ASSESSING THE IMPACT OF REMUNERATION ON THE LEVELS OF

CORRUPTION IN THE STREET LEVEL BUREAUCRATS OF PAKISTAN

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PREFACE

This policy paper is an attempt to assess the effects/ impact of remuneration on the levels of corruption in the street level bureaucrats of Pakistan. It not only aims to identify certain flaws in the current framework of Civil Service of Pakistan that calls for a targeted civil service restructuring but also makes certain recommendations to transform it on the basis of incentivizing the civil servants through increasing their pays. The paper has been written after consulting diverse sources and relies on the observation that wages have a negative relation with corruption and therefore propounds policy recommendations for curbing corruption especially from the perspective of Pakistan.

To begin with, the topic included the word "integrity" which was later substituted with the term "corruption" considering that integrity itself is a broad term which has much to do with morality, ethical values, principles and norms; all of which are subject to the challenges of interpretation. While defining moral content is a challenge in itself, one also suffers from the dilemma of how to avoid the minimum standard logic and resorting to the officer first approach rather than the institution first approach. I am indebted to my academic supervisor, Nikolas Kirby for serving as an inspiration and a constant source of guidance. His valuable input is reflected in the final outlook of the research. I am also thankful to my fellow colleagues at the Building Integrity Programme who provided their feedback, support and guidance during the course of writing this policy paper.

EXECUTIVE SUMMARY

It goes without saying that corruption is a menace which has vexed almost every country of the world and has been termed as the most detrimental obstacle to social and economic development. The same holds true for Pakistan which is a developing country and has been ranked 120/180 on the corruption perception index of transparency international with a score of 32/100. This malignant tumour has encroached upon the Civil service of Pakistan and has metastized into the top most bureaucracy of the country. One important factor responsible for the deterioration of the quality of the civil service is the less than adequate remuneration package which prompts them to resort to rent seeking behaviour and in corruption. Extensive research has already been done on whether there is a relationship between wages and corruption. Empirical evidence for this link is mixed. Having focused my analysis on the shirking model and the fair wage model both of which assume that wages play an important role in controlling corruption, this paper has tried to examine the pay packages of the civil service of Pakistan and concluded that less than adequate compensation package does have a role in promoting corrupt practices. It has been recommended that the same can be curbed by revisiting the compensation package of civil servants through including performance incentives coupled with stringent anti-corruption measures to increase efficiency, simplifying the incentives rather than basing them on subjective or feedback assessments and rotating the financial incentives with non-financial incentives in order to break the monotony. These would eventually lead to reforming the civil service of Pakistan by reducing

corrupt practices through adequately compensating the civil servants by increased wages, and performance based financial and non-financial incentives.

GLOSSARY OF TERMS

BPS	Basic Pay Scale
CSS	Central Superior Services
CSP	Customs Service of Pakistan
CTG	Commerce and Trade group
FPSC	Federal Public Service Commission
FSP	Foreign Service of Pakistan
IG	Information group
IRS	Inland Revenue Service
MLCG	Military Lands and Cantonment Group
OMG	Office Management Group
PG	Postal Group
PAS	Pakistan Administrative Service
PAAS	Pakistan Audit and Accounts Service
PSP	Police Service of Pakistan
PDV_t	Present discounted value of income at time, t
C	Number of corrupt acts
CB	Product of number of corrupt acts and level of bribe
W_g	Government wage including the government pension
W_p	Private Sector wage
EI	Expected income

