

## CHAPTER 6

# The Personnel Economics of the Developing State

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## Abstract

Governments play a central role in facilitating economic development. Yet while economists have long emphasized the importance of government quality, historically they have paid less attention to the internal workings of the state and the individuals who provide the public services. This chapter reviews a nascent but growing body of field experiments that explores the personnel economics of the state. To place the experimental findings in context, we begin by documenting some stylized facts about how public sector employment differs from that in the private sector. In particular, we show that in most countries throughout the world, public sector employees enjoy a significant wage premium over their private sector counterparts. Moreover, this wage gap is largest among low-income countries, which tends to be precisely where governance issues are most severe. These differences in pay, together with significant information asymmetries within government organizations in low-income countries, provide a *prima facie* rationale for the emphasis of the recent field experiments on three aspects of the state-employee relationship: selection, incentive structures, and monitoring. We review the findings on all three dimensions and then conclude this survey with directions for future research.

## Keywords

Financial incentives; Public sector; Public sector wage gap; Public service delivery or public goods; State capacity

## JEL Codes

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## 1. INTRODUCTION

Countries vary in their quality of governance, and by almost any measure, governance is significantly worse in low-income countries. For instance, the World Bank's Worldwide Governance Indicators project rank low-income countries substantially lower than the high-income countries that are members of the Organization for Economic Cooperation and Development (OECD) on government effectiveness (average percentile rank of 17.3 compared to 87.9 in 2014). For frontline service providers, such as teachers and nurses, a well-known study of six developing countries found that 19 percent of public primary school teachers and 35 percent of public health care workers were absent at the time of random unannounced visits to schools and clinics. The absenteeism was worse in poorer countries and in poorer states within India, with the worst absenteeism rates approaching 40 percent (Chaudhury et al., 2006). Given the natural role governments play in facilitating development, whether by providing public goods, addressing

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