent (see table 1). The privatization of enterprises engaged in manufacturing and finance may have resulted in some decline in the public sector's share in GDP in 1991/92, but as data are not available, the contribution made by the public sector to GDP in recent years cannot be estimated.

Table 1. Percentage share of the public sector in various economic activities

Economic activity	1960/61	1965/66	1970/71	1974/75	1984/85	1987/88
Agriculture, forestry, fishing	0.0	0.0	0.0	0.2	—	—
Mining	3.7	19.1	24.9	10.1	93.0	93.0
Manufacturing	2.1	2.4	2.4	8.1	11.1	10.1
Electricity and water	85.0	98.2	65.0	77.5	100.0	100.0
Construction	0.0	0.0	0.0	0.0	0.5	0.4
Trade	0.0	0.1	0.4	7.9	1.3	30.2
Transport and communications	62.3	44.1	34.2	33.9	30.1	30.3
Finance	NA	NA	14.6	67.5	95.2	95.2
Other	0.0	0.0	0.0	0.0	0.1	1.6
Share in GDP	4.9	4.8	4.2	7.7	10.6	11.6
Share in non-agricultural GDP	9.3	7.9	6.6	11.5	14.3	13.7

NA = Not available.

The government is the largest employer in the country. The public sector employed roughly 3 million people in 1988 (see table 2) and accounted for 10 per cent of total employment, 39 per cent of the employed labour force in urban areas, and 38 per cent of wage-earners.

Table 2. Employment in the public sector, 1988

	Employment (millions)	Percentage share
Government	1.97	65.4
Autonomous/semi-autonomous organizations	0.54	17.9
Public enterprises*	0.50	16.6
Total	3.01	100.0

* Does not include public enterprises under the control of provincial governments. Data are not available on them, but they are relatively unimportant.

[1] Government also participates in various social sectors such as education and health. Indeed, from 1972 to 1977, there were no private schools or hospitals. Yet data on their contribution to GNP are not available. Although the government encourages the private sector to participate in the education and health sectors, no state educational or health organization has been divested.

Most employment in the public administration and public service (64 per cent) is generated at the provincial level by the provincial governments. This is because law and order, education, health, and so on, all labour-intensive activities, are provincial government matters. On the other hand, most employment in autonomous organizations[2] and public enterprises is generated at the federal level (see table 3).

Table 3. Public sector employment*

	Government		Autonomous/semi-autonomous		Total	
	Number (thousands)	Percentage share	Number (thousands)	Percentage share	Number (thousands)	Percentage share
Federal	521	26.4	437	81.2	958	38.2
Provincial	1 254	63.7	101	18.8	1 355	54.0
Punjab	710	36.0	48	8.9	758	30.2
Sind	260	13.2	25	4.6	285	11.4
NWFP	185	9.4	16	3.0	201	8.0
Balochistan	99	5.0	12	2.2	111	4.4
Local	195	9.9	—	—	195	7.8
Punjab	87	4.4	—	—	87	3.5
Sind	78	4.0	—	—	78	3.1
NWFP	18	0.9	—	—	18	0.7
Balochistan	12	0.6	—	—	12	0.5
Total	1 970	100.0	538	100.0	2 508	100.0

* Does not include employment in public enterprises.

Source: National Manpower Commission, 1989.

3. Structural adjustment programmes

The IMF and World Bank structural adjustment and stabilization programmes have focused mainly on reducing the fiscal deficit and restructuring and divesting public enterprises. Both of these have significant implications for employment in the government, autonomous organizations and public enterprises.

Pakistan's fiscal deficit amounted to 8.9 per cent of GDP when Pakistan started to implement a comprehensive package of reforms proposed by the IMF and the World Bank in 1978. The programme aimed at a substantial reduction in the budgetary deficit, restrictions on monetary expansion, liberalization of imports, unification of exchange rates, and reform of public enterprises. It was successfully implemented in the sense that the budgetary deficit had dropped to 5.3 per cent of GDP by the end of the programme in 1980/81. However, the deficit increased sharply to 7.0 per cent of GDP in the year 1981/82.

Pakistan did not sign the second structural adjustment programme proposed by the IMF and the World Bank, which had called for a further reduction in the fiscal deficit, liberalization of imports, and a tight monetary policy. Instead, Pakistan agreed to implement various sector loans programmes which focused on sectoral issues rather than macro issues. During this period, when there was very little pressure on the government to reduce the budgetary deficit, little effort was made to increase revenues or to contain public

[2] Autonomous organizations are non-commercial organizations such as schools, colleges, universities and hospitals, which are funded by the government but are autonomous in their work and recruitment.

expenditures. Consequently, the budgetary deficit increased sharply; by the year 1987/88, it had reached 8.5 per cent of GDP — only slightly lower than the deficit for the year 1978/79, prior to the first IMF/World Bank programme. The structural adjustment programme of 1988 aimed to reduce the budgetary deficit from 8.5 per cent of GDP in 1987/88 to 4.8 per cent of GDP by 1990/91. Other aims included liberalization of imports, a unified exchange rate mechanism, and privatization of public enterprises.

The budgetary deficit declined to 6.5 per cent of GDP in the first two years of the programme, but shot up to 8.7 per cent in 1990/91. In 1991/92, however, it was brought down to 6.5 per cent of GDP (see table 4).

Table 4. Trends in Pakistan's budgetary deficit

Financial year	Budgetary deficit as % of GDP
1978/79	8.9
1979/80	6.2
1980/81	5.3
1981/82	5.3
1982/83	7.0
1983/84	6.0
1984/85	7.8
1985/86	8.1
1986/87	8.2
1987/88	8.5
1988/89	7.4
1989/90	6.5
1990/91	8.7
1991/92	6.5

Source: *Economic Survey*, 1985/86 to 1992/93.