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INTRODUCTION

The Central Superior Services is the permanent bureaucratic authority of Pakistan responsible for the running of civilian bureaucratic institutions and government departments of the country. Drawing its roots from the colonial legacy of the Indian civil service, the creation of Pakistan on August 14, 1947 saw the formation and establishment of the Civil Service of Pakistan. This permanent civil service provided the indispensible element of continuity and a source of expertise to the administration through the hallmarks of constitutional protection, political neutrality, permanency, anonymity and merit based recruitment.[1] Despite Jinnah's dream of continuing with an apolitical, neutral and independent bureaucracy without reforming the bureaucratic order inherited from the British[2], the back bone of the country has degenerated thus prompting some to ask whether Pakistan is preordained to remain ungovernable, mired in a state of ceaseless, recurring crises or can it become governable once more.[3] The channel through which governance affects development is its civil servants, their quality, incentives afforded to them and their accountability in terms of results.[4] At present the public trust in the civil servants tasked with public service delivery is dismally low because of rampant corruption, bureaucratic red tape and inefficiency. One of the causes of the resultant demotivation, demoralization and despondency among the civil servants is their less than adequate compensation package which needs to be addressed in order to improve the present situation. This importance of adequate remuneration in order to ensure an honest civil service has been widely recognized in the policy debate.[5]

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[1] Husain, *Governing the Ungovernable : Institutional Reforms for Democratic Governance*.

[2] Niaz, I., *The culture of Power and governance Of Pakistan 1947-2008* (OUP, 2010)

[3] Husain, *Governing the Ungovernable : Institutional Reforms for Democratic Governance*.

[4] Ibid

[5] See Myrdal (1968) , Carino (1986) , Israel (1987), Klitgaard (1989) , Tanzi (1994) , and Lindauer and Nunberg (1994)

The findings of this paper provide a clear understanding of the necessity of increasing the incentives of civil servants in order to attract the brightest of minds given a vast number of alternatives in the field of information technology, media, entertainment, finance, telecom, service, and infrastructure sectors which offer unlimited opportunities for career growth as well as remuneration.[6] It aims to contribute to the development of substantial base for further research on this topic in future.

LITERATURE REVIEW

The current literature on the topic is divided in three camps; those who advocate a positive relation between wages and corruption, those who establish a negative relation between them and those who conclude that no causal relation exists between the two. Theoretically, scholars have argued that higher wages (including future wages and other delayed rewards such as pensions appropriately discounted) raise the opportunity cost of corruption for the perpetrator if caught and these arguments are drawn on the shirking model and the efficiency wages model.[7] Both these models will be explained in the succeeding text. Three aspects have been examined namely theoretical, empirical and experimental and three correlations have been found in the various studies which have been conducted. While Van Rijckeghem and Weder (2001), Alt and Lassen (2003), Dong and Torgler (2013) establish a negative correlation (inversely proportional) between wages and corruption; Karahan et al. (2006) and Navot et al. (2015) point out towards a positive relation (direct relation) between the two thus concluding that empirical evidence for the link between corruption and pay levels is mixed. On the other hand, Rauch and Evans (2000), Dahlström et al. (2012) and Treisman (2000) do not find a correlation between wages and corruption in their cross-sections of countries.[8] All the above mentioned studies enabled

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[6] "Does, and Should, IAS Attract the Best and Brightest?"
[7] Meyer-Sahling, Mikkelsen, and Schuster, "Civil Service Management and Corruption."
[8] Meyer-Sahling, Mikkelsen, and Schuster. "Civil Service Management and Corruption."

me to draw comparison between the various results of the above mentioned research papers.

On the basis of literature we know that the models that predict the use of wage policy in eradication of corruption namely the Shirking model of Shapiro and Stieglitz (1984) and the fair-wage effort hypothesis of Akerlof and Yellen (1990) are very expensive thus making these models highly implausible. Other studies like Alt, J. E., & Lassen, D. D. (2003) focus mainly on the American states which represent a set of democracies which are developed and thus the results of these studies cannot be fit into the context of Pakistan which is a developing economy with different circumstances. With Karahan et al. (2006) and Navot et al. (2015) arguing for a positive relationship between the wages and corruption, the same may not hold true in the perspective of Pakistan being a developing country as compared to the rich counties of Mississippi where the research study was conducted.

