



PIDE Series on Governance and Institutions

Public Sector Efficiency

Perspectives on Civil Service Reform

Edited by

Nadeem Ul Haque and Musleh-ud Din

PIDE Series on Governance and Institutions

PUBLIC SECTOR EFFICIENCY
PERSPECTIVES ON CIVIL SERVICE REFORM

EDITED by

NADEEM UL HAQUE AND MUSLEH-UD DIN

PROCEEDINGS OF THE PIDE ROUND TABLE

Royal Palm Club, Lahore, Saturday, May 27, 2006

dedicated to

Late M. L. Qureshi,

the Founder of the “New” PIDE

**Pakistan Institute of Development Economics,
Islamabad**

PIDE Series on Governance and Institutions

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PREFACE

Economic research over the last decade has shown that underdevelopment persists where governance is of a poor quality. Unmodernised and unreformed structures of governance often increase the cost of doing business and hence reduce the competitiveness of a country. It is no wonder that countries like Singapore, Malaysia, and Korea that developed modern and efficient structures of governance progressed much faster than countries in South Asia which lack the belly for reform.

The civil service in Pakistan is a key component of governance in the country. It is central to the formulation and implementation of policies, magistracy, public service delivery, and all regulations of market. Yet it retains many of the features of the colonial era. It remains a tightly knit elite club into which professional entry is not allowed. It consists of generalists, who rely on consultants and external donors for technical support.

Many analysts, popular leaders, donors, and external advisers have argued that the colonial structure needs to be modernised for a democratic and independent era. A powerful colonial structure is the civil service.

Attempts have also been made at reforming the civil service with a view to making it a modern, decentralised, and technocratic bureaucracy. Most of these attempts have not succeeded. The civil service remains a highly centralised, generalist bureaucracy quite inadequate to address the needs of modern governance and economic development. Various groups including the civil service have participated in the struggle for power and resources in the history of Pakistan through resisting reform efforts.

Very little research has taken place on this critical issue. But this is not surprising given that research has been a declining industry in Pakistan for much of its history.

This conference and this book are an attempt to develop research interests and debate on this crucial issue of civil service reform. Last July, PIDE got together several intellectuals, civil servants, and other groups to develop an informed discussion on this subject. A number of issues were discussed, such as the role of government, civil service efficiency, human resource management,

professionalisation, politicisation, and statutory independence. Several further themes were identified in the conference on which we hope that the research community in Pakistan will exert further efforts. These are:

- The role of government in the economy and the marketplace needs to be clearly understood and spelled out among the Pakistani research community.
- The efficiency of government must be more carefully measured in terms of the objectives of governance and public service delivery.
- Any reform effort to be undertaken must be underpinned by incentives in human resource management. The system of unified pay scales imposes an arbitrary relativity on disparate professions discouraging decentralisation and professionalisation.
- A legislative and regulatory framework that buffers the bureaucracy from political interference while supporting innovation and facilitating decision-making needs to be developed.
- A decentralised and more people-centred civil service focusing on public service delivery needs to be developed.

The hope is that this book will lead to further thought and research on this subject for Pakistan to understand one of its major structures of governance—the civil service. Currently, the subject appears to be the domain of the donor community, which does most of the thinking in this area. We feel that without Pakistani researchers understanding and researching this subject, reform will either not happen or if it happens, it will be flawed and not domestically owned. Therefore, we urge greater understanding of all the structures of governance through investigation and debate.

The book is the outcome of a team effort. We would particularly like to thank all the participants of the round table discussion for their contributions. Our special thanks go out to Mr Omar Siddique and Ms Izzah Waqar for their help in the preparation of the book. We would also like to thank Mr Muhammad Aslam, Dr Faiz Bilquees, Dr Zafar M. Nasir, Dr Ejaz Ghani, Mr Kalbe Abbas, Mr Fahim Jahangir, Ms Amara Saeed, Mr Raja Ajmal Jahangir, Ms Saima Bashir, and Ms Saba Anwar, all of the PIDE, for their roles in making the conference a success. We would like to express our gratitude to Mr Parvez Qureshi and his team at the Royal Palm Club, Lahore, for making comfortable arrangements for the conference and for encouraging intellectual pursuits at Pakistan's

premier resort. We are especially grateful to Mr Mir Annice Mahmood, Ms Maheen Pracha, and Professor Aurangzeb A. Hashmi for their editorial help. And finally, thanks are due to Mr Syed Mahboob Iqbal for excellent typing assistance.

Nadeem Ul Haque and Musleh-ud Din

EXECUTIVE SUMMARY

The Pakistan Institute of Development Economics (PIDE) organised a Round Table Discussion on civil service reform on 27 May 2006 in Lahore. The event marked the launch of a new initiative at PIDE that aims at fostering domestic research and dialogue on the broader issue of governance and its role in the development process. The ‘round table’ brought together government officials, intellectuals, and members of civil society to discuss and exchange views on various aspects of civil service reform in Pakistan.

Opening the discussion, Nadeem Ul Haque, Director PIDE, underlined the importance of domestic research and debate on civil service reform. Despite financial constraints, PIDE is taking a lead in generating a wide-ranging debate on the issue, and this interactive dialogue will help the institution shape a domestic research agenda, raise public awareness, and build ownership for the reform process. The Round Table Discussion is the first of a series of events that PIDE has planned to generate debate on important national issues. Five panels will be set up to deal with (i) governance and civil service reform, (ii) public choice, (iii) law and economics, (iv) decentralisation and devolution, and (v) markets and regulation.

In his keynote address, Moeen Afzal traced the problems afflicting the civil bureaucracy to as far back as the 1970s when old structures were dismantled without constructing new ones; training methodologies became outmoded; and there was little focus on recruitment, emoluments, pensions, and promotions—all of which had contributed to an overall decline in the quality of the civil service. Certain issues have become more pertinent with time, including excessive autonomy of the civil service, the bureaucracy’s resistance to outside appraisal, centralisation of powers, and corruption. Afzal identified the following issues for discussion:

- a definition of civil service;
- issues in recruitment, such as age, academic qualifications, and lateral entry;
- the planned national executive service;
- domestic and foreign training of officials;
- modern management techniques and the use of information technology;

- pay and performance;
- pension schemes; and
- evaluation for promotion.

Following the keynote address, the panel's scholars and experts presented papers on key governance issues, including (i) the role of government, (ii) international experience in civil service reforms, (iii) civil service efficiency, (iv) devolution, (v) bureaucracy and pro-poor change, and (vi) salary structure of civil servants.

In his paper on the role of the government, Shahid Kardar argued that issues such as the size of government, recruitment practices, skill-mix requirements, promotions, and compensation can be meaningfully addressed only when the role of the government is clear. He highlighted a number of factors that have marred the performance of the civil services in Pakistan:

- The public sector is over-extended and over-committed, performing far too many functions that are beyond its competence and core role, while manned by a workforce that has been affected by eroding pay scales, corruption, chronic absenteeism, and politicisation.
- All levels of government, without exception, have operated as employment bureaus and employers of the last resort, rather than as efficient providers of public goods and services.
- The government continues to follow outmoded practices, such as rewarding seniority rather than professional competence.
- The lack of incentives to develop skills, coupled with a system of frequent transfers, has prevented professional development and specialisation in civil services.

Kardar stressed upon the need to rethink the government's role by clearly identifying (i) activities for which the state should not only pay but also provide for, such as law and order, and judicial systems; (ii) activities where the government should not be involved in doing or paying for, such as running airlines and utility stores; and (iii) activities the government should pay for but should not be producing and providing, such as healthcare and education.

Mosharraf Zaidi examined the experiences of Argentina, Canada, and the United States to draw lessons for civil service reforms in Pakistan:

- Given the size of the government and fiscal burden, a smaller government is not necessarily a better government, and that reforms based on fiscal considerations alone would be incomplete.

- It is essential to recognise that a kind of ‘Big Bang’ in terms of legislation is important in the reform process. This can be by decree, as in Argentina, or through functional democracy legislation, i.e., through parliamentary debate and update from citizens’ interests. The best kind of legislation for civil service management and reform is one that is flexible and where that flexibility is at least partly defined by the power to oversee the civil services being vested in parliament.
- Agency coherence—identifying who is responsible for setting terms and conditions for promotions and incentives—is also important.
- It is also vital to look at the political economy of reform: the key question of where to aim. This will be also related to choosing between ‘Big Bang’ change or incremental reform.

Javed Masood focused on the issue of efficiency in the civil service, noting that the critical elements that impinge on efficiency in the civil service include the quality of human resources, and the systems, processes, attitudes, and morality that affect it. Whereas the private sector has mechanisms for human resource development, the public sector does not. The concept of human resource development in the latter has been reduced to a purely procedural personnel management by the Establishment Division. In recent years, the public sector has started inducting people from the private sector to address the inadequacy of human resources. However, the experience with this initiative has not been very encouraging, not least because of a paramount difference between performance accountability in the private sector—where there is instantaneous accountability—and in the government, where accountability remains largely absent. Finally, issues of system and process must be accorded high priority in reform efforts: a fundamental reorientation of the minds of functionaries is needed to change their attitudes; and morality in civil service is really the courage to say what the right input to policymaking is.

Shafqat Mahmood evaluated the devolution programme, his message being that the devolution programme had not delivered its intended benefits to citizens. This has several reasons:

- The provincial governments continue to exercise a large number of responsibilities that have supposedly been devolved to the districts, with the result that the full transfer of power has not taken place, the districts have not emerged as independent entities, and the *nazims* (mayors) remain under the control of the provincial chief ministers.

- The devolution programme has done away with town committees and municipal committees, which were urban administrative units governed by elected people. Instead, it has created two power centres of administration—the district and *tehsil* (smaller administrative unit).
- With the introduction of union councils, towns have been divided into smaller entities, creating many administrative anomalies.
- There have been complaints that *nazims* are apt to direct money towards their political allies, thus leaving citizens on the other side of the political spectrum.

It is due mainly to these problems that power has not been effectively transferred to the grassroots level, and service delivery largely remains poor.

Asad Sayeed examined the political history of Pakistan with a particular focus on its bureaucracy, within an analytical framework that emphasised the need for four conditions: (i) an objective function of the state that is clear to everyone; (ii) a political process that articulates the interests of the citizenry; (iii) a system of efficient monitoring and accountability of the bureaucracy; and (iv) the insulation of the bureaucracy. Prior to 1973, the bureaucracy largely met the conditions laid out in this model: it was insulated; there was a clear objective function that focused on economic development and suppression of the political process; and a system of monitoring and accountability existed to some extent. After 1973, Bhutto introduced populist reforms by dismantling the structure of what was then the Civil Service of Pakistan (CSP), thus giving rise to a patron-client relationship between the executive and bureaucracy. Bureaucrats lost their autonomous character and it became difficult to disentangle the conduct of the bureaucrat from that of the executive. This continued until 1999 and after that, the only substantive bureaucratic reform to take place has been through the devolution programme.

Faiz Bilquees presented an analysis of the salary structure of civil servants, and concluded that:

- there are serious anomalies in the present pay structure and in the allocation of cash and in-kind benefits;
- lengthy and overlapping pay scales with automatic payment of increments weaken the linkage between pay and work; and
- the grant and allocation of allowances has its own ambiguities, leading to serious distortions in remuneration among grades. All perks should be monetised at the market rate and added to the fully indexed basic wage.

In the concluding session, Moeen Afzal observed that, while research on the role of the government is desirable, it should not distract from the core issue of civil service reform. There is still need to clearly define what the civil services include, and ensure that the pay scales of civil servants have some relationship with the market salary structure. Tasneem Noorani emphasised some areas for further research, including (i) the role of the government; (ii) an independent assessment of the devolution programme; (iii) core issues of bureaucracy, such as recruitment, motivation, training, and career paths; (iv) a conceptual framework for civil service, e.g., generalists versus specialists; and (v) an independent evaluation of police reforms. Shahid Kardar stressed the need to clarify the core functions of the government and ways to perform them. He raised a number of questions that need to be addressed: (i) how should efficiency and effectiveness—which includes business processes, systems, and procedures—be improved? (ii) how should the governance structure be changed? (iii) how should the bureaucracy be made accountable; and (iv) how can measurable targets be set? Akmal Hussain emphasised the importance of looking at the civil service in generic terms: it is an institution where the individual should be highly motivated to perform his or her assigned tasks and deliver along specified lines. In this context, civil service reforms should look at recruitment, incentives, evaluation, training, and norms and values.

Closing the discussion, Nadeem Ul Haque thanked the participants for a productive day of discussions and dialogue on civil service reform, and reiterated PIDE's resolve to carry forward its research agenda and encourage debate on important national issues. He noted the consensus on the following focus areas for further research and debate:

- the role of the government;
- the efficiency of the government;
- incentives in human resource management;
- legislative and regulatory frameworks; and
- the organisation of the civil service.

AGENDA FOR DISCUSSION

1. In social contract thinking, why is a government required?
 - (a) What are its functions?
 - (b) What form of bureaucracy does it require?
2. Where and how should the government be involved in the economy?
 - (a) What role of the government is economically efficient?
 - (b) What role of government provides maximum economic welfare?
3. What are the fundamental economic rights that the government should provide?
4. Does our system have an optimal degree of decentralisation? What is this optimal degree?
5. Should local, provincial, and federal civil services be independent and parallel? The current system has only one civil service that promotes people from the local to the provincial to the federal. In this system, does the federation own all levels of government?
6. What role should professional recruitment play? Currently, professionals are at the bottom of the system.
7. Separation of policy, regulation, and implementation.
8. Coordination between levels.
9. Role of autonomous institutions, e.g., universities.
10. Transparency and freedom of information.
11. Should every government department produce an annual report?
12. Analysis of unified pay scales: how do they establish relative rankings of professions and levels of government?
13. Analysis of perks:
 - (a) Valuation and costs.
 - (b) Should they be discontinued?
 - (c) Perk management.
14. Analysis of current and alternative pension systems.
15. Should there be a closed (recruitment at entry level with subsequent promotion) or open (recruitment at all levels) system?

16. Pay commissions and different methods of determining salaries: should there be an automatic formula such as indexation or periodic surveys?
17. Rewards and punishments, and how to strike the right balance: are mistakes penalised harshly, while there are no rewards?
18. International experience.
19. Desirable level of mobility into and out of public service.
20. Personnel management systems.
21. Career concerns and promotions: what determines them? Merit or seniority?
22. The role of transfer: is it a control device or rent-sharing device? Should it be discontinued?
23. Assessing training in government; alternative models.
24. Is the capacity of the civil service enough to deal with modern technical developments?
25. Work processes: the method of the file and the role of electronics; why are public sector websites so poorly designed?
26. Management issues; time management in government; meeting management in government.

OPENING ADDRESS

NADEEM UL HAQUE

Since its establishment in 1957, PIDE has produced some of the finest economists in the country, including such luminaries as Mahbub-ul-Haq and Noor-ul-Islam, among others. PIDE has been doing a lot of work on various issues in the areas of agriculture (agriculture income tax, productivity, and farm size, etc.), manufacturing, inequality, poverty, wages, and demography. It is also one of the best survey centres in the country. In addition, PIDE runs a PhD programme as well as a training programme. However, one of the problems it has faced all along has been a very thin budget and, consequently, a shortage of funding for research.

Despite these financial constraints, PIDE is striving hard to carry forward its research agenda and has now decided to move into important new areas such as governance. All donor agencies are currently working in this area, so it is important that PIDE, in its role as a national think-tank, also look at the economics of governance. This is the first event launched to generate debate on this issue, and a number of similar events will follow. PIDE is taking a more participatory approach—slightly different from that of the donors—where all the country's thinkers will contribute to PIDE's research agenda. Five panels will be set up on the issue of governance: one on civil service reform, another on public choice, a third on law and economics, a fourth on decentralisation and devolution, and a final panel on markets and deregulation.

These panels will be made up of some of the finest thinkers in the country. Over the next six months, the panels will conduct meetings, and review and initiate research. They will present their findings at the annual general meeting and conference of the Pakistan Society of Development Economists (PSDE) to be held in January, the theme of which is 'Governance'. Along with that, there will also be a number of background studies. In this way, we hope to produce five volumes of work on each of these issues. These volumes might not present the ultimate answers, but as the research continues, more questions will be asked and answers will be given. The point is to enunciate a whole programme of research and see it develop over time.

Nadeem Ul Haque is Director, Pakistan Institute of Development Economics, Islamabad.

We are beginning with civil service reform, a burning issue for a long period. However, there is very little research available on the subject in Pakistan and most of it lies in one donor agency's office or the other. It is time to pull it out and put it before the panel's thinkers for them to tell us what is right in order to generate a wide-ranging debate to understand the subject. The Government of Pakistan also recognises the importance of civil service reform, and has set up a commission on this headed by Ishrat Hussain. After all, all developed countries, including the UK, USA, Australia, and even some African countries, conducted research on civil service reform in the 1980s and 1990s—the two decades of civil service reforms.

Pakistan has lagged behind and we need to find out why. The round table's participants have been presented with a list of questions that PIDE thinks are important, but it is by no means an exhaustive list. It is an initial list and we want to generate more questions so that further research is carried out. The civil service is the technocratic, implementing, and thinking end of the Government; unless it works at full efficiency, we will go nowhere. Therefore, our objective is to try to open up this subject and discuss it as fully as possible. It is up to our participants to make it a fruitful day.

KEYNOTE ADDRESS

MOEEN AFZAL

In November 1999, the Ministry of Finance put together the nucleus of a reform programme for Pakistan's economy, one of the key elements of which was civil service reform. This was for a number of reasons. First, the quality of economic decision-making in the Government during the 1990s had been poor. While there were a number of other factors involved, there was little doubt that the general quality of the civil service had declined; a small group of capable civil servants was overstretched. Second, there appeared to be a broad bipartisan consensus in the country that the economy should be progressively deregulated. It was, therefore, imperative, both in the actual process of deregulation and in formulating policies for a deregulated economy, to revamp the civil service to enable the Government to achieve its objectives.

It was obvious that the training imparted and the experience gained in the 1960s and 1970s, when a centrally planned economy was in operation, would not be adequate for civil servants who were now required to deal with issues in a different way. There was another important reason for civil service reform. The civil services had been in limbo since the mid-1970s. While old structures were dismantled, new ones were not constructed; training methodologies had become outmoded; and there had been little focus on issues relating to recruitment, emoluments, pensions, and promotions.

Observers continued to complain of inefficiency and the questionable standards of ethics and integrity. Different military and political governments had found it convenient to let the status quo prevail. In any case, the civil service regime was unstructured and open to ad hoc decision-making and appointments. This state of affairs was not inconvenient for a political or military government concerned only with a short-term partisan agenda.

Two important results of this were (i) the Government's increased reliance on outside advice from consultants, advisors, and aid agencies, and (ii) a lack of institutional advice from the various departments of government. There was a dismaying decline in the quality of many civil servants' careers, who, at the time of their initial recruitment, had been among the brightest young graduates of their generation in the country. Experience of working with a large

Moeen Afzal is a former federal secretary of the Government of Pakistan.

number of senior military officers in the initial months of the Musharraf government revealed the difference between these military officers and the average federal secretary or additional secretary. At the same time, some civil servants had distinguished themselves highly, while working with the best from other countries in a large number of international institutions. There was something drastically wrong with a system that had recruited the best but was eventually churning out, at best, mediocre civil servants.

Some criticisms of the civil service have become more pertinent with time:

- The civil services are too autonomous; complaints against members tend to be swept under the carpet.
- Unlike the pre-1947 period, when periodic royal commissions or the Office of the Secretary of the State for India would objectively assess the weaknesses of the services, in Pakistan, there was great suspicion attached to any outside appraisal of the civil services. Although distinguished Pakistanis such as Moeen Qureshi and Shahid Hussain had advocated a blue ribbon report on Pakistan civil service structures, this was successfully resisted by the bureaucracy.
- The civil service was criticised for centralising power and for failing to allow institutions of local government to develop.
- All civil servants exercised great power, and had been unable to control corruption in their departments or among subordinates.
- Prior to 1947, members of the elite civil services in India were the products of the best universities in the UK. Today, the products of Pakistan's own universities cannot be expected to be as competent as their predecessors.

Keeping some of these criticisms and problems in view, a civil service reform programme was formed with the assistance of the World Bank and other agencies. This reform programme, headed by Javed Hassan Ali, is now more or less operational. Some of the issues that are relevant to the discussion are discussed below.

Defining the civil service. The civil service includes everyone from the grade of orderly up to federal secretary, but this discussion concerns the civil service at the policymaking level. Related issues include: (i) the process and age criteria for recruitment; (ii) lateral entry; (iii) departmental employment; (iv) the role of public service commissions and whether they should apply to all grades of the civil service; (v) retiring government officials, re-employment, and contract employment; and (vi) whether, for federal recruitment, the qualification

of a bachelor of arts degree from any university is a sufficient determinant of eligibility.

National executive service. The Government plans to introduce a national executive service to recruit at the levels of Grade 19 and 20 in three broad categories: (i) the economic ministries, (ii) the social sector ministries, and (iii) the regulatory ministries or departments. The question is whether this is the right way forward or whether one should revert to the concept of the old elitist service. Alternatively, should recruitment to various departments occur with perhaps only lateral mobility at the highest level of federal secretary? Should civil servants be provided training courses both within and outside Pakistan? How can existing training institutions within Pakistan be upgraded, and integrated with academic institutions in the country?

Modern management techniques. This encompasses the following issues and questions:

- Using information technology (IT).
- Maintaining an open office management system.
- Discouraging wasteful employment at lower levels, whether clerical, stenographical, or other.
- Sharing information between departments and within each department.
- Addressing civil service pay and pension questions, such as:
 - Should performance-related allowances or bonuses be introduced for civil servants?
 - Should salaries be related to the market and if so, how?
 - Should all civil servants continue to be split among the existing 22 grades—is this really relevant for technical departments and technical professionals?
 - Should some key allowances be monetised, in particular, travelling allowance?
 - Should a degree of health insurance be introduced?
 - Should there be automatic adjustment of salaries?
 - Is pension reform needed in Pakistan, e.g., contributory pension schemes; fully funded pension liabilities, discontinuance of commutation of pensions, the use of actuarial devices to devise pension programmes, pension policies to encourage early exit of civil servants before reaching the age of 60 or 62.
 - Should the Government encourage contract employment in certain areas?

- How should officers be evaluated for promotion, disciplinary action, or appointments?
- Should there be a code of ethics for civil servants, and if so, how should it be devised and reviewed?

Harold Laski (1938), on the question of recruiting on merit rather than patronage, said: “The civil servants serve the government of the day, whatever its complexion, with equal zeal. They made possible the organisation of knowledge for the business of administration at a level completely different from anything that had gone on before”.¹ He also addressed the relationship between a civil servant and minister, observing that “because a civil servant has ability, he will also have views; he is not and cannot be a dye to receive, without discussion, the imprint of ministerial direction. He must warn against an unreasonable ministerial direction and urge the wisdom of that”.

On the issue between the generalist and the specialist at a policymaking level, he commented: “As between two able men, the specialist is less likely to become a successful administrator in the modern state than a generalist with an honours degree from, say Oxford or Cambridge. The danger of the specialist is that he takes the truth relevant to his specialist field of knowledge as wider in its implications than the facts will warrant”. What the civil service really does, he said, was “to maintain the government as a going concern? It oils the machinery of politics by relating the popular will, as the party in power reflects the impact of the popular will to what a detached and disinterested experience believes to be practicable”. Laski’s thinking on all these counts continues to be relevant to Pakistan’s civil service.

The Nolan rules adopted by the British government very recently lay down reasons for the conduct of ministers. Among other issues, these rules draw a line between government ministers and civil servants. It was because of these rules that David Blunkett resigned for the second time from Tony Blair’s government about a year ago. He had failed to conform to the ministers’ code of conduct by not declaring his involvement with a DNA testing company; he was minister for works and pensions at the time. Blunkett had this to say about the Nolan Rules: “[The] Nolan Rules mean ministers can interfere less in the civil service than they could before... I interfered more than any other minister if you call interfering trying to get them to understand that their actions may make huge

¹In Britain, the services actually departed from the patronage system in about 1870, and shifted to the modern system of recruitment based on merit. Laski, when he wrote this, was looking at the new generations of civil servants who had been recruited on merit for over 60 years.

difference to the lives of ordinary people. The history of the culture of the civil service makes them defensive about politicians, there is a huge penalty on rocking the boat but if you mess up you get promoted out of the mess you have made”.

Pakistan’s civil service needs rules both for civil servants and for ministers. It is common knowledge in Islamabad that lack of innovation leads to promotion but that innovative civil servants prepared to take risks are likely to be superseded and ignored.

PRESENTATIONS

THE CIVIL SERVICE AND THE ROLE OF THE GOVERNMENT

SHAHID H. KARDAR

In this age of specialisation and globalisation, issues of size of government, recruitment practices, skill-mix requirements, promotions, and compensation are a function of what is conceived to be the role of the government. Unless one is clear what this role is, these and other discussions become irrelevant. A second contention is that the public sector today is over-extended and over-committed, performing far too many functions beyond its competence and core role, while manned by a workforce that has been affected by eroding pay scales, corruption, chronic absenteeism, and politicisation. The standard explanation is that withdrawal of protection and institutional support in 1973 affected the impartiality and intellectual integrity of the civil service, while actually helping to breed civil servants who are charlatans pandering to the whims of their political masters and prospering. Finally, all levels of government, without exception, have operated as employment bureaus and employers of the last resort, rather than as efficient providers of public goods and services. Globalisation has further exposed the crises of governments with weak capacity to administer and mediate between various tensions that are built into the dynamics of a developing country trying to modernise without a deeply rooted culture of professional management.

The biggest contradiction is that, on one hand, the Government expects the private sector to operate in a globalised environment and be able to compete with countries like Korea, Taiwan, India, and China by accessing modern technologies and adopting modern management practices. On the other hand, it continues to live in the nineteenth century. Unless this contradiction is understood, talking about efficiency and productivity is meaningless in a system that continues to follow outmoded practices such as rewarding seniority rather than professional competence.

The role of the Government needs to be rethought under the following heads:

- activities for which it should not only pay or but also provide?
Only a few functions fall in this category, including law and

order, the judiciary, fiscal and monetary policies, and deterrence and foreign policy;

- activities that the Government should not be in the business of doing or paying for, such as running airlines, hotels, and utility stores; and
- activities that the Government should pay for but should not be in the business of producing and providing, e.g., it is the responsibility of the state to ensure that all children of school-going age get a free education but this does not necessarily mean that the state should also produce the education because if it continues to do so, it will have teachers not going to schools.