It is obvious from table 4 that the Pakistan's fiscal deficit declined in those periods when IMF/World Bank structural adjustment programmes were in operation but increased at other times. The reduction in budgetary deficit has been due both to increases in public revenues and to the containment of expenditures. The reduction in the budgetary deficit from 8.9 to 5.3 per cent of GDP between 1978/79 and 1981/82 consisted of a reduction in public expenditure by 2.2 per cent of GDP and an increase in public revenues by 1.4 per cent of GDP. Had the efforts to increase revenues continued in 1981/82, the budgetary deficit would have fallen further because public expenditure fell by 1 per cent of GDP in 1981/82.

Public expenditure rose consistently between 1981/82 and 1987/88, increasing from 21.9 to 26.7 per cent of GDP over the period. Public revenues also increased but less rapidly. While public expenditure increased by 4.8 per cent of GDP, public revenues increased by only 1.6 per cent of GDP. However, soon after Pakistan started to implement the structural adjustment programme in 1988, the budgetary deficit started to fall because public expenditure declined and public revenues continued to increase. A sharp fall in public revenues (as a percentage of GDP) in 1990/91[3] resulted in an increase in the fiscal deficit in 1990/91. A reversal of the declining trend in public expenditure in 1991/92 may worsen the budgetary situation (see table 5).

Table 5. Public revenues and public expenditures

Financial year	Public revenues as % of GDP	Public expenditure as % of GDP
1978/79	16.2	25.1
1979/80	17.0	23.3
1980/81	17.6	22.9
1981/82	16.6	21.9
1982/83	16.8	23.9
1983/84	17.8	23.8
1984/85	17.0	24.7
1985/86	18.1	26.1
1986/87	18.4	26.6
1987/88	18.2	26.7
1988/89	18.7	26.1
1989/90	19.2	25.7
1990/91	16.8	25.5
1991/92	19.6	26.1

Source: *Economic Survey*, 1985-86 to 1992-93.

Table 6. Public expenditures over time

Financial year	Total expenditures	Interest payment	Other expenditures
1978/79	25.1	1.8	23.3
1979/80	23.3	1.7	21.6
1980/81	22.9	3.1	19.8
1981/82	21.9	2.9	19.0
1982/83	23.9	4.0	19.9
1983/84	23.8	3.4	20.4
1984/85	24.7	3.5	21.2
1985/86	26.1	3.8	22.3
1986/87	26.6	4.2	22.4
1987/88	26.7	4.9	21.8
1988/89	26.1	4.9	21.2
1989/90	25.7	5.4	20.3
1990/91	25.5	4.9	20.6
1991/92	26.3	5.2	20.9

Source: *Economic Survey*, 1985/86 to 1992/93.

[3] Public revenues as a percentage of GDP declined as revenues from custom duties declined from Rs. 50.7 billion to Rs. 50.5 billion (from 5.9 to 4.9 per cent of GDP) and profits made by the Post Office, Telegraphs and Telecommunications fell from Rs. 6.6 billion to Rs. -0.3 billion. Altogether this amounted to a decline in revenue of 1.8 per cent of GDP.

Public expenditure declined rather slowly despite the stringent measures taken under the structural adjustment programme because of the rapidly rising cost of debt servicing. Public expenditure, adjusted for interest payments, declined from 23.3 per cent to 19 per cent of GDP between 1978/79 and 1981/82 and from 21.8 to 20.9 per cent of GDP between 1987/88 to 1991/92. It should be noted that it is this non-interest expenditure (public expenditure net of interest payments) rather than total public expenditure that has implications for government employment.

Public expenditures may be reduced either by limiting the acquisition of commodities or by restricting the costs of employment. The wage bill, in turn, may be reduced either by reducing employment or by restricting wage increases. The IMF/World Bank structural adjustment programme calls for restrictions both on wage increases and on government employment. Thomas (1987), for example, found that the share of wages of government employees in GDP in Brazil fell over a period of adjustment. On the other hand, van Ginneken (1990) found that, despite restrictions on employment, government employment costs did not fall in developing countries. Table 7 shows to what extent changes in Pakistan's budgetary deficit have been associated with changes in employment costs, and the share of employment costs in public expenditure and in GDP.

Table 7. Trends in government employment costs

Financial year	Non-development expenditures* (Rs. billion)	Non-development expenditures as % of:		Employment costs: salaries of government employees (Rs. billion)	Rs. billion	
		Public expenditure	GDP		Share of employment costs in public expenditure (%)	Share of employment costs in GDP (%)
1980/81	37.8	59.5	13.6	15.8	41.8	5.7
1981/82	44.5	62.7	13.7	17.9	40.2	5.5
1982/83	57.7	66.2	15.8	21.9	37.9	6.0
1983/84	71.9	72.0	17.1	27.4	38.1	6.5
1984/85	83.8	71.7	17.7	30.8	36.8	6.5
1985/86	94.7	70.4	18.4	34.6	36.5	6.7
1986/87	116.2	76.3	20.3	42.0	36.1	7.3
1987/88	133.6	74.1	19.8	47.3	35.4	7.8
1988/89	153.1	76.1	19.9	54.1	35.3	7.9
1989/90	165.6	74.7	19.2	57.2	34.5	7.5
1990/91	195.7	75.0	19.1	63.3	32.3	7.0
1991/92	232.4	73.6	19.4	71.0	30.6	6.7

* Non-development expenditures are essentially current expenditures, which include both acquisition of commodities and employment costs.

Sources: (i) *Economic Survey*, 1985/86 to 1992/93.
(ii) Unpublished data obtained from the Federal Bureau of Statistics.

The share of employment costs in non-development expenditures has fallen consistently over time, but its share in GDP has risen except for the last four years. From 1988 to 1991/92 period, employment costs fell by 1.2 per cent of GDP; non-development expenditures declined by only 0.5 per cent of GDP. It is, therefore, obvious that public expenditure has declined only because of a fall in employment costs.

4. Employment trends in the Government

Employment in the public sector may be divided into two broad groups: employment in the government (public administration and public services), including autonomous and semi-autonomous organizations, and employment in public enterprises.