This policy paper therefore draws heavily on Ishrat Hussain's book "Governing the Ungovernable" which provides valuable insight into the history of the Civil service of Pakistan and the randomized control trial studies conducted in the tax administration of Pakistan which concludes that pay mechanisms can be quite effective in raising additional taxes. Since this study has been conducted in the Pakistani context and involves the civil servants of the Inland Revenue Service where the working environment (bureaucratic red tape, bribery, rent seeking, etc) of the officials of the tax administration is the same as that of civil servants of Pakistan Administrative Service, the results of the study can be extrapolated to the street level bureaucrats of Pakistan.

STATEMENT OF THE PROBLEM

The policy paper seeks to explore different options that can transform the Civil service of Pakistan into a model civil service committed to public service delivery in future by answering the following questions:

1.   Does remuneration have an effect on the levels of corruption in the civil service?

2.   How can corruption be eliminated from the rank and file of the street level bureaucracy of Pakistan by revisiting their remuneration package?

HYPOTHESIS

The research study would be based on the following cause and effect hypothesis;

"Increase in the remuneration of civil servants will lead to decreased levels of corruption in the street level bureaucrats of Pakistan."

DATA COLLECTION

Reliance has been placed on qualitative as well as quantitative data. Primary data includes examination of official statistics, reports, and major legislations related to the process of urban development in Lahore. Semi-structured interviews of officials belonging to the Pakistan Administrative Service and posted in the establishment division have also been conducted in order to gauge the perceptions of these officers regarding corruption. For a critical perspective, senior bureaucrats who have retired from the service have also been interviewed. The secondary data includes a detailed evaluation of academic works on the topic including published books and journal articles. These sources also formed the basis for Literature Review.

RESEARCH METHODOLOGY

Given the nature of topic, I will be utilizing a combination of research methods including descriptive, analytical and qualitative methods. Due to lack of data on the actual number of civil servants prosecuted for corruption, this policy papers will be an analysis of the existing literature on wages from the perspective of Pakistan.

OUTLINE OF THE RESEARCH PAPER

An introduction followed by literature review, statement of problem and research methodology delves into the main body of the paper which has been divided into four sections. The first section differentiates between integrity and corruption and gives a definition of corruption. The second section describes the two models i.e the shirking model and the fair wage hypothesis both of which consider wage policy to be pivotal in the eradication of corruption. The third section presents a situational analysis of the civil service of Pakistan especially in terms of the wages and compensation. The fourth section dilates upon the tax reforms undertaken in Pakistan which have empirically shown to improve efficiency and curb corruption when the wages of the tax inspectors were increased through performance-based incentives. The paper concludes by proposing some policy recommendations.

SECTION 1: INTEGRITY VERSUS CORRUPTION

The first section differentiates between integrity and corruption. The concept of integrity is an essential one while assessing the state of governance in any institution and is rather a depiction of how citizens perceive and relate to their state.[9] Despite this obvious importance of integrity, there exists very little work which directly addresses the term 'integrity'. While integrity has something to do with morality, ethical values, principles and norms we, nevertheless find these characteristics being vague, unjustifiable and collapsing to relativism and hence the resulting difficulty in defining integrity.[10] The focus in political science however has been on corruption instead where research has generated results but because of the emphasis of corruption on the negative pole of public ethics, the same cannot be extrapolated to integrity itself. Considering the broader challenges of interpreting integrity, the

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[9] Rose and Heywood, "Political Science Approaches to Integrity and Corruption."
[10] Nikolas Kirby "An 'Institution-First' conception of public integrity".

focus of this paper is on corruption. Corruption itself is very hard to define. Not only is there any common theoretical approach of modelling corruption, there exists no common, agreed upon definition of the same.[11]

The World Bank defines corruption as "the abuse of public office for private gains". Yet another definition of corruption as held by Shleifer and Vishny (1993) states it as "the sale by government officials of government property for personal gains".[12] I will however resort to the Transparency International's definition of corruption "as the use of entrusted power for private gains".[13] While explaining corruption a distinction has to be made between the two approaches i.e the political rents approach (Perrson et al 2001) and a compensation approach (Ades and Di Tella, 1999). A political rents approach is built on the models of political agency and focuses on corruption by the politicians in the form of political rents or rents seeking. This is different from the compensation approach that concerns bureaucratic or administrative corruption which considers the relationship between the government and the bureaucracy and the factors effecting the remuneration of the bureaucrats.[14] Since the later approach deals with bureaucratic/administrative corruption rather than the political corruption this will be our area of focus.

