Administrative Reform in Bangladesh: Where to Start?

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Abstract

Expansion of the private, NGO, and international sectors has made administrative reform very urgent in Bangladesh. The rigidity of the government pay scale in presence of private and international pay scales has led to a bad equilibrium in the government service factor market. This bad equilibrium has led to decline in effort and quality of entrants. It has led to an unhealthy gap in official and effective pay. It is harming national interests. Bangladesh should put an end to this “bad” equilibrium and move to a “good” equilibrium, an equilibrium that can safeguard her national interests in face of private and international pressures.

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The author would like to thank those whose comments and views have benefited this paper. They are however not responsible for any remaining error or shortcoming. The views expressed here are author’s personal and should not be ascribed to the organizations that he is affiliated with. For correspondence, please send e-mail to: nislam@emory.edu
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The Paradox

There is a certain paradox with the situation regarding administrative reform in Bangladesh. On the one hand, there is a widespread recognition that administrative reform is a priority task for the nation. On the other hand, administrative reform is not being carried out earnestly. According to reports, the government is having difficulty even in finding a stable chairman for the administrative reform commission.

There is a long history of administrative reform commissions in Bangladesh. Almost all governments institute administrative commissions. However, work of these commissions often remains limited to recommendations for pay increase by certain percentages, keeping the basic structure unchanged. Not always do these commissions go deeper into the issues. Yet, the cumulative problems of poor administration have now become so apparent in Bangladesh that hardly anyone remains to be convinced that something of more fundamental nature needs to be done.

Even the donor agencies have now come around to see that proper administration is an important problem. Previously, attention used to be focused more on the volume of aid inflow. But these days ‘Governance’ is a term that is hard to avoid in the aid literature. Development thinkers inside Bangladesh are also turning their attention to this problem. The third volume of Independent Review of Bangladesh’s Development (IRBD), produced by the Center for Policy Dialogue, is devoted to the ‘governance’ issue.

It is known that the scope of ‘governance’ goes beyond issues of civil administration. In addition, it includes issues of political system, role of civil society, etc. In recent period Bangladesh has made some progress with regard to some of these other components of ‘governance.’ For example, despite popular impressions to the contrary, Bangladesh has actually made some progress in improving the political process. The recent constitutional amendment requiring parliamentary elections to be held under neutral caretaker government is an example. Other ideas to improve Bangladesh’s political process have also been tabled. One hopes that these ideas will also be explored and used, and as a result the country’s political process will further improve.

There has also been some progress in strengthening the role of the civil society. The print media is now very active. It seems that the ether and electronic media (i.e., radio and television, respectively) are also heading toward pluralism. Efforts are underway to strengthen the independence of the judiciary system.

All this indicates that Bangladesh is making some, though slow, improvements in some of the components of ‘governance.’ Unfortunately, this cannot be said of civil administration. No significant positive change in civil administration has taken place in the recent period. Yet, improvement in civil administration is likely to have the most direct beneficial effect on economic and social well being of the people. That is the paradox.
Problems of Administrative Reform

The reason for this paradox is not too far to seek. Administrative reform, despite its importance and necessity, is proving hard to carry out because it is indeed a difficult task. There are many factors that contribute to this difficulty. Only a few can be noted here.

The first is the sheer scope of the problem. Too many people are likely to be directly affected by such reform. Civil service, as introduced by the British, originally included only the officials in charge of revenue collection and dispensation of justice. With time, however, many ‘development’ ministries were created, and officials of these ministries were included in the civil service. As a result of this expansion process, civil service in Bangladesh today comprises of many cadres. In addition to ‘administration’ cadre, there are cadres of ‘engineers,’ ‘agriculturists,’ ‘economists,’ ‘doctors,’ ‘teachers,’ etc.

Another factor that has increased the ‘scope’ is that, over time, service and salary structures of all autonomous and semi-autonomous bodies have been linked to that of the central civil service. This link has now made impossible to introduce any change in the service and salary structure of the central civil service without creating a ripple effect across the Directorates, Boards, Authorities, Banks, Corporations, Commissions, Universities, Colleges, etc.

All this has been aggravated by the general fact that, according to management experts, government offices and government owned enterprises in Bangladesh tend to be overstaffed. Too many people are employed for the amount of work that is actually done. This only multiplies the ‘scope’ problem.