Under the third category, the Punjab Education Foundation for instance has tried to demonstrate to the Government that, at half the cost, it can provide better-quality education through the private sector. When 6,800 Grade 3 students—half of them at government schools and the other half at private schools where the fee was less than Rs100 a month—were tested, children at the schools being funded by the foundation were found to have performed three times as well as those in government schools. Similarly, when the same Grade 3 test was carried out on teachers, 78 percent of government school teachers failed.

The standard argument is that the Government is a poor paymaster. However, the salaries of private school teachers are one-fourth that of government school teachers. Yet the entire discussion in government and cabinet circles used to be about the service provider and not the service recipient. The former had rights and these rights were protected at the expense of the purpose for which they had been hired.

The public sector is thus a service for the employees, by the employees, and of the employees, which is why we need to rethink the role of the Government. Part of the problem is that Pakistan's middle class and entrepreneur class is really a product of the independent dynamic process of economic growth, but created through the public sector. Thus, we continue to visualise state support and patronage as critical factors for economic growth, although this mindset is beginning to change. Civil society also sees the state as a powerful paternal entity that is supposed to provide for all occasions. Not surprisingly, the Government remains large and unaccountable.

This lack of clarity is illustrated in a regulatory law such as the 1923 Boiler Act, under which Grade 11 boiler inspectors wanting to implement the act have to demonstrate to private companies such as Siemens how a boiler is made. The issue of building and electricity inspectors, for instance is not whether they carry out their inspections

or not, but that there are market instruments that can do so instead, e.g., if buildings are insured, building inspectors are not required. This lack of clarity on the role of the government, until or unless addressed, makes it impossible to pay high-quality civil servants well.

Pay and pension reforms is another area that needs attention, including the issue of leave rules, and unified pay grades, which have destroyed the incentive structure. A principal of a polytechnic college is paid the same as a secretary finance in the Government of Punjab. It is time to rethink this but until or unless we clarify the role of the Government, it becomes much more difficult.

Other issues to address are the complete lack of trust in markets and the belief that the state is omnipotent; and the state of mind and attitude that has restricted the space for the private sector. Even civil society is suspicious of the market, providing an excuse for regulation in the form of direct controls instead of market-friendly fiscal rewards and penalties. Donors' advice is not useful since it recommends the same institutions and types of regulation, irrespective of the state of development or the country. Donors suggest putting regulators in place even before markets have been developed. The financial sector, for example, is regulated by the State Bank, the Securities and Exchange Commission (SECP), and the religious board. Moreover, these regulators are often retired civil servants that have to be provided a residence, a car, an office, a peon, and a secretary—that is a 'regulatory framework'.

The third area to focus on is the generalist cadre, whose problems are compounded by lack of incentives to develop skills and worsened by the system of frequent transfers. It is like saying that someone who has read history should be secretary education in the morning, secretary health in the afternoon, and secretary finance in the evening. The generalist cadre is unrealistic—had Abdul Salam been in Pakistan, he would have been the head of the PCSIR reporting to a joint secretary.

The fourth area is poor accountability. In Punjab, of 865,000 employees, only 102 were charged for irregularities during the period 1985 to 2000, with a conviction rate of only 20 percent. It is time to return to basics. The question of compensation is important and needs to be rethought, as does the issue of how the Government must function today.

THE EXPERIENCE OF CIVIL SERVICE REFORMS IN ARGENTINA, THE US, AND CANADA

MOSHARRAF ZAIDI

This paper discusses the experience of civil service reform in three countries: Argentina, the United States, and Canada. For each of these countries, it outlines where reform came from, what it tried, how it tried to do it, and what it actually achieved. Some conclusions and lessons from this experience might be specifically applicable to Pakistan, but the general lessons learnt can help understand civil service reform in any political, economic, or social context.

Argentina

The impetus for reform in Argentina came primarily from massive fiscal deficits which international agencies, particularly the International Monetary Fund (IMF), sought to address through dramatic structural adjustment programmes. The space for this within Argentina, at that time, was created with the end of pre-1983 dictatorships in Argentina and the onset of Carlos Menem's government in 1989, which was known to be a reformist and politically and democratically viable government.

It is important to remember that Argentina was going through a transition to democracy and also, that it had a presidential system—where the head of the state and executive are vested in a single entity, the president. Each new president brought with him or her, a set of political appointees. In Argentina, this practice was rampant at all levels of government. When Carlos Menem took over in 1989, Argentina essentially attempted large-scale 'Big Bang' reform that sought to address fiscal space issues; later on, in the mid-1990s, the reforms centred on the effectiveness of civil servants themselves. The instrument that Argentina used to effect civil service reform in the first instance was executive decree. In the two and a half years between 1989 and 1992, over 1,000 presidential decrees were issued to effect different kinds of change to the overarching administrative and public administrative structures, which also included the civil service. Privatisation, decentralisation, de-monopolisation, deregulation, and outsourcing were some of the instruments used.

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Author's Note: This paper is based on the author's research findings in 2001, substantiated by recent experience.

In the second wave, five to six years after the first phase of reforms, executive decree remained the primary instrument for getting things done quickly but the technical instruments used focused on reorganisation and restructuring of the state apparatus. The impact of these reforms in Argentina was that, in a five-year period between 1989 and 1994, some 320,000 employees from the federal government were shed. Although many of them were actually transferred to the provinces, a significant portion, roughly about 160,000-180,000 actually left state employment. This kind of impact was possible primarily because of the political capital that the Menem government operated with. It was also partially possible because the economy at the time was able to absorb the surplus that was coming out of the government. Finally, there was public response within Argentina to recognise the adverse impacts of the first wave, which had severely jolted the system; in the second wave, the government tried to address concerns around the effectiveness of the state and the capacity of what was left within the state. In addition, the presidential system in Argentina had to remain sensitive to political appointments, which it recognised as being a constant. Instead of tackling it head on, reforms were designed around the omnipresent political appointments.

The United States

The US also follows a presidential system of government. Here, the story begins in the 1830s with President Andrew Jackson, and with what was called the ‘spoils system’, which became a significant issue within that elitist paradigm at the time of elections. President Benjamin Harrison (1889–1893) struggled with civil service reform, and President William McKinley (1897–1901) lost his life under “anarchist” attack, without naming disgruntled civil servants. The political capital for reform began to develop slowly within the electorate rather than within the bureaucracy. The political abuse of the 1880s, which continued for 70-80 years, was exacerbated by inefficiency and further redundancy within the civil service. President Carter’s Civil Service Reform Act of 1978 sought to address and reverse the initial wave of reform that began in the late 19th century.

Finally, in the 1980s, President Reagan attempted his brand of reform, calling for smaller government. Throughout these different waves of reforms in the US, it is important to recognise the political nature of instigation of reform. Reform did not come about because civil servants felt that they were not well trained or that they were not paid enough—civil servants ended up being paid better under the system proposed by President Carter through the senior executive

service. Rather, politicians/citizens felt that not paying senior executive civil servants better salaries and performance-based salaries would hamper their effectiveness. Reform has to be identified in terms of citizenship rather than a one- or two-step journey, at least in the case of the US.

The instruments used in 1978 were Carter's reforms but two significant reforms attempted later were (i) Reagan's civil service simplification act, which cut down the size of the government, and had to do with his fiscal conservatism; and (ii) Clinton's national performance review in 1994, which came up with a lot of recommendations that were not really implemented. Other than these legislative efforts, the US civil service has seen its share of reorganisation and restructuring, and there has been a lot of discussion around pay and pensions and incentives.

The impact of civil service reforms on the US is slightly different from Argentina as there was never a 'Big Bang' reform effort, partly because it was never a burning issue at any public platform. Fiscal constraints have always been a major issue in service delivery in the US, but because service delivery is devolved to the municipal and sub-national levels, the burning platforms exist at a lower tier of government. There are many examples of reorganisation, deregulation, and outsourcing, but at the federal level, the instruments used were reorganisation and incentives, so that, according to many analysts, the drip-incremental reform in the US had a limited impact. Whereas in Argentina, the clarity on the administrative role of functional agencies responsible for the civil service came about through 'Big Bang' reforms, clarity or lack of clarity on who was responsible for managing the civil service has evolved in the US over time and shifted from one locus to another. Finally, the US civil service has been rather like a laboratory where civil servants have been the guinea pigs for social policy formulation and piloting. Through the Equal Opportunity Act and the 1964 Civil Rights Act, the US government determined to demonstrate that affirmative action was something that can work. This is something that the US and Canada have in common.

Canada

Canada is different from most countries because it has always had a pre-emptive, proactive, and preventive strategy for handling its civil service, which stems from the role of the government in Canada. For many years, Canada has been very clear on what the role of the government is—being primarily to provide social welfare to its citizens. The other distinctive feature of this clarity is in terms of fiscal

federalism: in Canada, fiscal constraints exist but never at the expense of citizens' social welfare.

Like Argentina and the US, Canada also uses legislation as its primary instrument of reform, but this legislation has come out of national-level social and economic policies that were actively pursued, rather than out of directly identifying a problem within the civil service. The other source of reform in Canada is the frequent public sector reviews that are conducted to assess whether or not citizens are being serviced in consonance with the social welfare function of the state.

Lessons for Pakistan

Governance and reform. The civil service does not sit outside the realm of the body politic. It is a function/instrument of how politics works in any given country. The nature of governance, whether a country has a democratic or authoritarian government, is linked to the nature of reform. Bureaucrats are not politically inert creatures and the relationship between a minister and bureaucrat is a two-way relationship, political in both ways.

Fiscal burden. The size of the government matters because civil services cost money, and a smaller government is not necessarily a better government. The literature reveals that a functional democracy is a state that is accountable to its citizens, and a functional market economy is one in which the number of taxpayers is likely to produce an ideal degree of emphasis on how much importance should be given to fiscal impetus to reform. This determines whether the size of the government should be large or small. Reform based solely on fiscal considerations will be incomplete, although fiscal deficits and fiscal problems provide a useful entry point.

Administrative ambiguity. This has been the hallmark of countries that have implemented reform. A multiplicity of legislative and agency homes for the civil service has forced countries to clarify and simplify that structure. Therefore, 'Big Bang' legislation, rather than 'Big Bang' reform, is important. It can be by decree, as in Argentina, or through functional democracy legislation, i.e., through parliamentary debate and updates from citizen interests. The best kind of legislation for civil service management and reform is one that is flexible, and where that flexibility is at least partially defined by the power to oversee the civil services being vested in parliament.

Agency coherence. The question of who is responsible for setting terms and conditions for promotions and incentives is also important. It is

also vital to determine where to aim the political economy of reform, which is related to the choice between 'Big Bang' or incremental reform.

Three key lessons emerge from this:

- Identifying problems in the management of the civil service and providing solutions must be based on evidence, which is often lacking. Currently, our analysis of the civil service is based on conjecture.
- Higher salaries alone are not sufficient to ensure better performance, but higher performance-based salaries are necessary.
- Recruiting more women for mainstream service, ensuring national harmony and social coherence through bilingualism, and affirmative action for underserved and underrepresented sections of the population, are all laudable aims for the civil service, which can spur such policies.

Finally, although it is important for Pakistan to learn from other countries in terms of the design and context of reforms, existing systems, and the impact of reforms on those systems, it is equally important to learn from our own experience. Many commissions have been set up in the past on this, and many reports been written, but the question is whether we have learnt from this experience.

CIVIL SERVANTS' SALARY STRUCTURE

FAIZ BILQUEES

Pakistan's civil service salary structure can be classified under the 'rank-in-man' category. The principle underlying this structure has been summarised as the "overall narrowing of the salary structure and provision of a living wage to the lowest paid employees".

This paper examines what is wrong with civil service pay scales and identifies the deficiencies of the grades arising out of the nature of pay scales. The 22 basic pay scales favour higher grades in terms of the ratio of the highest paid to the lowest paid. In terms of the length of pay scales, the distribution of the stages between gazetted and non-gazetted scales reflects the bias in favour of high grades and, over time, between the 1990s and the 2001–05 periods. The number of stages in achieving the maximum on a scale have doubled from 15 to 30 stages for Grades 1–16 and increased by less than half for Grades 20–22 (10–14 stages).

Long vs. Short Pay Scales

These extremely long pay scales are both inefficient and uneconomic; they are inefficient because the increments associated with the pay scales are given to all whether they work or not, so there is no difference between efficient and non-efficient workers, and hence no incentive to perform. For the same reasons, the pay scales are uneconomic.

Long scales are preferred to shorter scales only because the latter would require rapid promotions as too many people would be stagnating at the maximum point on the scale. However, annual increments alone are not sufficient to advance careers; rather, this requires a reasonable number of promotions as a civil servant works his or her way along a career path. For every job, there is a given time span within which an individual becomes the most efficient worker; beyond that, diminishing returns start to set in. The continued payment of increments in this scenario would be unacceptable under the rank-in-post structure. The rank-in-man system of civil service accepts it as compensation for the person-element length of service.

Overlapping Pay Scales

Pay scales overlap when the maximum point on one is higher than the minimum point on another higher pay scale. In advanced countries, the federal service salary does not generally overlap by more than two

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higher grades. In Pakistan, the lowest six grades overlap by 10–11 grades, and the top four grades overlap by 1–3 grades. The overlapping between Grades 7 to 18 worsened or remained constant over the period 1991–2005. The overlapping of scales permits staff in lower grades to earn the same salary as personnel in higher grades, thus undermining the linkage between pay and work.

Increments

Increments are paid simply because government employees have a long-term commitment to the Government, which is obligated to pay regular increments in order to enhance employees' income over time. It is also believed that these increments contribute to efficiency and help retain experienced workers.

Generally, an increment has to be earned by crossing some efficiency bar, but in Pakistan the 1983 Pay Commission abandoned this, saying that it was not being observed. Since then, increments have been given automatically. This automatic grant of increments without consideration of performance obviously has adverse effects on motivation and efficiency compared to when increments are earned.

Pakistan has one flat rate per scale and no efficiency bar to be crossed, therefore, as an employee moves along the scale, his or her percentage increase in salary from successive increments falls if increments are considered a percentage of basic salary. This is contrary to the situation in the 1972, 1977, and 1981 pay scales when the flat sum was raised after an intermediate level had been reached. An efficiency bar always had to be crossed in the form of a satisfactory special report on performance to receive the larger sum.

Housing and Conveyance Allowances

In Pakistan, when different grades are grouped together on the same pay scales, house rent becomes a serious anomaly. A higher salary results in lower house rent entitlements and this continues up to Grade 18. This erosion has serious implications for very poor households in the lowest grades; indeed, it is very awkward for Grades 17 and 18.

House rent is still the most valuable cash allowance for government employees renting houses, but this facility pales in comparison to physical government housing. A Grade 22 officer who lives either in a rented house or one he or she is officially entitled to in Islamabad gets Rs 16,962 as housing allowance, but the government house for the same grade probably has an imputed rental value of around Rs 200,000 in any sector of Islamabad. That many people in top

positions live in government houses while their own houses (generally owned in the name of their spouse) are rented out at market rates, is an open secret.

The same problem arises when conveyance allowances are grouped by grade, because as salary increases, conveyance allowance decreases as a percentage of basic salary. As was the case with house rent when calculated as a percentage of basic salary, this practice results in losses to employees at higher grades. The loss is particularly pronounced between Grades 16 and 20. The practice of lumping grades together for house rent and conveyance allowances is also ambiguous. For examples, the conveyance facility for Grade 21 and 22 officers includes tax-free cars of 1,000 and 1,300cc, respectively, for official and private use; fully indexed fuel allowances of 180 and 360 litres per month; full maintenance and repairs; and uniformed chauffeurs. Yet the fuel payments add up to 50 percent and 94 percent of the basic salaries of the two grades respectively.

Other Allowances

There are also specific allowances that are common among certain grades. These include a washing allowance for employees in Grades 1–4; and an entertainment allowance, senior post allowance, and orderly allowance for Grades 20–22. An entertainment allowance has also been granted to Grade 19 in the last pay revision. The orderly allowance was introduced in 1985-86 and was initially admissible only if an orderly for domestic duties was actually hired. This was meant to promote employment of lower-income groups. However, this condition was later waived and the orderly allowance is now part of a civil servant's salary.

The revision of salaries in different years prior to 2005 has generally led to declining real wages except in June 1991. It is important to point out that such massive erosion in real salaries was due to persistent double-digit inflation from 1991-92 to 1996-97, which was between 11 and 13 percent except during 1991-92 when it was 9 percent. The revision in July 2005 showed gains for Grades 1, 2, 4, and 22 only. The latter may be explained by the exceptionally high increase in the senior post and entertainment allowance for the highest grade. Overall, the position of almost all grades deteriorated after 1994-95, with minor exceptions.

Conclusion

There are serious anomalies in the present pay structure and in the allocation of cash and in-kind benefits. Lengthy, overlapping pay scales with automatic payment of increments weaken the linkage between pay

and work. The grant and allocation of allowances has its own ambiguities, leading to serious distortions in remunerations among grades. Indeed, this system of perks has many drawbacks. Although the paper shows a decline in real wages for almost all grades after 1994-95 (except for Grade 22 in 2005), certain caveats need to be noted with respect to the highest grades:

This calculation of salaries of the two highest grades does not account for all the perks in detail. For example, it includes only the price of petrol entitlement for the one car that is officially allowed, and does not account for the unlimited use of residential telephones for the highest grade. Moreover, it is common practice for top bureaucrats to have themselves posted as heads of public corporations or board members of local and international financial institutions where perks, particularly in kind, are enormous. If all such elements could be captured, the real salaries of higher grades would always be very high.

The only way out of this maze of salary structures is to monetise all perks at the market rate and add them to the basic wage fully indexed. How should salaries be determined after that? Governments in industrialised market economies have generally taken the level of pay in other employing sectors as the basic point of reference when determining the remuneration of their employees. Paying civil servants at the same rate for a job as private companies, and sometimes public enterprises as well, is considered fair to employees, to tax payers, and to the government, who, as an employer, wants to attract and retain a motivated staff to work efficiently.

Although wage parity for Pakistani civil servants was ruled out by the Justice Munir Pay Commission in 1949, it is evident that the civil service needs intelligent managers who can overhaul this distorted, corrupt, and inefficient structure. All recommendations to this effect have so far been brushed aside on the pretext of lack of resources. The three possible avenues available are to: (i) privatise all government housing and cars, (ii) rent out housing at market rates, or (iii) sell government structures and land to civil servants in top positions at highly subsidised rates. A long-term perspective is necessary, since an improvement in long-run productivity due to salary increases will start paying for the initial expenditures incurred. Donor resources for civil service reform also need to be availed, where possible.

BUREAUCRACY AND PRO-POOR CHANGE

ASAD SAYEED

This paper deals with the political economy of bureaucratic conduct in Pakistan. It starts with some basic definitions and a straightforward model to gauge bureaucratic efficiency and conduct. Based on these definitions and concepts, the paper provides a schematic overview of Pakistan's political history with respect to bureaucratic efficiency and conduct.

The Weberian definition of a state is non-controversial: it is the legitimate monopoly of violence over a given territory, the important point being the legitimacy that is ascribed to it. Bureaucracies in this model are critical. They are an important transmission mechanism; again, the Weberian definition of a bureaucracy is based on rational, legal norms: it is essentially an entity that follows rules and executes policy.

Bureaucrats are not policymakers. This is the job of the executive, while the job of a bureaucrat is that of a policy executor. The difference is that the politician or executive is, in some ways, populist, and the bureaucrat's role is to bind the politicians given the rules of the state. This enduring tension is found anywhere in any nation-state.

The model we have developed has the following conditions:

- Function of the state. The state should have an objective function, irrespective of whether the state is the former Soviet Union or any other on the opposite end of the spectrum in terms of its function. Moreover, that the state has an objective function should be clear to everyone.
- The political process. This is also an important variable because if fragmented, it will create a certain level of distortion between what consumers, electorate, or citizenry want, and what is to be implemented. The interests of the citizenry are articulated through the political process.
- Efficient monitoring and accountability. The issue of pay scales tends to dominate discussion without any discussion on the accountability of the bureaucracy or metering its output. The current MP-1 to MP-3 pay scales exist without any commensurate notion of what the output is going to be and who they are going to be accountable to.
- Insulation of the bureaucracy. The bureaucracy has to have the confidence to carry on with its functions and own mandate without being challenged or removed as happens in today's Pakistan. On

the other hand, if the bureaucracy is so insulated that it is completely unaccountable, it becomes another monolith.

What is often termed Pakistan's chequered political history is in fact a very rich political history, because it has gone through various formulations. Pakistan's history can be divided into pre-1973 and post-1973, with some special reference to General Musharraf's reforms. Prior to 1973, we had the elite Indian Civil Service, which was a precursor to the Civil Service of Pakistan (CSP). A number of people have observed that Pakistan and India, and indeed most of the British colonies, were fortunate to inherit a cohesive civil bureaucracy. Interestingly, Pakistan and India diverged very early on: in India, the bureaucracy was brought under the firm control of the executive. It was subservient to the executive while keeping the structure of rule intact, whereas in Pakistan the bureaucracy was given the opportunity to overrule and dominate the executive. Historian Ayesha Jalal and others have commented on this and Hamza Alavi has rightly pointed out features that characterise the period up to 1973 as one where Pakistan was ruled by a military bureaucratic oligarchy.

The bureaucracy remained insulated until 1973. The 1935 Government of India Act and up until the 1962 constitution provided constitutional protection to the bureaucracy. In terms of our model, those bureaucratic functions were, in many ways, met. There was a clear objective function, at least during the Ayub regime, which was a particular form of economic development as well as suppression of the political process, which function the bureaucracy performed very well. It was also a centralised bureaucracy and the literature states that a certain level of centralisation actually reduces the losses from corruption that would otherwise occur. Corruption would not necessarily be less but loss from corruption would. Relative to later periods, there was less corruption. There was monitoring and accountability in some ways, given the corporate nature of the bureaucratic structure and its internal cohesiveness, which was provided by that level of insularity.

However, it was not necessarily accountable to the executive. It is in this context that one has to see the populist Bhutto reforms, whether they are seen to have occurred on the populist demand of the people or of other sections. The perception of the bureaucracy that was carried through broader society without much controversy was, as Bhutto put it, that civil servants were the 'Brahmins' of Pakistan. The structure was altered, the CSP broken up, and the all-Pakistan unified grade system created, introducing lateral entry and movement between cadres. This was the beginning of a patron-client relationship between the executive and bureaucracy.

That patron-client relationship meant that bureaucrats became the handmaids of the executive, whether it was military or political. Therefore, bureaucrats lost their autonomous character and basic role, i.e., to go by the rules and execute a given policy. A number of things happened in that period. A bureaucrat commenting on the situation after the 1985 election described the fragmentation of the political processes thus: "It is not that we have one political party or two political parties but we have two hundred political parties here in parliament". That was the nature of the electoral process where each individual had a different agenda and would try and exert pressure and act as the executive. The conditionality of accountability was obviously further weakened and it became more difficult to meter performance in a situation where the conducts of the bureaucrat and executive were so enmeshed with each other. Metering performance was not possible because one cannot apportion either credit or blame to one party without isolating it from the other.

This continued until 1999, after which the only substantive bureaucratic reform was the devolution programme. However, the destruction or diminution of the deputy commissioner into a DCO, has resulted in a dysfunctional system. The DCO (District Coordinating Officer), does not have enough important functions, such as law and order; the magistrate is not even nominally accountable to the *nazim*, instead being accountable to the provincial government which does not meter his or her performance. The only link in between is the ACR (Annual Confidential Report) or PER (Performance Evaluation Report).

Incentive compatibility is a pay scale issue. As long as it is not based on any metering of output, which is what happens in the private sector, low pay scales are as arbitrary as the high pay scales that exist today, i.e., those applicable to the MP-1 and MP-3 scales. Some of these individuals, with whom the public comes into contact, would not command 1/20th of their present salary in the private sector, yet they have managed to reach these scales. Again, it is the patron-client system at work.

On the issue of right-sizing, one could ask what the objective function of the state is today. Is the state going to provide certain services or not? Is it going to intervene or not? This returns us to the efficacy of the political process, which remains in limbo and has not been allowed to evolve over the last five or six years. In terms of overall structure, some level of optimal insularity has to be worked out, even if imperfect and prone to tension. The Bhutto reforms threw the baby out with the bathwater. A greater degree of insularity and more probable career paths are required but this has to be contingent upon appropriate monitoring and metering of the system.

THE EFFICIENCY OF CIVIL SERVICES

JAVED MASOOD

The starting point of any discussion on efficiency in government service is a definition of the functions of the state. Similarly, it is important to define governance in the context in which this effort is being undertaken. Defining the functions of the state cannot be important without any subsequent changes. It has to be looked at in a dynamic scenario; what was a function of the state 20 years ago may not be its function now. Therefore, the changing environment obviously places greater emphasis on the role of the state. Some functions become irrelevant with time, while others assume greater importance. For example, if economic policy decision-makers had anticipated the rising price of oil, we could have gone into forward buying. Likewise, changes in monetary and fiscal policies that impose greater pressures on policymakers today may not have done so ten years ago.

Let us focus purely on the efficiency level of the Government. The critical elements that impinge on efficiency in the civil service in any bureaucracy are the quality of human resources, as well as the systems, processes, attitudes, and morality in place. In recent years, the Government has either outsourced some of its activities or looked towards the private sector by identifying specific individuals to play critical roles in decision making. This was driven by the feeling that the Government's existing stock of human resources was inadequate. Utilising individual professionals from the private sector on their induction into the Government has proved a mixed experience. One of the points that has escaped the Government's attention is that there is a paramount difference between performance accountability in the private sector and the government. In the private sector, there is instantaneous accountability of performance. Even for contractual employment, the prerogative for the employer remains intact: if an employee does not deliver, this marks the end of the contract.

However, the same individuals who join government service realise that accountability remains absent from the system. Consequently, they too become trapped in the same rent-seeking environment. This happens because whatever they are expected to deliver, whether or not they live up to these expectations, cannot be delivered since their output is not clearly defined. Beyond this, they tend to be influenced by the typical rent-seeking behaviour in

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government itself. As far as the remuneration of these individuals is concerned, some quarters feel that the Government cannot afford the levels of remuneration such employees would get in the private sector. However, this luxury of substituting performance-linked remuneration purely for rent that they can earn in government service provides a major incentive. It also suggests that, for the Government, the expected benefit from this experiment does not materialise.