SECTION 2: MODELS ILLUSTRATING USE OF WAGE POLICY AS A MEANS TO REDUCING CORRUPTION

In this section, the two models which illustrate the pros and cons of using wage policy as a means to reducing corruption will be explained. Both these models focus on the basic notion of efficiency wages which state that labour productivity is related to wages paid. These are the shirking model of Shapiro and Stiglitz (1984) and the fair wage effort hypothesis/model of Akerlof and

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[11] "The Political Economy of Institutions and Corruption in American States - James E. Alt, David Dreyer Lassen, 2003."

[12] Corruption. The Quarterly Journal of Economics- Shleifer, A. and Vishny, R.W.1993

[13] Transparency International https://www.transparency.org/en/what-is-corruption

[14] "The Political Economy of Institutions and Corruption in American States - James E. Alt, David Dreyer Lassen, 2003."

Yellen (1990). The two models are being discussed separately because a distinction between the two has important quantitative consequences in determining the strength of relationship between corruption and wages.

The shirking model assumes that since civil servants maximize their income, therefore firms pay high wages in order to induce its workers to work hard and consequently eliminate shirking. Since detection of corrupt behaviour may result in job loss, high pay constitutes an incentive to be less corrupt.[15] However, when the bribe levels are high and probability of detection and anti-corruption measures (disciplinary enquiries, initiation of criminal proceedings, chances of dismissal from service and amount of fine) is low, the wages will have to be significantly high thus posing threat to the cost-benefit argument. The shirking model therefore postulates that the wages have to be raised to very high levels in order to curb corruption. Drawing heavily on Becker and Stigler (1974) in a multi-period model (earlier periods and last period of employment), the present discounted value of expected income in the last period of employment can be represented as follows:[16]

$$PDV_t = (1 - pC)(CB + W_g) + pC(W_p - f) \qquad (1)$$

Where PDV_t = present discounted value of income at time t, C = Number of corrupt acts, CB = product of number of corrupt acts and level of bribe, W_g = the government wage including the government pension, W_p is the private sector wage and f is penalties or jail terms. When corruption is not detected then income equals bribery (CB) plus government wage (W_g). When corruption is detected then wage along with pension and bribery income is gone and income is equivalent to private sector pay (W_p) minus penalties (f).

In developing countries, since the pays at the later stages is low, the no corruption condition is not expected to hold in later periods and because the future wages are lower than the PDV, civil servants resort to corruption. Van

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[15] Van Rijckeghem and Weder, "Bureaucratic Corruption and the Rate of Temptation."
[16] Van Rijckeghem and Weder, "Bureaucratic Corruption and the Rate of Temptation."

Rijckeghem and Weder conclude that at this level assuming that the private wage is 100, the bribe level is 20 and the discount rate is 10%, corruption is eradicated when government wages equal 200 times the private sector wage in the last period of employment and 19 times in all other periods.[17]This makes the model highly implausible thus raising serious questions regarding the cost benefit analysis of civil service wage increases.

It should, however be noted that bribe level in certain public institutions like education and health may be low and thus corruption may be eliminated at low wage levels. Secondly delayed rewards like pensions and rehiring in the private sector may serve as an incentive to honest behaviour reducing the need to pay higher wages during service. Thirdly high wages themselves will serve as a deterrent by leading the society to condemn corruption and thus no need of very high increase in the wages.

The fair wage effort hypothesis on the other hand, postulates that workers form a notion of the fair wage level and if actual government wage (Wg) is lower than their assumed level of a fair wage or expected income (EI), they then either withdraw their effort from their work in the same proportion or increase their level of remuneration by redefining the non-pecuniary terms of their job and resorting to corruption (C).[18] This can be represented in the following equation,

$$EI = (1 - pC) (CB + Wg) + pC (Wp - f) = W^* \qquad\qquad (2)$$

Where EI = expected income, C = Number of corrupt acts, CB = product of number of corrupt acts and level of bribe, Wg = the government wage including the government pension, Wp is the private sector wage and f is penalties or jail terms.