The second important reason why administrative reform is proving so difficult is that it involves very vital sections of the society. Administrative reform is not like ‘land tenure reform’ where the target group is dispersed, lives in remote villages, and does not wield much political power. In contrast, the people who are likely to be affected by administrative reform are situated at the very heart of government’s functioning process. If they find something unpalatable in the proposed reform package, they may even paralyze the government. This makes administrative reform a risky proposition. That is why most administrative commissions do not try to stir this hornet’s nest and limit to only cosmetic changes.

The third factor that makes administrative reform difficult is that it is a complex and challenging intellectual task too. It involves many fundamental issues such as: (a) choice between permanent and politically transient civil service, (b) appropriateness of class divisions within the service, (c) relationship between administrative and non-administrative (i.e., technical or developmental) services, (d) relationship between services related to public and private sectors, etc. Gargantuan effort is necessary to grapple with these deep issues and find right solutions.

Finally, it has to be noted that administrative reform in Bangladesh has to be carried out under the democratic conditions of competitive politics. This means that suggesting reform is not enough. It is necessary to mobilize popular support for the proposed reform, so that the reform does not hurt electoral prospects of the party in power. Alternatively, consensus has to be built around the proposed reform. However, given the nature of Bangladesh politics, consensus building is not an easy task.
Necessity of Administrative Reform

Yet, as noted, administrative reform has become very urgent for Bangladesh. The success of Bangladesh’s efforts toward economic and social upliftment hinges to a great extent on administrative reform.

To better reveal the necessity of administrative reform, we may introduce here the concept of “national capability.” Moses Abramovitz, the famous American economic historian, has popularized the concept of “social capability” as a determinant of economic growth. In recent years, Nobel laureate Bangalee economist Amartya Sen has introduced and used extensively the concept of “individual capability” to discuss equity issues. In addition to these useful concepts, the concept of “national capability” is helpful in understanding and analyzing a nation’s overall performance. One important component of “national capability” is the efficiency and steadfastness with which the national government can defend the national interests in face of domestic private and international pressures. The political leadership of course has a key role in this task. However, the national civil administration also has a very vital role. In fact, in some situations, national civil administration can to some extent compensate for political leadership’s deficiency in this regard.

There was a view that the necessity of administrative reform will diminish as the role of private sector increases in the sphere of economic activity and the role of the non-government organizations (NGO) increases in development programs. Throughout the 1980s and 1990s Bangladesh has witnessed considerable increase in the role of both the private sector and the NGOs. However, experience shows that these processes have not reduced the importance of administrative reform. In absence of commensurate administrative reform, growth of the private, NGO, and international sectors in Bangladesh economy has now become a cause of potential erosion of national authority.

A few examples may illustrate the point. One of the structural problems that Bangladesh economy now faces is the burden of bad loans. Government owned financial institutions are a major source of such bad loans. Officials of these financial institutions are part of the civil service in its larger (conflated) sense. A large part of these loans went to the private sector. By giving out bad loans to ill-suited private applicants civil servants were basically failing the nation. As private sector grows, interaction between civil servants and private sector agents will be of more consequence. Hence it will only be more important that in their dealings with the private sector, members of the civil service protect national interests and do not succumb to private incentives.

With regard to NGOs, it must be said that many of them are doing good work and have justifiably earned reputation. NGOs can provide flexibility and nimbleness that a large bureaucracy like the civil service often lacks. However, even NGOs need national supervision so that their work serves national interests. Recent incidents involving Gono Shahajjo Sangstha (GSS) indicate that the necessity of such supervision may not be trivial. It is the civil service that ultimately acts as representative and instrument of national authority. Hence, as NGOs become more important in Bangladesh, the necessity of having a civil service that can guard national interests in their interactions with the NGOs will only increase.
With regard to the international sector, this necessity of effective national authority is more obvious. A glaring example is the product sharing contracts (PSC) that Bangladesh government is currently negotiating with foreign companies regarding rights to explore and extract oil and gas in different parts of Bangladesh’s territory. It is very important that the civil servants conducting these negotiations on behalf of Bangladesh steadfastly protect national interests and do not give in to either pressure or lure of private gains. All these examples show that the necessity of administrative reform does not diminish with the growth of the private, NGO, and international sectors in Bangladesh economy. If anything, it increases.