If one looks at the model the Government currently follows and compares it with the private sector, it is clear that the private sector is an important human resource development centre and that there is a human resource management mechanism within the private sector that, unfortunately, the Government has been unable to create. The Establishment Division, which is supposedly the counterpart of a human resource department in the private sector, has not really recognised this role; rather, the role of human resource development has been reduced to a purely procedural dimension of personnel management.

For example, within the existing stock of bureaucracy, there is a career planning section in the Establishment Division, but there has been no attempt to evaluate relatively individuals who have received specialised training in various skills, nor has there been any attempt to figure out how best to use the skills they have acquired at a fairly substantial financial cost to the Government. Even the more modest elements, such as the profile of a civil servant, the kind of training they have undergone, and the kind of uses that they can be put to, do not exist. If it were to function like a typical human resource department, once the functional responsibilities, requirements, or job profiles had been developed, there would have been a serious attempt to match these profiles with skill sets within the government domain.

This has happened because the bureaucracy has acquired a label of autonomy that is de-linked from the overall functioning of the Government or state; transfers and postings to various positions have become a function of networking. Individual preferences can be invoked to the extent that the level of networking and connections determine the utilisation of this human resource across various departments. Quite clearly, as the structure of government has evolved, some positions offer much higher potential for rent-seeking than others. There is a clamour for these positions and the Establishment Division has become virtually powerless to act rationally and decide independently how human resources are best utilised. In the short run, one of the lessons we can learn is how to optimise the skills and experiences of individuals working for the Government.

In these recent reforms and initiatives, the issue of system and processes has been given relatively lower priority. The focal points of these recent reforms and initiatives have been the redress of inter-service rivalry, promotion policies, and remunerations. There has been little thought as to the basics of systems and processes, which have a deep bearing on efficiency levels. We also remain deprived of the improvements that have taken place in systems and procedures, which have been upgraded to a point where information dissemination has become rapid. The process of decision making, if one relies on the new tools that are available, has become much faster but unfortunately while we go through the motions of trying to tap this revolution in information technology, we have not actually started making use of it in optimal terms.

The website of the Ministry of Commerce, when downloaded on 10 May 2006 still read “last updated 22nd April 2004”. In the FAQs, there are two very interesting questions asked. The first is, “Has any industry-specific study been undertaken to look into the impact of WTO agreements?” The response to this is, “No such study has been undertaken. The ministry will welcome suggestions on the issue and then would consider undertaking such studies subject to availability of financial resources”. This shows the level of seriousness attached to this exercise. Interestingly, at least five years before this event took place, the Indian Ministry of Commerce had put together a special task force to look at the profile and the structure of Indian industry and what the impact of WTO would be. Although it may not be wise to follow India’s example in everything, there are areas in which we can learn from them. This demonstrates the relative seriousness of governance.

The second question is, “What would be the impact on our textile export in the year 2005?” The answer to this is, “There will not be any textile quotas from the year 2005. The exporter will have to survive on the basis of quality and price competitiveness of their products”. Pakistan’s textile industry is its dominant industry and there were any function of governance that might help the economy move forward, it would target the textile industry. There should have been multiple studies on the textile industry to find out if there was any segment in which Pakistan had a competitive advantage, or was there a segment in which Pakistan could lose. The consequence of such apathy is obvious. The knitwear industry, for example, which was one of the leading sub-sectors of the textile industry two years ago, has suddenly become a sick industry.

This is not to suggest that the Government can play substitute for the efforts of the private sector, rather, if there is any recognised

function of the state, it is only to provide useful guidelines or inputs while looking at the global scenario and determining what has happened in the region. This example highlights the fact that, before strengthening the system and processes, we need a commitment towards seriousness in governance. Unfortunately, this commitment is absent.

There is also the issue of attitudes, an area for which there is no fixed 'recipe' for change. It is a question of whether the bureaucracy can be reoriented to accept that, as long as it is wedded to continuing the status quo, reforms to whatever extent cannot bring about any consequential changes in terms of performance and efficiency. For example, if the 1923 Boiler Act needs to be amended, the bureaucracy should bring it to the attention of the political leadership. A change in attitude means that the government functionaries who have been administering this act over the last two decades be reoriented to ask themselves what they have really been administering.

Every time bureaucrats are asked to approve a particular project, they need to be sensitised enough to ask whether approval is required or not, or whether the proposed project needs to be changed. It is one thing to think of establishing a commission and committees to review legislation and bring about change but this does not happen, and will not happen as long as the people administering these laws remain insensitive to the changing reality and environment, or as long as they are satisfied by remaining merely an agent there to preserve the status quo rather than choosing to become an agent of change.

There is a very important distinction between integrity and morality. Morality is the courage to say what the right input in policymaking is; this input is provided by the bureaucracy. If the current attitude of the senior bureaucracy is one of being quite happy to ascertain the preferences of its political masters and putting forward recommendations accordingly, then nothing will change. For example, when policymakers or political decision-makers decided to abolish wealth tax three years ago, no exercise was carried out within the Central Board of Revenue (CBR) to determine the nature of this tax and its long-term consequences. This happened because there was an element of lack of morality. Had such an exercise been carried out, the CBR would have concluded that, of the entire range of taxes, wealth tax was one of the few progressive taxes. The state could have become a substantial beneficiary of the wealth creation that has taken place over the last three or four years, had wealth tax had not been abolished.

In Pakistan, the level of wealth creation in the last five years because of speculation in the stock market and real estate is

unprecedented in its 50-year history. Yet, these two sources remain beyond the purview of taxation. Surely, in the annual budgetary exercises that are done every year, in which arithmetical adjustments in existing taxes are made, there is no input from the senior bureaucracy, although it is supposed to provide that important input on these broad policy issues.

Even the best intentions and efforts and the most creative ideas will not lead anywhere unless there is ownership by the people who matter in these efforts. It is important to ponder on this because as long as the overall environment of cronyism, networking, and individual agendas remains intact at all levels, these welcome efforts will not yield the desired results.

DEVOLUTION

SHAFQAT MAHMOOD

Devolution is one of the government's most important civil service reform efforts to have brought about a major change at the district level. If the purpose was to transfer power to the district level, then the issuance of the local government ordinances (LGOs), at least on paper, implies that this transfer of power has taken place. Nonetheless, the provincial governments continue to exercise a large number of responsibilities that have supposedly been devolved to the districts under the LGOs. If the idea was for districts to emerge as autonomous institutions or a third tier of government, this has not happened in practice. In fact, if one looks at some of the political dimensions of the process, it has regressed rather than moving forward. The idea of creating a parallel level of government has obviously been discarded because nazims now fall under their provincial chief ministers.

This is more pronounced in Sindh than Punjab: even before the LGO was promulgated and the power to dismiss a nazim vested in the provincial chief minister, the district nazims—some of them belonging to the Pakistan People's Party as in Khairpur and Nafisa Shah—were totally undermined by appointing officers who would refuse to listen to them. If the law and exercise of devolution were designed for this purpose, then there are many ways of undermining it.

On the administrative side, what essential notions guide the process of devolution? One is that power flows from the top and down to the local level. Another level of devolution, perhaps the correct level, implies power at the grass roots level. Proponents of the latter argue that, with the end of colonialism, power has in fact devolved to the people, but if one looks at the structure of the district government that was created after devolution, a huge shift has taken place from centralisation. Over a long period—a hundred years in the case of Punjab—a certain formula had been applied within the district itself, and resultantly, local government institutions, such as town and municipal committees, emerged as 'urban administrative units'. These units had been governed by elected people and had therefore built up a great deal of experience of municipal governance because the town and municipal committees (later on, municipal corporations) had had the chance to govern the cities.

Shafqat Mahmood is a former bureaucrat and a former member of the Senate of Pakistan.

However, the devolution programme has done away with the notion of town and municipal committees and has created two levels of administration: (i) the district, and (ii) the tehsil. All other levels of diffused or autonomous power that fell within the districts have been done away with. Instead, a huge power centre has been created at the district level, and a second at the tehsil level, although the latter is not as effective or as powerful as a district.

Under the pre-devolution system, services such as water supply, sewerage, and electricity were administered by a town or city itself. Now, the so-called less than perfect notion of finishing the rural-urban divide has transferred the power of administration of these urban units to people who do not live there or have no connection with the units they are supposed to be administering. For example, until recently, the tehsil nazim of Rahim Yar Khan lived 25 miles away from the city he was responsible for administering. He had no connection with the city, was not a resident, had no personal ties, and in fact belonged to a village. Residents of Rahim Yar Khan, if faced with an administrative problem, were dependent on a nazim who did not even live in their city. The absurd notion of finishing the rural-urban divide has not only created many other administrative anomalies but has also taken power away from the people.

One of the arguments made by proponents of the system is that they created the unions or union councils. This notion is an interesting window into the mindset of its planners. Union councils were created in the 1960s during the Ayub period to serve the purpose of giving every village its own council. However, there was a huge disparity of population between villages, which could vary from 1,000 to 10,000 residents. The problem was to determine the number of councils to be created. In order to overcome this problem, a shorthand formula was adopted: any village with a population of 10,000 would constitute an administrative unit, i.e., a union council.

This divided towns into smaller entities, which did not make sense. Although larger urban areas, such as Karachi or Lahore, were also divided into smaller administrative units, this has not proved effective because the district has been recreated as a large entity. Union councils, however, remain a non-entity. Residents of Gulberg Town in Lahore are not likely to be concerned with their union council because they think of themselves as residents of Gulberg. The idea of towns is beginning to sink into people's minds because they are beginning to understand that a town-based concept of government is a good way of administering cities.

The concept of union councils was undermined by the naive notion of establishing community boards. However, if there is an elected

institution at the so-called grass roots level, i.e., the union council, there is no need for community boards. The government has invested heavily in community development and created a Development Trust for Community Empowerment. Community organisations already existed to some extent, especially in the cities.

There is no need for community organisation in the presence of union councils. It is strange to find one body unaware of what the other is doing. Although the purpose was to create people-centric government and devolve power, this situation has created a strange mix. The example of the police illustrates this. Magisterial control over the police was arguably a form of check and balance, making the police answerable to an entity within the district: at the thana level, to the magistrate; at the tehsil level, to the sub-divisional magistrate; and at the district level, to the district magistrate. This worked very well because the police had no interest in general law and order, and were more concerned with crime; the magistracy thus took over this responsibility. Now, the magistracy has been done away with and the police is bereft of any kind of supervision. Right up to the top, a centralised command structure of the police has been preserved. While trying to decentralise other institutions, there has been a special effort not to decentralise the police. Although the division unit has been finished off, the position of DIG remains.

Service Delivery

Many studies indicate that service delivery has improved with devolution, although some suggest that the quality of service delivery has in fact gone down. What is clear is that law and order is obviously worse than it was before. This is revealed in the statistics and anecdotal evidence. There is greater public insecurity than before. Service delivery, including law and order, has deteriorated.

There has been a lot of emphasis on the development that has taken place, but this has been skewed by the political considerations of nazims who make the final decision. In this system, financial decision making and allocations are squarely in the hands of the nazim, but in an adversarial system of democracy, it is impossible for a nazim to be neutral. As far as money allocation is concerned, a constant complaint is that funds are directed towards nazims' political allies because there is so much power concentrated in the hands of the nazim. There are question marks in this area of service delivery, and a lot of anecdotal evidence that points towards an increase in corruption.

In another example of the abuse of power, local councils were previously audited by the Local Fund Audit, an agency of the

provincial government under the finance department, which was only concerned with auditing local councils. However, under the surge towards decentralisation, the local councils' power of audit has been given to the Auditor General of Pakistan. Instead of devolving this responsibility, all local councils are now audited by a federal entity, which, although respectable, has absolutely no organisation at the local level. As a result, there has been a massive increase in corruption.

Devolution is not only desirable but essential. However, it should be people-focused. Instead, people who obviously have little experience of how districts are run have created a model that, instead of making the lives of the people better, has made them worse.

SUMMARY OF FINDINGS

The conference on civil service reforms raised a number of important issues. These include the following:

- A sector-wise approach is needed to deal with sectors of governance such as judiciary, taxation, monetary policy, and foreign policy. The civil service lacks the capability, institutional capacity, and infrastructure to deal with important issues such as interest rate policy and oil price increases—ultimately, the public pays the price for bad policy choices. Reforms should focus on building the capacity of civil servants in all areas of governance.
- Any exercise in civil service reform will be futile unless owned by the president or prime minister.
- It is important to identify agents of change—these could be officers in Grades 18-20, as opposed to more senior civil servants who are less inclined to change while in service themselves.
- A majority of people are deprived of the minimum conditions of civilised existence, in terms of access to justice, level of security, access to markets, and access to education and health. In this situation, even if the role of the civil service is defined in minimalist terms, it has to be restructured to provide minimum public services if the state and society are to survive.
- The issue of business processes is critical, as the efficiency of the government will improve not necessarily because of improved human resources but through better business processes. It is important to define and measure the output of civil servants to gauge their efficiency.
- The devolution programme has dismantled old structures without putting alternatives in place. There is also insufficient data to suggest that development has taken place as a result of devolution.
- Devolution has created greater centralisation as all powers are now far more centralised than before.
- There are hardly any autonomous bodies in the public sector, given the government's centralising tendencies. Universities, for instance, are not autonomous because they continue to have government functionaries on their boards.

- The new hierarchy under the devolution programme has created problems for citizens. Previously, even uneducated citizens were aware of whom to approach to redress grievances, register a First Information Report (FIR), or register property. With the introduction of EDOs, DDO, and nazims, etc., this is no longer clear.
- Whereas all the operational aspects of service delivery have supposedly been devolved to the local governments, the provincial governments continue to control service providers as far as pay scales and appointments are concerned.
- There is need to use research and data for decision-making. Despite the establishment of research institutions such as PIDE, the research carried out has never been used in decision-making.
- There seems to be a culture of bottom-up accountability in the governance structure. A top-down accountability process is prerequisite to a people-oriented devolution programme.
- The issue of efficacy and the desirability of publicly funded and privately managed companies is also important. There are about 15 publicly funded and privately managed companies registered with the Security and Exchange Commission of Pakistan (SECP) as Section 42 companies, all of which are billion-plus companies, such as Dairy Pakistan. While civil servants are on many of these companies' boards, they seldom attend board meetings.

CONCLUDING SESSION

MOEEN AFZAL

The role of the government and issue of reforms. While it is important to define the role of the government, this should not divert us from thinking about civil service reforms. Whatever the role of the government, whether narrow or broad—as it was in the 1950s and 1960s—we still need a civil service. This leads to issues such as recruitment, emoluments, and training. It might be worth defining the role of the government under a separate, specialised study to avoid the risk of diverting focus from the issue of civil service reforms, although as a consequence of this, some civil service issues might also change.

Defining the civil service. In broader terms, the civil service can be perceived as the entire spectrum from the highest level of executives, implementers, and specialists, to clericals, chauffeurs, and orderlies. This study is essentially concerned with the first tier, although of course it can be broadened for future studies, as long as the concomitant issues are recognised.

In terms of policy, it is important to note that decisions are made by the cabinet, and rarely in the absence of senior civil servants. In fact, the cabinet secretary has a very special role in the UK, India, and Bangladesh. It is not that a civil servant is making a decision, but that he or she is giving two or three alternatives, with their pros and cons. A final decision is then made collectively by the cabinet.

Accountability. This is important in terms of relating pay to performance, and also raises another interesting issue: a particular civil servant in an important ministry might work an average of 10–12 hours a day and be responsible for making a number of difficult decisions; a civil servant in another ministry might finish work in 2–3 hours. The government too acknowledges that, even at the same level, certain jobs are more onerous. Should both be paid a similar amount?

Salaries. A one-size-fits-all model does not work well, therefore, the practice of 22 grades encompassing virtually every type of civil servant is perhaps not appropriate and there is a need to depart from it. The second option is a market-based salary structure—this does not mean that a secretary to the government should be paid a salary equal to that of a chief executive at Citibank, but there has to be some relationship with the market salary structure. In the absence of such a relationship, we may not be getting the quality of personnel we want in the civil service. It is not a question of how much the government pays but of what sort of person it wants at different levels of civil service. The government has yet to identify this clearly, and be prepared to pay a salary that, if not comparable with the private sector, at least has some relation to what it offers.

TASNEEM NOORANI

Although ministries are often criticised for making decisions that are not based on sound research, the fact remains that ministries by their organisation are not trained to carry out research. They comprise section officers, deputy secretaries, joint secretaries, etc., most of whom take up issues thrown at them and make decisions. They are not geared to carry out research. In India, on the other hand, bodies such as the chamber of commerce regularly carry out research. While Pakistan's bureaucracy leaves a lot to be desired, there are certain structural deficiencies which could be improved.

There are a number of areas in which PIDE could initiate research for the benefit of policymakers. These include the following:

The role of the government. There are many conflicting views on what the role of the government is. Is there an extensive government or a small government? Is the private sector inadequately developed, thus making it necessary for the government to take it over as well?

Independent assessment on devolution. The devolution programme has now been underway for five years, and there are opposing views on it. Since PIDE does not include district management group (DMG) officers, it can carry out independent research on the success or failure of implementing devolution.

Bureaucracy. This involves examining issues such as recruitment, motivation, training, and career paths; and should be done for both officers and staff because the actual face of the government is its officers below Grade 17, whether employed in the secretariat or the field. Officers in the field are far more powerful, e.g., *patwaris* and *thanedars*, in which sense, some of the most effective people in the bureaucracy are officers between Grades 1 and 17. There is also the issue of motivation issue—are people who join the civil service happy with their jobs or are they apt to become disgruntled? When people decide to join the civil service, the majority do not do so for monetary reward (which could be more readily achieved in the private sector), but to attain a sense of achievement and recognition. In the civil service, it is respect, recognition, and career path that keeps most employees motivated—an area that needs to be researched.

Structure of the civil service. This concerns the difference between specialists and generalists in the civil service. Reviewing the 1973 reforms could reveal whether the 22-grade system is satisfactory or whether there are other methodologies and service groups that are more appropriate.

Independent evaluation of police reforms. Although an independent assessment of police reforms would provide valuable input for the government, the current service commissions and reform agenda on civil service, which are based on trying to improve procedures and systems, are not necessarily on the right path. The most important reform agenda in the civil service is to concentrate on human resources and to understand what problems beset the civil service.

There is a great deal of criticism of civil servants, which has increased as people are unwilling to leave because there are no other alternatives, and they are totally demoralised. They take it out on the system by not working. The reason is that they are constantly derogated and their motives considered suspect. This is not the best way of moving forward. One must also look at the environment in which they work, and search for reasons that civil servants behave in this way.

SHAHID H. KARDAR

Civil service reform—in fact, institutional reform—is a very slow and painful process in any country. The issues this raises concern mindsets, cultural values, core values, and norms. The real problem is that this discussion repeatedly looks at a situation as present, examining ‘stock’ rather than ‘flow’. The former can be addressed by actually paying them off, but how to tackle the latter is less clear. The government needs to be clear on what it wants to do.

The reason this is important is because of its bearing on dialogue with donors. A standard argument is that the government should not be in the business of business—it should not be running manufacturing units or running retail stores, rather, it should be responsible for providing social services. However, there is little evidence that the government can satisfactorily provide social services, given that there are no measurable outcomes—this is borne out by the quality of services provided and people’s preference for private service delivery, whether healthcare or education.

Once it is clear what the government’s core functions are, it should then focus on how to provide them. There are a number of issues here: (i) how should efficiency and effectiveness—which includes business processes, systems, and procedures—be improved? (ii) how should the governance structure be changed to strengthen accountability and set measurable targets? (iii) how can a private-sector style of management (based on incentives and accountability) be introduced in government? Without this change in management style, the ‘product’ cannot change.

After 60 years of this effort, the quality of services provided by the government indicates that it is time to rethink and reinvent government.

It is also important to ask what this reform is for: are we trying to reform bureaucracy and/or the role of the state? The underlying aim must be to try and improve the life of the ordinary citizen. The issue is not just to motivate the civil servant to do so, but for the civil servant to understand that this is the purpose for which he or she has been hired. We need to focus more on purpose and identify those who have a stake in the system to see how they will benefit from the reform, rather than merely reform the civil service, which is really a means to an end rather than an end in itself.

IMRAN ALI

How do we analyse the nature of the state? When we look at the British government's 98-year-rule in Punjab, for instance, we find that every district of Punjab would prepare three district gazetteers. Yet, in 60 years, Pakistan's bureaucracy has not even produced one district gazetteer in Punjab, despite the allocation of major funds.

One of the questions that needs to be asked is what the purpose, mission, or ethos of the civil service is, and what we need to look for to set our paradigms right in assessing, analysing, and recommending transitions. Pakistan's civil servants might be underpowered or deteriorating, but, unlike their colonial predecessors—who were probably educated in the classics or history—they have had access to the modern social sciences. As an example, a 25-year-old civil servant was sent to a district to write a settlement report. Over five or six years, he visited every mouza giwdarid and jama bandi, studied the revenue-paying capacity of each, and produced a comprehensive document titled *Tehsil Assessment Report* for every tehsil of every district. By that time, he had understood the workings of the cellular structures of power and wealth creation, and was equipped to begin the process of controlling and managing society.

The government can continue to send its civil servants abroad for dubious short courses or hire outside experts for advice, but the success of the colonial public management model lay in its mission—to run the empire. The upper or 'white' bureaucracy was marked by a Victorian austerity and integrity. The role of the subordinate bureaucracy was to carry out ground-level work, which often involved rent-seeking and corruption. However, little was done about it because it was not part of the mission.

What paradigm or assumptions do we bring to the work on civil service reform? First, the term 'civil service' should be replaced by 'public service', as in most countries, because we should think of civil servants as public servants. Second, what is the nature of the state?

Prior to Partition, there was great debate among British bureaucrats on what to do with India? Should it follow the traditional model in which governance and power was exercised as a military fiscal state like the Mughal empire, or should they create a liberal progressive state? The end-result was that the lot and heritage of the liberal progressive state fell to India and that of the military fiscal state fell to Pakistan.

This military fiscalism became the governing paradigm for Pakistan's post-colonial experience. However, it was unlike the military fiscal state of the Mughals, which was an autonomous economic system. One option is to think of Pakistan as a 'dependent mercenary'. But mercenaries are paid and demand compensation, while we have a relationship of vassalage with our masters. Perhaps the most appropriate term is an anarcho-vassal state, where there is anarchy on the ground and up to the top levels of the bureaucracy, and vassalage for the world order.

If Pakistan's role in the world is seen in the anarcho-vassal context, then how should its national institutions, agencies for policy formulation, implementation, and mechanisms for delivery be modulated within that particular role? Alternatively, should there be a paradigmatic change in the nature of the state? The delayed nationalism following 1947, which led to the creation of this anarcho-vassal or dependent military mercenary state, has locked Pakistan into a system in which it plays a certain international role. Whether it changes to a pseudo-socialistic state, as it was in 1970, or an Islamic ideological state, we need to look at broader issues, understand the paradigm we are in, and adjust our institutions and mechanisms accordingly.

AKMAL HUSSAIN

The state is anarchic as far as Pakistan's citizenry is concerned because it has no stake in citizenship; it is deprived of the minimum services that define citizenship. This is unsustainable at several levels.

First, the global system itself is no longer stable, nor is it integrated or homogenous. What we call 'globalisation' has brought in new tensions at the international level. We may be moving from a uni-polar global world order to a multi-polar global world order with China and India emerging as major centres of power in the next 20 or 25 years; Russia is re-emerging and the Middle East remains in crisis. It is an unstable system in terms of political legitimacy. It is bereft of international law in a fundamental sense because one particular

superpower holds itself above international law. That is not a feasible proposition for maintaining international law.

Second, the international economic and financial system is extremely fragile and currently undergoing a sea-change in the centre of gravity for the first time in 300 years. The global economy's centre of gravity is shifting from the West to India and China. It is a highly dynamic situation and, even in terms of the global system, the role that has presumably been assigned to Pakistan is not sustainable. It is also not sustainable in terms of domestic aspirations because whatever the factors that led to the emergence of Pakistan and our aspirations for nationhood, the fact remains that we have a state as sovereign as a developing state can be, aspiring to develop a nation. No nation would want to live for any length of time in an anarchic situation and within a state whose nature is vassalage.

Clearly, there will be two kinds of tendencies in Pakistan in the next two decades, perhaps as India and China emerge as global powers. There will be a tendency towards disintegration both at the social and political level, unless a viable political order and a viable transition to the development objective can be achieved. The second tendency is people's aspirations to build a different kind of society and economy from the one that they have been assigned by the so-called global system. We are also part not just of the global political order but global information and cultural order, and the people of this country may aspire towards a participatory democracy and economy that is able to generate sustained dynamic growth with higher levels of equity and justice.

A profound change is taking place in the region and at the global level, while we attempt to reconstruct a state and economy and a society along modern lines of dynamic growth of equity and justice. This is where it becomes important to define the role of the government. Moreover, the civil service needs to be restructured in such a way that the public servant can deliver some of the core services or fulfil the core functions of a modern democratic state. Regardless of the size of the government, there are certain core functions that define a public or civil service. These relate to pay, together with performance, to motivation, to decision-making systems, and the internal structure of the civil service. Defining the role of the government may be important insofar as it enables us to define the scope and functions of the civil service itself; the particular tasks it will be assigned may emanate out of our conception of the role of the government.

Policy decisions in government ought to be taken on the basis of systematic research and, clearly, systematic research cannot take place internally to the civil service. It will have to rely on research produced

by independent research institutions, such as PIDE, to improve the quality of decision-making.

There are sufficient grounds for being hopeful about Pakistan and its society. Simply because the global economic system does not have the stability and power that it had in the beginning of the nineteenth century, it is in the process of transformation. There is a major shift taking place from the West to this part of the world. There is also a major shift taking place with respect to the rules governing interstate relations. The rules established at Potsdam after World War II have been unfurled by the attack on Iraq and, now, by the possible attack on Iran. New rules have to be designed precisely at the time of a major shift in the relative economic power of two groups of countries, which opens up a space for medium-sized countries like Pakistan to build a future for themselves. As the system itself opens up, it presents three key challenges: (i) to devise a stable participatory democratic order, (ii) to be able to design a strategy for a high and sustainable growth rate that combines equity with growth, and (iii) to build the underpinning institutions that will sustain this growth with equity and sustain stable constitutional order. Thus, the institutional challenge underpins the whole enterprise of reconstructing the state and society.