There are three types of government employee, namely permanent, ad hoc and contractual. Permanent employees are hired to fill posts sanctioned by the competent authority.[4] These employees cannot be laid off unless specific charges such as indiscipline, insubordination, corruption, and negligence are proven. Ad hoc employees are appointed for a period of four months (extendable to one year) prior to permanent appointment to a sanctioned post. Contract workers are hired for a specified period of time, not necessarily in a regular cadre.

Permanent appointments in the public service are made through the Public Service Commission. The Commission holds competitive examinations to fill positions in certain cadres. In other cases, the Commission invites applications for all the vacant posts[5] in the different ministries and hold tests and interviews of the candidates. The Commission takes, on average, about a year to fill a vacancy. It only fills vacancies for sanctioned posts.

Workers may be hired on contract by a ministry after obtaining the approval of the Finance Division. Sometimes the consent of the Establishment Division is also required. Similarly, workers may be seconded with the consent of the ministry concerned and the Establishment Division. The secretary of a ministry can hire a person against a sanctioned post on an ad hoc basis for a period of four months without any approval, but can extend the duration of the appointment beyond four months only with the approval of the Establishment Division.

The right to suspend or dismiss a government employee rests with the Establishment Division, with the approval of the Prime Minister. However, employees have to be served a "show cause notice",[6] prior to any proceedings against them. Employees who have a grievance can go to the Services Tribunal or Ombudsman. It is worth highlighting the fact that it is very rare for permanent government employees in Pakistan to be dismissed. Ad hoc employees or those on contract are more likely to lose their jobs.

Autonomous and semi-autonomous organizations also take employees on a permanent, ad hoc or contractual basis. Each autonomous body is governed by a Board of Directors (or Governors) which has the power to appoint, suspend or dismiss an employee. As in the public service, the head of an autonomous organization can employ a worker on an ad hoc basis without the approval of the Board of Directors. In the banking sector, the Banking Commission organizes competitive examinations for all the nationalized banks for places in different banks, but junior employees are hired directly by each bank.

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[4] The competent authority is the Ministry of Finance, which sanctions the number of posts in each ministry. In the case of employees in the Ministry of Finance, the competent authority is the Establishment Division.

[5] The Commission is generally involved in filling officers' positions only. Clerks and other positions are filled by direct recruitment by the ministries concerned. Recently, the Commission has been asked to hold tests and interviews even for such posts.

[6] This means that the person against whom the charges have been levelled must be formally asked for an explanation. An inquiry committee is formed to look into the charges only when employees have been given this opportunity to explain their position.

With a view to reducing the budgetary deficit there has been a complete ban on recruitment in public service, autonomous and semi-autonomous organizations, and government-sponsored corporations since 1990. Not only were existing vacancies not filled, but further posts becoming vacant owing to retirement or resignations could not be filled either. There is also a complete ban on the re-employment of retired government employees. Early retirement is being encouraged by allowing employees to draw their pensions before the due date, and to retain their house and certain other facilities until they reach retirement age. However, owing to the very high probability that the person would remain unemployed after retirement, very few people have benefited from the scheme.

Although the ban on recruitment was lifted in mid-1992, a number of measures were instituted which almost completely ruled out any fresh recruitment for at least a year. It was decided that no ad hoc appointments were to made; all vacancies were to be filled through the Public Service Commission. Since the Commission generally takes a year to fill a vacancy, hardly any appointments have been made during the past year. Moreover, ministries have been advised not to ask the Commission to fill existing vacancies. Furthermore, the Economic Commission, which submitted its Report in 1992, has called upon the government to abolish various ministries and departments. This would create redundancies in most ministries, and the existence of these surplus workers would restrict fresh appointments. The employment position is similar in the autonomous organizations, as their budgets are being squeezed. The prospects of employment generation in the public sector are not, therefore, very bright.

The structural adjustment programme, resulting in a complete ban on recruitment to government jobs, has reduced the number of government employees, but it is difficult to ascertain the extent of the reduction. The *Federal Government Civil Servants Census Report*, which provides data on federal civil servants only, indicates that federal government employment increased significantly from 1966 to 1989 (see table 8). The federal government workforce expanded at a modest rate of 1.4 per cent per annum during the period 1966-73. However, the rate of expansion accelerated to over 6 per cent in the years 1973-77, slowing down to 2.7 per cent in the period 1977-80. The rate of expansion then accelerated to 8.1 per cent and then gradually fell once again. Unfortunately no data are available for the period 1989-92 when the structural adjustment programme was being implemented. Rough estimates, generally based on the number of people retiring and the number of ad hoc employees failing to get permanent employment, suggest that employment in the federal government may have decreased by about 20,000 workers during the last three years. Had the past expansionary trend continued, the number of federal government employees would have risen to about 267,000 by 1992; the present estimated total is about 64,000 less than this.

Table 8. Trends in employment of federal civil servants

	No. of employees	Growth rate (%)
1966	79 000	—
1970	83 047	1.26
1973	86 939	1.54
1977	111 692	6.46
1980	121 153	2.74
1983	153 144	8.12
1986	187 925	7.06
1989	223 900	6.01
1992 (E)	203 000	-3.21

E = estimated.

Source: *Federal Government Civil Servants Census Report, 1989.*

The *Census Report* grossly understates employment even in the federal government. A study carried out for the National Manpower Commission (1989) indicates that there were 520,942 federal government employees in 1988, as against 223,900 reported in the census. The study provides data at different points in time (see table 9).

Total government employment (excluding the public enterprises) has increased at a rate of 5.9 per cent over the period 1983-88. Unfortunately, data are not available for the subsequent period. If, as was assumed earlier, vacancies due to retirement have not been filled, as many as 225,000 jobs may have been lost.