Another important reason why Bangladesh needs a civil administration capable of guarding her national interests is the aid-dependence of her economy. Development projects in Bangladesh, in most cases, are joint undertakings by the donors and the national government. In this joint operation, it is the responsibility of the central civil service (together with the political leadership) to ensure that the aid money actually serves national interests. They are expected to do so through their decisions at every stage of the aid process. This includes decisions concerning which projects are to be approved, how these projects are to be designed, what items are to be imported under the project, who should get the work, how the work should be done, and finally how the work should be evaluated. If the civil service fails to do so then the aid regime degenerates into a process of self-aggrandizement by a small section of people leaving the common people with a large burden of foreign debt.

Finally, Bangladesh needs a civil service of high quality and integrity also for mobilizing and utilizing whatever domestic resources she has. This requires innovative ideas, sincere effort, dedication, and efficiency. According to many observers, civil administration in Bangladesh is rather gradually drifting away from these desired qualities. Urgent reforms are therefore necessary so that these qualities can be restored and fostered.

**Strategy of Reform**

The difficulty and complexity of the task of administrative reform in Bangladesh indicates that it has to proceed gradually. Bangladesh has to start with such steps as are relatively easy to carry out. This means that many of the deeper issues have to be postponed for now. For example, under the current circumstances, it is not opportune to put the issue of permanent vs. transient civil service on the immediate agenda of administrative reform. Whatever its merits or demerits, for quite some time to come, Bangladesh will have to continue with the system of permanent civil service. Similarly, for quite some time, Bangladesh will have to continue with some of the (class) divisions of officials and employees. It is not realistic to suggest doing away with all these distinctions immediately. Similarly, it is not realistic to suggest immediate de-linking of the development cadres from the administration cadre.

However, this does not mean that these deeper issues should and can never enter into consideration. The challenge is to find such initial steps that may prove feasible and effective under the current ground reality and yet implementation of these steps gradually creates a new reality in which more options can be explored, and consideration of deeper
issues becomes plausible. There has to be a long run vision about the whole reform process, and the initial steps have to conform to that vision. The intriguing question is what are these initial steps?

**Nature of the Problem: A Bad Equilibrium**

A central question of any kind of service is the compensation that is paid for that service. A significant aspect of Bangladesh’s current reality is that three different pay structures have emerged in the country. This is a direct result of the growth of private, NGO, and international sectors in the economy.

The first of these is the “international pay scale,” where the services are compensated at rates that are close to those prevailing in the developed countries. The orbit of this pay scale is still limited and is confined mainly to top positions in foreign companies, donor agencies, international organizations, foreign NGOs, expatriate consulting work, etc. International pay scale in Bangladesh is lucrative even for foreigners, because prices of non-tradables in Bangladesh are lower than in the developed countries. For obvious reasons, this pay scale is even more attractive for Bangladeshis.

The second prevailing pay scale in Bangladesh is the “private sector pay scale.” This pay scale applies, in varying degrees, to private sector commercial enterprises in Bangladesh, other private organizations, many NGOs, etc. The private sector pay scale is much lower than the international pay scale, but it is also generally higher than the “government pay scale,” which is the third of the three pay scales mentioned above.

Co-existence of these three pay scales is destabilizing and is a potential force for disequilibrium. However, nature does not like disequilibrium. Hence, the service factor market has somehow adjusted to these different pay scales, and a certain kind of (albeit tenuous) equilibrium has evolved. But equilibrium may be of many different kinds. Unfortunately, the equilibrium that has evolved in the government civil service factor market of Bangladesh is a “bad” equilibrium.

Why it is bad can be best understood by looking at the adjustment mechanisms through which this equilibrium has been attained. To have equilibrium in any market either the price has to adjust or the quantity and quality of product have to adjust. Since the price in this market, namely the government pay scale, is rigid, many adjustments have been in the sphere of quantity and quality. First among these is the reported adjustment of effort. This is expressed through the maxim: “The Government pretends to pay, and we pretend to work!” In other words, since the pay is low, government employees cut down on the amount and quality of work that they actually perform on the job. There is less motivation, less effort, less effectiveness. One often hears that the government salary is just to induce people to “attend” office. Any “work” to be done in office requires “extra remuneration.” Some government employees probably think that the pay is not enough even to attend office full time and so decide to cut down on the time they actually spend in their office. This is a well-known aspect of the equilibrium and hence does not need much elaboration here.