PIDE's future plans are important because it is an opportunity to pursue these three dimensions, coming as they do at a critical moment in global and national history. However, as far as the more limited purpose of this particular committee is concerned, or as far as civil service reforms are concerned, we have to look at the civil service in generic terms. What we are looking for is an institution where the individual is highly motivated to perform the tasks assigned to him or her and to deliver along specified lines. In this context, the challenge of civil service reform is to design an incentive-disincentive structure that not only attracts 'alpha' rather than 'gamma' people but also maintains their motivation and the good aspirations they have to start with.

To be able to sustain that structure of incentives and rules, there has to be performance-based evaluation specifying targets at every level for each individual. This should be looked at in a dynamic context rather than in a static context; here, training becomes important. The challenge is to design a training programme, as well as to develop an institutional infrastructure, that can produce high-quality entrance. One requirement of this is high-quality universities. The progressive decline in the quality of civil servants is simply because the input from local universities is now so poor. Clearly, you cannot have high-quality training programmes at NIPA and other institutions unless supported by high-quality universities.

Norms and values also become important here. One of the features that has atomised the civil service is that cohesive factors, in terms of pride or values, have been undermined. The challenge is to develop new norms and a value structure that can be sustained. Here, there is no literature on institutional economies to draw on because the issue is one of introducing cultural change within the civil service.

We have a national agenda of providing a better life to the people of this country within a democratic framework, and in that context, civil service reform needs to look at four elements: (i) incentive, (ii) evaluations, (iii) training, and (iv) norms and values.

Closing Remarks

NADEEM UL HAQUE

Based on the outcome of this conference, some of the aspects of civil service reform that PIDE will examine are human resource management, including training, performance-based compensation, and measurement of civil service performance; and institutional norms, which are very important and can be developed through a ‘repeat game play’ method. As far as compensating the civil service and measuring performance is concerned, honour is a very important form of compensation in civil service, which the British used to excellent effect. But the honour system has to have creditability, which it currently lacks.

This study has deliberately taken a broad focus in order to narrow it down to the most significant issues as it progresses under the guidance of the panel PIDE plans to set up on governance and reform. The study will focus on the following issues:

- the role of the government;
- the efficiency of the government, including transparency, procedures, and accountability;
- incentives and human resource management, e.g., pays, transfers, training, and promotions;
- the overarching legislation that puts the civil service in context to the constitution, e.g., the role of the public service commission; and
- the organisation of the civil services, e.g., how many services there should be, whether they should be centralised, how many

departments should be constituted, and whether there should be departmental or unified hiring.

GRESHAM'S LAW APPEARS TO BE AT WORK IN THE CIVIL SERVICE, CAUSING POOR TALENT TO DRIVE OUT GOOD. PIDE WILL EXAMINE ISSUES OF ACCOUNTABILITY, ORGANISATION, MOTIVATION, QUALITY OF PERSONNEL, AND STRUCTURE OF THE CIVIL SERVICE. UNFORTUNATELY, BECAUSE OF THE GOVERNMENT'S RELUCTANCE TO FUND RESEARCH, THE STUDY MAY BE CONSTRAINED BY LACK OF FUNDS, HUMAN RESOURCES, AND INFORMATION RESOURCES.

APPENDIX I

Round Table on Civil Service Reform
Pakistan Institute of Development Economics, Islamabad

PROGRAMME

Chairperson

Pervez Masud

Opening Address

Nadeem Ul Haque
Director, Pakistan Institute of Development Economics (PIDE)

Keynote Address

Moeen Afzal

PANEL I

Chairperson

Moeen Afzal

Speakers

1. Shahid H. Kardar
Topic: The Civil Service and the Role of the Government
2. Mosharraf Zaidi
Topic: The Experience of Civil Service Reforms in Argentina, the US,
and Canada

PANEL II

Chairperson

Tasneem Noorani

Speakers

1. Faiz Bilquees
Topic: Civil Servants' Salary Structure
2. Ali Cheema and Asad Sayeed
Topic: Bureaucracy and Pro-poor Change
3. Javed Masood
Topic: The Efficiency of Civil Services
4. Shafqat Mahmood
Topic: Devolution

CONCLUDING SESSION

Chairperson

Akmal Hussain

Speakers

Moeen Afzal

Tasneem Noorani

Shahid H. Kardar

Imran Ali

Akmal Hussain

CLOSING REMARKS

Nadeem Ul Haque

APPENDIX II

List of Participants

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Mr Viqar Ahmad Professor of Economics Lahore School of Economics Lahore	Dr Faiz Bilquees Joint Director Pakistan Institute of Development Economics (PIDE) Islamabad
Mr Khaled Ahmed <i>Daily Times</i> Lahore	Mr S. Anwar ul Hasan Bokhari General Manager Civil Service Reform Unit Islamabad
Mr Rahat ul Ain Director General National Institute of Public Administration (NIPA) Lahore	Dr Ali Cheema Head of Economics Department Lahore University of Management Sciences (LUMS) Lahore
Dr Imran Ali Lahore University of Management Sciences (LUMS) Lahore	Dr Musleh-ud Din Chief of Research Pakistan Institute of Development Economics (PIDE) Islamabad
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Mr Mohammad Aslam Secretary	

Mr Salman Ghani Chairman Planning and Development Board Government of the Punjab Lahore	Mr M. Ajmal Khan Senior Director Operations National Commission for Human Development Islamabad
Dr M. Hafeez Professor Sociology Department University of the Punjab Lahore	Mr Faheem Jehangir Khan Research Economist Pakistan Institute of Development Economics (PIDE) Islamabad
Mr Ejaz Haider <i>Daily Times</i> Lahore	Mr Zaman Khan In-charge Complaint Cell Human Rights Commission of Pakistan (HRCP) Lahore
Dr Nadeem Ul Haque Director Pakistan Institute of Development Economics (PIDE) Islamabad	Mr Shafqat Mahmood Lahore
Dr Akmal Hussain Managing Director Sayyed Engineers (Pvt.) Ltd. Lahore	Mr Javed Masood Pakistan Credit Rating Agency Ltd. (PACRA) Lahore
Mr Shahid H. Kardar Director Systems (Pvt.) Ltd. Lahore	Mr Pervez Masud Lahore
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Mr M. A. Niazi Executive Editor <i>The Nation</i> Lahore	Mr Hamed Yaqoob Sheikh Deputy Programme Director Punjab Resource Management Programme (PRMP) Lahore
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Mr Kamran Shams Habib Bank Limited	

APPENDIX III

Background Material Circulated at Conference The New ‘Governance and Institutions’ Effort at PIDE and the PSDE

NADEEM UL HAQUE

Following Robert Lucas’s (1988) seminal article pointing out that, despite all efforts, poor countries had not caught up with the rich, an enormous research effort was launched worldwide to understand economic growth and its determinants. Increasingly, this research has led to the conclusion that the answer may lie in the ‘software’ of society (governance and institutions) rather than in building its ‘hardware’ (physical capital and infrastructure).

Countries in the development era might have been too preoccupied with building their physical capital as well as physical infrastructure, quite possibly leading to the neglect of their institutions. Many countries in this period saw an increase in corruption, internal strife, coups, and unstable democracies, and a general decline in law and order. These societal problems increase country risk, lowering rates of return and shortening planning horizons. It is not surprising then that, despite all manner of incentives—foreign direct investment (FDI) and often even domestic—investment in these countries remains low.

For sustainable growth and long-term improvement in living standards, the issue of governance and institutions must be faced and understood. It is also perhaps the most difficult reform to develop, and requires a long-term process of understanding the institutional infrastructure at every level. This understanding must permeate society and allow a certain reform consensus to develop.

The Pakistan Institute for Development Economics (PIDE) is critically positioned to engage in this effort. As the country’s premier think tank, it can take a longer-term view to develop and lead not only a

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Author’s Note: PIDE would like to invite papers on the themes discussed in this section. Paper should examine the state of play in the literature and global experience in these areas. Where possible, application to Pakistan would help. To build support and ideas for the PSDE conference, PIDE has started developing panels on these themes. The panels will meet regularly before the conference commission to vet papers that have been submitted. The panel will also prepare a report on its deliberations for the conference. Please indicate (i) your interest, (ii) further suggestions for themes or sub-themes, (iii) names of panellists, (iv) organisations that could partner with PIDE, and (v) references in these areas, which PIDE will then circulate widely.

research effort but also a debate on the theme of governance and institutions. PIDE will build a nationwide research effort around the theme of governance with the goal of presenting high-quality research on the subject at the Pakistan Society of Development Economists (PSDE) conference in January 2007. Possible sub-themes are outlined below.

Public Choice

Ever since the publication of Hayek's classic *The Constitution of Liberty* (1978), the economic effects of constitutions have been the subject of much investigation. Recent work by Buchanan and Tullock (1962), Cooter (2000), Mueller (2006), and Persson and Tabellini (2003), have all highlighted the importance of making this fundamental law consistent with economic progress if sustainable increases in welfare are to be attained.

Meanwhile, Pakistan has had long experience with unstable democracy, where democratic governments are unable to complete a full term. There have been many attempts to promulgate 'top-down' constitutional amendments but with little supporting research and debate. Perhaps the Pakistani thinker needs to review the literature on constitutional economics and see if it is possible to analyse why our democracy remains unstable. This could lead to a more informed constitutional amendment for the future.

Possible issues and questions in this area could be:

- constitutional economics and public choice issues and their possible applications to Pakistan;
- why democracy remains unstable and the two main parties so polarised, and whether some form of constitutional and electoral reform might help attain a better, more stable outcome;
- whether the executive is too powerful, and if there are any alternatives to it;
- approaches to and alternative formulations of the independence of the judiciary and other key organs of state;
- approaches and alternatives to introducing technocracy in government;
- electoral and party reform;
- separation of powers and better checks and balances; and
- the separation of religion and state.

Public Service Efficiency

Civil service reform has remained on the anvil for a long time. The World Bank has been working in this area for over two decades in Pakistan

and for much longer in other countries. Despite several loans from multilaterals to deal with the issue, the popular perception seems to be that little has been achieved and that the system essentially remains similar to that inherited from the colonial government. What is surprising is the paucity of local research on the subject. Without this research, the subject remains in the rarefied corridors of the World Bank and the Government of Pakistan. Without local research, the subject remains uninformed of local needs and priorities, while public awareness of issues in the area remains low, thus severely limiting ownership of reform.

Possible issues and questions in this area could be:

- incentives, human rights management (HRM) training, etc.;
- recruitment;
- the establishment of a common service for federal provincial and across services;
- transfer as a control device, and absence of local ownership;
- delegation of powers and responsibilities;
- autonomy;
- whether it is a department, an agency, or the federal government that ‘owns’ personnel;
- ‘files’ and the flow of information; and
- transparency and the Freedom of Information Act.

Law and Economics

As Adam Smith argued, much of economics is “trade and exchange!” Trade and exchange occur in the context of well-defined property rights and legal and judicial systems. When configured correctly, the legal and judicial system can facilitate trade and exchange and hence lead to improved welfare. In recognition of this proposition, donors have, for over a decade, worked on ‘access to justice’ projects. Yet, Pakistan’s academic and research community has not examined the subject at all. Again, for a variety of reasons, including local relevance and ownership, such research would be very important.

Possible issues and questions in this area could be:

- access to and quality of justice;
- whether the legal system facilitates transactions and contracting;
- delayed justice;
- the quality of economics in law;
- the recruitment of judges, quality of personnel, and HRM training incentives as an issue in the provision of quality justice; and
- property rights for the development of a modern land market.

Markets and Regulation

Economic transactions take place in markets. Government regulation is required if there is market failure. This is an area that requires considerable monitoring as experience has shown that there are possibilities of regulator failures, such as excessive regulation, uninformed regulation, or even regulatory capture. Substantive research in this area can foster market development with balanced regulation.

Possible issues and questions in this area could be:

- the state of markets and regulation;
- openness and protection policies and market development;
- deregulation and competition policies;
- globalisation and market development; and
- the inter-linkage of financial and goods markets.

Decentralisation and Devolution

Markets are complex and often individualistic networks of information and exchange. Socialist and planning approaches both failed because of their attempt to centrally and uniformly control markets. Experience has shown that government interventions in markets must be limited and that markets must be allowed to function in a decentralised manner. The efficiency of public service delivery increases with community-based control, thus making a case for devolution. Pakistan has been experimenting with both decentralisation and devolution, once again with little help from academia and research. This conference aims to correct that oversight.

Possible issues and questions in this area could be:

- how to make decentralisation and localisation work;
- the advantages and disadvantages of decentralisation;
- optimal configuration of departments, functions, and even the number of departments;
- cities as development zones;
- the city management and zoning paradigm;
- city competition for development and resources;
- inter-provincial and regional issues, such as the National Finance Commission (NFC) award, provincial revenue sharing, and resource sharing (e.g., water and gas).

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THE PUBLIC AND PRIVATE SECTOR PAY GAP IN PAKISTAN: A QUANTILE REGRESSION ANALYSIS

ASMA HYDER and BARRY REILLY

Introduction

This paper examines the magnitude of public/private wage differentials in Pakistan using data drawn from the 2001-02 Pakistan Labour Force Survey (LFS). As in many other countries, public sector workers in Pakistan tend both to have higher average pay and education levels as compared to their private sector counterparts. In addition, the public sector in Pakistan has both a more compressed wage distribution and a smaller gender pay gap than that prevailing in the private sector. Our empirical analysis suggests that about two-fifths of the raw differential in average hourly wages between the two sectors is accounted for by differentials in average characteristics. The estimated public sector mark-up, *ceteris paribus*, is of the order of 49 percent and is substantial by the standards of developed economies. The quantile regression estimates suggest that the mark-up was found to decline monotonically with movement up the conditional wage distribution. In particular, the premium at the 10th percentile was estimated at 92 percent as compared to a more modest 20 percent at the 90th percentile.

In most economies, public sector employment accounts for a sizeable share of total employment. The process of recruitment and promotion and the rules governing employment conditions tend to differ markedly across public and private sectors. The wage determination processes within the two sectors are distinct and have the potential to give rise to differentials in pay rewards between comparable workers in the two sectors. The profit motives of private sector firms create incentives to set wages commensurate with worker productivity. These motives are generally absent from the public sector and pay rewards are generally based on other criteria.

The existence of inter-sectoral wage differentials can create problems for the dis-advantaged sector. For instance, large pay differentials, *ceteris paribus*, in favour of the private sector may constrain the public sector's ability to recruit and retain high-quality

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workers with implications for public sector productivity and efficiency. In addition, efforts by the state to maintain some degree of pay comparability for their employees with the private sector may compromise fiscal budgetary positions. On the other hand, the existence of a positive differential in favour of the public sector, a common phenomenon in many developing economies, can give rise to job ‘queues’ and ‘wait’ unemployment given risk-averse agents’ preferences for stable and well-paid public sector jobs. There may be sizeable opportunity costs associated with such behaviour.

Knowledge of the magnitude of the public sector pay gap and how it varies across the wage distribution has important policy content. The purpose of this paper is to investigate the public sector pay gap in Pakistan using data drawn from the recent *Pakistan Labour Force Survey* of 2001-02. This study differs from previous work that has explored the magnitude of the public-private pay gap in Pakistan in a number of distinct ways. First, we control for endogenous selection into one of three employment sectors (*viz.*, public, private, and state-owned enterprises (SOE)) though our primary concern is a comparison of the pay differential between the larger two of these. Secondly, using mean regression analysis, we decompose the overall average pay differential between public and private sector workers into ‘endowment’ and ‘treatment’ components. Thirdly, given an established interest within the contemporary literature on the public sector pay gap, the heterogeneity in the pay gap across the conditional wage distribution is examined using quantile regression analysis. The approach, however, presents a dual challenge. The first is concerned with the appropriate decomposition of pay gaps at selected quantiles into their ‘endowment’ and ‘treatment’ components and the second relates to modelling selection bias within a quantile regression framework. The emphasis in the paper falls more heavily on addressing the former of these challenges and our approach in regard to the latter is acknowledged as somewhat *ad hoc*.

The structure of the paper is as follows. The next section provides a brief review of both the Pakistan context and the more broadly defined empirical literature on the public sector pay gap. This assists in situating the present empirical work in a broader context. Section Two outlines the econometric and decomposition methodologies used, and Section Three details the data set used. Section Four discusses the results, and a final section offers some conclusions.

1. Background

The Pakistan Context

At partition in 1947, the newly formed Government of Pakistan lacked the personnel, institutions, and resources to play a large role in developing the economy. Exclusive public ownership was reserved for the production of armaments, the generation of hydroelectric power, and the manufacture and operation of railroads, telephone, telegraph, and wireless equipment. The rest of the economy was open to private-sector development, and the government used many direct and indirect measures to stimulate or guide private-sector activities. The government enacted piecemeal measures between 1968 and 1971 to set minimum wages, promote collective bargaining for labour, reform the tax structure towards greater equity, and rationalise the salary structures. However, the implementation of these reforms was generally weak and uneven.

In 1972, the government nationalised thirty-two large manufacturing plants in eight major industries. The public sector expanded greatly in this period. In addition to the nationalisation of companies, government agencies were created to support various functions, such as the export of cotton and rice. Suitably qualified managers and technicians were scarce, a situation that became worse after 1974, when many of the more able left to seek higher salaries in the oil-producing countries of the Middle East. Labour legislation set high minimum wages and sizeable fringe benefits, boosting payroll costs in both public and private sectors.

After 1977, the government adopted a policy of greater reliance on private enterprises to achieve economic goals, and successive governments continued this policy throughout the late 1980s and the early 1990s. However, the government continued to play a large economic role in this period, with public-sector enterprises accounting for a significant portion of large-scale manufacturing. In 1991, it was estimated that such enterprises produced about 40 percent of national industrial output. As of early 1994, proposals to end state monopolies in selected industries were in various stages of implementation. Private investment no longer required government authorisation, except in sensitive industries. In early 1994, the government announced its intention to continue policies of both deregulation and liberalisation. The rise in the share of the private sector reflected the policy shift towards a market-based economy as well as the government's weakened fiscal position.

In spite of the re-orientation of the economy towards the private sector in recent years, the competition for employment in the public sector remains keen in Pakistan. Public sector employment in Pakistan is still viewed as more attractive because of better pay, better working conditions, and the availability of other fringe benefits (e.g., pension rights and free medical benefits).

Empirical Literature Overview

The stylised facts offered on the public sector for developed economies, once wage determining characteristics are accounted for, are of a modest average positive wage gap in favour of public sector workers.⁴ In addition, public sector pay practice tends to attenuate the gender pay gap and narrow wage dispersion. The average effects, however, conceal variations in the performance of the public sector pay premium across the conditional wage distribution. In particular, a number of studies have documented a declining public sector pay premium in developed economies, with movement up the conditional wage distribution suggesting that public sector rewards are more substantial in the lower-paid jobs.⁵

The evidence for Latin America provides something of a contrast. Panizza (2000) examines the magnitude of the public/private sector pay gap for 17 countries over the 1980s and 1990s and reports average pay gaps that generally favour the private sector.⁶ Panizza (2000) also documents lower gender pay gaps in public sector labour markets. In addition, Falaris (2003), using micro-level data for Panama, confirmed both a weak mean public sector premium and effects that declined with movement up the conditional wage distribution. The evidence from Latin American countries tends to chime with what has emerged in transitional economies. The development of a buoyant private sector is generally viewed as a key part of a successful transformation to a market economy. The empirical literature on the *ceteris paribus*

⁴For example, see Blank (1994), Rees and Shah (1995), Disney and Gosling (1998) and Blackaby, Murphy and O'Leary (1999) for the UK; see Gyourko and Tracy (1988), Moulton (1990) and Blank (1994) for the US; see Lucifora and Meurs (2004) for UK, Italy and France. The evidence for Germany [see Dustmann and Van Soest (1998)] is less clear-cut and that for Holland suggests a negative *ceteris paribus* differential [see Van Ophem (1993)].

⁵For example, see Poterba and Rueben (1994) for the US; see Mueller (1998) for Canada; see Disney and Gosling (1998) and Blackaby, Murphy and O'Leary (1999) for the UK; see Lucifora and Meurs (2004) for Italy and France.

⁶Brazil was a notable exception here. This is not a surprise since public sector workers in Brazil are known to be well-paid [see Arbache, Dickerson, and Green (2004)].

private sector wage premium in transitional economies is limited and beset by measurement issues⁷ but tends to suggest a positive wage premium in favour of private sector workers.⁸

There has been a modest volume of empirical work undertaken on the public sector pay gap for developing countries. Boudarbat (2004) notes a preference for public sector employment in Africa and a willingness among the educated to engage in 'wait' unemployment to secure the more well paid and stable public sector jobs. The author notes a sizeable public sector pay differential in Morocco for the highly educated. The earlier studies of Lindauer and Sabot (1983) for Tanzania and Van der Gaag, Stelcner, and Vijverberg (1989) for Cote D'Ivoire provide mixed evidence on the size and direction of the pay gap but the latter paper highlights the importance of selection bias in informing any reasonable interpretation. Terrell (1993), using data for Haiti, reports a relatively large average public sector pay gap with selection bias apparently relevant in only one sector. Al-Samarrai and Reilly (2005) detect no public sector wage effect using recent tracer survey data from Tanzania. Skyt-Neilsen and Rosholm (2001) detected a positive average *ceteris paribus* pay gap in favour of public sector workers in Zambia but noted that at the upper end of the conditional wage distribution it became negative for the highly educated. A recent study by Ajwad and Kurukulasuriya (2002), the primary focus of which was gender and ethnic wage disparities, detected no public sector pay premium either at the average or across selected quantiles of the conditional wage distribution for Sri Lanka. Finally, of direct relevance to our analysis, Nasir (2000), using data for Pakistan, detected a negligible differential in favour of public sector workers; but this study restricted the private sector comparator to the formal sector.

2. Methodology

Mean Regression Decompositions

The magnitude of the public sector pay premium could be crudely captured by using a pooled sample of data points on all workers in conjunction with the OLS procedure. If we assume a pooled sample of public and private sector data points and introduce the i subscripts for

⁷See Filer and Hanousek (2002) for problems related to the measurement of the private sector in transitional economies.

⁸See Newell and Socha (1998) and Adamchik and Bedi (2000) for Poland from the mid-1990s; see Lokshin and Jovanovic (2001) for a sample of Moscow workers; and see Krstic, Reilly and Tabet (2004) for a sample of Serbian workers.

$i=1, \dots, n$, we could express the log wage equation with a simple intercept shift for the public sector as:

$$w_i = X_i' \beta + \delta G_i + u_i \quad \dots \quad \dots \quad \dots \quad \dots \quad (1)$$

where w_i is the log wage for the i th individual; X_i is a $k \times 1$ vector of wage determining characteristics for the i th individual; β is a $k \times 1$ vector of the corresponding unknown parameters; G_i is a binary measure adopting a value of 1 if the individual is in the public sector and 0 otherwise and δ is its corresponding unknown parameter; u_i is an error terms for the i th individual. The OLS estimate for δ provides the average *ceteris paribus* effect of being in a public sector job on the expected log wage.

The foregoing approach restricts the public sector premium to being captured by an intercept shift and ignores the fact that employment in the public sector may confer on the individual differential returns to, for example, education and experience. The conventional Blinder (1973) or Oaxaca (1973) methodology has been extensively used in this field to address this potential problem and readily extends to applications where the investigator wishes to decompose pay gaps between groups of workers using other qualitative indicators (e.g., race or employment sector). In our application, we are interested in decomposing the pay differential between public and private sector workers. The procedure involves the OLS estimation of separate sectoral wage equations and the use of the OLS coefficients in conjunction with the sectoral mean characteristics to compute explained (or ‘endowment’) and unexplained (or ‘treatment’) effects. The average mean difference in log wages (\bar{D}) between two groups or sectors could be expressed as:

$$\bar{D} = \bar{w}_s - \bar{w}_p = [\bar{X}_s - \bar{X}_p]' \hat{\beta}_s + \bar{X}_p' [\hat{\beta}_s - \hat{\beta}_p] \quad \dots \quad \dots \quad (2)$$

where \bar{w}_j is the average logarithm of the wage for the j th employment sector; \bar{X}_j is the vector of average characteristics for the j th employment sector; $\hat{\beta}_j$ is the vector of OLS wage determining coefficients for the j th employment sector; $j = s, p$ where s denotes public (or state) sector and p denotes the private sector.⁹

The overall average differential in log wages between the two sectors is thus decomposable into differences in characteristics (as

⁹For expositional purposes, the third sector, the SOE sector, is ignored here given the paper’s primary emphasis. The relatively small sample size available for the SOE sector also restricts our discussion in the empirical section.

evaluated at the returns in the public sector) and differences in the estimated relationship between the two sectors (i.e., the sectoral differences in returns) evaluated at the mean set of private sector characteristics). It is clear that expression (2) could be re-cast using the ‘basket’ of average public sector characteristics as the use of an ‘index number’ approach is subject to the conventional ‘index number’ problem. However, given our application we believe the above decomposition provides the more meaningful basis for computing the mark-up of interest.

Quantile Regression Decompositions

An exclusive focus on the average may provide a misleading impression as to the variation in the magnitude of the *ceteris paribus* gender pay gap across the wage distribution. A number of different methods recently used in the literature allow for a more general counterfactual wage distributions under specific assumptions. These methods generally require relatively large sample sizes and are prohibitive in a context where the samples available tend to be modest.¹⁰ The quantile regression approach [e.g., see Chamberlain (1994); Buchinsky (1998)] provides a less data-demanding alternative, but one that can be informative about the impact of covariates at different points of the conditional wage distribution. In the use of a quantile regression model, the focus moves away from the mean to other selected points on the conditional wage distribution and the estimation procedure is formulated in terms of absolute rather than squared errors. The estimator is known as the Least Absolute Deviations (LAD) estimator.

If we again assume the pooled model in (1) above as a reasonable characterisation of the wage determining process, the median regression coefficients can be obtained by choosing the coefficient values that minimise L

$$L = \sum_{i=1}^n |w_i - X_i'\beta - \delta G_i| = \sum_{i=1}^n (w_i - X_i'\beta - \delta G_i) \text{sgn}(w_i - X_i'\beta - \delta G_i) \quad (3)$$

where $\text{sgn}(a)$ is the sign of a , 1 if a is positive, and -1 if a is negative or zero.

The estimation of a set of conditional quantile functions potentially allows the delineation of a more detailed portrait of the relationship between the conditional wage distribution and the selected covariates (including public sector attachment). Given the linear

¹⁰For example, see DiNardo, Fortin, and Lemieux (1996), Fortin and Lemieux (1998), Donald, Green and Paarsch (2000) for a variety of different approaches.

formulation of the regression model, the coefficient estimates can be obtained using linear programming techniques. In contrast to the OLS approach, the quantile regression procedure is less sensitive to outliers and provides a more robust estimator in the face of departures from normality [see Koenker (2005) and Koenker and Bassett (1978)]. Quantile regression models may also have better properties than OLS in the presence of heteroscedasticity [see Deaton (1997)].

