

Public sector motivation and development failures

Rocco Macchiavello¹

Nuffield College, New Road Oxford OX1 1NF, UK

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Abstract

This paper provides a theoretical analysis of the relationship between public sector motivation and development. In the model the public sector produces a public good and workers are heterogeneous in terms of public sector motivation (PSM). Wages in the private sector increase with the quality of the public good. In this context, public sector wage premia (PSWP) have two opposite effects: low PSWP helps screen workers with PSM into the public sector, while high PSWP helps motivate workers to be honest. Raising PSWP may not improve the quality of governance and multiple equilibria might arise. The model highlights that the relative importance of workers selection and provision of "on the job" incentives in the public sector varies in systematic ways with wages in the private sector. We provide anecdotal and original empirical evidence consistent with the theoretical predictions and discuss some policy implications for public sector reforms in developing countries.

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1. Introduction

It is widely perceived that government bureaucracies in developing countries are slow, inefficient and corrupt. While public sector bureaucracies do not get very good press anywhere in the world, it seems that the problem is particularly acute in developing countries. All countries with high living standards have teachers who teach, police officers who police, judges who judge, public

works that work, armies that respond to external threats. No country has developed without state reliance on an effective public bureaucracy to discharge the key functions of the state (see e.g. [Amsden, 1989](#); [Wade, 1990](#); [Evans, 1998](#)). What could cause this? Is it because all other sectors are backward that the public sector is backward too?

It has been noted that failures of management are common in public production of services. Frontline workers rarely receive explicit incentives for successful service delivery, there are no stipulations for service quality and quantity, no measurement of effectiveness or productivity, few rewards or penalties. The provider organization monitors only inputs and compliance with processes and procedures, but since the objectives are often not well known and it is difficult to monitor behaviour, "accountability" is created by strict rules intended to prevent abuse and activity is regulated by

E-mail address: rocco.macchiavello@nuffield.ox.ac.uk.

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guidelines that must be followed strictly. These considerations suggest that an important part of the answer to the previous question could be that the technology of public sector delivery in developing countries has higher monitoring or measurement costs.

In this paper, instead, we take monitoring and incentives constraints as given and propose a novel argument that links the performance of the public sector to the performance of the other productive sectors in the economy via the selection of heterogeneous public sector workers. The analysis combines two main ingredients. First, we assume that some individuals are moved by “public sector motivation”, in the sense that they tend to behave relatively more in the interest of the public if employed in the public sector. Second, we assume that a more efficient public sector improves the returns in the private sector as well.

As an example consider schooling: good teaching is a complex endeavour. Direct monetary incentives are hard to provide since the quality of a teacher cannot be assessed strictly on the basis of student scores on a standardized examination, and monitoring by another trained educator – a head teacher or school principal – can create the temptation for corrupt practices, merely introducing an additional problem of monitoring the monitors. In this sort of environment, one promising way to improve the delivery of schooling services could be the recruitment of intrinsically motivated teachers, for which the provision of incentives is relatively easier.

This paper argues that one key difference between rich and poor countries is that in rich countries individuals who do not have that strong intrinsic motivation to be good teachers do not apply for a teaching position since they can easily find a well paid job in the private sector. In poorer countries, however, individuals who are not animated by strong intrinsic motivation may be attracted into the public sector by wages that are relatively higher than in the private sector. This makes the selection of motivated agents harder in poorer environments. The example of teachers is also illustrative of the second part of the assumption. Better teachers improve education outcomes which in turn lead to higher wages in the private sector. This feedback mechanism suggests the possibility of development failures, one of the key results of the analysis.

Public service motivation (PSM) frequently appears in sociological and administrative studies of public bureaucracies.² Differences in (incentives based) pay-

² Rainey and Steinbauer (1999) quoted in Francois (2000), define PSM as a “general, altruistic motivation to serve the interests of a community of people, a state, a nation, or humankind ...”.

ment between public and private sector managers are thought to be compensated by a non-pecuniary benefit for the public employees. Wilson (1989) for instance argues that public sector agencies are built around the idea of “mission” and the process of identification with the mission often motivates agents to perform their tasks more effectively than monetary incentives. The comparative study on IT-sector policies in India, Brazil and Korea provided by Evans (1998) suggests that PSM agents can positively impact the functioning of state bureaucracy. The author reports that these agencies have always been dominated by technically oriented managers with a strong substantive interest in the sector for which they were responsible and valued the transformation of the IT-sector more than minor individual perquisites. Wade (1990) reports similar evidence for top economic bureaucracies in Taiwan.³

At an abstract level, the basic intuition goes as follows: suppose the public sector employs only motivated agents so that wages in the public sector are high enough to deter opportunistic behaviour, but lower than those prevailing in the private sector. This generates efficient state intervention and high returns in the private sector. It is then easy to attract only motivated agents in the bureaucracy, justifying the initial assumption about selection of such agents in the public sector. It is easy to construct the opposite vicious circle leading to low wages in the private sector and poor public sector performance. This intuition suggests that multiple equilibria may exist for a given level of public sector wage premia (PSWP) (Fig. 1).⁴

The model predicts a non-monotonic relationship between PSWP and public sector efficiency. This result follows from the interplay of moral hazard and selection constraints, the latter working through the endogenously determined outside option for the public sector, i.e. the equilibrium wage in the private sector. Higher wages in the public sector may attract non-motivated agents without deterring their opportunistic behaviour if the wages in the private sector are sufficiently low. From a

³ Francois (2000) rationalizes the idea that the public sector can indeed be more effective in exploiting the public service motivation of employees. Besley and Ghatak (2003) present a model emphasizing the role of matching between principals and agents with similar preferred missions as an important source of efficiency in mission oriented organizations. In contrast with the current work, these two papers take a partial equilibrium perspective.

⁴ In contrast with most existing works in the theoretical literature on corruption, the source of multiple equilibria in this model is the selection of heterogeneous agents into the public sector. In other words, occupational choices are strategic complements and not opportunistic behaviour per se.

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