Table 9. Government employment in 1983 and 1988

	Government			Autonomous/Semi-autonomous			Total		
	1983 (No.)	1988 (No.)	Growth rate (%)	1983 (No.)	1988 (No.)	Growth rate (%)	1983	1988	Growth rate (%)
Federal	463 285	520 942	2.4	337 875	436 800	5.3	801 160	957 742	3.6
Provincial	857 014	1 253 827	7.9	74 802	101 665	6.3	931 818	1 355 492	7.8
Punjab	478 698	710 015	8.2	39 105	48 675	4.5	517 805	758 690	7.9
Sind	187 054	260 069	6.8	21 830	24 564	2.4	208 884	284 633	6.4
NWFP	126 205	185 006	7.9	12 703	16 453	5.3	138 908	201 459	7.7
Balochistan	65 057	98 737	8.7	1 164	11 973	59.4	66 221	110 710	10.8
Local	151 068	195 387	5.3	—	—	—	151 068	195 387	5.3
Punjab	72 731	87 262	3.7	—	—	—	72 731	87 262	3.7
Sind	61 977	78 384	4.8	—	—	—	61 977	78 384	4.8
NWFP	14 379	18 186	4.8	—	—	—	14 379	18 186	4.8
Balochistan	1 981	11 555	42.2	—	—	—	1 981	11 555	42.2
Total	1 471 367	1 970 156	6.0	412 677	538 465	5.5	1 884 044	2 508 621	5.9

Source: National Manpower Commission, Government of Pakistan (1989).

Since no information on government employment is available for the 1989-92 period, an attempt has been made to estimate trends in employment indirectly on the basis of the wages and salaries of government employees. The methodology employed in this study essentially adjusts employment costs to remove any impact of wage increases in order to obtain approximate changes in employment. The basic assumption implicit in this exercise is that there is no change in the composition of the workforce. The results of the exercise, shown in table 10, indicate that employment declined sharply during the period 1989-92. Over the last three years, employment has decreased by about 10.6 per cent.

Table 10. Approximated trends in employment in the government

	Total employment costs (Rs. billion)	Impact of wage increases (Rs. billion)	Impact of granting increments (Rs. billion)	Cumulative effect of wage increases and increments since 1980/81 (Rs. billion)	Employment costs if there were no wage increases and no increments (Rs. billion)	Index of approximated employment (1980/81=100)
1980/81	16 673	0	417	—	16 256	100.0
1981/82	18 586	1 673	465	417	16 031	98.6
1982/83	22 915	2 468	573	2 555	17 319	106.5
1983/84	28 687	3 958	717	5 596	18 416	113.3
1984/85	32 259	2 204	806	10 271	18 978	116.7
1985/86	36 409	2 938	910	13 281	19 280	118.6
1986/87	44 172	5 777	1 104	17 129	20 162	124.0
1987/88	49 618	3 601	1 240	24 010	20 767	127.7
1988/89	59 432	2 893	1 411	28 851	26 277	161.6
1989/90	59 840	1 867	1 496	33 155	23 322	143.5
1990/91	66 249	4 435	1 656	36 518	23 642	145.4
1991/92	74 002	6 047	1 850	42 609	23 496	144.5

There has been a sharp increase in real wages in the period from 1980/81 to 1991/92; in 1991/92, wages were on average 30.8 per cent higher than those in the year 1979/80. Wages had declined up to the year 1983/84, but increased sharply in the second half of the 1980s. However, they were not sufficient to restore the level of real wages prevailing in 1972. Irfan and Ahmed (1985) estimated a net decline of 33 per cent in real wages between 1972 and 1983.

5. Employment in public enterprises

Public enterprises participate in many different activities, including manufacturing, finance, trade, power, construction, and transport; their total assets are about Rs. 800 billion. They employ more than 500,000 workers, of whom about 220,000 are employed in the power and telecommunication sectors. Some of these enterprises make losses while others make handsome profits. Average pre-tax return on equity has been around 10 per cent.

Data relating to two major enterprises, namely the Water and Power Development Authority (WAPDA) and Pakistan Telecommunication, are not regularly tabulated in *Government Sponsored Corporations*, the only source of data on public enterprises.[7]

Employment in public enterprises over the five year period[8] from 1984/85 to 1989/90 increased at a rate of only 1.85 per cent whereas output increased at a rate of more than 6.5

[7] The data reported in this publication are not consistent over time in the sense that some corporations are missed out in some years and included in other years. Because of this, the aggregated data are not very meaningful when it comes to examining the trends in employment in public enterprises. What is needed is an aggregation on the basis of data reported for different public enterprises separately in *Government Sponsored Corporations*. Results reported here may therefore differ from aggregated figures in *Government Sponsored Corporations*.

[8] Consistent data were available only for these five years.

per cent. Employment elasticity was only 0.28. The increase in output resulted mainly from an increase in productivity due to structural reforms in the management rather than from any increase in capital. In fact, the limited increase in employment was due to the government policy of restricting investment in public enterprises. Even the small increase in employment in public enterprises that did occur was due to increases in employment in development finance institutions, oil and gas, and Pakistan Steel (see table 11).

Table 11. Employment in public enterprises

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Development finance institutions	5 950	9 195	11 955	12 187	9 954	11 261
Commercial banks	86 690	86 252	84 325	87 192	86 585	88 829
Commerce	4 063	4 298	4 310	5 017	5 237	1 776
Manufacturing	87 776	90 129	93 455	94 830	86 782	91 147
Construction	4 956	4 312	4 383	3 370	3 219	1 989
Oil and gas	11 852	17 336	20 853	16 118	16 603	22 478
Transport	23 736	24 132	14 319	23 194	22 868	24 197
Power	11 374	11 542	12 338	12 338	12 605	12 793
Printing and publication	3 224	2 275	3 336	3 463	1 192	3 108
Mass media	10 062	10 283	10 689	11 094	11 234	11 373
Consultancies	—	1 961	352	151	2 230	2 530
Other	1 263	3 577	5 924	4 282	3 906	3 503
Total	250 946	265 292	266 059	273 236	262 395	275 084

Source: *Government Sponsored Corporations*, various issues.