It is generally desirable to explore quantile regressions other than at the median. Using this same methodology, the log wage equation may be estimated conditional on a given specification and then calculated at various percentiles of the residuals (e.g., the 10th, the 25th, the 75th or the 90th) by minimising the sum of absolute deviations of the residuals from the conditional specification. In the context of the regression model specified, quantile regression estimation allows the estimation of the δ parameter at the 10th, 25th, 50th, 75th and 90th percentiles. The estimates obtained for δ allow us to establish the magnitude of the *ceteris paribus* gender pay gap at different points of the conditional wage distribution.

The asymptotic formula for the computation of the variance-covariance matrix is known to under-state the true variance covariance matrix in the presence of heteroscedasticity. The more conventional approach adopted to compute the variance-covariance matrix is the bootstrapping method, and this procedure is adopted in the empirical applications reported in this study.¹¹

In the context of the estimation inherent in (3), the average *ceteris paribus* public sector pay gap is provided by the estimate for δ . Chamberlain (1994) used this type of model to explore the wage effect of unions at different points of the conditional wage distribution. However, the extensive literature on decomposing the mean pay gap, as emphasised in expression (2), employs separate wage equations for each sector. In the context of the estimation of quantile regression models by sector, the decomposition of the pay gap at different quantiles is not entirely straightforward. The decomposition within a quantile regression framework has been undertaken in a number of studies, [see Albrecht, Björklund, and Vroman (2003); Gardeazabal and Ugidos (2005) and Machado and Mata (2000)]. One of the key issues in any decomposition is to determine the appropriate realisation of

¹¹See Brownstone and Valletta (2001) for an accessible introduction to bootstrapping.

characteristics with which to undertake the counterfactual exercise. In the linear mean regression model, it is intuitive to use mean characteristics. Although use of the mean characteristics is feasible with the estimated coefficients from quantile regressions, they may provide misleading realisations for the characteristics at points other than the conditional mean wage to which they relate. It seems more appropriate to use realisations that more accurately reflect the relevant points on the conditional wage distribution.

In order to appreciate this point more clearly, define the quantile regression for the public sector sub-sample as

$$w_s = X_s' \beta_{\theta_s} + u_{\theta_s} \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (4)$$

where $Q_{\theta}(w_s | X_s) = X_s' \beta_{\theta_s}$ and $Q_{\theta}(u_{\theta_s} | X_s) = 0$ and θ denotes the particular quantile of interest. In addition, X_s is a $k \times n_1$ matrix of characteristics for the sample of public sector workers where n_1 is the sample size, β_{θ_s} is a $k \times 1$ vector of unknown parameters for the θ th public sector regression quantile.

Define the quantile regression for the private sector sub-sample as:

$$w_p = X_p' \beta_{\theta_p} + u_{\theta_p} \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (5)$$

where $Q_{\theta}(w_p | X_p) = X_p' \beta_{\theta_p}$ and $Q_{\theta}(u_{\theta_p} | X_p) = 0$. In this case X_p is a $k \times n_2$ matrix of characteristics for the sample of private sector workers where n_2 is the sample size, β_{θ_p} is a $k \times 1$ vector of unknown parameters for the θ th private sector regression quantile.

Now:

$$Q_{\theta}(w_s) = E[X_s | w_s = Q_{\theta}(w_s)]' \beta_{\theta_s} + E[u_{\theta_s} | w_s = Q_{\theta}(w_s)] \quad \dots \quad (6)$$

and

$$Q_{\theta}(w_p) = E[X_p | w_p = Q_{\theta}(w_p)]' \beta_{\theta_p} + E[u_{\theta_p} | w_p = Q_{\theta}(w_p)] \quad \dots \quad (7)$$

where $E(\cdot)$ denotes the expectations operator. In this case $E[u_{\theta_s} | w_s = Q_{\theta}(w_s)] \neq 0$ and $E[u_{\theta_p} | w_p = Q_{\theta}(w_p)] \neq 0$. The characteristics used in (6) and (7) are evaluated conditionally at the unconditional log wage quantile value. In addition, the terms $E[u_{\theta_s} | w_s = Q_{\theta}(w_s)]$ and $E[u_{\theta_p} | w_p = Q_{\theta}(w_p)]$ are non-zero and provide an indication as to whether at a given quantile, the regression model over-predicts or under-predicts the log wage. These terms do not appear in the mean regression and thus, in a quantile regression decomposition, there will be some part of the pay gap left unassigned to either the 'endowment' or 'treatment' components at all quantiles of the conditional wage distribution.

We now turn to decomposing the public-private sector pay gap at different points of the conditional wage distribution. The pay gap at

the θ th quantile is defined as Δ_θ and this can be decomposed into three parts:

$$\begin{aligned}\Delta_\theta &= Q_\theta(w_s) - Q_\theta(w_p) \\ &= [E[X_s | w_s = Q_\theta(w_s)] - E[X_p | w_p = Q_\theta(w_p)]]' \beta_{\theta s} \\ &\quad + E[X_p | w_p = Q_\theta(w_p)]' [\beta_{\theta s} - \beta_{\theta p}] \\ &\quad + [E[u_{\theta s} | w_s = Q_\theta(w_s)] - E[u_{\theta p} | w_p = Q_\theta(w_p)]] \quad \dots \quad (8)\end{aligned}$$

This represents the quantile regression analogue to the mean decomposition reported in (2). The first part is the conventional ‘endowment’ part and gives the portion of the gap at the θ th quantile explained by sectoral differences in the conditional mean characteristics at this point. The second part is the conventional ‘treatment’ component evaluated not at the unconditional mean ($E[X_p]$) but at a mean value conditional on the particular quantile value of the private sector log wage. The final component gives that portion of the difference in log wages not explained by the quantile regressions for the two sectors. In order to implement this procedure we need to compute the component parts of (8). We use an auxiliary regression approach based on Gardeazabal and Ugidos (2005). The approach is outlined in a technical appendix to this paper.

Selectivity Bias Issues

There is a selection issue for the analysis of the public sector pay gap and one that has been strongly emphasised in the literature based on mean regression analysis.¹² Either through a process of self-selection by individuals or sample selection by employers, the location of individuals in either sector may not be interpretable as the outcome of a random process. In the context of the mean regression model Heckman (1979) and Lee (1983) provide well-known solutions.

As noted by Neuman and Oaxaca (2004), selectivity correction procedures introduce a number of ambiguities for standard wage decomposition analysis. The wage decomposition favoured by many authors¹³ in the presence of such a correction is usually expressed as

$$\bar{D} = \bar{w}_s - \bar{w}_p = [\bar{X}_s - \bar{X}_p]' \hat{\beta}_s + \bar{X}_p' [\hat{\beta}_s - \hat{\beta}_p] + [\hat{\tau}_s \bar{\lambda}_s - \hat{\tau}_p \bar{\lambda}_p] \quad (9)$$

¹²See Gyourko and Tracy (1988), Van der Gaag and Vijerberg (1988), and Terrell (1993).

¹³For instance, Reimers (1983) who nets the selection differences out of the overall pay gap to generate wage offer differentials.

where everything is defined as in (2) above but with $\hat{\tau}_j$ now representing the OLS estimate of the j selection parameter, one for each employment sector, and $\bar{\lambda}_j$ is the sample averaged selection variable for the j th employment group computed as the inverse of the Mills ratio term using estimates from a probit model for sectoral attachment as per Heckman (1979) or through the Lee (1983) term based on use of a multinomial logit model.

Currently, there is little consensus regarding the most appropriate correction procedure for selectivity bias in quantile regression models. Buchinsky (1999) uses the work of Newey (1999) to approximate the selection term by a higher order series expansion. The power series is based on the inverse Mills ratio (or its Lee equivalent).¹⁴ This approach has the potential pitfall that the wage regression intercept term is not identified given its conflation with the constant term associated with the higher order series that proxies for the selection bias.¹⁵ Given the lack of consensus and problems associated with introducing higher order selection terms into quantile regression models, we adopt the rather crude expedient of inserting the simple selection terms into the quantile regression models. It is acknowledged that, in contrast to the mean regression case, this provides an inexact correction for selection bias. However, it circumvents the tricky problem of identifying the wage regression constant term.

We now turn to decomposing the public-private sector pay gap at different points of the conditional wage distribution having corrected for selection bias. The pay gap at the θ th quantile is now decomposed into four parts:

$$\begin{aligned} \Delta_\theta &= Q_\theta(w_s) - Q_\theta(w_p) \\ &= [E[X_s | w_s = Q_\theta(w_s)] - E[X_p | w_p = Q_\theta(w_p)]]' \beta_{\theta_s} \\ &\quad + E[X_p | w_p = Q_\theta(w_p)]' [\beta_{\theta_s} - \beta_{\theta_p}] \\ &\quad + [\tau_{\theta_s} E[\lambda_s | w_s = Q_\theta(w_s)] - \tau_{\theta_p} E[\lambda_p | w_s = Q_\theta(w_s)]] \\ &\quad + [E[u_{\theta_s} | w_s = Q_\theta(w_s)] - E[u_{\theta_p} | w_p = Q_\theta(w_p)]] \quad \dots \quad (10) \end{aligned}$$

where the third component is the selection effect.

Finally, in order to address the problem of selectivity bias we exploit the procedure developed by Lee (1983), as used by Gyourko and

¹⁴See also Fitzenberger (2003) for an alternative approach.

¹⁵Heckman (1990) and Andrews and Shafgans (1998) suggest solutions to this problem.

Tracy (1988) in a similar application, which provides a more general approach to the correction of selectivity bias than that originally offered by Heckman (1979). The procedure is two-step but exploits estimates from a multinomial logit model (MNL) rather than a probit to construct the set of selection correction terms. The estimation of models with selection effects always contains difficulties. In addition, their identification is always a demanding task. The eminently sensible advice of Gyourko and Tracy (1988) to compute and report both corrected and uncorrected differentials is adhered to in this study.¹⁶

3. Data

This study uses cross-section data drawn from the nationally representative Labour Force Survey (LFS) for Pakistan for 2001-2. The working sample used is based on those in wage employment and comprises a total of 7352 workers once missing values and unusable observations are discarded. This total consists of 3694, 3310 and 348 workers in the private, public and state owned enterprise (SOE) sectors respectively. The government sector includes federal government, provincial government and local bodies. State owned enterprises (SOEs) are defined as public enterprises and public limited companies. Thus, over one-half of waged employees are in the public sector.

The private sector is defined here to include workers employed in private limited companies, cooperative societies, individual ownership and partnerships. It is sometimes argued that, in an analysis of the public/private sector pay gap in developing countries, it is desirable to disaggregate the private sector into formal and informal sectors.¹⁷ This is largely a matter of investigator preference and our approach is to retain a sufficiently broad definition of the private sector. Any disaggregation of the private sector along such lines is likely to be prone to potential misclassification and measurement error, and is thus eschewed in this study.

The data collection for the LFS is spread over four quarters of the year in order to capture any seasonal variations in activity. The survey covers all urban and rural areas of the four provinces of Pakistan as defined by the 1998 Population Census. The LFS excludes the federally Administered Tribal Areas (FATA), military restricted areas, and protected areas of NWFP. These exclusions are not seen as significant

¹⁶In order to conserve space, the MNL estimates are not reported in this study.

¹⁷This was the approach adopted by Nasir (2000), using data drawn from an earlier round of the LFS.

since the relevant areas constitute about 3 percent of the total population of Pakistan.

Table A1 of the appendix presents the summary statistics and definitions of the variables used in our analysis. The natural logarithm of the hourly wage¹⁸ is used as the dependent variable. Table A1 highlights the fact that the public and SOE sectors are relatively high pay sectors with large concentrations of professionals, graduates and postgraduates. A detailed dis-aggregation of educational qualifications is used in our analysis and this facilitates the computation of private rates of returns to these qualifications.

In order to examine the relationship between earnings and age from the perspective of human capital theory, age and its quadratic are used in the specifications.¹⁹ These measures are actually designed to proxy for labour force experience, which cannot be accurately measured using our data source. Our analysis is restricted to those aged between 15 and 60 years of age. This facilitates a more worthwhile comparison between public and private sector workers. The marital status of a respondent is divided into three mutually exclusive categories (*viz.*, “married”, “never married” and “widow and divorced”). The settlement type within which the individual resides is captured by a binary control for residing in an urban area. Four regional controls are included and these correspond to the four provinces in Pakistan (*viz.*, Punjab, Balochistan, Sindh and NWFP). A set of controls capturing the time the respondent spent in the current district is also included in our analysis. The notion here is that location specific human capital and social networks may be important in the wage determination process. This may be particularly relevant in the private sector.

It is an established fact that an individual’s occupation is a very important determinant of their earnings. Nine one-digit occupational categories, defined according to the standard classification of occupations, are thus included in our specifications. As reported in Table A1, the public sector is characterised by a high proportion of technicians and skilled professionals. However, in the private sector there is a higher concentration of craft and related trade workers.

Female labour force participation is low in Pakistan. On the basis of our sample only 12 percent of public sector employees and about 3 percent of those in private sector waged employment are women. The

¹⁸The hourly wages expressed in rupees, were calculated by dividing weekly earnings by the number of hours worked per week.

¹⁹The use of age and its quadratic also renders the construction of the conditional vector of characteristics at different quantiles somewhat easier.

inclusion of women in our empirical analysis is a judgment call. A sub-theme of our analysis is to explore the impact that public sector employment exerts on the gender pay gap. The use of an intercept shift to capture gender helps inform this issue, though perhaps imperfectly. We are particularly interested in examining the extent to which the public sector in Pakistan attenuates the gender pay gap and the extent to which there is evidence of a ‘glass ceiling’ in either of these two sectors.

It is important to note that Labour Force Survey does not provide information regarding fringe benefits received by workers. Thus our analysis is restricted to a wage gap defined in monetary terms. If these additional pecuniary measures (e.g., fringe benefits) and other non-pecuniary factors (e.g., working conditions and stability of employment) are allowed for, the estimated public-private premium is likely to be even larger than our estimates reported here. There is some evidence that this is indeed the case in other countries. For example, Ichniowski (1980) found the relative union/non-union fringe benefit differentials for fire-fighters to be roughly four times as large as the comparable wage differentials. The magnitude is much larger than that found by Freeman (1981) in his public/private sector studies. It would be desirable to have information regarding labour market fringe benefits available in the Labour Force Survey. The availability of such information would enhance understanding about the true magnitude of the inter-sectoral differentials between the public and private sectors. However, in the absence of such data our results carry a caveat and should be taken to reflect the lower limit of the inter-sectoral differential between public and private sector workers.

4. Empirical Results

The specified wage equations included controls for highest education qualification attained, whether an individual undertook technical training, age and its quadratic, marital status, gender, settlement type, a set of regional controls, a set of dummies for the length of time resident in the district, and a set of one-digit occupational controls. For brevity, only the estimates relating to the education, age gender, and sectoral attachment are reported in the tables. Table 1 reports the estimates for a pooled regression model based on expression (1) where the public sector enters as an intercept shift and provides an estimate of the public sector *ceteris paribus* mark-up relative to the broadly defined private sector base. Estimates for a mean regression and models estimated at selected quantiles of the

Table 1

OLS and Quantile Regression Model Estimates Based on Pooled Data for Pakistan 2001-02

Variables	Mean	10th	25th	50th	75th	90 th	90th – 10th
Primary	0.0914 ^a (0.0193)	0.0804 ^b (0.0425)	0.0842 ^a (0.0243)	0.0683 ^a (0.0171)	0.0781 ^a (0.0178)	0.0651 ^a (0.0268)	-0.0152 (0.0456)
Middle	0.1569 ^a (0.0210)	0.1873 ^a (0.0388)	0.1554 ^a (0.0223)	0.1233 ^a (0.0188)	0.1231 ^a (0.0206)	0.1366 ^a (0.0271)	-0.0506 (0.0456)
Matriculation	0.2443 ^a (0.0203)	0.2454 ^a (0.0362)	0.2134 ^a (0.0214)	0.2072 ^a (0.0209)	0.2309 ^a (0.0191)	0.2496 ^a (0.0298)	0.0042 (0.0469)
Intermediate	0.3629 ^a (0.0251)	0.3777 ^a (0.0397)	0.3185 ^a (0.0317)	0.3144 ^a (0.0259)	0.3360 ^a (0.0282)	0.3797 ^a (0.0366)	0.0024 (0.0485)
Professional	0.8238 ^a (0.0599)	0.5169 ^a (0.0697)	0.6147 ^a (0.0772)	0.7161 ^a (0.0748)	0.9008 ^a (0.0814)	1.1369 ^a (0.1413)	0.6199 ^a (0.1424)
University	0.5443 ^a (0.02885)	0.4721 ^a (0.04200)	0.4425 ^a (0.0332)	0.4782 ^a (0.0298)	0.5438 ^a (0.0310)	0.6088 ^a (0.0486)	0.1367 (0.0669)
P/Grad.	0.7598 ^a (0.0364)	0.6261 ^a (0.0535)	0.6514 ^a (0.0362)	0.6746 ^a (0.0411)	0.7195 ^a (0.0412)	0.8121 ^a (0.0623)	0.1859 ^a (0.0757)
Training	0.0510 ^b (0.0290)	0.0111 (0.0335)	0.0245 (0.0285)	0.0252 (0.0244)	0.0281 (0.0275)	0.0787 ^b (0.0397)	0.0675 ^c (0.0503)
Age	0.0392 ^a (0.0045)	0.0507 ^a (0.0092)	0.0425 ^a (0.0051)	0.0346 ^a (0.0047)	0.0402 ^a (0.0044)	0.0318 ^a (0.0052)	-0.0188 ^b (0.0107)
Agesq	-0.0003 ^a (5.86E-05)	-0.0005 ^a (0.0001)	-0.0004 ^a (0.00006)	-0.0003 ^a (0.00006)	-0.0003 ^a (0.00005)	-0.00027 ^a (0.00007)	0.0002 ^b (0.0001)
Nmarr	-0.0633 ^a (0.02114)	-0.0471 ^c (0.0351)	-0.0583 ^a (0.0216)	-0.0421 ^b (0.0220)	-0.0364 ^b (0.0187)	-0.0612 ^b (0.0289)	-0.0140 (0.0441)

Continued—

Table 1—(Continued)

Wnd	-0.0165 (0.0534)	-0.0425 (0.0935)	-0.0109 (0.0780)	0.0163 (0.0503)	-0.0156 (0.0458)	-0.0194 (0.0843)	0.0231 (0.1234)
Gender	0.2838 ^a (0.0259)	0.5024 ^a (0.0622)	0.3644 ^a (0.0321)	0.2128 ^a (0.0281)	0.1596 ^a (0.0294)	0.1470 ^a (0.0275)	-0.3554 ^a (0.0697)
Public	0.3747 ^a (0.0151)	0.5621 ^a (0.0255)	0.4563 ^a (0.0163)	0.3686 ^a (0.0166)	0.2762 ^a (0.0159)	0.1878 ^a (0.0237)	-0.3743 ^a (0.0315)
SOE	0.3339 ^a (0.0301)	0.3508 ^a (0.0585)	0.3529 ^a (0.0382)	0.3520 ^a (0.0292)	0.2914 ^a (0.0307)	0.3037 ^a (0.0600)	-0.0471 (0.0791)
Constant	1.2043 ^a (0.0908)	0.1870 (0.1774)	0.8186 ^a (0.1045)	1.4155 ^a (0.0906)	1.6261 ^a (0.0916)	2.0666 ^a (0.1161)	1.8795 ^b (0.2157)
R ² /Pseudo- R ²	0.5312	0.3202	0.3434	0.3564	0.3783	0.4006	N/a
Sample Size	7352	7352	7352	7352	7352	7352	7352

Notes: (a) ^a, ^b and ^c denote statistical significance at the 1 percent, 5 percent and 10 percent level respectively using two-tailed tests.

(b) Wage equation specifications also include controls for residing in an urban settlement, four provincial controls, eight occupation controls, and four controls capturing the time spent in the district of residence.

(c) Standard errors are in parentheses. The OLS standard errors are based on Huber (1967) and the quantile regression model estimates are based on bootstrapping with 200 replications.

conditional wage distribution are also recorded in this table. In addition, estimates for an inter-quantile regression model based on differences between the 90th and 10th quantiles are reported.

The mean regression estimates suggest a sizeable premium to both graduate and postgraduate qualifications in the Pakistan labour market.²⁰ There is also a modest premium of just over 5 percent associated with having undertaken technical training. Women appear to encounter a significant disadvantage in the labour market. Men, on average and *ceteris paribus*, earn approximately 33 percent more than women in terms of hourly wages. Although the estimated signs on the linear and quadratic terms in age are consistent with human capital theory, the turning-point is implausible. This suggests that, at the average, wages and earnings are better specified as being linearly related.²¹ The estimates for the quantile regression model at the median are broadly in comport with the mean regression results and this could be taken to imply that outliers exert little influence on our mean estimates. The inter-quantile regression coefficients reveal that holding postgraduate qualifications and undertaking training have stronger effects at the top end of the conditional wage distribution than at the bottom end and this might have implications for wage inequality. In contrast to a substantial literature on the ‘glass ceiling’ from developed economies, there is little evidence from the quantile regression estimates that the gender effect increases with movement across the conditional wage distribution. On the contrary, the evidence from Pakistan is that the *ceteris paribus* gender pay gap declines across the wage distribution with the inter-quantile regression estimates suggesting a decline of almost 30 percent between the 90th and 10th percentiles. Thus, women in the higher paid jobs in Pakistan are not as disadvantaged as many of their western counterparts.²²

The pooled regression model provides a framework for computing the public sector pay premium as per expression (1). The average *ceteris paribus* mark-up relative to the private sector is estimated of the order of 45 percent. This premium declines sharply with movement up the conditional wage distribution, a fact consistent with the existing literature on the public sector pay gap in developed economies. In the lowest paid jobs located at the 10th percentile of the conditional wage distribution, the mark-up is

²⁰The average annualised rate of return to a professional qualification, an undergraduate degree, and a postgraduate degree are 9.2 percent, 9.1 percent, and 10.8 percent respectively.

²¹Alternatively, the age measure could be expressed using splines.

²²For example, see Albrecht, Björklund, and Vroman (2003) for the case of Sweden.

computed at 92 percent compared to a more modest 21 percent in the higher paid jobs at the 90th percentile. The inter-quantile regression estimates confirms that these differentials are statistically different from each other at a conventional level of statistical significance. This finding serves to highlight the wage compressing labour market effects of the public sector in Pakistan.²³

Our attention now turns to the results from separate estimation of the public and private sector wage equations and the computation of the ‘mark-ups’ using expressions (2) and (9) for the mean regressions and expressions (8) and (10) for the quantile regressions. Tables A2 to A5 in the Appendix report the sectoral wage equation estimates with and without corrections for selection bias.²⁴ The estimates are not discussed in detail here, though a number of points are worth making about the mean regression estimates. Firstly, the returns to the higher educational qualifications are generally lower in the public compared to the private sector. This is particularly valid for professional qualifications and undergraduate degrees (see Table A6). On average, it would appear that the more highly qualified public sector workers trade-off substantial wage returns for the security and other non-wage benefits associated with the public sector.²⁵ Secondly, and as encountered in the pooled regression model, the use of the quadratic in age in the public sector generates an implausible turning point. This indicates that, in this particular case, the linear effect is considerably more important and suggests that in the public sector pay and age are linked in a very strong linear fashion. Thirdly, the gender pay gap in favour of males is considerably lower in the public sector (16 percent) compared to the private sector (53 percent), and this is true at all selected quantiles of the conditional wage distribution.

Table 2 reports the decomposition of the mean public/private sector pay gap. The estimates are based on models with and without correction for selection. In raw terms the average gap in log hourly

²³The SOE effect is comparable to the public sector effect in the mean regression but exhibits a greater degree of stability across the conditional wage distribution as confirmed by the inter-quantile regression estimate. However, the small sample size merits extreme caution in interpreting the quantile regression estimates.

²⁴There is marginal evidence that selection bias is an issue for our estimates. This may reflect the quality of the instruments used for our empirical analysis. However, there is a dearth of good instruments available in the dataset and this is the best that can be done under the circumstances.

²⁵For instance, the rate of return to a professional qualification is nearly seven percentage points lower in the public sector and over 11 percentage points lower for an undergraduate degree holder than in the private sector.

Table 2
Mean Decomposition of Sectoral Pay Gaps

	Due to Treatment	Due to Endowments	Due to Selection Terms	Total
Public/Private	0.3985 ^a (0.0195)	0.2862 ^a (0.0154)	Not applicable	0.6847
	0.4401 ^a (0.1315)	0.2840 ^a (0.0690)	-0.0394	0.6847
SOE/Private	0.3034 ^a (0.0469)	0.3366 ^a (0.0366)	Not applicable	0.6399
	0.3963 (0.5822)	0.3309 ^a (0.0610)	-0.0873	0.6399
Public/SOE	0.0191 (0.0297)	0.0255 ^b (0.0089)	Not applicable	0.0447
	-0.0276 (0.5378)	0.0245 (0.0333)	0.0479	0.0447

Notes: (a) The first row in each panel relates to decompositions based on wage equations uncorrected for selection using expression (2) in the text. The second row relates decompositions based on wage equations corrected for selection using expression (9) in the text. (b) Standard errors are reported in parentheses though these are not computed for the selection effects. (c) ^a, ^b and ^c denote statistical significance at the 1 percent, 5 percent and 10 percent level respectively using two-tailed tests.

wages between the public and private sector is 0.685.²⁶ In other words, public sector worker earn, on average, almost double the hourly wages of all private sector workers. Over 40 percent of this differential is accounted by differentials in the average basket of characteristics between the two sectors. The ‘treatment’ effect accounts for the remainder and the estimated mark-up and is of the order of 49 percent, which compares favourably with the estimate based on the pooled OLS estimator. The correction for selection widens the ‘treatment’ effect slightly but the picture is not materially altered by the use of this correction procedure. The differentials between the private and SOE sectors and the public and SOE sectors are also reported in this table for completeness. There is no statistical difference between the public and SOE sectors and the SOE mark-up on the private sector is of comparable magnitude to the public sector premium reported above.

²⁶This is in contrast to Nasir (2000) who found little difference in overall wages between the public sector and the formal private sector and negative treatment effects. This work is not directly comparable to our analysis given that we do not distinguish between formal and informal segments of the private sector.