The adjustment process described above is of “short-run” nature. There is, however, a “long-run” quality adjustment process that is even more disturbing. This concerns quality of new entrants to the civil service. It is often reported that because of

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the low pay the civil service is failing to attract the best of the new generations in a way it used to do in previous times. Sometimes one hears horror stories about magistrates who cannot write proper Bangla! If such a process of deterioration of the quality of new entrants continues, then civil administration in Bangladesh will be set for a disaster. Mediocre people lacking motivation and sincerity will be in charge of national interests. That will be a bad combination indeed.

Notice that not all adjustments have been on the side of quantity and quality. Adjustments have taken place on the side of price as well. These price adjustments are also bad. Many of the price adjustments are simply dual of the adjustments in quantity and quality described above. A gap between “official” pay and “effective” pay has developed in government service. Since the “official” pay is low, many government employees try to raise their “effective” pay through other means. Some of these means are simply illegal, such as taking bribes, etc. Thus, files will not move unless payments are made. Decisions will be made favoring some clients over others in exchange for illegal gains. Etc.

Another way of raising effective pay is to shirk government office work in order to attend private (business) operations on the side. Previously, this kind of behavior used to be more prevalent among lower tiers of government employees. However, it is alleged that with the growth of private, NGO, and international sectors in Bangladesh economy, this behavior has now spread among higher tiers of government service too. It is often heard that many government officials are now affiliated on the side with consulting firms, NGOs, private business firms, international organizations, etc. and work for them even while on active duty. Further, arrangements have been made so that government officials can increase their effective pay legally. An example is change of service rules allowing government officers to take long term leave to work in the private and international sectors.

This situation is not healthy because it takes away time and energy of government employees from their official work. The situation is also fraught with the danger of conflict of interests. Decisions of government officials in this situation are likely to be influenced by their private “business” affiliations. It is often alleged that these affiliations are forged precisely because of particular government officials’ jurisdiction over such decisions. (Thus a government official may get included in the payroll of a consulting firm mainly because of his “capacity” to divert projects to that consulting firm.) Such a situation of overlapping interests makes it difficult to distinguish decisions made on the basis of merit from those made under influence of private interests. This conflict of interest may apply even to those who are currently not affiliated with any private interests but are looking for such prospective affiliation and/or eyeing for potential private or international employers for whom to work using lien time. The force of such considerations is revealed by the fact that sometimes government officials are going for early retirement to work for such private or international employers. Overall, a situation has emerged which is very conducive to compromising behavior on the part of government officials.

This does not mean that all government officials are caught up in the above practices. There is a large body of government officials who are honestly and steadfastly serving the nation even under these trying circumstances. It is largely because of their dedication and effort that the government is still functioning. The nation should be
grateful to them. However, they are going through enormous hardship and deprivation, surviving often on patrimony, spousal income, etc. They are under a general siege. The corrupting force of pay differentials mentioned above is proving very strong. These honest officers are feeling overwhelmed by this force.

All this makes it clear why the current equilibrium of the government service factor market is a bad equilibrium. It is particularly bad for national interests, which are becoming the casualty of the situation. Few things can be more harmful for Bangladesh’s national interests than giving low pay to her national secretaries.

Towards a Good Equilibrium

What is therefore necessary for Bangladesh is to come out of this bad equilibrium and gradually move to a good equilibrium, an equilibrium that will increase her national capability to safeguard her national interests. The question is how to do that?

It is clear from the discussion above that a key step in this regard has to be rationalization of the government pay scale vis-à-vis the other two prevalent pay scales in the country. “Getting the prices right” has often been preached to Bangladesh as a way of dealing with many of her development problems. However, the scope of this principle does not end with agricultural inputs or public utilities. The current state of civil service in Bangladesh also illustrates how wrong prices can lead to inefficient and undesirable outcomes.

The East Asian economies of Hong Kong, Korea, Singapore, and Taiwan are often put forward as examples to be follow by developing countries all across the globe in their quest for economic growth and development. Bangladesh is also trying to emulate that model. However, one lesson that often remains missing is that these East Asian economies had generally honest and efficient civil administration. Despite some impressions to the contrary, most of these economies developed under very interventionist regimes. These interventions succeeded because of dedicated civil administrations.