Employment in the public industrial enterprises (enterprises engaged in manufacturing) increased from 67,027 to 91,147 between 1984 and 1990 (see table 12). However, if Pakistan Steel, which started production in 1984/85, is excluded, there was a decline in employment from 67,027 to 63,595 workers over the period. This stagnation or even decline in employment in the public industrial enterprises was due to the fact that there was virtually no public investment in the manufacturing sector.

The slow growth in employment in public enterprises, particularly in the public industrial enterprises, poses major employment problems. The decision to divest almost the entire manufacturing and financial sectors, involving about 190,000 workers, further compounds the problems. If the government goes ahead and divests the Water and Development Authority (WAPDA) and Pakistan Telecommunications, as many as 300,000 workers may be affected by the privatization process.

Moves to privatize public enterprises started as far back as 1985 when the government announced that the shares of various public enterprises worth Rs. 2 billion would be divested.[9] With a view to expediting the process, the government established a National Disinvestment Authority in 1988, which identified 14 industrial units for divestiture. However, these units, which were either making losses or earning very meagre profits, could not be divested. In 1990, six profit-making corporations were identified for partial

[9] Divestiture policies can in fact be traced back to the early 1960s when the Pakistan Industrial Development Corporation (PIDC) used to divest profit-making industrial units. The ginning, rice and flour mills were denationalized in 1977, and in 1979 two industrial units in the engineering sector were denationalized.

divestiture, but until the change of government in 1990, no substantial divestiture took place.[10]

Table 12. Employment in public industrial enterprises

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Carrier Telephone Industries	375	391	431	449	463	463	490
Federal Chemicals	7 548	7 753	7 331	7 618	7 429	7 245	7 194
Ghee Corporation	2 134	2 117	6 840	6 923	8 915	7 393	7 476
Karachi Shipyard Automobiles	4 927	4 762	4 080	4 060	3 982	3 976	3 872
National Fertilizer	5 198	5 415	5 541	5 590	5 970	6 020	6 074
Pakistan Automobiles	8 530	8 822	8 586	7 779	6 570	6 190	6 228
PIDC	5 749	5 371	2 580	2 900	2 870	1 337	1 429
Pakistan Steel	—	21 480	22 033	24 830	24 989	24 344	27 552
Roti Corporation	848	846	1 635	1 629	1 424	—	—
State Cement	12 261	12 209	11 973	12 432	12 896	10 840	10 897
State Engineering	15 453	15 201	15 692	15 585	15 937	15 567	16 548
Telephone Industries	3 420	3 387	3 387	3 387	3 387	3 387	3 387
Textile Machinery Corporation	584	22	20	—	—	—	—
Total	67 027	87 776	90 129	93 455	94 830	86 762	91 147
Excluding Pakistan Steel	(67 027)	(66 296)	(68 096)	(68 625)	(69 845)	(62 418)	(63 595)

Source: *Annual Report of Public Sector*, 1983/84 to 1989/90.

In November 1990, the government appointed a Disinvestment and Deregulation Committee to make recommendations for deregulating the economy and specifically to identify public enterprises that qualify for divestiture. The Committee recommended that the government should completely pull out of the (industrial) production sector; it also identified 105 industrial units for divestiture. In January 1991 a Privatization Commission was appointed. Its main tasks include the valuing of public enterprises to be privatized, recommending reserve prices for such units, calling and processing the bids, and placing its analysis before a cabinet committee headed by the Finance Minister. It also supervises the transfer of privatized units to the private sector.

5.1 The extent of privatization

The Government has offered 105 industrial units, four banks and two development finance institutions for sale. In addition, parts of the Water and Power Development Authority (WAPDA) and some sections of Pakistan Railways are being offered to the private sector for management; the government has also made arrangements to divest the Telecommunications Corporation of Pakistan (TCP).

So far 71 industrial units and two banks have been divested and the management of 53 industrial units and the two banks has been transferred to the private sector (see table 13). Total employment in the units sold and in those units where the management has also been transferred is 43,900 and 37,700, respectively.

[10] Only 10 per cent of shares in Pakistan International Airlines were divested during the period, with a minimum return guaranteed.

Table 13. Some facts about privatized units

Units	Total	Number of units which			Value of units sold			Employment in units	
		Offered for sale	Sold	Mgt. transferred	Bid value		Receipt	Sold	Mgt. transferred
					Total	Mgt. transferred			
Commercial banks	5	4	2	2	5 122	5 122	2 135	20 356	20 356
Industrial units	124	105	69	53	11 763	8 076	6 094	17 335	16 363
— Automobiles	15	10	8	5	1 508	1 043	583	5 200	3 467
— Cement	15	15	11	8	7 149	4 658	2 253	7 479	5 254
— Chemicals and ceramics	14	12	6	5	1 047	1 030	431	2 329	2 191
— Engineering	12	9	5	4	156	141	58	1 728	1 583
— Fertilizers	7	5	2	1	597	457	183	886	539
— Ghee & vegetable oil	23	23	15	11	698	557	226	4 460	3 019
— Roti plants	17	17	13	12	101	81	60	—	—
— Rice mills	8	8	7	7	231	109	753	753	310
— Miscellaneous	13	6	2	1	276	87	87	725	529
Total	129	109	71	55	16 885	13 198	8 229	43 916	37 691

Source: Privatization Wing, Ministry of Finance.

5.2 Methods of privatization in Pakistan

Public enterprises may be divested in Pakistan by using any of the following six methods:

(i) selling public enterprises by inviting bids from the private sector;

(ii) selling shares in public enterprises in suitable tranches through the stock exchange, price per share to be determined though an evaluation process;

(iii) encouraging employees in public enterprises to constitute employees-management groups and negotiating with them a market price for the shares on the basis of an evaluation of assets, liabilities and net worth;

(iv) encouraging the prospective investment managers to form "modaraba" companies (companies that work on the Islamic profit-and-loss-sharing principle) and to raise funds for purchasing shares;

(v) entering into management contracts with modaraba companies, or leasing or contracting management to private entrepreneurs for a specified period;

(vi) entering into lease management contracts with the employees for a specified period to enable them to buy out the enterprises they have been working in.