Table 3 reports the decompositions between the public and private sectors based on the quantile regression models.²⁷ The tables respectively report estimates with and without correction for selection bias. The raw differentials are widest at the bottom end of the conditional wage distribution and the differential in wages at the median is close to the mean estimate reported in Table 2. The raw differentials

Table 3
*Decomposition of Sectoral Wage Gaps at Selected Quantiles:
Public/Private*

	Due to Treatment	Due to Endowments	Selection Terms	Residuals	Total
Public/Private _{0=0.10}	0.65026 ^a	0.16274 ^a	Not applicable	0.0831	0.8961
	(0.0504)	(0.0320)			
	0.7044 ^a	0.1603 ^b	-0.0411	0.0724	0.8961
	(0.2245)	(0.0970)			
Public/Private _{0=0.25}	0.5305 ^a	0.2138 ^a	Not applicable	-0.0022	0.742
	(0.0239)	(0.0170)			
	0.72524 ^a	0.13236 ^b	-0.1103	-0.0052	0.742
	(0.1546)	(0.0764)			
Public/Private _{0=0.5}	0.4105 ^a	0.2775 ^a	Not applicable	0.02804	0.6524
	(0.01870)	(0.0781)			
	0.6000 ^a	0.1384	-0.1251	0.039	0.6524
	(0.1253)	(0.1547)			
Public/Private _{0=0.75}	0.2881 ^a	0.3483 ^a	Not applicable	-0.0386	0.5978
	(0.02144)	(0.0187)			
	0.23796 ^b	0.4054 ^a	-0.0052	-0.0404	0.5978
	(0.1032)	(0.0670)			
Public/Private _{0=0.9}	0.1865 ^a	0.2738 ^a	Not applicable	0.1656	0.626
	(0.03255)	(0.1166)			
	0.19434	0.2839 ^b	0.0389	0.1087	0.626
	(0.1668)	(0.1357)			

Notes: (a) The first row in each panel relates to decompositions based on wage equations uncorrected for selection using expression (8) in the text. The second row relates decompositions based on wage equations corrected for selection using expression (10) in the text. (b) Standard errors are reported in parentheses but are not readily computable for the selection of residual terms. (c) ^a, ^b and ^c denote statistical significance at the 1 percent, 5 percent and 10 percent level respectively using two-tailed tests.

generally decline with movement up the selected percentiles. The ‘treatment’ effects are statistically well determined and decline monotonically across the selected quantiles of the conditional wage distribution. In general, they are close in magnitude to those reported for the pooled quantile regression model in Table 1. The portion of the raw differential that is accounted for by differentials in endowments increases with movement up the distribution. However, the residual

²⁷The decompositions based on comparisons between SOE and private sector and SOE and public sector are reported in Tables A6 and A7 of the Appendix.

terms consequent on the quantile decomposition, and flagged in expression (8), are relatively large at the extreme ends of the distribution. The differentials based on correcting for selection bias provide few new insights on either the magnitude or evolution of the public sector premium across the conditional wage distribution and are not the subject of separate discussion here.

Conclusions

Public sector employment accounts for over one-half of waged employment in Pakistan. The empirical analysis undertaken in this study for Pakistan tends to concur with the summary consensus offered by Gregory and Borland (1999) on public sector labour markets in developed countries. As elsewhere, public sector workers in Pakistan tend to have both higher average pay and education levels as compared to their private sector counterparts. In addition, the public sector in Pakistan has a more compressed wage distribution and a smaller gender pay gap than that prevailing in the private sector.

Our empirical analysis suggests that about two-fifths of the raw differential in average wages between the public and private sector is accounted by differentials in average characteristics. The estimated *ceteris paribus* public sector mark-up is of the order of 49 percent and is substantial by the standards of developed economies. The mark-up was found to decline monotonically with movement up the conditional wage distribution. In particular, the premium at the 10th percentile was estimated at 92 percent as compared to a more modest 20 percent at the 90th percentile.

The existence of a sizeable public-private sector differential has obvious implications for the Pakistan labour market and can create 'queues' for public sector jobs given they are comparatively well-paid across a spectrum of low- and high-paid jobs. An obvious agenda for future research would be to investigate the extent to which these differentials influence sectoral attachment and give rise to the phenomenon of 'wait' unemployment.

Finally, employment in the public sector is generally viewed as an attractive option in Pakistan not only because of the wage differentials documented in this study but also as a consequence of the perquisites, such as housing, free telephone provision for civil servants, job security, free medical benefits, etc., associated with employment in this sector. Public sector employment in Pakistan could be interpreted as providing rent-seeking opportunities for some. The tax-payer is not represented at the negotiating table and the state bureaucracy has an incentive to conceal the nature and magnitude of spending on such fringe benefits. The expenditure

on fringe benefits impacts strongly on the national exchequer but also bestows an unfair advantage on the public sector relative to the private sector. This subsidised advantage curtails the potential for the private sector's development, a key ingredient for an economy's transformation and its sustainable long-term economic growth. One issue that warrants consideration for future research in this area would be an investigation into the magnitude of such fringe benefits in Pakistan and their contribution to the more broadly defined public-private sector differential. It would be informative to investigate within this framework the likely cost implications to the national exchequer if fringe benefits were actually replaced by cash payments. It is an empirical question whether such a policy would reduce the overall cost to the exchequer, but it would certainly introduce a greater degree of transparency to public sector spending.

APPENDICES

Technical Appendix

In order to illustrate the computation of vectors for the realisations of explanatory variables conditional on log wage quantile values using the Gardeazabal and Ugidos (2005) method, we use decomposition (8) reported in the text.

- (1) $Q_\theta(w_s)$ and $Q_\theta(w_p)$ are easily computed. For example, the quantile regression of log public (private) sector wages on a constant term yields the relevant log wage at the particular quantile for the public (private) sector.
- (2) The quantile regression procedure outlined above yields estimates for the parameter vectors (β_{θ_s} and β_{θ_p}).
- (3) The computation of the conditional expectation terms $E[X_s | w_s = Q_\theta(w_s)]$ and $E[X_p | w_p = Q_\theta(w_p)]$ involves a bit more work. We need to distinguish between three types of explanatory variables generally used in a wage specification. These are: (i) continuous explanatory variables; (ii) single binary explanatory variables; and (iii) sets of mutually exclusive binary explanatory variables. These three cases are now examined in turn.

(i) *Continuous Explanatory Variables*

In this case we regress the continuous explanatory variable (e.g., age) on the log of the wage using a linear bivariate regression. Assume the following model is estimated by OLS using the sub-sample of private sector workers:

$$Age_i = \alpha_0 + \alpha_1 w_i + u_i$$

In order to compute the age conditional on the log wage at the θ th quantile, we evaluate:

$$\hat{E}[Age_i | w_p = Q_\theta(w_p)] = \hat{\alpha}_0 + \hat{\alpha}_1 Q_\theta(w_p)$$

where the wage value used in the OLS regression is the private sector log wage at the θ th quantile. The conditional mean now gives us the predicted private sector age at the θ th quantile's private sector log wage. A similar exercise can then be undertaken to obtain the conditional expectation using the public sector log wage.

(ii) A Single Binary Variable

In this case, we use a logit model and regress the single binary variable (e.g., gender) on the log of the wage using the sub-sample of private sector workers. Then:

$$\hat{E}[\text{gender}|w_p = Q_\theta(wp)] = F[\hat{\gamma}_0 + \hat{\gamma}_1 Q_\theta](w_p)$$

where F represents the *CDF* for the logistic and $\hat{\gamma}_0$ and $\hat{\gamma}_1$ represent the relevant maximum likelihood logit coefficient estimates. The wage value used in conjunction with these estimates is the private sector log wage at the θ th quantile. A similar exercise can again be undertaken to obtain the conditional expectation using the public sector log wage.

(iii) A Set of Mutually Exclusive Binary Variables

In this case, we use a multinomial logit model and regress the variable with say k outcomes (e.g., occupation coded 1, 2, 3..., k) on the private sector log wage. The multinomial logit coefficients are then used to compute predicted outcomes at the different quantiles of the public (or public) sector log wage. Gardeazabal and Ugidos (2005) suggest the use of a binary regression model for all binary variables. We argue that it is more appropriate to use a multiple outcome model where the outcomes relate to a set of mutually exclusive binary variables.

- (4) The final component of the decomposition can then be computed as a residual given that the remainder of the information is already available through steps 1 to 3 above.

Appendix Table A1

Summary Statistics

Variable	Definition	Public Mean	Private Mean	SOE Mean
Lnhw	Log of the hourly wage	3.203 (0.593)	2.518 (0.709)	3.158 (0.724)
Age	Age of individual in years	37.149 (9.294)	30.233 (11.015)	35.986 (10.548)
Nfe	= 1 No formal education and = 0, otherwise	.1419	.3351	.2298
Prim	=1 if individual has completed initial five years of education i.e., primary but below middle; = 0, otherwise	.1033	.2049	.1264
Middle	=1 if individual has completed initial eight years of education i.e., middle but below matriculation; = 0, otherwise	.08483	.1285	.1206
Matric	=1 if individual has completed initial ten years of education i.e., matriculation but below intermediate; = 0, otherwise	.2251	.1686	.2097
Intermediate	=1 if individual has completed two years for college education i.e., intermediate after matriculation but below university degree; = 0, otherwise	.1619	.0619	.0890
Professional	= 1 if individual has professional degree in engineering, medicine, computer and agriculture; = 0, otherwise	.0350	.0195	.0345
University	= 1 if individual has university degree but below post graduate; = 0, otherwise	.1419	.0573	.1005
Pgrad	= 1 if individual is M.A/M.Sc, M.Phil/Ph.D;= 0, otherwise	.1057	.0238	.0890
Train	= 1 if individual has ever completed any technical/vocational training; = 0, otherwise	.0658	.0433	.0747
Urban	=1 if living in urban area and = 0, otherwise	0.5924	0.6429	0.6609
Punjab	=1 if individual resides in Punjab; = 0, otherwise	.3691	.5319	.3275
Sindh	= 1 if individual resides in Sindh; = 0, otherwise	.2698	0.2766	0.3563
NWFP	= 1 if individual resides in NEFP; = 0, otherwise	.1812	.11829	.1321
Balochistan	= 1 if individual resides in Balochistan;= 0, otherwise	.1798	.0731	.1839

Continued—

Appendix Table A1—(Continued)

Since Birth	= 1 if individual has resided in the district since birth; = 0, otherwise	.8277	.7861	.7672
One Year	= 1 if individual has resided in the district for one year and = 0, otherwise	.0085	.0184	.0143
Four Year	= 1 if individual has resided in the district for four years and = 0, otherwise	.0202	.0437	.0402
Nine Year	= 1 if individual has resided in the district for nine years and = 0, otherwise	.03081	.0433	.0402
Above Ten	= 1 if individual has resided in the district for district more then ten years or = 0, otherwise	.1126	.10828	.1379
Gender	= 1 if individual is male;= 0, otherwise	.8809	.90633	.9741
Marr	= 1 if individual is married; = 0, otherwise	.8558	.5544	.7701
Nmarr	= 1 if individual is unmarried;= 0, otherwise	.1323	.4274	.2241
Wnd	= 1 individual is widowed or divorced; = 0, otherwise	.01178	.01813	.00574
Head	= 1 If individual is head of the household; = 0, otherwise	.661027	.4187	.6695
Manager	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.05649	.04412	.10919
Professionals	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.0972	.0401	.0574
Technician	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.29244	.08743	.14367
Clerk	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.14410	.0389	.0891
Services	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.1259	.2005	.0603
Skilled	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.01117	.00487	.01436
Craft	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.04078	.2311	.1637
Plant	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.03897	.15078	.1637
Elementary	= 1 if individual is in this one-digit occupation group; = 0, otherwise	.19274	.2019	.19827
Sample Size		3310	3694	348

Notes: The average values for the continuous measures and the sample proportion for the discrete measures are reported. The standard deviations are also reported for the continuous variables.

Table A2

Quantile Regression Model Estimates for Public Sector, Pakistan 2001-02

Variable	Uncorrected for Selectivity Bias					Corrected for Selectivity Bias				
	10th Percentile	25th Percentile	50th Percentile	75th Percentile	90th Percentile	10th Percentile	25th Percentile	50th Percentile	75th Percentile	90th Percentile
Prim	0.0636 (0.0563)	0.0852 ^a (0.0291)	0.0879 ^a (0.0259)	0.0564 ^b (0.0261)	0.0543 ^c (0.0417)	0.0632 (0.0605)	0.0516 ^c (0.0384)	0.0681 ^b (0.0310)	0.0740 ^a (0.0305)	0.04144 (0.0458)
Middle	0.1353 ^a (0.0546)	0.12026 ^b (0.0348)	0.0972 ^a (0.0274)	0.0854 ^a (0.0273)	0.0569 ^b (0.0345)	0.1357 ^b (0.0688)	0.0749 ^c (0.0543)	0.0671 ^b (0.03995)	0.1200 ^a (0.0414)	0.0297 (0.0529)
Matric	0.2239 ^a (0.0463)	0.2238 ^a (0.0274)	0.2072 ^a (0.0283)	0.1875 ^a (0.0305)	0.19179 ^a (0.0333)	0.2246 ^a (0.0822)	0.1653 ^a (0.0583)	0.1598 ^a (0.0494)	0.2238 ^a (0.0511)	0.1541 ^a (0.0622)
Intermediate	0.3688 ^a (0.0479)	0.3116 ^a (0.0289)	0.2836 ^a (0.0317)	0.2968 ^a (0.0336)	0.28627 (0.0463)	0.3671 ^a (0.0932)	0.2410 ^a (0.0689)	0.2263 ^a (0.0629)	0.3351 ^a (0.0607)	0.2432 ^a (0.0768)
Professional	0.4681 ^a (0.0789)	0.5051 ^a (0.074)	0.5662 ^a (0.0840)	0.8586 ^a (0.0993)	0.8878 ^a (0.1600)	0.4657 ^a (0.1039)	0.4485 ^a (0.0925)	0.5155 ^a (0.0927)	0.8779 ^a (0.1111)	0.8662 ^a (0.1690)
University	0.4318 ^a (0.0548)	0.3981 ^a (0.0357)	0.4099 ^a (0.0354)	0.4436 ^a (0.0389)	0.4518 ^a (0.0492)	0.4300 ^a (0.0986)	0.3246 ^a (0.0718)	0.3514 ^a (0.0613)	0.4854 ^a (0.0632)	0.4104 ^b (0.0725)
Pgrad	0.5637 ^a (0.0681)	0.5845 ^a (0.0412)	0.6169 ^a (0.0431)	0.6482 ^a (0.0529)	0.6830 ^a (0.0641)	0.5624 ^a (0.1163)	0.5138 ^a (0.0805)	0.5481 ^a (0.0711)	0.6908 ^a (0.0766)	0.6407 ^a (0.0915)
Train	0.02456 (0.0327)	-0.0065 (0.0419)	0.04719 ^c (0.0366)	0.0487 (0.0423)	0.02842 (0.0512)	0.0247 (0.0341)	-0.0011 (0.0423)	0.0384 (0.0376)	0.0578 ^c (0.0418)	0.0246 (0.0499)
Age	0.03874 ^a (0.0144)	0.0248 ^a (0.0078)	0.0129 ^b (0.0065)	0.0118 (0.0068)	0.01788 ^b (0.0088)	0.0385 ^b (0.0215)	0.0155 (0.0128)	0.0050 (0.0099)	0.0181b (0.0099)	0.0127 (0.0148)
Agesq	-0.0003 ^b (0.00018)	-0.0001 ^b (0.00010)	-0.00002 (0.00008)	-7.84E-1 (0.00009)	-0.00008 (0.00011)	-0.0004 ^c (0.00025)	-.00008 (0.00015)	0.00006 (0.0001)	-0.00007 (0.0001)	-0.00003 (0.0001)

Continued—

Table A2—(Continued)

Nmarr	-0.0422 (0.0364)	-0.0393 (0.0354)	-0.04002 ^c (0.0271)	-0.0270 (0.0297)	0.0103 (0.0432)	-0.0403 (0.0518)	-0.00009 (0.0401)	-0.02316 (0.0342)	-0.0464 (0.0386)	0.0419 (0.0530)
Wnd	0.02492 (0.1944)	0.10748 (0.1072)	0.1108 ^a (0.0449)	-0.0057 (0.0474)	0.0904 (0.1292)	0.0275 (0.1997)	0.1284 (0.1098)	0.1370 ^a (0.0472)	-0.0275 (0.0499)	0.1200 (0.1317)
Gender	0.30944 ^a (0.0756)	0.1305 ^a (0.0384)	0.0682 ^a (0.0288)	0.06103 ^b (0.0267)	0.1309 ^a (0.03847)	0.3115 ^a (0.0791)	0.1375 ^a (0.0381)	0.0785 ^a (0.0299)	0.0499 ^b (0.0284)	0.1419 ^a (0.0418)
Constant	1.2261 ^a (0.2724)	1.9037 ^a (0.1588)	2.3505 ^a (0.1348)	2.58730 (0.1265)	2.5756 ^a (0.18616)	1.2317 ^c (0.5137)	2.1986 ^a (0.3436)	2.5924 ^a (0.2677)	2.3939 ^a (0.2504)	2.7420 ^a (0.3880)
Selection Term	<i>f</i>	<i>f</i>	<i>f</i>	<i>f</i>	<i>f</i>	-0.0034 (0.1614)	-0.1092 (0.1022)	-0.08510 (0.0877)	0.0717 (0.0862)	-0.0723 (0.1220)
R ² / PseudoR ²	0.2160	0.2495	0.3034	0.3691	0.4142	0.2630	0.2498	0.3036	0.4142	0.4142
Sample Size	3310	3310	3310	3310	3310	3310	3310	3310	3310	3310

Notes: See notes to Table 1; *f* denotes not applicable in estimation.

Table A3

Quantile Regression Model Estimates for Private Sector, Pakistan 2001-02

Variable	Uncorrected for Selectivity Bias					Corrected for Selectivity Bias				
	10th Percentile	25th Percentile	50th Percentile	75th Percentile	90th Percentile	10th Percentile	25th Percentile	50th Percentile	75th Percentile	90th Percentile
Prim	0.0719 (0.0570)	0.1032 ^a (0.0307)	0.0636 ^a (0.0261)	0.0804 ^a (0.0244)	0.0998 ^a (0.0358)	0.0555 (0.0543)	0.0889 ^a (0.0336)	0.0427 ^b (0.0241)	0.0757 ^a (0.0281)	0.1100 ^a (0.0361)
Middle	0.1993 ^a (0.0516)	0.1765 ^a (0.0331)	0.1176 ^a (0.0275)	0.1455 ^a (0.0348)	0.2074 ^a (0.0528)	0.1693 ^a (0.0647)	0.1526 ^a (0.0447)	0.0937 ^a (0.0306)	0.1369 ^a (0.0364)	0.2248 ^a (0.0529)
Matric	0.2183 ^a (0.0542)	0.1632 ^a (0.0346)	0.1790 ^a (0.0370)	0.2160 ^a (0.0257)	0.2611 ^a (0.0424)	0.1814 ^a (0.0693)	0.1385 ^a (0.0523)	0.1433 ^a (0.0430)	0.1982 ^a (0.0373)	0.3037 ^a (0.0612)
Intermediate	0.3843 ^a (0.065)	0.3058 ^a (0.0476)	0.3145 ^a (0.0483)	0.31143 ^a (0.0599)	0.4187 ^a (0.0701)	0.3364 ^a (0.0920)	0.2787 ^a (0.0643)	0.2564 ^a (0.0554)	0.2865 ^a (0.0716)	0.4557 ^a (0.0878)
Professional	0.7413 ^a (0.1515)	0.8594 ^a (0.1424)	1.1016 ^a (0.1272)	1.0775 ^a (0.1225)	1.4365 ^a (0.2126)	0.6951 ^a (0.1729)	0.7588 ^a (0.1657)	1.0369 ^a (0.1402)	1.0730 ^a (0.1224)	1.4981 ^a (0.2133)
University	0.6175 ^a (0.1136)	0.6364 ^a (0.0744)	0.6939 ^a (0.0592)	0.7365 ^a (0.0693)	0.8728 ^a (0.1077)	0.5765 ^a (0.1149)	0.5967 ^a (0.0750)	0.6059 ^a (0.0646)	0.7112 ^a (0.0732)	0.9272 ^a (0.1078)
Pgrad	0.8514 ^a (0.1233)	1.0437 ^a (0.1451)	1.0566 ^a (0.0840)	1.0031 ^a (0.1058)	1.2283 ^a (0.1829)	0.7915 ^a (0.1793)	0.9697 ^a (0.1639)	0.9511 ^a (0.1044)	0.9846 ^a (0.1153)	1.2902 ^a (0.2024)
Train	0.0316 (0.0768)	-0.0093 (0.0407)	-0.0543 (0.0428)	0.0068 (0.06145)	0.2035 ^a (0.0996)	0.0121 (0.0774)	-0.0126 (0.0439)	-0.0457 (0.0404)	0.0011 (0.0600)	0.1761 ^b (0.1035)
Age	0.0452 ^a (0.0117)	0.05000 ^a (0.0072)	0.0467 ^a (0.0062)	0.0476 ^a (0.0056)	0.0410 ^a (0.0105)	0.0403 ^a (0.0127)	0.0459 ^a (0.0101)	0.0422 ^a (0.0073)	0.0431 ^a (0.0070)	0.0431 ^a (0.0107)

Continued—

Table A3—(Continued)

Agesq	-0.0004 ^a (0.0001)	-0.0006 ^a (0.00009)	-0.0005 ^a (0.00008)	-0.0005 ^a (0.00007)	-0.0004 ^a (0.00014)	-0.0004 ^a (0.0001)	-0.0005 ^a (0.0001)	-0.0004 ^a (0.00009)	-0.0004 ^a (0.00009)	-0.0004 ^a (0.0001)
Nmarr	-0.0168 (0.0598)	-0.0404 (0.0344)	-0.0242 (0.0289)	-0.0249 (0.0285)	-0.0992 ^b (0.05032)	-0.0046 (0.0643)	-0.0269 (0.0347)	0.0097 (0.0299)	-0.0179 (0.0275)	-0.1314 ^a (0.0539)
Wnd	-0.0060 (0.1199)	-0.02608 (0.0728)	0.0048 (0.0882)	-0.0963 (0.0871)	-0.0836 (0.1745)	0.0203 (0.1251)	-0.0288 (0.0915)	0.0411 (0.0793)	-0.0820 (0.0893)	-0.1183 (0.1956)
Gender	0.6251 ^a (0.0862)	0.5521 ^a (0.0558)	0.4371 ^a (0.0481)	0.32504 ^a (0.0439)	0.24911 ^a (0.0659)	0.6214 ^a (0.0816)	0.5318 ^a (0.0620)	0.4238 ^a (0.0437)	0.3164 ^a (0.0457)	0.2610 ^a (0.0576)
Constant	0.2459 (0.2393)	0.6076 ^a (0.1544)	1.1228 ^a (0.1313)	1.4093 ^a (0.1194)	2.0070 ^a (0.2271)	0.2763 (0.2256)	0.6577 ^a (0.1541)	1.1278 ^a (0.1363)	1.4375 ^a (0.1313)	2.0106 ^a (0.2080)
Selection Term	<i>f</i>	<i>f</i>	<i>f</i>	<i>f</i>	<i>f</i>	0.0983 (0.1382)	0.0789 (0.0889)	0.1326 ^b (0.0699)	0.0753 (0.0718)	-0.1059 (0.1138)
R ² / PseudoR ²	0.2130	0.2166	0.2288	0.2775	0.3286	0.2132	0.2168	0.2294	0.2777	0.3288
Sample Size	3694	3694	3694	3694	3694	3694	3694	3694	3694	3694

Notes: See notes to Table 1; *f* denotes not applicable in estimation.