There are many reasons why these economies had generally honest and efficient civil administrations. The Chinese Confucian influence might have some role. However, there is no doubt that adequate pay was one important condition that ensured this outcome. In fact, Singapore went out of her way to pay generously her top government officials, including the ministers. In the other three economies too, the pay was adequate so that the government officials did not have to work under duress and be constantly concerned about increasing their effective pay over their official pay. Hence even the East Asian experience suggests that Bangladesh needs to rectify the anomaly that now exists regarding pay level of her government officials, if she wants to succeed in achieving economic and social progress.
Issues of Salary Reform

There are many issues that need to be addressed even before taking up the issue of government salary increase in Bangladesh. Some of these are as follows.

Complicated Composition of Government Salary:

The first of these concerns the method of payment. One of the characteristics of government salary in Bangladesh is its complicated composition. It starts with a “basic pay” and then a host of additions are added to that basic pay. Examples of such additions are house-rent, gratuity, dearness allowance, etc. Some of these are determined as percentages of the basic salary. Others are absolute figures. Yet others relate to different base. All this makes adjustment of government salary a difficult process because any such adjustment requires working through this complicated maze of percentages and absolute figures and deciding which moves in which direction and by how much. Another characteristic of government compensation is that part of it is often made “in-kind.” These “in-kind” components include government housing, transportation facilities, allotment of plots, etc.

These characteristics together create several problems. It is a basic principle of economics that lump sum cash payment of the total market value of compensation is always welfare enhancing for the recipient, compared to paying part of it in kind. This implies that mere switching to lump sum cash payment can increase welfare even without requiring any increase in budgetary expenditure.

Sometimes this may also lead to budgetary savings. The following anecdotal evidence on compensation of Bangladesh foreign-service officials may illustrate the point. Apparently, the government rents houses for such officials, and somehow high permissible ceilings have been established for such purpose, requiring the government sometimes to spend several times more on these officers’ housing than on their pay. Ironically, despite the extravagance, this is not always making the honest officials happy, because this is “forcing” them to live in such neighborhoods where cost of living is rather high. They often do not put up the commensurate expenses (in order to save), and this frustrates the whole purpose of the renting program. The dishonest ones meanwhile manipulate the system to find landlords who bill high rents and give the difference to them. Thus the system is costing the government more, making the officials less happy, not serving the original purpose, and creating scope for corruption.

There are many other examples of inefficiencies associated with the current style of fragmented and in-kind compensation. It is well known that distributions done through administrative decisions and/or “queuing” generally create scope for discretion. This then lead people devote their time and effort to unproductive activities (“tatbir,” cultivating personal relationships, manipulation, etc.). At the end, such modes of distributions often lack transparency and leave many people disaffected and thus create disincentives. The recent uproar over RAJUK distribution of plots is an example. (Parenthetically, it is indeed very difficult to understand why at all RAJUK should create and develop such plots using taxpayers’ money and then distribute them to few well-connected individuals!)
Therefore the first thing that needs to be done is move away from the current fragmented and partially in-kind style of compensation and switch to lump sum cash payment. Note that lump sum cash payment is the widely prevalent method of compensation in the developed countries and also in the East Asian countries, which Bangladesh is trying to emulate.

Amalgamation of different components of cash payment into one should not be that difficult. Any issue that may arise in this regard can be sorted out. Conversion of “in-kind” components into cash equivalents may pose some psychological barriers, but technically this is also doable. For example, residency in the current government owned quarters might still be limited to government officials. But the rent of these quarters may be set at market clearing levels so that all government officials can have equal right to bid for them. This will eradicate the inefficiencies associated with distribution by fiat.

The Issue of Inflation Adjustment:

The switch from the current fragmented and partially “in-kind” method to lump sum cash payment will serve several important purposes. First of all, this will make it easier for the government to provide inflation adjustment to the salary of its employees. Currently, there is no practice of such adjustment on a regular annual basis. Yet, inflation eats away the purchasing power of government salaries each year. Usually the governments let this go on for several years, and then when the maladjustment becomes acute, they form pay commissions to suggest some recommendations for pay increase. However, by the time this lengthy process is completed, inflation again goes ahead of the adjustment, and formation of the next pay-commission becomes necessary. Clearly, this merry-go-round does not make much sense. If government salaries are to be rational, these need to be inflation adjusted on a regular annual basis.