These measures may be grouped into: (i) the sale of assets through bidding (to individuals, to employees-management groups, and to modaraba companies); and (ii) the sale of assets through the flotation of shares on the stock exchange and through leasing. The flotation of shares on the stock exchange has so far been used to divest 10 per cent of the shares in Pakistan International Airlines (PIA). Leasing, franchising, and liquidation have rarely been used as methods of privatization. The principal method of divestiture has been through sealed bidding. Only where the bid has been below the reserve price fixed by the Privatization Commission has there been open bidding as well. Sales have generally been to individuals or groups of individuals, but in nine cases, sales have been made to employers-management groups. Interestingly enough, the actual experience of the bidders of running a specific industry has been given hardly any weight in the divestiture process.

The exact method employed is actually quite significant in realizing the objectives of privatization. Bidding for assets on the basis of 'where-it-is' and 'as-it-is' criteria,[11] practised in Pakistan, has serious implications for the price offered for the divested units and their potential to secure gains in output, investment, employment and productivity. Moreover, important information on such matters as asset value and financial health of the unit and the reserve price is kept secret, which casts serious doubts on the transparency of the privatization process. Consequently, investors act on the basis of incomplete information, and do not always behave rationally.

The decision to divest public enterprises aroused great dissatisfaction amongst workers. Prior to privatization, the government entered into an agreement with the trade union operating in the public enterprises. This agreement contained the following provisions.

(i) Due protection will be provided to employees under labour law, and there will be no lay-offs during the first 12 months after privatization of a firm.
(ii) Ten per cent of the shares in privatized units will be offered to the employees.
(iii) Employees rendered surplus after the 12-month period will be given priority in employment abroad and will be offered credit on easy terms to help them become self-employed.
(iv) A surplus pool of laid-off employees will be maintained and efforts will be made to find jobs for them. Until these laid-off employees are found employment, they will receive unemployment benefit at the rate of Rs. 1,000 per month for a maximum period of two years.[12]
(v) Training will be provided for surplus employees with a view to getting them absorbed in other units.
(vi) Employees opting for voluntary redundancies (golden handshake) will be paid one month's gratuity for each complete year of service and four months' last-drawn basic salary for each year of service.[13]
(vii) Employees will be given every opportunity to purchase a unit if they have made a competitive bid.
(viii) Employees will be given concessions through negotiations if they are declared successful bidders.
(ix) Employees will submit a management plan, including a financial plan, with any bid they make for a unit.

The agreement has in effect secured the jobs of workers in public enterprises for a year after privatization. However, bearing in mind that the private sector may need only half

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[11] This means that investors have to bid on the basis of unaudited accounts and have no right to revise the bid if there are any discrepancies. This is not desirable because the bidder can hardly evaluate the assets and liabilities of the privatized units.

[12] There is no unemployment benefit available in Pakistan otherwise.

[13] Golden handshake arrangements are only available in privatized units.

the workers currently employed,[14] the jobs of a very large number of workers are at stake. Moreover, the golden handshake provisions encourage the most productive workers to quit. Those with entrepreneurial skills tend to leave their jobs, get their redundancy pay and become self-employed, leaving relatively less productive workers with the firm. Entrepreneurs are also encouraging workers to opt for voluntary redundancy and then to enter the workforce as contract workers.[15]

The divested commercial banks and industrial firms employ about 44,000 workers. Although the new owners are bound by their agreement with the government not to lay off workers in the first year, they are in fact getting rid of workers by encouraging/forcing them to opt for voluntary redundancy. Since their job security is lost after a year, many workers prefer the golden handshake option. It is some measure of the adverse effects of the privatization operation that out of 17,335 workers employed in the privatized industrial firms, so far 7,495 workers have opted for voluntary redundancy (see table 14).[16] In other words, 43.2 per cent of workers employed in public enterprises have been laid off by the new owners.

Table 14. Workers opting for voluntary redundancy (golden handshake)

Industry	Number of workers opting for the scheme	Total workers in the manufacturing firms whose management has been transferred	Proportion of workers opting for the scheme
Automobiles	482	3 467	13.9
Cement	1 784	5 254	34.0
Chemicals and ceramics	678	2 191	30.9
Engineering	817	1 583	51.6
Fertilizers	72	539	13.4
Ghee and vegetable oil	2 759	3 019	91.4
Rice mills	567	753	75.3
Miscellaneous	336	529	63.5
Total	7 495	17 335	43.26

Source: Privatization Wing, Finance Division.

As allowed for in the agreement, nine units have been acquired by employees' management groups: two cement units, one tractor, two vegetable oil, two chemicals, one engineering, and one bank. Workers and management form a group with the consent of the trade unions, and the group bids for the unit. Even if the group is not the highest bidder, the unit is sold to them if they match the bid value.

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[14] It is alleged that public enterprises are grossly overstaffed.

[15] Various estimates of the number of contract workers in Pakistan are made. They may constitute as much as 32 per cent of the workforce in the large-scale manufacturing sector (see Systems Ltd., 1990). Contract workers are paid higher cash wages (but total employment costs are lower as various contributions to the government are not made). They work longer hours and their productivity is higher.

[16] Financing the golden handshake option is essentially the responsibility of the government. Unless otherwise stated, the government finances payments to workers. So far, the government has paid half the amount due to workers and the other half has been paid by the producers. The government has paid Rs. 312.3 million out of a total payment of Rs. 616.2 million for golden handshake payments. This comes to 4.3 per cent of the bid value of the privatized units.