Table A4

*Quantile Regression Model Estimates for SOE(State-owned
Enterprises) Sector, Pakistan 2001-02*

Variable	Uncorrected for Selectivity Bias					Corrected for Selectivity Bias				
	10th Percentile	25th Percentile	50th Percentile	75th Percentile	90th Percentile	10th Percentile	25th Percentile	50th Percentile	75th Percentile	90th Percentile
Primary	-0.1276 (0.2024)	0.0070 (0.1477)	0.0338 (0.0999)	0.1234 (0.1071)	0.0223 (0.1972)	-0.08512 (0.2565)	0.0307 (0.1557)	0.0297 (0.1110)	0.1238 (0.1161)	0.0656 (0.2280)
Middle	0.1264 (0.1697)	0.1929 ^b (0.1101)	0.0560 (0.0816)	0.1485 ^c (0.1157)	-0.0067 (0.1435)	0.0968 (0.1893)	0.2292 ^b (0.1163)	0.0580 (0.1019)	0.1677 (0.1368)	0.0680 (0.1547)
Matric	0.1959 (0.1849)	0.3516 ^a (0.1229)	0.1843 ^a (0.0756)	0.1808 ^c (0.1009)	0.1268 (0.1398)	0.1463 (0.1964)	0.4229 ^a (0.1361)	0.1876 ^b (0.0962)	0.1839 ^c (0.1186)	0.2415 ^c (0.1591)
Intermediate	0.0093 (0.2080)	0.1855 (0.1795)	0.3404 ^b (0.1684)	0.3906 ^a (0.1492)	0.2793 ^c (0.2177)	0.0393 (0.1792)	0.2257 ^c (0.1606)	0.3367 ^b (0.1957)	0.3830 ^a (0.1462)	0.4321 ^b (0.2401)
Professional	0.2972 (0.2962)	0.6066 ^a (0.2566)	0.3967 ^b (0.2103)	0.4252 ^c (0.3501)	0.4292 (0.6797)	0.3351 (0.2864)	0.5800 ^a (0.2482)	0.4003 ^b (0.1958)	0.4330 (0.3551)	0.6265 (0.6916)
University	0.0345 (0.2739)	0.4378 ^a (0.1753)	0.4455 ^a (0.1851)	0.5852 ^a (0.2026)	0.5719 ^b (0.2573)	0.2517 (0.2788)	0.4706 ^a (0.1651)	0.4567 ^a (0.1894)	0.5774 ^a (0.2222)	0.6880 ^a (0.2773)
P/Grad	0.3502 ^c (0.2731)	0.6316 ^a (0.1885)	0.6637 ^a (0.1586)	0.6376 ^a (0.1826)	0.5909 ^a (0.2495)	0.3873 (0.3105)	0.6921 ^a (0.5055)	0.6626 ^a (0.1562)	0.6475 ^a (0.2122)	0.7322 ^a (0.2829)
Training	-0.0689 (0.3120)	0.0336 (0.1792)	-0.0035 (0.1368)	0.0718 (0.1799)	0.1109 (0.2316)	-0.2011 (0.3175)	0.0003 (0.1586)	0.0046 (0.1523)	0.0902 (0.1893)	0.1108 (0.2433)
Age	0.1017 ^a (0.0385)	0.0401 ^b (0.0219)	0.0477 ^a (0.0199)	0.0516 ^b (0.0231)	0.0365 (0.0382)	0.0748 ^c (0.0472)	0.0457 ^b (0.0252)	0.0474 ^b (0.0214)	0.0537 ^b (0.0243)	0.05159 (0.0426)

Continued—

Table A4—(Continued)

Agesq	—	-0.0003	—	—	-0.0003	-0.0008 ^c	-0.0003	—	—	-0.0005
	0.0012 ^a	(0.0002)	0.0004 ^b	0.0005 ^c	(0.0005)	(0.0006)	(0.0003)	0.0004 ^c	0.0005 ^b	(0.0005)
	(0.0005)		(0.0002)	(0.0003)				(0.0002)	(0.0003)	
Nmarr	-0.1551	-0.1761	-0.0709	-0.1041	-0.1624	-0.1742	-0.1605	-0.0700	-0.0966	-0.1355
	(0.1722)	(0.1177)	(0.0889)	(0.1026)	(0.1680)	(0.1911)	(0.1431)	(0.1135)	(0.1180)	(0.1843)
Wnd	0.3026	0.1897	-0.2916	0.0144	-0.0248	0.4042	0.2328	-0.3001	-0.0189	-0.1077
	(0.5914)	(0.4177)	(0.3105)	(0.2942)	(0.3168)	(0.5958)	(0.4088)	(0.3155)	(0.2823)	(0.3234)
Gender	0.2509	0.4950 ^b	0.2781 ^c	0.4163 ^a	0.7361 ^b	0.1853	0.6338 ^b	0.2963	0.4632 ^b	0.8258
	(0.3322)	(0.2757)	(0.1895)	(0.1703)	(0.2582)	(0.4833)	(0.3548)	(0.2605)	(0.2448)	(0.3546)
Constant	0.2577	0.9368 ^b	1.1735 ^a	1.3720 ^b	1.6358 ^b	1.4758	0.0642	1.0891	1.0678	0.5074
	(0.8258)	(0.4705)	(0.3992)	(0.4960)	(0.8238)	(2.3333)	(1.4558)	(1.1111)	(1.2563)	(1.562)
Selection Term	<i>f</i>	<i>f</i>	<i>f</i>	<i>f</i>	<i>f</i>	—	0.2746	0.0306	0.08664	0.2485
						0.3270	(0.3992)	(0.2972)	(0.3377)	(0.3961)
						(0.6406)				
R ² / PseudoR ²	0.3103	0.3587	0.4365	0.4128	0.4354	0.3112	0.3595	0.4129	0.4366	0.4368
Sample Size	348	348	348	348	348	348	348	348	348	348

Notes: See notes to Table 1; *f* denotes not applicable in estimation.

Table A5

OLS Estimates for Public, Private, and SOE Sectors, Pakistan 2001-02

Variable	Without Correction for Selectivity Bias			With Correction for Selectivity Bias		
	Public	Private	SOE	Public	Private	SOE
Prim	0.06145 ^b (0.0292)	0.0946 ^a (0.0250)	0.01117 (0.1141)	0.0607 ^b (0.0351)	0.0849 ^a (0.0268)	0.0107 (0.1132)
Middle	0.0906 ^a (0.0276)	0.1829 ^a (0.0296)	0.04624 (0.0881)	0.0895 ^b (0.0414)	0.1676 ^a (0.0339)	0.0416 (0.0939)
Matric	0.21640 ^a (0.0268)	0.2142 ^a (0.029)	0.1738 ^b (0.0914)	0.2149 ^a (0.0523)	0.1911 ^a (0.0385)	0.1688 ^b (0.0972)
Inter	0.32102 ^a (0.0323)	0.3614 ^a (0.0411)	0.2404 ^c (0.1363)	0.3191 ^a (0.0631)	0.3295 ^a (0.0525)	0.2384 ^b (0.1373)
Profe.	0.68430 ^a (0.0769)	1.0585 ^a (0.1031)	0.5095 ^b (0.2192)	0.6827 ^a (0.0917)	1.0319 ^a (0.107)	0.5034 ^b (0.2209)
University	0.44876 ^a (0.0352)	0.7135 ^a (0.0506)	0.4578 ^b (0.1758)	0.4470 ^a (0.0637)	0.6815 ^a (0.0604)	0.454 ^a (0.1769)
Pgrad	0.64456 ^a (0.0434)	1.0709 ^a (0.0819)	0.5756 ^a (0.1515)	0.6425 ^a (0.0764)	1.0204 ^a (0.097)	0.5701 ^a (0.1559)
Train	0.04767 ^c (0.03715)	0.0233 (0.0478)	0.0213 (0.1575)	0.0475 (0.038)	0.0184 (0.047)	0.0194 (0.1647)
Age	0.02016 ^a (0.0065)	0.0445 ^a (0.0062)	0.0410 ^b (0.0217)	0.0198 ^b (0.0107)	0.0414 ^a (0.007)	0.0403 ^b (0.0229)
Agesq	-0.00012 ^c (0.00008)	-0.0004 ^a (0.00008)	-0.00034 (0.0002)	-0.0001 (0.0001)	-0.0004 ^a (0.00008)	-0.0003 (0.00030)
Nmarr	-0.0509 ^c (0.0293)	-0.0543 ^b (0.0303)	-0.1789 ^b (0.0974)	-0.0571 ^c (0.0364)	-0.0424 ^c (0.0323)	-0.1816 ^b (0.1076)
Wnd	0.08029 ^c (0.0615)	-0.0325 (0.0744)	0.04133 (0.2745)	0.0809 (0.0652)	-0.0163 (0.0756)	0.0484 (0.2927)
Gender	0.14957 ^a (0.0293)	0.42797 ^a (0.0431)	0.3535 ^a (0.1341)	0.1498 ^a (0.0304)	0.4240 ^a (0.0433)	0.3404 ^b (0.1953)
Constant	2.10676 ^a (0.1299)	1.0927 ^a (0.1329)	1.4248 ^a (0.41070)	2.1151 ^a (0.2846)	1.1028 ^a (0.1337)	1.5129 ^c (1.0240)
Selection Term	<i>f</i>	<i>f</i>	<i>f</i>	-0.0030 (0.0941)	0.0683 (0.0664)	-0.0252 (0.2696)
R-squared	0.4609	0.3948	0.5465	0.4609	0.3949	0.5465
Sample Size	3310	3948	348	3310	3948	348

Notes: See notes to Table 1; *f* denotes not applicable in estimation.

Table A6

Rates of Return to Educational Qualifications in Pakistan

	Public Sector	Private Sector	Differential
Primary	0.0121 ^a (0.0070)	0.0170 ^a (0.0054)	-0.0049 (0.0088)
Middle	0.0100 (0.0112)	0.0275 ^a (0.0104)	-0.0175 (0.0153)
Matriculation	0.0627 ^a (0.0261)	0.0118 (0.0172)	0.0509 (0.0312)
Intermediate	0.0521 ^a (0.0129)	0.0693 ^a (0.0210)	-0.0172 (0.0246)
Professional	0.0723 ^a (0.0143)	0.1405 ^a (0.0208)	-0.0682 ^a (0.0252)
Undergraduate	0.0639 ^a (0.0138)	0.1760 ^a (0.0267)	-0.1121 ^a (0.0300)
Postgraduate	0.0977 ^a (0.0194)	0.1694 ^a (0.0429)	-0.0717 (0.0471)

Notes: (a) The rates of return are computed using the estimates from the mean regression corrected for selectivity bias.

(b) Standard errors are reported in parentheses.

(c) ^a, ^b, ^c denote statistical significance at the 1 percent, 5 percent and 10 percent level respectively using two-tailed tests.

(d) In computing the rates of return we assumed primary=5 years; middle=3 years; matriculation=2 years; intermediate=2 years; professional=5; undergraduate=2 years; and postgraduate = 2 years.

Table A7

*Decomposition of Sectoral Wage Gaps at Selected Quantiles:**SOE/Private*

	Due to Treatment	Due to Endowments	Selection Terms	Residuals	Total
SOE/Private _{0=0.10}	0.3398 ^a (0.0415)	0.2298 ^a (0.0256)	Not applicable	0.0366	0.6063
	1.1358 (1.3547)	0.1392 (0.1878)	-0.7028	0.0342	0.6063
SOE/Private _{0=0.25}	0.2999 ^a (0.0691)	-0.3785 (0.3374)	Not applicable	0.6189	0.5404
	-0.2699 (0.9420)	-0.3964 (0.3311)	0.5125	0.6942	0.5404
SOE/Private _{0=0.5}	0.2892 ^a (0.0496)	0.8486 ^a (0.3514)	Not applicable	-0.5487	0.5891
	0.2936 (0.6256)	0.8501 (0.3684)	-0.0123	-0.5223	0.5891
SOE/Private _{0=0.75}	0.2586 ^a (0.0526)	-0.3559 (0.3465)	Not applicable	0.8129	0.7157
	0.11949 (0.7122)	-0.3774 (0.3569)	0.1214	0.8522	0.7157
SOE/Private _{0=0.9}	0.1735 ^b (0.0999)	0.61006 ^a (0.1224)	Not applicable	-0.0081	0.7755
	-0.4252 (0.7774)	0.6576 ^a (0.1249)	0.54378	-0.0005	0.7755

Notes: See notes to Table 3.

Table A8
*Decomposition of Sectoral Wage Gaps at Selected Quantiles:
 Public/SOE*

	Due to Treatment	Due to Endowments	Selection Terms	Residuals	Total
Public/SOE _{$\theta=0.10$}	0.2393 ^a (0.0665)	0.0040 (0.0288)	Not applicable	0.04649	0.2898
	-0.4124 (1.2983)	0.0022 (0.0784)	0.6615	0.0386	0.2898
Public/SOE _{$\theta=0.25$}	0.37846 (0.3814)	0.4443 ^a (0.1234)	Not applicable	-0.6212	0.2016
	1.2687 (1.0287)	0.2552 (0.2367)	-0.6229	-0.6995	0.2016
Public/SOE _{$\theta=0.5$}	-0.5377 ^c (0.36708)	0.08799 ^b (0.0383)	Not applicable	0.5130	0.0633
	-0.4979 (0.6301)	0.0926 ^a (0.0380)	-0.1129	0.5815	0.0633
Public/SOE _{$\theta=0.75$}	0.4922 (0.40920)	0.2415 ^a (0.1054)	Not applicable	-0.8516	-0.1179
	0.5405 (0.8832)	0.3607 ^b (0.1739)	-0.1267	-0.8925	-0.1179
Public/SOE _{$\theta=0.9$}	-0.1559 ^c (0.1204)	-0.1673 ^c (0.1182)	Not applicable	0.4727	-0.1495
	0.3653 (0.7586)	-0.1193 (0.1732)	-0.5048	-0.4083	-0.1495

Notes: See notes to Table 3.

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REFORMING THE CIVIL SERVANTS' PENSION SYSTEM

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The need to urgently reform the current system of pensions for government employees is now widely accepted among policymakers in Islamabad. Hence, not only has the government initiated an exercise to determine the actuarial value of current employees' pension liabilities, but also to revise a structure that would apply to new entrants.

The existing pension system covers close to 3.5 million government employees, of which 0.6 million are in the armed forces (because of their shorter working lives, their pension payments account for more than 45 percent of total pension expenditure). This represents a mere 2 percent of the population and under 10 percent of the labour force.

Civil servants receive what is called a defined benefit. After 25 years of service, they are paid a certain amount per month, which is linked to the salary they drew at the time of retirement and the number of years they were in service. This amount is then revised periodically to adjust for inflation. Under the pension entitlement rules, civil servants can 'commute' 80 percent of their pension in lump sum at the time of retirement. This is a generous benefit, since the amount is paid as a commuted pension and not discounted to adjust for the interest cost borne by the government for paying in advance an amount that the retiree would have received as a monthly pension over several years in the future. This provision is, in fact, even more liberal, since the amount commuted can be restored, after 15 years of having availed the commutation, into the pension receivable per month, as if no amount was ever paid as commutation to the retired employee. Family pension is also payable to a civil servant's spouse or dependent children on his or her death, although at a reduced rate.

On retirement, civil servants are also paid a gratuity equal to 40 times their last drawn salary. Under the current pension system, civil servants are not required to contribute to their eventual pension or gratuity benefit—this cost is borne entirely by the government. Nor has the government built up any kind of fund that could be invested in income generating assets and from which it could then settle its pension obligations or the gratuity it pays to its employees in an orderly manner. Instead, the government settles its liability for gratuity payable

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to employees and annual pension payments from the revenues generated each year—not the most reliable or prudent manner of discharging its liabilities.

Civil servants are also entitled to a provident fund to which only they contribute, but on which they have historically been paid an interest rate that was substantially higher than what the government paid to public investments in instruments such as defence savings certificates. It is instructive to note that even employees' contributions to their provident fund, which the government holds essentially in the capacity of a trustee, are not set aside and invested in a separate fund but used to finance annual government expenditures and paid to retiring employees from the revenues for the year.

In many countries, the system pension prevailing in Pakistan, generally referred to as the Pay as You Go (PAYG) system is in serious trouble. Even in countries such as Germany, France, and Japan, the net present value of social security benefits not set aside in the form of specific funds to discharge such liabilities was more than 100 percent of the national incomes of each of these countries. This accounts for the reforms being proposed in most countries to shift from the PAYG system to a fully or partially funded system based on contributions from both a government and its employees.

In Pakistan's case, the annual burden of pension payments alone has ballooned, having touched the PRs 55 billion-mark, and threatening to become unmanageable as large cohorts of civil servants retire, largely owing to the expected 'bunching' of retirees recruited first in the 1970s and then in the latter half of the 1980s and early 1990s, during periods of civilian rule. It is also interesting to note that, in the armed forces, there are now more pensioners than active personnel. Moreover, as average life expectancy rises, government functionaries as a group will live even longer than the rest of the population. This will push the future pension payment bill even further up. The burden of pension payments is particularly worrisome for provincial governments who have a large workforce on their payrolls and scarce resources from which to finance them.

Therefore, the proposed new system of a contributory pension scheme to which both the government and its employees will contribute equally to the retirement of the latter is a move in the right direction. This measure will become mandatory for new employees and voluntary for existing ones. Under this system, employees will have individual pension fund/retirement accounts, rather like the current individual provident fund account. The details of (i) what will constitute 'allowed' withdrawals from such accounts, (ii) what will have to be retained to

allow individuals to buy annuities or arrange for a specific monthly stream from insurance companies (since if full withdrawal were to be permissible, it would defeat the purpose of the new pension system), and (iii) the tax incentives that would be offered to encourage savings into retirement schemes will have to be worked to provide incentives to civil servants to make this shift. Nonetheless, this fiscal incentive is not likely to attract those civil servants who do not earn enough to be liable for income tax.

However, the natural rate of attrition/retirement being under 3 percent, it will take almost 40 years before any change in the scheme today will apply to all civil servants, even if younger existing civil servants are persuaded to switch to the new scheme in which they will also be contributors, and if the provision relating to restoration of commuted pension is withdrawn. In other words, a slow rate of transition into any new scheme will not ease the pressure on the budget of pension payments. Thus, the immediate future does not look propitious and perhaps the only pragmatic way open to the Government to discharge its obligations pertaining to retiring civil servants' commutable pensions is the option of tradable interest-bearing bonds.

DECENTRALISE, PROFESSIONALISE, AND AUTONOMISE

NADEEM UL HAQUE

For years now, we have despaired of the manner in which our economy and state is managed. The state does not provide people with any tangible benefits; it cannot even guarantee their lives and liberties. The infrastructure, both physical and social, is crumbling. Rent-seeking and corruption—by-products of a crumbling state—have served to destroy the economy while the public pays for these wasteful activities through an increasing burden of taxation and accelerating rate of inflation.

A careful analysis will reveal that many of our problems are caused by three features of our chosen form of government:

(i) The government has absolute power. All forms of executive, legislative, and financial power are concentrated in the hands of the prime minister, while all other government functionaries pale in comparison. Meanwhile, the citizenry is beholden to all manner of minor government functionaries.

(ii) This concentrated form of government seems to grow at a rapid pace through borrowing, implicit taxation, and privatisation. These resources are the basis of government buying-off power, fostering rent-seeking and corruption.

(iii) As a result of this growing centralisation of government, all state functionaries are above any form of accountability. The lack of accountability has numbed the public to printed stories of corruption, maladministration, and nepotism.

After a tumultuous and costly decade of political turmoil, a consensus on the need for reform has finally emerged. However, there is little understanding of precisely what reform is necessary. It seems that we now face a crisis of lack of understanding of the process of reform. This section briefly considers the lessons that can be drawn for reform through a serious study of reform and its history. Any serious reform effort in Pakistan should begin with three principles: to (i) decentralise, (ii) professionalise, and (iii) autonomise.

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Decentralisation

This involves reducing the powers of the federal and provincial government, and allowing communities, towns, cities, and local governments to take over many of the functions that are important to the community. Thus, police, schooling, health, parks, and recreation could all be devolved to the local government. Two important outcomes of this should be noted:

- The federal government's power has to be reduced and duplication avoided. Decision-making, as well as the utilisation of funds, should devolve to the level required for the delivery of maximum benefit to the community.
- Both the federal government and the local and provincial government should be competing for resources, especially the scarcest of resources—human and managerial. Consequently, the current civil service arrangement based on a centralised Public Service Commission with an established hierarchy of service—the federal service at the apex and the local at the lowest level—would be inimical to the spirit of decentralisation.

Professionalisation

Pakistan's key Ministries and institutions are managed according to an approach that was established in the last century. Even the British, who designed the system, no longer use it. This system selects competent generalists early in life, offers them little additional training or incentive to professionalise, and guarantees them key positions. Nowadays, in more advanced countries, there is a trend towards professional management in a highly competitive environment in both private and public management. Increasingly, governments are placing performance-based institutions on the basis of clearly written performance-based contracts in the hands of the finest professionals. Pakistan's system of a core civil service that has the protected right to all senior appointments regardless of professional capability is certainly not consistent with this. We have also seen the adverse effects of such a system and hence should be more than ready to reform along the lines of professionalisation.

Autonomising

Another modern trend in all industrial countries is that of autonomous institutions. Apart from line ministries, most institutions, such as universities, research institutions, school systems, and regulatory bodies, tend to be autonomous agencies. At times,

governments can make key appointments, such as heads of agencies. Quite often, even these appointments are in the hands of independent boards of directors. For example, the government may be able to nominate a governor of a central bank, but in most cases, it cannot appoint a university president. Even where the government can appoint an agency head, tenure rules will prevent a capricious firing but hold the agency head to clearly defined output goals.

Hiring and wage and incentive structures within these institutions are not centrally controlled and subjected to national uniformity standards, but remain an instrument of internal management control.

Reform is a lengthy and difficult process and the government is doing well to study it. However, it would also be wise to heed advice that flows from a study of reform around the world. The beginning of all serious reform efforts will have to be in the way we run our administration. The beginning in that area is to 'decentralise, professionalise, and autonomise'.

To look at the salutary effects of this prescription, we have only to see the impact of autonomising two key institutions in our economy: the State Bank and the judiciary. The increased autonomy to these has changed the political landscape in Pakistan. The result that we have all seen is that the executive has now been curbed somewhat in the exercise of monetary policy as well as in its curbs of constitutional powers. We can imagine the full beneficial impact of this prescription if provincial administrations, city and municipal administrations, universities, research institutions, regulatory institutions, and major public sector corporations were all fully decentralised, professionalised, and autonomised.

PAKISTAN: THE NEED FOR CIVIL SERVICE REFORM

SHAHID H. KARDAR

Introduction

In most developing countries, the present attention to civil service reform stems from the pressure that the wage bill brings to bear on the fiscal health of the government. On the one hand is the overstuffed, over-committed, and over-extended public sector performing far too many functions beyond the competence or core role of the government, and manned by a bureaucracy afflicted by eroding salary scales, corruption, politicisation, chronic absenteeism, and little accountability. On the other hand, are phantom workers on payrolls, and reluctance to retrench temporary workers and enforce retirement rules. In Pakistan too, the most critical constraint today to the expansion of the government's developmental activity and the quality of, and the efficiency with which, services are delivered by the public sector, is the competence and size of its workforce and the accountability mechanisms and procedures governing service provision by its employees.

In the case of Pakistan, the key issues encapsulated above can be illustrated by the following:

- (iv) It is significant that, whereas the government spends one and a half percentage points lower than what is normal for a country at Pakistan's income level, there are 24 percentage points more Pakistanis illiterate, suggesting that the problem has less to do with inputs in terms of expenditure and more to do with lack of accountability of government functionaries.
- (v) Taking the case of the province of Punjab, salaries and pensions absorb almost 50 percent of the annual revenues the government,²⁸ with debt servicing and the subsidy on wheat accounting for an additional 17 percent and 5 percent,

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²⁸Although it pre-empted 50 percent of resources, the true cost is higher because a substantial proportion of non-salary recurrent expenditures on utilities, office space and equipment, transport, fuel, etc. is expended on the upkeep of the employees (including their costs of housing in officially provided accommodation) without contributing to the provision of public services. A disproportionate share of expenditures earmarked for repairs and operations and maintenance is also absorbed by the wages of casual staff performing related activities.

respectively. Adding at least another 5 percent for uncovered liabilities relating to (a) pensions (there is no reserve fund for settling future pension payments) and accumulated unutilised leave pays (see below); (b) resources for augmenting the infrastructural base of roads and bridges, etc., and (c) resources for increasing the salaries of underpaid and de-motivated staff, and enhancing allocations for complementary non-salary inputs such as desks and chairs, text books, and medicines, etc., which are essential for delivering social services, will all have to come primarily from a reduction in the size of the government.

Size of Government

All levels of government have so far played the roles of employment bureaus. Governments should be creating employment, not providing it. A veritable army of peons, *chowkidars*, and clerks stalks the corridors of the secretariat and other public sector agencies. The scale of the problem of overstaffing is such that, under the service rules, three different categories of employees are required to have a bathroom cleaned: one to wipe the floor, one to clean the sink, and one to wipe the dust off the windowsill!

There are multiple agencies with overlapping functions and mandates engaged in similar activities or providing similar services. Although the Constitution identifies the social sectors and local government as provincial subjects, the federal government continues to have ministries of education, health, local government and rural development, social welfare, and agriculture, etc. In the main commercial areas of Islamabad, there are countless buildings that house the offices of federal government agencies, but only a handful of people in Islamabad aware of the operational responsibilities of each of these organisations.

The problem has been compounded not because of the increase in transactions or growing complexity of functional responsibilities, but by (i) the upgrading of existing posts earlier occupied by lower grade personnel, (ii) the creation of new posts to accommodate the burgeoning workforce, and (iii) the routine regularisation of contract staff or those engaged on daily wages.

In the case of Punjab, the government's resource mobilisation efforts simply to pay the administrative machinery and keep it in good humour resulted in the establishment of an unjust, highly irrational, and administratively unwieldy structure of 33 different provincial taxes.²⁹ By even temporarily shying away from the task of rationalising the size of the government, the surplus employees will continue to hold hostage

²⁹This writer reduced their number to 9 in the budget for 2000-2001, and which in his opinion are still 5 too many.

the country's population of 140 million. A very large number of these employees (most of whom were not required in the first place) were appointed on the basis of their political allegiances in complete violation or relaxation of rules. In the province of Sindh, for instance, this factor resulted in the government's workforce growing from just 285,000 in 1988-89 to 459,000 by 1999-2000.

Weak Accountability Mechanisms

None of the mechanisms for public accountability of civil servants—such as the Public Accounts Committee and grievance redressal systems—are even functional, much less effective. In the Punjab, for instance, only 102 government functionaries were charged for any irregularity during the period 1985–2000 and even among them the conviction rate was below 20 percent, while the proceedings lasted several years. The system protects governments and it is difficult to proceed against those not turning up for duty, let alone those who attend office but fail to meet deadlines for task completion or do not provide any service. It is easier to dismiss a government at the national level in Pakistan than a government servant who is perennially absent.³⁰

Moreover, the legal and institutional set up has given rights to stakeholders—to the detriment of the citizenry—for providing services to whom they have been purportedly employed by. The stakeholders are employees who have pre-empted financial resources, sometimes at the cost of the original purpose of employing them. A key, if not binding, constraint, to the adequate provision of services is the problem

³⁰In recent years, however, ad-hoc accountability mechanisms have been applied to victimise politicians resulting in holders of key bureaucratic positions also being penalised for taking decisions that, based on information available at the time, were perfectly rational and commercially sensible and justifiable, but later events took a different course. These developments have severely damaged the environment for taking responsibility for key decisions. Explaining how such incidents have discouraged government functionaries from taking major, if any, decisions Tasneem Siddiqui, a highly respected senior civil servant, writing in the Dawn of June 9, 2002, mentions the strategy adopted by two civil servants, one who allowed files to pile up in his room, his ante-room and bathroom without taking a decision on any of the matters raised in the files, and the other who, to speed up disposal in response to demands for quicker processing by his superiors, adopted a policy to write "Please speak" on half the files marked to him and "Please discuss" on the remainder without ever reaching a conclusion on the issues.

Also, partly owing to these reasons and partly the lack of requisite expertise it is common for frequent meetings to be held between the same actors, each making the same arguments, repeating the same excuses for not resolving the issue under discussion because it required further study and proposing the establishment of a sub-committee of the same officials attending the meeting in which the decision to set up the sub-committee was taken.

of priority accorded to the entitlement of the instruments/providers of services (employees, contractors, etc.) over the purpose (e.g., schools, primary healthcare facilities) or entitlements of the service recipients.

Politicisation

Over time, the system has also become deeply embedded in the wider political structure, compromising independence, neutrality, and competence. Thus has been especially since the mid-1980s, when loyalty to the political heads of government became a requirement for holding important positions, which meant the extent to which the civil servant was prepared to be pliable or accommodating. In particular, the system of transfers provided politicians leverage over bureaucrats³¹ and an opportunity to build alliances that might extend over the entire span of the bureaucrat's career and could be used to exercise patronage without politicians accepting responsibility themselves.