[17] Ibid
[18] Akerlof, G.A., Yellen, J., 1990. The fair wage effort hypothesis and unemployment. Quarterly Journal of Economics

Workers presume their wages to be fair depending on a number of factors namely, wages of peer within or without the place of employment, societal expectations, the market clearing wage, subsistence requirements, the status of civil servants etc. [19] This view is akin to the fair wage model and is prevalent amongst experts on corruption who note a preference for honesty among civil servants.[20] Peter N.S Lee 9 quoted by Alfiler, 1986, p. 66 who states that **"it is not a question of paying sufficient salary to make a man incorruptible, but rather of not paying salary on which a man is encouraged to be corrupt in order to meet his reasonable commitments".** The fair wage model therefore assumes wages to be a very important determinant of corruption. However shirking hypothesis and the fair wage model are observationally equivalent when there are low bribe levels and or high probability of detection.[21]

SECTION 3: SITUATIONAL ANALYSIS OF THE CIVIL SERVICE OF PAKISTAN

Article 240 of the constitution of Islamic republic of Pakistan provides the guiding principles for entry into the Civil service of Pakistan along with the terms and conditions of service.[22] The Federal Public Service Commission is responsible for ensuring merit based recruitments to the civil service of Pakistan. It is a statutory body of the Government of Pakistan, constituted in 1947, functioning under the guiding principles of Articles 18, 25, 27, 34, 36, and 38 of the Constitution of the Islamic Republic of Pakistan 1973 and under Section 7 of the Federal Public Service Commission Ordinance 1977.[23] Entry into the civil service of Pakistan is in 12 different occupational groups or

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[19] Dumont, R., 1979. Remuneration and corruption levels in French-speaking Africa. In: Ekpo, M. Ed. , Bureaucratic Corruption in Sub-Saharan Africa: Toward a Search of Causes and Consequences. University Press of America, Washington, DC.

[20] Klitgaard, R., 1991. Adjusting to Reality, Beyond State Versus Market in Economic Development. ICS Press, San Francisco

[21] Van Rijckeghem and Weder, "Bureaucratic Corruption and the Rate of Temptation."

[22] Article 240 of the Constitution of Islamic Republic of Pakistan. https://pakistanconstitutionlaw.com/article-240-appointments-to-service-of-pakistan-and-conditions-of-service/

[23] Federal Public Service commission of Pakistan, http://www.fpsc.gov.pk/

services at the level of BPS-17 and the appointment of persons and the terms and conditions of service of all these officers are regulated by the Civil Servants Act 1973.[24] At present the number of officers in the civil service of Pakistan is as follows:[25]

Total No of Officers	6395
I.R.S	1065
P.A.S	937
Police	854
P.A.A.S	646
O.M.G	523
Secretariat	475
Customs	465
Foreign Service	455
Information	238
Commerce & Trade	203
Postal	187
Economists	155
Railways	105
M.L.C.G	87

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[24] The Civil Servants Act 1973,
https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/99257/118391/F1180420505/PAK99257.pdf
[25] Annual Statistical Bulletin of Federal Government Employees (2018-19), Pakistan Public Administration Research Center, Establishment Division.

Note: Two additional groups of economists and secretariat group have also been added to this group because their entry into civil service is regulated by the Federal Public Service Commission of Pakistan.

Out of these 14 occupational groups, officers of the Pakistan administrative service are those civil servants which have been marked as the street level bureaucrats of Pakistan because of their daily interaction with the general public. The Pakistan Administrative Service, or PAS (previously known as the District Management Group or DMG before 1 June 2012) is the most elite and prestigious cadre of the Civil Service of Pakistan.[26] Having multiple responsibilities from the general administration of tehsils and districts, controlling law and order situations, issuing licenses (driving licences, arms licenses, commercial and industrial licences) to practically implementing all local and special laws in collaboration with the police, the Pakistan administrative service is the representative of state authority in the whole of Pakistan. While having been invested with so much authority to exercise the writ of the state, the remuneration being paid to these officers is meagre. An illustration of the pay structure as formulated by the Finance division of Pakistan for the year 2019 and beyond is as follows.