6. Case-studies of some public enterprises

In order to gain a clearer insight into the employment implications of the restructuring and privatization of public enterprises, this section looks at four public enterprise units as case-studies. These units have been taken from the two sectors, manufacturing and banking, where public enterprises are being divested. One of the four firms has undergone restructuring and privatization, one has been handed over to the employees, one has been sold to the private sector, and one is still in the public sector.

6.1 National Fibres Ltd.

National Fibres Ltd., incorporated in 1982, is a public limited company. It produces polyester fibres of 1.5 and 1.2 deniers, filament yarn of 150 or 75 deniers and polymer plant chips. The plant was set up at a cost of Rs. 670 million with paid-up capital of Rs. 179.4 million. Its total assets, at present, are Rs. 1,026 million.

The firm suffered from various problems as soon as it became operational. Its capacity was only one-quarter of the minimum efficient plant size in the industry. However, the most important factor in its failure in the earlier years was the lack of flexibility in decision-making, which did not allow the firm to respond to market demands. Consequently, it accumulated losses in the first four years of its operation.

The financial and physical restructuring of National Fibres in 1987 converted the loss-making unit into a profitable one. The physical restructuring of National Fibres involved a change in management, flexibility in decision-making, changes in output, and changes in inventory and cost control procedures. Instead of producing chips, for example, it produced fibre and yarn, which yielded a better return. Financial restructuring meant an increase in the proportion of equity held by the government in the total assets of the firm. As a result, over the period 1987-90, the unit averaged a return on equity of more than 20 per cent, despite reduced protection to polyester fibre and yarn (see table 15).

Table 15. **Rate of return on equity in National Fibres Ltd.**

Financial year	Rate of return on equity
1983/84	Negative
1984/85	Negative
1985/86	Negative
1986/87	Negative
1987/88	28.4
1988/89	18.9
1989/90	20.9

Source: *Annual Report of Public Sector*, 1983/84 to 1989/90.

It is interesting to note that output in National Fibres continued to increase despite the fact that the firm was making losses. Even more significantly, the increase in output was accompanied by a decline in employment (see table 16). While output almost doubled, employment declined by 6.1 per cent over the 1983-90 period. The decline in employment was due to the shedding of extra labour in the process of physical restructuring, the aim of which was to reduce production costs.

Table 16. Output, employment and labour productivity in National Fibres Ltd.

Financial year	Output	Employment		Wage rate		Labour productivity index
	Growth rate (%)	No.	Growth rate (%)	R. per month	Growth rate (%)	
1982/83	NA	950	NA	2 512	NA	100.0
1983/84	28.6	938	-1.3	NA	NA	89.7
1984/85	20.1	974	+3.8	3 117	NA	139.9
1985/86	27.8	899	-7.7	3 975	27.5	160.2
1986/87	5.0	896	-0.3	4 054	2.0	185.2
1987/88	9.4	895	-0.1	4 436	9.4	202.8
1988/89	11.6	894	-0.1	4 860	9.6	248.2

NA = Not available.

A sharp increase in output and labour productivity, coupled with proper cost management, has made National Fibres a profitable unit. In 1992, the profit-making unit was sold to a private industrialist group for Rs. 757 million; the management has already been transferred. During the first year in private hands, when jobs were secured by the agreement between government and workers, 146 out of 497 regular employees opted for voluntary redundancy.

6.2 Millat Tractors

Millat Tractors was incorporated as a public limited company in the private sector in 1964; the government took it over in 1972 when other manufacturing firms were nationalized. It has been one of the most successful public enterprises in Pakistan, not only earning a handsome return on equity for the government, but also generating employment opportunities, both directly and indirectly, by encouraging the establishment of vendor industry in the country.

The rate of return on equity in Millat Tractors has varied significantly over time. Since 1982/83, it has always exceeded 15 per cent, except in 1985/86 (see table 17). The profitability of the firm has varied over the years, mainly because the production of tractors in Pakistan depends on the availability of credit to agriculture for their purchase. The availability of credit has varied a great deal over time.

Table 17. Rate of return on equity in Millat Tractors

Financial year	Rate of return on equity
1980/81	-40.6
1981/82	-24.0
1982/83	38.4
1983/84	32.4
1984/85	22.3
1985/86	5.2
1986/87	15.6
1987/88	18.3
1988/89	23.5
1989/90	17.7

Output in Millat Tractors has grown consistently over time, except for the year 1985/86, when it fell by 25.9 per cent. The increase in output was accompanied by an increase in employment in the first half of the 1980s. Employment declined in 1985/86 but started increasing slowly in subsequent years (see table 18).

Table 18. Output, employment and labour productivity in Millat Tractors

Financial year	Production	Employment		Wage rate		Labour productivity index
	Growth rate (%)	No.	Growth rate (%)	Rs. per month	Growth rate (%)	
1980/81	19.2	506	NA	2 489	NA	100
1981/82	NA	NA	NA	NA	NA	NA
1982/83	NA	645	NA	3 128	NA	145.9
1983/84	18.9	751	16.4	3 996	-27.7	149.1
1984/85	2.1	1 131	50.6	2 935	-26.6	110.5
1885/86	-25.9	1 029	-9.0	3 632	23.7	82.7
1986/87	1.8	1 074	4.4	3 869	6.5	66.2
1987/88	10.6	1 120	4.3	4 355	12.6	70.2
1988/89	28.3	1 165	4.0	4 815	10.6	91.8
1989/90	NA	1 240	6.4	NA	NA	NA

NA = Not available.

Millat Tractors was privatized in 1992. The unit was acquired for Rs. 306 million by a management group formed by employees and management. As many as 230 out of 630 regular employees opted for the golden handshake.[17] In fact, Millat Tractors had to hire more workers to replace some of those who had taken voluntary redundancy. Nevertheless, the number of workers in Millat Tractors has declined since privatization, but output has remained at the same level, indicating an increase in labour productivity (see Khan, 1992).