Switch to lump sum cash payment will make such adjustments easier. The Bangladesh Bank computes the inflation rate each year. This rate may be refined and consumer price index (CPI) may be distinguished from producer price index (PPI) and other indices of inflation. The government may use the CPI as the basis for regular annual adjustment. Whatever percentage number is decided upon will apply to the entire lump sum cash pay. There will be no worry to find out which particular components will move, by how much, which will not move, etc. There will be no complication because some components enter as ratios while others are absolute numbers. There will be no worry of inner adjustment in view of the “in-kind” components of compensation, etc. Inflation adjustment of government salaries will become a simple routine job. No elaborate process of pay commissions will be necessary.

An argument may be made that such a regular process of inflation adjustment of government salaries will lead to a wage-price inflation spiral. Several things need to be noted in this connection. First, this possibility does not take away the basic rationale for inflation adjustment of government salaries. Second, postponing the inflation adjustment by several years and then doing it in the form of a one-time big jump, as is the practice now, does not eradicate the potential spiral problem. What this may do is just impart a different periodicity to the phenomenon. Third and this is the main point. Inflation has to be controlled by other means, not by postponing government salary adjustment. These other means include ensuring competition in the market so that the prices can reflect the
actual resource scarcities and not be manipulated by the traders. Openness to international trade is helpful. Also, in deciding about the exact percentage by which salaries are to be inflation adjusted, the government needs to take account of the general business cycle conditions, both domestic and international. Fourth, as the economy grows, and the government undergoes retrenchment, the size of the government relative to the overall economy will decrease. This will also help weaken the potential impact of government salary increase on the overall inflation rate.

Note that government salary adjustment percentage needs not be equal to the increase in CPI. One reason for this is the substitution possibility in the consumption basket that allows the recipients to reach similar level welfare with less than equivalent increase in their pay. Another important reason is the following. Government officials are ultimately responsible for managing the economy. Hence if the economy witnesses excessive inflation then part of the responsibility belongs to them, and they should feel some pinch. Setting the inflation adjustment rate few points lower than rise in CPI during years of high inflation will let that happen. This will also establish a connection between the collective performance of the government employees and their remuneration. Currently there is hardly any such connection. In fact presetting this adjustment rate at a particular level can help increase motivation and effort of government employees. In that case if the economy is managed well and actual inflation rate turns out to be below the adjustment rate, the real value of government salaries will increase. The converse will be the case if actual inflation rate exceeds the preset adjustment rate. Similarly, in order to create further incentives, the adjustment rate can also be made a function of the past year’s GDP growth rate. Etc.

These are details that can be worked out once the basic principles of lump sum cash payment, regular inflation adjustment, and creation of link between government salaries and economy’s performance are accepted and adopted.

**Basic Principles of Salary Setting:**

The switch to lump sum cash payment is going to help in another important way. It is significant that both the private and the international sector of Bangladesh economy uses the lump sum cash payment as the general method of compensation for their employees. (This also shows that Bangladeshis are quite accustomed to this method.) Switch of government compensation to this method will make comparison of the government pay scale with the private and international scales easier and “transparent.”

This transparency is necessary to answer the thorny question of the amount by which government pay needs to be adjusted to make it rational. Ad hoc answer to this question is not satisfactory. For long run viability, the answer has to come from certain basic principles. The question is what can be these principles?

One possible principle is “parity with private sector.” Note that this parity may not imply exact matching of salary. Government service has some attractive characteristics compared to private sector service. One of these is job security. Government service in Bangladesh is generally permanent lifetime job with associated retirement and pension benefits. Private sector jobs are more temporary and often have inferior retirement and pension benefits. Another attractive feature of government jobs, particularly, at higher echelons, is the name, fame, and recognition that such jobs often
allow. Finally, performing public service should be more emotionally satisfying than working for private employers. These and other attractive features may allow having parity even if the government salary is, to a certain extent, lower.

However, in order to attract better quality personnel in government service compared to that in the private sector, a policy of “more than parity” may be adopted. A matching salary coupled with the attractive features mentioned above may yield “more than parity.” If, in addition, the government salaries are higher, this will certainly make government service even more attractive to country’s younger generations. This will help reverse the current trend of deterioration in the quality of new entrants into the civil service. It is important to restore the prestige of civil service. A “more than parity” principle will certainly help in that regard. Serving in the government should not in the social eye get equated with living on bribery.