Presently, Basic Pay Scales (BPS) are 1 to 22 and their notified rates are as under[27]:

Basic Pay Scale (BPS)	Stages	Minimum Pay	Annual Increment	Maximum Pay
1	30	9130	290	17830
2	30	9310	330	19210
3	30	9610	390	21310

[26] Malik Asad (25 May 2014). "Boon for PAS (Pakistan Administrative Service) angers other civil service groups". Dawn (newspaper)

[27] Finance division of Pakistan, http://www.finance.gov.pk/circulars/circular_03072017.pdf

4	30	9900	440	23100
5	30	10260	500	25260
6	30	10620	560	27420
7	30	10990	610	29290
8	30	11380	670	31480
9	30	11770	730	33670
10	30	12160	800	36160
11	30	12570	800	38970
12	30	13320	960	42120
13	30	14260	1050	45760
14	30	15180	1170	50280
15	30	16120	1330	56020
16	30	18190	1520	64510
17*	**20**	**30370**	**2300**	**76370**
18	20	38350	2870	95750
19	20	59210	3050	120210
20	14	69090	4510	132230
21	14	76720	5000	146720
22	14	82380	5870	164560

Column No.1 indicates pay scales.

Column No.2 indicates its stages.

Column No.3 indicates Minimum or start of the scale.

Column No.4 indicates annual increment.

Column No.5 indicates the Maximum or the last stage of scale.

The starred column depicts the initial pay of a BPS-17 officer which is equal to Rs 30,370 or 140 pounds sterling per month. As depicted in the column, the initial recruitment pay in BPS-17 is not only scanty in amount but also the high number of stages required to reach the maximum of BPS-17 is 20. These lengthy pay scales being a regressive feature of the civil salary structure are both inefficient (unhindered payment of increments to everyone without considering their efficiency or input) and uneconomic (increments are paid till maximum stage of that pay scale is achieved) as they leave the employees stuck in these scales for years thus draining all their motivation.[28] The meager salary coupled with the politically motivated civil service reforms of 1973 in order to make the civil service more pliable and flexible by replacing the service cadres with occupational groups left the higher civil service of Pakistan unattractive for the talented youth.[29] As in the words of Ishrat Hussain who attributes the increasing tendency of civil servants to engage in corrupt practices to reduced financial remuneration after the reforms, " the difference in salary between an officer in Grade 22 which used to be 285 times that of the Grade 1 employee shrunk to only 10 times after the 1973 reforms". Furthermore, the 1973 reforms undertaken by the powerful Bhutto regime have turned the once "all powerful steel frame of India" into subservient statues left at the behest of their political masters even for their postings and transfers.[30]

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[28] Bilquees, "Civil Servants' Salary Structure."

[29] Husain, *Governing the Ungovernable : Institutional Reforms for Democratic Governance.*

[30] Ahmad, B Salam, M. 2016, Bureaucracy in Pakistan Between Delivery of Civil Services and Politics