Labour productivity in Millat Tractors has improved partly because employers now have a sense of participation in the operation of the company and partly because of improved communications at shop-floor level. Moreover, the company is no longer under the bureaucratic control of the government, which facilitates decision-making.

6.3 Muslim Commercial Bank

The Muslim Commercial Bank is the fourth largest bank in Pakistan. Registered in July 1947 in Calcutta, the headquarters of the bank were shifted to Pakistan in August 1947. It was nationalized along with the other commercial banks in 1974. At the time of its nationalization, the bank had authorized capital of Rs. 54 million, with paid-up capital of Rs. 27 million. In 1981, the authorized capital was increased to Rs. 1,000 million and the paid-up capital to Rs. 576 million.

The Muslim Commercial Bank has always been a profitable organization. Though the return on equity has fallen in recent years, it is still quite high (16.4 per cent in 1989/90 — see table 19). The reduction in the rate of profit has essentially been due to the

[17] Under the Golden Hand Scheme, the company paid about Rs. 55 million to employees opting to leave the company. A group of these employees has pooled resources to set up a transport company under the government's Self-Employment Scheme.

government's monetary policy, which does not allow banks to advance credit beyond the credit ceilings specified by the State Bank of Pakistan.

Table 19. Rate of return on equity in the Muslim Commercial Bank

Financial year	Rate of return on equity
1982/83	28.1
1983/84	24.9
1984/85	24.2
1985/86	23.5
1986/87	18.2
1987/88	16.0
1988/89	16.6
1989/90	16.4

Source: Government-sponsored corporations.

While the bank's business has increased in terms of capital and advances, employment has remained fairly constant. Between 1984/85 and 1991/92, advances increased by 74 per cent but employment has increased by only 2.8 per cent.

Table 20. Employment and advances in the Muslim Commercial Bank

Financial year	Employment (No. of persons)	Advances (Rs. billion)
1982/83	NA	10.7
1983/84	NA	11.0
1984/85	12 679	11.4
1985/86	12 591	12.1
1986/87	12 817	14.1
1987/88	12 685	15.0
1988/89	12 423	15.2
1989/90	12 890	17.8
1990/91	12 904	19.0
1991/92	13 031	21.0

The Muslim Commercial Bank was privatized in 1991. Privatization did not result in any reduction in employment. In fact, more than 200 temporary employees were confirmed in their posts after privatization (see Lawai, 1991).

6.4 Habib Bank Limited

The Habib Bank is the largest bank in Pakistan. It was incorporated in 1941 in Bombay and shifted to Pakistan in 1947 after independence. The bank was nationalized along with other commercial banks in 1974. Although it is on the privatization list, it has not been privatized as yet. In fact, the government has decided to float its shares on the stock exchange rather than selling the bank to a single party.

The Habib Bank has been very careful in its portfolio of investments and has therefore paid high returns to its depositors and shareholders. The rate of return by the end of the

1980s was still around 15 per cent: in the mid-1980s, it was more than twice this rate (see table 21). The bank's profitability has declined because of the strict credit ceilings enforced by the State Bank. The financial reforms instituted recently by the State Bank must have increased its profitability.

Table 21. **Rate of return on equity in the Habib Bank**

Financial year	Rate of return on equity
1982/83	36.0
1983/84	34.6
1984/85	37.7
1985/86	30.0
1986/87	26.7
1987/88	15.6
1988/89	15.5
1989/90	14.9

Unlike the Muslim Commercial Bank, employment in the Habib Bank has increased by 12.5 per cent between 1983/84 and 1989/90; advances increased by 85.8 per cent over the same period.

Table 22. **Employment and advances in the Habib Bank**

Financial year	Employment (No. of persons)	Advances (Rs. billion)
1982/83	NA	31.8
1983/84	NA	35.7
1984/85	23 655	36.0
1985/86	24 505	41.6
1986/87	24 587	51.4
1987/88	25 115	51.6
1988/89	26 482	57.0
1989/90	26 604	66.9

NA = Not available.

7. Conclusions

The IMF/World Bank structural adjustment programme and stabilization programme called for a reduction in Pakistan's budgetary deficit. Pakistan mounted efforts to increase public revenues and reduce public expenditures both in the period 1978-81 and in the period 1988-91 when structural adjustment programmes were being implemented. While increasing revenues has played an important role in reducing the budgetary deficit, reducing public expenditure has been relatively more important. Moreover, it has been the reductions in employment costs rather than restrictions on other types of public expenditure that have helped reduce public expenditure. It is estimated that during the last three years, government employment may have fallen by 9 per cent. Similarly, despite increases in real wages in recent years, wage increases have been less than the growth of per capita incomes in the country. These two phenomena have led to a fall in the share of employment costs both in GDP and in total public expenditure.

This study suggests that employment in the federal government may have declined by about 300,000 in the last three years owing to a ban on recruitment. Moreover, owing to a paucity of funds, the autonomous organizations are finding it difficult to maintain their existing workforce.

Employment in public enterprises has increased during the 1980s but very slowly, with almost the entire increase in employment concentrated in the oil and gas, development finance, and manufacturing sectors. Moreover, if Pakistan Steel, which started production in 1984, is excluded from the analysis, employment in public enterprises engaged in manufacturing shows a declining trend.

The decline in government employment has basically been due to the laying off of ad hoc employees and retirement of government employees. Incentives for early retirement in the government have not been taken advantage of. Similarly, very few government employees have been dismissed or made redundant. It should be highlighted that government employees have certain rights which are protected by the Services Tribunal.

As many as 71 manufacturing firms and two commercial banks have been privatized. Almost half the workforce in the privatized units have opted for voluntary redundancy.

The four case-studies, two of manufacturing firms and two of commercial banks, indicate a very slow increase in employment despite a sharp increase in output. In one case, employment actually fell despite a sharp increase in production. Privatization of manufacturing units has resulted in a loss of employment, as a significant proportion of the workforce has opted for voluntary redundancy. At the same time, no retrenchment seems to have taken place in the banking sector.

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