**Varying Degree of Adjustment:**

It is clear that the amounts by which government salaries need to be adjusted in order to have “parity” depend on the size of differentials that exist between the government pay and the private sector pay. This differential may not be of the same extent (ratio) for different echelons of service. That has been the finding of one of the recent studies of this issue. That being true, salaries of government employees of different levels will require different degrees of adjustment. However, the only way such varying degree of adjustment can be made acceptable is by making the differentials between the government pay and private sector pay transparent. Switching to the lump sum cash method of compensation for government service will do precisely that.

As noticed earlier, it is not only the differential with private sector pay that is putting pressure on the government employees, there is also the added pull from the international pay scale. However, the latter pull is not applicable for all categories of government officials. Generally this is limited to upper level very qualified officers. However, this is also the crucial set of government officials, whose allegiance and effort is very vital for honest and efficient functioning of the national government. Leaving them vulnerable to this pressure may not be good for national interests. Hence, in adjusting the salaries of this set of government officials, the pull of the international pay scale also needs to be taken into account.

So the basic principle of “parity” still holds. However, in applying this principle it is necessary to determine which outside market competes for the relevant category of service. Adjustments will have to be made in the light of the relevant market. But such a policy of varying degree of adjustment will be difficult to justify unless the differentials themselves are transparent to all.

Note that raising salaries may not be the only way to reduce the pressure of international pay scale. Effective implementation of income tax laws vis-à-vis people who enjoy international pay scale in Bangladesh can also help mitigate this pressure to a certain extent. Also, some of the attractive features of government service are more pronounced at these higher echelons of service. Satisfaction from doing public service should be greater at these tiers too. All these factors need to be taken into consideration in determining the exact adjustments. However, material compensation is important, and that needs to be rationalized.
Budgetary Consequences of Salary Reform

The common view that one hears regarding salary reform is that the government does not have enough money to carry out these reforms. Here the problem of “scope” discussed earlier raises its head with full force.

Rationalization of the Government’s Size:

Rationalization of government’s salaries has to happen in tandem with rationalization of the government’s size. The output of Bangladesh’s government sector can be broadly classified into three categories, namely (a) marketable, (c) semi-marketable, and (c) non-marketable. Marketable output comprises of those products and services which are also (or at least can be easily) produced in the private sector and for which there is a private market. Government owned industrial enterprises, commercial financial institutions, utilities etc. produce this kind of output. Semi-marketable output consists of those services and products that were traditionally not produced by private entrepreneurs in Bangladesh and were not ‘sold’ in private market. However with time these are now being produced in the private sector too and hence there are private sector prices for them. Education and health-care services are examples of such services. Many other developmental services can now also be put in this category. Finally, the non-marketable services are those which can generally be produced only in the public sector and there are no private sector prices for them. National level policy formulation, dispensation of justice, etc. are examples of non-marketable services.

Non marketable services are generally thought to be the exclusive domain of the government. The degree to which the government should extend itself to the spheres of semi-marketable and marketable output is a matter of dispute. In Bangladesh, over the last two and a half decades, the government has been generally retreating from these spheres. Through programs of denationalization and privatization, government’s role in direct business and commerce has been reduced substantially. It is now debated whether further withdrawal is warranted.

A distinction has to be made between withdrawal of “management” and withdrawal of “ownership.” Government can withdraw from (micro) management without necessarily withdrawing from ownership. Government-owned establishments that produce marketable outputs need to have the flexibility to respond to changing market conditions. This means that the government should gradually let these establishments to determine their own pay and remuneration structures.

The same applies to establishments that produce semi-marketable output. The prices that are now produced in the private sector for similar output can be used to judge their performance as well. These establishments should also have the independence to establish their own pay and salary structures.

This withdrawal is a complicated task, and it is easier said than done. But, in the long run, that is the direction in which Bangladesh has to move. Even China, a country under communist party rule, is moving in this direction to make its state-owned enterprises efficient.
This government withdrawal from micro management will be helpful in two ways. First, it will allow these establishments to be out of the rigidity of the government pay structure and establish a link between performance and pay of their employees that is customized to their own individual situations. Second, this will narrow down the scope of the government pay structure and confine it to civil service proper. Drawing war analogy, the idea is to withdraw from fur-flung and ill manned fields to only commanding heights and man these properly. That will be beneficial for both the private and the public sector.

*Squeezing out Wasteful Expenditure from Budget:*

Rationalization of the government’s size will make salary reform feasible. The budgetary consequence of salary reform for a smaller set of people should be less demanding.