SECTION 4: LESSONS LEARNT FROM INCREASING PAYS/ INCENTIVES IN THE TAX ADMINISTRATION SYSTEM OF PAKISTAN

Khawaja, Khan and Simon categorically point out that in the developing country context, civil servants are paid modest wages and offered minimal to no performance bonus, providing little motivation for public employees to exert effort in the satisfactory performance of their duties.[31] The case is no different in the case of Pakistan and experimentation on increasing the pays of civil servants by awarding them performance based incentives has been done in the country particularly in the tax administration system. Evaluation of the effects of remuneration (in the form of performance based incentives rather than meagre salaries with fixed annual increments) on the levels of corruption (collusion between the tax collector and the taxpayer for the purpose of tax evading through under valuing of the property being evaluated by accepting bribes) has been conducted in Pakistan. In this regard, the first experimental evidence on whether increased pays lead to increased revenue collection is available in the form of a randomized control study conducted in Lahore, Pakistan whereby 482 property units were experimentally allocated to one of the three performance schemes and a control.[32] These three schemes were the "revenue scheme", "revenue plus scheme" and the "flexible bonus scheme" on the basis of which the civil servants (tax inspectors) were rewarded at the end of the month by giving them an average of 30% of all tax revenue collected by them. While the 'revenue scheme' rewarded the tax inspectors solely on the basis of the revenue collected above a certain benchmark, the 'revenue plus scheme' added other factors like the accuracy of tax assessment and the level of tax payer satisfaction based on their feedback. The 'flexible bonus scheme' went still a step further and included evaluation of the tax inspectors by a departmental performance evaluation committee thus allowing for subjective adjustments. The results of the study showed that the scheme

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[31] "Designing Incentive Structures in Bureaucracies: A Case Study for Reform in Pakistan | Harvard Evidence for Policy Design."

[32] Khan, Khwaja, and Olken, "Tax Farming Redux."

which rewarded purely on 'revenue' did best, increasing revenue by 12.9 log points (64% higher growth rate), compared to the two other schemes.[33]

Since this study has been conducted in the Pakistani context and involves the civil servants of the Inland Revenue Service where the working environment of the officials of the tax administration is the same as that of civil servants of Pakistan Administrative Service, the results of the study can be tentatively extrapolated to the street level bureaucrats of Pakistan. Just like the tax inspectors are exposed to the perils of bribery given the potential of collusion between the tax payer and the tax inspector and the resultant inaccurate or undervalued assessment of the property, officers of the Pakistan administrative service tasked with assessing the values of agricultural produce, revenue related to the sale and purchase of urban and rural property, issuance of licences and permits can collect bribes for all these transactions. The results of the study on performance pay for tax collectors suggest that even in the presence of these effects, pay mechanisms can be quite effective in raising additional taxes.[34] On a similar note it can be concluded that increasing the wages of the street level bureaucrats of Pakistan administrative service and by basing them on performance based incentives rather than the yearly annual increments will result in decreased levels of corruption on the same pattern as the increase in the tax recovery has taken place by increasing the wages of the tax inspectors through performance based incentives.

CONCLUSION

This policy paper was based on the hypothesis that increase in the remuneration of civil servants will lead to decreased levels of corruption in the street level bureaucrats of Pakistan. The paper reviewed current literature already available on the subject followed by a description of the two models which primarily apply wages as a policy to reduce corruption. Diverse

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[33] Khan, Khwaja, and Olken.
[34] Khan, Khwaja, and Olken.

opinions including those of academics, advisors to the current government, civil servants in field, and those working with the Establishment division of Pakistan were sought. This attempt to establish the link between corruption and wages concludes that the empirical evidence is mixed. The randomized control trials conducted in Pakistan at the level of civil servants of the Inland Revenue Service concluded that pay mechanisms can be quite effective in increasing the tax revenue collection. Just like the effects seen in the taxation system, performance pay schemes in street level bureaucrats can be a promising avenue to explore. Since both the shirking model and the fair wage models that propose eradication of corruption by using the wage policy are highly expensive and thus implausible as explained in the preceding sections, it is being concluded that rather than increasing the wages of civil servants by many folds the same should be made performance dependent and civil servants incentivised by tying the compensation to the revenue they generate.