Lack of Modern Skills

Whereas in any system the responsibility of those in top positions is policy analysis, the system in Pakistan has developed in such a way that it has made little contribution to the development of policy skills.³² This is essentially because the elite DMG—the generalist cadre—virtually monopolises the top jobs but with little expertise. Although this variety of experience supposedly provides the rationale for the superiority of the service, what is conveniently forgotten are the long delays in taking decisions³³ owing to lack of expertise and a smattering of knowledge on technical matters. The system, whereby senior posts are reserved for the DMG who are also assured career progression³⁴ with limited accountability, is antithetical to development administration, since it only provides DMG employees the opportunity to continuously develop their career paths while all those in other cadres stagnate. The country ends up paying a high price for preserving a

³¹Rewards and punishments are accorded through postings and transfers.

³²Someone who has read English as an undergraduate can be Secretary Education one year, Secretary Health the next and Secretary Finance the following year.

³³In my 14 months as the Minister for Finance, Planning and Development, Excise and Taxation and Industries and Mineral Development in the Punjab, between November 1999 and January 2001, there were countless occasions that files were marked to me as urgent, and requiring a decision the same day, but the paper had originally been initiated 6 months ago. At times one of the reasons for adopting such a strategy is to get a quick approval for a proposal driven by other considerations.

³⁴All get promoted on the basis of seniority (and hence the difficulty of the system to understand concepts of productivity), irrespective of quality of performance and knowledge of the task mandated to the civil servant.

system in which no one else is mobile or able to reach the highest levels in the civil service.

The disadvantages of a generalist cadre have been made worse by the system of frequent transfers,³⁵ which, apart from introducing other weaknesses, also means that the civil servant can never be held accountable or judged by reference to performance. Transfers in the 1950s and 1960s did not create problems because of the much smaller variety of jobs available, and because the skills involved were usually also portable. With modernisation, there is demand for a wider and more focused base of skills.

Regulatory Framework and Outdated Procedures

Stunting Economic Growth

Since the 1970s, the failure of the economic system can be traced to a deficiency of governance at one level or another, the most crucial of which were outdated and un-transparent mechanisms and procedures and the desire of the state machinery to regulate most economic activities, a task that it carried out through the creation of both visible and invisible roadblocks.

Some of the major reasons for poor implementation of even good and well-directed government policies include archaic regulations and administrative systems and practices inconsistent with the declared policy. On the one hand, information on procedures is not readily available and, on the other, the enforcement of rules and regulations is carried out in a non-transparent manner. Even when senior officials show a greater inclination to changing attitudes, it is not matched by a similar degree of responsiveness at lower levels of the bureaucracy.³⁶ The positive impact of the improved responsiveness of senior officers is thus neutralised, either by the incompetence or the indifference of lower level officials. At times, an official, without any fear of being held accountable by the system or his superiors for highhanded behaviour, openly violates internally issued interpretations of laws and rules or simply refuses to accept rulings of superior courts on the

³⁵Since the mid eighties the tenure of the head (Secretary) of the Division/Department is, on average, barely a year.

³⁶My personal experience of the apathetic attitude is derived from several instances that one was exposed to and which is best summarised by a comment from a respected civil servant who had reached the most coveted position in the service, when he proudly informed me that in his 30-year service he had never helped anyone!

subject. Moreover, the power of veto is rather liberally distributed in the system; almost anyone can scuttle the process.

A survey conducted by the World Bank³⁷ highlights the huge costs of doing business in Pakistan. It reveals that 12 percent of the time of entrepreneurs is taken up in dealing with the bureaucracy (with 42 percent feeling that there were far too many regulators and regulations) compared to 5 percent in Latin American countries. Similarly, close to 56 percent complained about the rising costs of doing business because of the government's tax policies, while 40 percent mentioned the contribution of corruption to the growth in costs. Small enterprises, in view of their size and limited managerial resources, reported how they suffered more than larger enterprises from cumbersome rules and regulations and the taxation systems, their uncertain application, and arbitrary changes in the rules of the game with little, if any, redress.

An interesting result of the study that summarised the statements of the survey respondents was that, although the bribes paid by an enterprise were small compared with its turnover, dealing with public functionaries still took up a lot of time. In most cases, bribes are simply paid to dissuade officials from disrupting business operations. This cost is substantially lower than the likely transaction costs—in terms of time and financial resources—if the poorly conceived law or accompanying rules were to be enforced.

There is also the theological principle of regulating economic activity based on a complete distrust of the market and a belief in the state's omnipotence, a state of mind and attitude that has restricted the space within which the private sector can operate. Even civil society in Pakistan is suspicious of markets and provides the bureaucracy with an excuse to regulate. Bureaucrats opt for direct controls rather than market-friendly fiscal rewards and punishments not only because of the rent-extraction powers these give them but also because they prefer the certainty of command and understand little of the subtlety of induced behaviour. Flawed misconceptions drive small countries to mimic big countries in constructing governments. Complicated state apparatus are put in place. Unfortunately, donors also provide uniform advice, persuading borrowers to set up the same institutions in all countries regardless of size. The result is that regulators are put in place even before markets begin to function. Pakistan now has a regulator for each market; in some cases, there are two regulating the same market—for

³⁷World Bank, World Business Environment Survey, 1999; the part of the survey relating to Pakistan was conducted by Gallup, Pakistan.

example, the State Bank and the SECP simultaneously regulate the financial institutions, and, in the case of *modarabs*, there is the third regulator, the religious */shariah* board.

Largely owing to the nature and history of Pakistan's economic development, whereby even the middle class was not the product of a dynamic independent process of growth but was created through public sector employment, we cannot, as yet, seem to visualise economic growth that is not based on state support and patronage.³⁸ Thus, civil society continues to view the state as an all-powerful paternal entity that is supposed to protect against all risk and provide for all occasions. It is, therefore, not surprising that governments continue to be large and unaccountable and rule rather than serve.

The focus of regulation tends to be on inputs to the system—which merely facilitate delivery of an output—as opposed to outputs and outcomes. Moreover, not only are many of the existing regulations conflicting, unnecessary, and irrelevant to current needs, the standards and criteria are outdated, vague, and generally not clearly prescribed. Even when identified, the bar is set so high that it is extremely difficult to cross it, given the resources at the command of the private sector and the capacity of the market to bear the ensuing costs. The cumbersome procedures and immeasurable criteria for regulation provide an extortionary handle to government functionaries. By reducing their regulatory role, their excesses can be curbed, thereby raising the efficiency and productivity of the private sector by allowing businesspersons more time to focus on their operations.

Redefining the Role of Government

In the light of the discussion above, there is, therefore, an urgent need for civil service reforms, the underlying objectives of which must be directed at improvement in civil service performance by strengthening accountability and management so that the structure and system can keep pace with changing times. The key components of the strategy would have to include (i) promotion of merit and professionalism, (ii) strengthening of the accountability of civil

³⁸The mindset from the early days of Pakistan's creation persists that recruitment by a continuously swelling government is the solution of the problem of unemployment. It is common for political leaders to announce enhancement of teacher and doctor positions, with little by way of reference to the need for expanding education and health facilities. The entire debate, even within civil society and the press revolves around the need for providing additional jobs in the public sector. Although new opportunities have arisen, the attraction of government service has not diminished, largely because of lack of institutional mechanisms for ensuring the accountability of public servants.

servants, (iii) improvement in human resource development (training) and management, and (iv) right-sizing.

The arguments developed above have attempted to demonstrate the timely need to rethink and redefine the role of the government since this will determine the size, skill-mix, compensation, and training of the civil service to be paid for from the public purse. This is perhaps best understood in terms of (i) what the government should neither do nor pay for, (ii) what it should do and pay for (defence, foreign policy, fiscal and monetary policy, justice, law and order, and certain categories of physical and social infrastructure that the market and the private sector cannot provide), and (iii) what the government should pay for but not necessarily do itself. The list of what the government should neither do nor pay for but in which it is currently engaged includes running retail outlets for articles of daily use/consumption, banks, airlines, and utilities such as electricity and gas.

The higher levels of government should withdraw from many of the functional responsibilities that they have taken upon themselves over time and which should either be provided by the private sector or should be hired off to lower levels of government. The higher tiers should focus on performing the core functions that only governments can perform but have been neglected.

Identifying areas, activities, and services that the government should pay for but not do, produce, or provide itself is relatively more difficult. However, the case of provision of education by the government illustrates this point more clearly. It is considered the moral duty of the state to ensure that the population has access to free, good-quality, basic/elementary education. Such an obligation translated into concrete action merely requires that the government pay for this education; it does not mean that the government should produce or provide the service itself. In fact, there is enough evidence to indicate that, if the government provides the service, we will continue to have ghost schools, ghost teachers, non-merit-based appointments, teacher absenteeism with no accountability of the service provider (the teacher) to the service recipient (the student and the parents), and with the latter having little, if any, recourse to those to whom the teacher is answerable for service provision. Therefore, the solution lies in either promoting private schools subsidised by the state or in giving a grant directly to the community—the equivalent of the amount being presently spent on the school in the area—and letting them arrange the best education for their children, hiring and firing teachers or enhancing their salaries (based on performance), or spending the money on improving infrastructural facilities, etc.

In light of the above discussion, how does one achieve these objectives while ensuring that there are no ghost teachers, that there are merit-based appointments, and that absenteeism is reduced? In view of Pakistan's experience, the preferred institutional arrangement would be that teachers are hired on written contracts negotiated on an institution-specific basis, with periodic evaluations by the direct recipients of the service. The contracting authority at the local level should be communities/parents through school management committees (SMCs) or parent-teacher associations (PTAs)—the primary stakeholders—with maximum effort being devoted to the recruitment and training of locally available teachers. This autonomy would allow maximum potential to be derived from teaching candidates, and discourage loss in momentum due to high teacher absenteeism, with peer/community pressure also playing a key role in checking teacher absence from duty. The government should expend most of its effort on making arrangements for teacher training, including the setting up of mobile teacher training facilities.

The proposed arrangement should be funded by the government (whether provincial or local). The funds should flow directly to the SMCs/PTAs either on a minimum lump-sum basis, or per student enrolled basis; allocations from the Zakat Fund could also be used to supplement these financial flows.

To ensure transparency and check potential leakage of funds, the resources allocated to the institution, and the names of SMC office bearers and head teacher (the respective recipients and users of the funds) should be widely publicised by displaying the information prominently at the school gate, pasting it on the walls of the local mosque, or in the offices of the relevant local government and local courts. This arrangement will facilitate the development of effective public-private partnerships and accelerate the growth of mutual trust between the public and the government.

As argued above, a large part of the regulatory framework exists because of the lack of clarity on the role of government, thereby providing employment opportunities for skills that the market neither demands nor produces. In several instances, new products and instruments have become available that are better replacements and more effective mechanisms for achieving the objectives underlying the promulgation of existing laws or institutional and administrative arrangements for their enforcement. Take, for instance, the provincial Boiler Acts dating back to 1923: Grade 11 boiler inspectors recruited and trained to enforce a legislation that may have been relevant 80 years ago are today expected to inspect and certify boilers

manufactured by multinationals such as Siemens. In an era in which the technology for manufacturing boilers has taken a leap forward, even in Pakistan, the provincial industries department is staffed by professionally ill-equipped boiler inspectors performing their regulatory function. This regulatory role could easily be outsourced to universities and private firms providing engineering services that could be pre-qualified on the basis of well-drafted selection criteria.

Similarly, the government has building and electricity inspectors to ensure the safety and security of private buildings used for public purposes, e.g., cinema houses. Objectives underlying the regulatory functions performed by these functionaries could be better achieved if such buildings were comprehensively covered by private insurance companies. Even in Pakistan's economy, where the entire range of services on offer are still in the evolutionary stages of development, the private sector is able to provide products and services to supplant/replace the present role of the government's regulatory apparatus. Through this instrument, cinema owners would be spared the frequent visits of these government employees, who would be denied the opportunity for extortion on the basis of the regulatory functions mandated to them. Moreover, the security and safety of the public using these buildings would also be assured, since the private insurance companies would ensure proper construction and maintenance of the property.

Examples such as this question the utility and justification of a regulatory apparatus established by the government to achieve objectives that other market-based institutional arrangements and instruments can provide much more efficiently and effectively. To bring greater focus to the government's activities, there is need to redefine its role and the way it carries out its business. In this regard, the key question to be asked is whether the government should continue to regulate what it is currently attempting to do so today, largely because it has a massive work force that it wants to somehow 'gainfully' employ.

Similarly, it would be cheaper to outsource several services. Examples include the daily cleaning operations of government offices instead of the government employing an army of cleaners and computerised CAD services, otherwise available in abundance in the private sector.

Right-sizing of Government, and Pay and Pension Reforms

Since the reduction in size of the civil service through natural attrition—just 2.5 percent per annum—is too slow for the proposals discussed here to be implemented, the following measures are recommended to help right-size the government and induct fresh skills:

- A census of civil servants needs to be carried out. The information generated can then be reconciled with the payroll records to identify and weed out ghost employees; facilitate the implementation of a strategy for monitoring and managing pension expenditures; and enable employee rationalisation, better planning, and deployment of staff based on skill composition. Efficiency gains can then be realised through the elimination of unnecessary tasks and by closely aligning functions, resources, and responsibilities. The savings from rental space no longer required and associated expenditures on utilities (electricity, telephone, and gas), running motor vehicles, and housing these personnel will be huge. A similar exercise was carried out for the Industries Department in Punjab (one of the smallest departments) only for those who had completed 25 years of service and those who were due for retirement in two years. The net savings were close to PRs60 million per annum.
- All levels of government should surrender/de-notify all vacant sanctioned posts.
- Posts that require no replacement of those retiring through the natural process of attrition should be identified.
- Civil servants who have completed 25 years of service should be retired. An employment contract in which the only right to leave is that of the employee while the employer has no rights, is unheard of. Unfortunately, this is precisely the arrangement followed by the government and its employees.
- All those who have completed 15 years of service should also be retired on full pension.
- All future recruitment should be on contract and—to counter the curse of transfers—to the extent practical, on an institution- or department-specific basis, e.g., doctors should be appointed to a particular hospital, rural health centre, or basic health unit on a non-transferable basis.
- The government needs to be reinvented to bring it into harmony with the demands of a modern economy and the requirements of the technological revolution spawned by 21st century science. The demands of a globalised economy require the private sector in Pakistan to adopt internationally recognised technologies, production techniques, and management practices to remain competitive with world suppliers of similar goods and services.

However, the government—which is supposed to facilitate the operations of the private sector—expects it to assume a modern while seeing nothing amiss in the fact that its own skills, procedures, and work processes are outmoded. This huge contradiction is obviously unsustainable, since it is an important contributory factor to the poor quality of input provided by the bureaucracy to the political leadership for decision-making. The modernisation of institutional structures is being ignored at great risk to the much-needed acceleration of economic growth, which, in turn is not possible without adjustments in the present size and skill base of the bureaucracy. Forty-five percent of its membership comprising those in Grades 1 to 6 are functionally, if not literally, illiterate, and ill-suited to the changing skill requirements of a domestic market, while being forced to adjust to a more competitive international environment. Among the remaining 55 percent, after others have been retired, we need to identify skills no longer required by a modern state structure. These employees should be asked to stay home and paid each month for three years after which they would stand retired on a pension stream to which they become entitled on the date of retirement. Given the proliferation of senior posts with each post demanding additional allocations for motor vehicles and support staff, the identification of surplus staff should commence from the senior-most in each cadre. Since the government will not have the financial resources to discharge its obligations pertaining to commutable pensions, the government's liabilities to those being eased out could be settled through tradable interest-bearing bonds.

The current pension entitlement rules are perhaps the most generous in the world. Not only are retirees entitled to 50 percent of their total estimated pension stream in lump sum up-front without any discounting (called commutation of pension), the amount so commuted can be restored as part of the monthly pension payment after 15 years as a pensioner.³⁹ These rules will also have to be modified. All tiers of government have built up huge, unknown, continuing pension-related obligations. The annual payments for pensions of the federal and provincial governments have already crossed PRs47 billion per annum (25.5 percent of their recurrent expenditures excluding defence and debt servicing), with an excess

³⁹If a government employee retires at 60 after 30 years service, at a pay of Rs 1,000 his gross pension under the prevalent pension scheme will be Rs 700 per month. On commutation of the pension stream he will be paid approximately Rs 65,000. The investment of this amount in government sponsored saving schemes/instruments will give him a return of around Rs 650 per month giving a total of Rs 1,000 equal his last drawn pay. Moreover, the gross pension of Rs 700 is also indexed to inflation.

of 3.5 million government functionaries yet to retire. There is a need to move to a new system, based on a defined-contribution, defined-benefit contributory pension scheme, by quickly phasing out what is presently in place, i.e., the unsustainable “pay-as-you-go” system. This needs to be supplemented by third-party validation of pension payments to eliminate ‘ghost’ pensioners.

There is a ridiculous facility whereby government servants are entitled to four days’ leave per month, i.e., 48 days of leaves per year, which can be accumulated in perpetuity, until retirement. Over 25 years of service, this facility can become the equivalent of four years’ salary. These terms will also have to be changed to, say, two days per month with a maximum carry-forward of 120 days.

The benefits of civil servants need be monetised, a reform that can easily be financed (particularly after drastic downsizing) from the fiscal space that will become available through the retirement of debt (and the resulting savings in interest charges) from the proceeds of excess prime urban land taken up by housing for bureaucrats. For instance, in Punjab, such land is in excess of 3.5 million square yards, the disposal of which could generate PRs45 billion, resulting in annual savings in debt servicing of PRs7 billion.⁴⁰

To ensure a transparent system for merit-based appointments in the future, it will be necessary to strengthen the independence of members appointed to the Public Service Commission (PSC) through legislation, who should have exclusive mandate on all future recruitments to Grades 11 and above.

The concept of unified pay grades has also almost irreparably damaged the incentive structure whereby a principal of a vocational training institute in Grade 20 is officially entitled to the same salary/privileges and perks as a provincial secretary finance, with much greater responsibility. It is, therefore, critical that we change this irrational incentive structure. Shifting to a contractual basis of appointments will facilitate the changeover to the proposed system.

The actions proposed to right-size the government will also improve government efficiency simply by reducing the number of layers of processing. Further gains can be realised by eliminating unnecessary tasks and procedures and by closely aligning functions, resources, and responsibilities

⁴⁰In Islamabad a significant chunk of prime commercial land is colonised by government offices and residential accommodation for officials.

Deregulation and Decontrol of Government Hold over Economic Processes

As indicated earlier, there is an urgent need to simultaneously decontrol the government's hold over economic processes by dismantling the regulatory machinery with the draconian discretionary powers that it places in the hands of the bureaucracy. The structures, as presently designed, are parasitic and only create difficulties for ordinary people, if not serve as a constant source of their miseries. An example of the overextended regulatory framework and the huge regulatory apparatus strangulating private activity, thereby shackling the economy's prospects for growth, are the 27 labour laws, of which 10 were enacted more than 30 years ago, during which period the structure and pattern of the economy has been transformed, and employer-employee contractual relationships modified or bypassed through other institutional arrangements, such as the rapid growth of contract labour. Moreover, these laws are in conflict with each other, a weakness exploited by government functionaries. Their predatory behaviour in enforcing these labour laws prompts many enterprises to choose to remain small.⁴¹ It is these regulatory frameworks and structures—the environment within which the private sector operates—that choke economic activity, leaving little room for surprise at the slow pace of economic recovery.

Conclusion

This section has tried to demonstrate that, without diverting expenditures from the massive establishment, the federal government and the four provincial governments will be unable to pay their employees well, and thereby begin to address the problems of corruption and lack of competence in the public sector. It has also argued that the lack of clarity of the government is a critical factor that continues to act as a brake on private sector investment and production. With the private sector constrained by battered confidence and predatory regulatory state structures on the one hand and the lack of demand on the other, governments at the federal and provincial levels will not have the resources to both develop adequate infrastructure and

⁴¹To get around the rigidities of labour laws that become applicable to units with 10 or more workers, employers have resorted to a combination of sub-contracting of production, harnessing of capital intensive production processes, hiring of contract labour and/or fragmentation/legal subdivision of production facilities into smaller enterprises. An adverse outcome of these developments is that they have lowered the incentive of the private sector to invest in the upgrading of skills, thereby affecting productivity and profitability of enterprises.

stimulate private sector activity. Soon, with the rapidly growing pension liability bill, these governments will find it difficult to eke out adequate resources to pay all their employees, let alone well; provide allocations for matters of substantive governance, such as decent-quality social and welfare services to the people; and still have enough capital resources to invest in direly needed physical, economic, and social infrastructure to push the economy onto a higher and more sustainable growth path. Therefore, if the government's developmental activities are to be expanded, difficult albeit long overdue measures will have to be undertaken along the lines discussed above.

WHY PERKS BLOCK REFORM

NADEEM UL HAQUE

Accelerating growth depends on accelerating reform and its implementation. Yet, despite all the talk of reform in Pakistan, little is implemented. It is a truism to say that this is essentially because of the élite—the landed class and the urban upper classes.

It is easy to forget that the largest segment of the powerful classes is the government bureaucracy (including the judiciary) which has, over the years, become a part of the upper class through various rent-seeking initiatives, ranging from outright corruption to various subsidised land deals allowing access to land at preferential prices. This class has a vested interest in maintaining the current system that gives it a wealth transfer. Why should it implement the new policies that many outsiders prescribe?

Civil service reform is an overused and muddleheaded donor term. Most civil service reform only seeks to tinker with the rules and procedures of recruitment and promotion while maintaining the closed monolithic structure. The key to reform, however, will lie in opening out and breaking up the monolithic structure. Currently, power, privileges, and rent-seeking opportunities are preserved by the closed-door club-like civil service that Pakistan has. Neither merit nor external competition affects their God-given right to rule.

The reason civil service reform strategies often fail is that they consist of too many reforms that have to be continuously implemented over a number of years. Before such reform can take hold, we must find a critical reform that will break the monolith and change incentives for both incumbents and possible entrants. We must devise a strategy that will change the incentives for the civil service in one single comprehensive measure.

The current system of incentives for civil servants is very strange: salaries are very low—at the senior-most level (secretary to the federal government), a civil servant takes home at most about Pak Rs 30,000 a month as cash on hand. With this, he or she has to pay children's school fees and other bills, afford holidays, and a car, etc. Schooling remains an unavoidable cost: private schools today commonly charge Pak Rs 5,000 in monthly tuition fees. An overseas college is now unavoidable, and costs as much as US\$50,000 a year.

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How do civil servants meet these expenses? Nor are public sector pensions particularly large—how do civil servants plan for their retirement?

Doubtless, the perks of civil service employment more than make up for the shortage of cash income. Employment in the public sector, especially at senior levels, promises the best housing and the most prestigious arrangements in every city. Civil servants' bills are taken care of, cars are available free of cost, and even domestic labour wages included. But the lack of cash still needs to be made up—perks will not finance a child's college education overseas. Thus, civil servants make up rent-seeking opportunities, ranging from outright corruption to purchasing subsidised land in various government-operated housing schemes. This often allows them to accumulate a great deal of wealth.

This system of perks has many drawbacks and exists nowhere except in the most backward developing countries. It is marked by the following:

- It creates an infrastructure for the maintenance of housing and cars, which at best, is inefficient and, at worst, both inefficient and corrupt. Tax resources are wasted as a result.
- It insulates public servants who are in charge of policy from the realities of life such as renting houses, paying bills, and paying for cars.
- Protection of the perks/rent-seeking game becomes a priority of the incumbents since their comforts and cash incomes stem from here. Ethical standards decline as increasingly dubious schemes are introduced to increase cash flows. Soon, corruption is not regarded with any sense of moral outrage, and incumbents become united in their common goal—protection of the rent-seeking regime.
- Such a regime selects out the more honest and competent who may not wish to participate in corruption and perks. Such people tend to be the more competent professionals who have a market worth outside the government. This means the more competent often leave the government, leaving behind not only less productive people but also those with a greater proclivity towards corruption.
- Land development has become hostage to this system of compensation. It is not a commercial activity as it should be, but a rent-seeking opportunity involving all those in power from the army to the judiciary. Accumulation of wealth should not depend on public handouts of land but on genuine savings through hard work and use of talent and knowledge.

A critical reform would be a simple ‘one-stroke’ policy—to monetise all perks and open every position to external competition. Such a reform would have the following advantages:

- Better salaries and open competition will attract better talent into the government and encourage more mobility to and from the government. Officials need not protect their positions since they would be entitled to a good salary with no perks and privileges.
- Preventing secretaries and ministers from living in protected enclaves with their rent paid by the government will force them to participate in the housing, car, and financial markets as ordinary consumers, thus learning how ordinary people live. This will sensitise senior civil servants to the impact of their policy designs.
- The government will be able to extricate itself from the wasteful housing and car maintenance business, and make large tracts of city centres available for investment, hence opening up investment possibilities.
- By recruiting a better crop of people, increasing mobility in and out of the government, and shifting civil servants’ focus to careers based on realistic salaries, the government will be able to focus better on economic development policies.
- Wasteful activities, such as the complicated regulation of bribe or perk extraction, will be eliminated, and the premium on housing schemes to buy plots of lands will fall. This will help eliminate all government land development, which is currently done only to provide subsidised plots to bureaucrats and army officials. Land development should be a purely private sector, for-profit activity.

Eliminating perks has the additional advantage of breaking the colonial mindset that permeates the public sector. Perks are essentially symbols of colonialism. Since all a civil servant’s needs are taken care of by the public sector, he or she is automatically assumes a welfare mindset that guides his or her policymaking. The public servant is humanised to the public level if he or she receives a straight salary and operates like an ordinary citizen, feeling the pain of ill-conceived policy rather than remaining sheltered from it though perks.

There are three possible ways of financing such a scheme:

- Privatisation of perks, especially urban land, will certainly finance a large portion of the cost.

- The rest can be generated by clearly linking productivity in each department to salary increase or decrease, thus motivating further reform for productivity.
- Finally, donor resources are easily available for such a reform.

This crucial reform, if implemented, will shake up the system enough to cascade other reforms that have been under discussion for years. With good salaries and a more talented, reform-minded group moving into key positions looking for public sector productivity, the pace of reform should accelerate. The archaic system of competition and recruitment to the civil service has held Pakistan back for long enough. No developed country has a closed civil service system with compensation based on perks, rent-seeking, and favourable land awards. There is no reason for Pakistan to sustain these wasteful activities and continue to look for fiscal balance and growth.