

## **Public wage: Some alternative interpretations**

**Syed A. Basher**

One of most researched topics in the development literature is to examine the nature and causes of corruption that is widespread among government employees (or “bureaucrats”) of developing countries. Among many factors, ‘wage’ has been identified as the crux of the problem. Government officials are often paid poorly relative to the workers employed in the private sectors. This inequality in wage between public and private sectors has generated many economical and social problems -- one of which is ‘corruption’. Lower wage breeds corruption and usually the public employees are highly susceptible to corruption. Corruption is a nontrivial problem since not only it undermines misallocation of resources, it also tarnishes national image. The recent corruption ranking by the Transparency International has again ranked Bangladesh as the most corrupt countries in the world for the third consecutive terms -- it’s a “sinful” hat trick, termed one author.

Many researchers have rationalized bureaucratic corruption as a consequence of lower level of wage that exists in the public sector. Although low penalty costs and an overall shirking environment have helped to keep the corruption level at historical high, but researchers from all end unanimously agree that only raising the wage which is market based is enough to put a brake into the corruption cycle. Once the public sector wage is comparable to the wage which is offered elsewhere in the market, the cost of doing corruption becomes high or the incentive of doing corruption diminishes.

Although the idea of raising public wage that is analogous to the private sector is easy to suggest, it is however not easy to implement. Governments of developing countries often suffer from resource constraint and the size of the government is high too. This is more of a political than an economical problem. On the one hand, poor governments have to become popular among its voters by creating more employment and thus increasing the size of the government. On the other hand, this excessively large government size is inhibiting policymakers to undertake any reform in the public sector. Is there any solution?

Many scholars have suggested converting the fringe benefits of government employees into cash. The idea runs like this: a first class government bureaucrat in Bangladesh gets his monthly base salary and other benefits such as a government apartment in a lucrative place in Dhaka city. Pundits suggest that instead of providing the apartment to its employee, government can actually pay the shadow cost of the apartment (for example, the monthly rent of such a government apartment in Dhaka would cost Tk. 15,000) along with the base salary, and similarly, converting other benefits (such as medical) into cash -- would come up to a handsome amount which would be as good as the wage a manager with similar skills gets in the private sector. This idea echoes Milton Friedman -- the great economist once suggested that rather than subsidizing primary education, government can actually allocate the subsidy money among the poor parents, so that parents have a choice where to send their children, to private or to public school. Similarly, if government employees were given an option to convert their benefits into cash, may be then they would not live in the costly Dhanmondi area where government apartments are usually allotted, but would opt for some cheaper areas, such as, Uttara, and could pocket some money as savings.

An eminent economist once in a seminar suggested increasing the level of wage of public employees by few folds. A participant from that seminar immediately questioned “how a poor government like Bangladesh would afford so much money as a wage bill?” In reply, the

economist said, “then how the bureaucrats are (already) generating a high mark-up over their base wage?” Implicit in his argument is that, the money is already floating in the market. Bureaucrats in many instances earning four to five folds than their contract salary, we just need to devise a policy to redistribute the floating money as a legal means of payroll. This idea echoes the famous proposition: “legalizing the bribes” -- which is customary in Thailand and some other countries in the world. This is a better alternative as it transforms the corruption into a centralized (a win-win outcome) process than the existing decentralized (a win-loose outcome) system. But this too did not happen in Bangladesh perhaps due to our religious values. Covert stealing is okay, but overt corruption is unethical!

Anybody ever wonders why the salaries of the government employees are so low relative to other sectors must have noticed that the answer lies in ‘risk factor’. Government jobs are considered to be a ‘safe’ occupation (e.g., a manager in Sonali Bank). In contrast, private sector jobs are treated as ‘risky’ occupation (e.g., a manager in IFIC Bank). The chance of loosing a government job is almost zero, whereas the probability is high for a private sector job. Another reason why the wage bill is lower in the public sector has to do with the growth of the firm itself. Usually firms in the private sector (e.g., Grameen Phone) are regarded as high-growth firms. In contrast, public sector firms (e.g., T&T) in Bangladesh rarely experience any growth; instead, they are chained with self-destructive tools like trade union, red tape and corruption. It is a well known result that workers in a high-growth firm not only receive higher wages, they are also regarded as cost-saving labors for employer too. Since more productive a worker is, the less costly the worker is for the employer.

Since most workers differ in their characteristics, paying a worker less than the full amount (or equivalently market-based wage for a similar position in the private sector) will cause adverse selection (i.e., bad type workers) in the hiring process. Theoretically, workers with low productivity only would be willing to accept a contract that pays less than the market wage. This claim is however not always true. There are ample evidences indicate that even the most productive workers (i.e., brilliant students) often pay high bribe to secure a government job even though it pays less than the workers’ reservation wage. Prevalence of high corruption at the government level allures the productive workers to join the public sector rather than to become entrepreneurs. This misallocation of resources not only inhibits innovation but retards growth too.

The Government of Bangladesh faces a challenging task of reforming the civil administration which requires a lot of courage. Usually money is not the biggest obstacle for such reform. Donor agencies are willing to provide money, what the donors do not want is the abuse of grant money. The present BNP government has already proved her courage by shutting down the Adamjee Jute Mill, banning the use of plastic bags, and the abolition of two-stroke engines. Administrative reform is a difficult and complicated task. As a first step the government can solely focus on salary and compensation reform. Similar reform is currently in place in many developing countries (such as Thailand) and appropriate ideas can be borrowed for implementation.

The process of reform can be both tempting and dangerous. It is tempting because it often creates the scope for rent-seeking, it is dangerous because misappropriation of public money can in turn reform (change) the fate of the ruling government. Only the courageous and visionary government can undertake such much needed reform to take us one step ahead.

*The author is a graduate student of economics, York University, Canada.*