Notice that Bangladesh government presides over large revenue and development budgets. These are plenty of wasteful expenditure items in these budgets. These extend from purchase of bad foreign advice to purchase of dilapidated ships and planes. The money will be better spent in the form of better pay to an honest, dedicated, hard working government civil service.

The perspective from which this issue needs to be seen is provided by asking the question, what is the alternative? It is clear that the alternative is increasing corruption, disappearance of motivation and effort, dissolution of national authority (some may say, sovereignty) in the corrosive sea of private and international interests.

To the extent that effective pay of government officials is often higher than the official pay, the society as a whole is already paying them higher compensation. Unfortunately, under the current equilibrium it is the less honest and sincere officers who are benefiting. The honest ones are suffering. What we have is a perverse outcome.

The current bad equilibrium of the government service factor market is acting as a cancer in the heart of the society, and it is affecting the entire nation. It must be cured. The important thing is whether the country has the necessary motivation. If there is, then the rest can be worked out. As the saying goes: “If there is the will, there is a way.”

**Conclusions**

Expansion of the private, NGO, and international sector has made administrative reform very urgent in Bangladesh. Absence of reform is leading to corruption, disappearance of motivation and effort, and erosion of national authority and capability. A central task of this reform is rationalization of compensation for civil service. The rigidity of the government pay scale in presence of private and international pay scales has led to a bad equilibrium in the government service factor market. It has led to decline in effort and quality of entrants. It has led to an unhealthy gap in official and effective pay. It is harming national interests. It has made Bangladesh into a kind of “banana republic.”

Administrative reform is a difficult and complicated task. Not everything can be accomplished in one stroke. The reform has to proceed by first tackling simpler tasks and then moving on to deeper issues. The compensation reform has to start with a switch from the current fragmented and partially “in-kind” method of payment to lump sum cash
method of payment. This simple step is very potent. It allows introduction of regular inflation adjustment of government pay. It makes comparison of different pay scales transparent, which helps justify the varying degree by which government salaries of different tiers will have to be adjusted to make these salaries rational. The adjustments may be grounded on the principle of “more than parity.” For large part of the civil service, the competing pay scale is the national, private sector pay scale. However for some upper level officials, the pull of the international pay scale will also have to be taken into account.

Rationalization of government salary has to proceed in tandem with rationalization of government’s size. Government has to withdraw from (micro) management of establishments that produce marketable and semi-marketable output. This is possible even without withdrawing ownership. This will allow these establishments to perform better by creating their own salary and pay structures which are more suitable for the individual and changing market conditions that they face. At the same time, this will narrow down the orbit of the government pay scale. The government has to retreat from ill-manned fur-flung stretches and occupy only the commanding heights and man these posts better.

Rationalization of government’s size will reduce the budgetary consequence of compensation reform. Bangladesh government presides over large revenue and development budgets that are replete with wasteful expenditure items. Given sufficient will it is possible to find necessary resources for the reform. Bangladesh society as a whole is already paying higher effective pay to many government employees in a perverse way. Reform will only help end this perversity.

There are many issues that have not been addressed in this article. One such issue is of monitoring the performance of the civil service. To the extent that civil service produces non-marketable output, the monitoring has to be done through non-market method, namely through the political process that is supposed to reflect the will of the people. This illustrates the connection between different components of governance issue. The compensation issue is important for improving the political process too. Many of the arguments made in this article for rationalization of civil service compensation also apply for rationalization of compensation of politically elected officials, namely the ministers, members of the parliament, etc. But that requires a fuller discussion. (The quality of recent parliamentary exchanges has, however, made that discussion somewhat difficult.)

Even restricting to civil service and not counting the deep issues that need to be postponed for now, there are many other issues than of compensation. For example, there are issues of promotion, precedence, training, supervision, transfer, inter-relationship among cadres, entry to Senior Service Pool, etc. These all need to be discussed more thoroughly. Even the issue of salary reform has been discussed here only in terms of broad principles. Enormous amount of details needs to be worked out before a concrete blueprint of reform can emerge.

In this article we have therefore barely scratched the problem of administrative reform. The issue is of vital importance and cannot be resolved through close door deliberation of commissions. Open public discussions are necessary. The purpose of this article is to contribute, in a limited way, to that discussion.

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