RECOMMENDATIONS

Despite the fact that empirical evidence for the relationship between wages and corruption is mixed, in light of the experiments conducted in the Pakistani tax system where performance pays have increased the revenue in the form of tax recovery, the following is being recommended:

Recommendation 1: Revisiting the compensation package of civil servants by including performance incentives coupled with stringent ant-corruption measures to increase efficiency

The basic pay structure of the civil service requires revisiting. The scanty salaries especially at the initial recruitment along with the lengthy pay scales make it a regressive feature of the Civil service of Pakistan. Fixed pay and salaries and annual increments leave no motivation for the government servant to excel thus making government employment least attractive.[35] It is therefore recommended that a system based on performance incentives

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[35] Haque, Nadeem Ul, and Se-Jik Kim (1994) Human Capital Flight: Impact of Migration on Income and Growth.

should be introduced in order to assess the working of all street level bureaucrats and rewards and punishments be awarded accordingly. As discussed earlier, that even these performance based incentives may not yield the desired results if the bribes are high enough to rule out the attraction of incentives. It is being proposed, therefore that along with these performance based incentives, stringent anti-corruption measures including dismissal from service (thus depriving the officer from wages and pension post retirement), bar from rehiring in any private organization after rustication from service and initiation of criminal proceedings to promote the culture of naming and shaming and thus reforming the society as a whole.

Recommendation 2: Simplifying the incentives rather than basing them on subjective or feedback assessments

While drawing this recommendation, reliance has been placed on the findings of study conducted on designing incentives for tax administrators in Pakistan and which declares the simple "revenue based" incentives to be the most efficient as compared to other schemes that involved taking feedback from the tax payers and awarding incentives based on subjective evaluations of the tax collectors by the performance evaluation committees.[36] The same is being recommended for the street level bureaucrats of the Pakistan administrative service whereby the incentives will be simple "revenue" based on achieving their targets, thus ruling out the chances of manoeuvring by subjective biases and political interference in certain cases. In other words the compensation which the civil servants receive will be tied to the revenue they generate out of their job description. This will keep the civil servants motivated as it will be entirely merit and performance based and ruling out any manipulation by generating fake feedbacks or subjective evaluations based on political linkages and nepotism.

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[36] "Designing Incentive Structures in Bureaucracies: A Case Study for Reform in Pakistan | Harvard Evidence for Policy Design."

Recommendation 3: Rotating the financial incentives with non-financial incentives in order to break the monotony

Fixed incentives or annual incentives can have an effect of monotony on the performance of civil servants. These incentives can be rotated with non-financial incentives which may be equally powerful as money itself. This could be in the form of tenure protection at a particular post where the duration of posting will depend upon the targets achieved by the particular officer. Some officers who are posted in larger provinces like Punjab and Sindh prefer their home stations for postings. This may also serve as a non-financial incentive and especially in the present situation where the economy of Pakistan is already over stressed, no extra pecuniary burden will be placed on the government authorities. Such measures when implemented across the board will enable officers to serve with more zeal and zest once they are sure that personal connections and arbitrariness no longer plays a role in the postings and transfers.

Interview with Dr. Ishrat Hussain, advisor to the Prime Minister of Pakistan on Institutional reforms and austerity.

- ❖ What do you think are the causes of deterioration in the quality of service of the civil service of Pakistan?

- ❖ Do you think that there is a linkage between wages/remuneration and the levels of corruption?

- ❖ Having served in the Pakistan Administrative Service, can your two decades of service at the World Bank be attributed to the lack of incentives and compensation package in the Civil service of Pakistan?

- ❖ What are the causes of lesser number of candidates clearing the competitive exam, is it the worsening education standard of the country or less brighter minds taking the exam?

- ❖ Has the reforms agenda that you have suggested for the bureaucracy been seen positively by the bureaucracy or otherwise?

- ❖ How do you think are the present recommended civil service reforms different from the previous reforms of the country?

- ❖ As suggested in your book, do you think will it be possible to increase the pays and wages of the civil servants in our pursuit of an adequate compensation package without stressing the already overstretched economy of the country?

- ❖ What are your views on the present government's steps of not increasing the salaries and pensions of the civil servants?

- ❖ How can we ensure that the civil servants do not abandon their service at the later stages of their career in their hunt for international organization?

- ❖ Experimentation with the tax administration of Pakistan has showed promising results with regards to increase in tax revenue collection when the pays and wages of tax inspectors were increased, do you think it will have the same effect when the wages of other civil servants are increased on the same pattern?

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