

# Discretion in a bureaucracy

## Evidence from Pakistan



### In brief:

- Most bureaucracies today are rule-based. This is the result of a powerful intellectual tradition that argues that allowing discretion in decision-making could lead to favouritism and collusion, with substantial costs to the organisation.
- This project draws on newly digitised data from one public sector bureaucracy, the Pakistan Administrative Services (PAS) in Punjab, and presents novel evidence on discretionary promotions and lateral job allocations of junior bureaucrats by their seniors.
- The first set of results show that when senior bureaucrats have discretion to promote juniors, they do so on the basis of merit. By showing that promotions of juniors by their seniors is meritocratic, the result challenges conventional ideas on discretion in bureaucracies and opens the debate on rules vs. discretion. A decadal analysis of cohorts from 1980-2010 shows that discretionary promotions became meritocratic starting in the 1990s.
- The project then investigates the reasons behind meritocratic promotions by seniors. It investigates two potential channels: direct self-interest of the senior through discretion in the choice of their team and reputation concerns of seniors on referrals of juniors. Results show that direct self-interest of the senior has a more important role to play in meritocratic promotions. However, reputation concerns of seniors on referrals of juniors, might be a driver of the change towards meritocracy starting in the 1990s.
- The project next tests whether seniors use private information in addition to public information on juniors meritocratically. Results show that seniors do use this information and are therefore able to discern not just hidden lemons (low performing officers) from the stars (high performing officers), but also hidden gems from the bottom of the distribution.
- The last part of the project studies lateral allocations of juniors by their seniors. It draws on newly digitised administrative data on stated preferences of junior bureaucrats for location of Assistant Commissioner jobs and creates four different types of job locations: 1) non-competitive & non-preferred by juniors; 2) non-competitive & preferred; 3) competitive & non-preferred and 4) competitive & preferred. Results show that lateral allocations by seniors are meritocratic, so that high type (top 10% exam performers) are moved out of competitive and non-preferred locations, while low type (bottom 10% exam performers) are moved out of competitive ones that they prefer. However, an investigation into how different types of juniors perform in tax collection, in these locations, shows that this might not be the most efficient allocation. Results show that in lateral allocations by seniors there is tension between meritocracy and efficiency.

## About the project

This project links long-run careers of newly recruited bureaucrats to increases in the discretion or power of their seniors on postings and promotions and carries out the following analysis:

- 1) First, are discretionary promotions meritocratic? Promotions are based on merit if, with an increase in power of seniors, new recruits are more likely to be promoted based on high merit than on low merit.
- 2) Second, if promotions are meritocratic, why is that the case? The study investigates whether discretionary promotions are meritocratic because it is in the self-interest of the senior to promote based on merit. More specifically, the researcher tests the existence and relative strength of two possible mechanisms for meritocratic promotions by seniors i.e. discretion in the choice of their team to ensure high performance and reputation concerns on referrals by seniors to other teams. Investigating not just whether there are meritocratic discretionary promotions, but also why there is meritocracy, helps in understanding the specific conditions under which allowing discretion can improve information in organisations.
- 3) The third set of analysis tests whether seniors use private information in addition to public information when exercising discretion in deciding the merit of their juniors. Observing a measure of merit, which is only known to seniors and the researcher, offers a unique opportunity to study how information is used in a system with discretion. This sheds light on the true value of allowing discretion in the decision-making process of senior bureaucrats.
- 4) The fourth set of analysis looks at another kind of discretionary allocations. It investigates lateral job allocations by seniors and tests whether seniors allocate heterogeneous jobs meritocratically. This analysis forms the first step towards understanding the efficiency implications of a meritocratic system.

The data for this study is based on a large-scale data digitisation effort. The researcher combined data from five different sources: 1) career charts of different groups of bureaucrats, i.e., Pakistan Administrative Services (PAS), Provincial Civil Services (PCS), Provincial Secretariat Services (PSS), Provincial Management Services (PMS), and Ministerial Services bureaucrats; 2) exam-rank data of PAS bureaucrats; 3) tax collection data across Punjab; 4) incumbency board data with details of vacancy and tenure of Assistant Commissioner positions across Punjab; and 5) stated preference of junior bureaucrats for different locations of Assistant Commissioner jobs.<sup>1</sup>

## Results

- 1) The first set of results show that discretionary promotions of juniors by their seniors have been meritocratic in recent times. For every one rank above average increase in the power of the potential seniors<sup>2</sup>, the top 10% exam performer is 9% more likely to get promoted than the mid 80% exam performers. On the other hand, the bottom 10% exam performers are 4% less likely to be fast tracked<sup>3</sup> than the mid 80%.

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<sup>1</sup> Pakistan is administratively divided into provinces, districts and tehsils. Punjab is the wealthiest province with a population of 110 million.

<sup>2</sup> Power of seniors is the average seniority of first seniors of newly recruited PAS bureaucrats that they work with in the first month of the first job. It is measured as the average official promotions, over time, of the set of seniors. Official promotions are promotions that are based on experience, training and subjective performance evaluation of the bureaucrat by the immediate bosses.

<sup>3</sup> The core outcome used to study promotions is fast-track promotions. Fast-track promotions allocate junior PAS bureaucrats to higher positions. These are at the discretion of senior civil servants and the chief executive of the province. In fact, the higher the rank of the senior, the higher the chance that they can exercise discretion over careers of juniors. Fast-track are different from

Results show that discretionary promotions have not always been meritocratic. The researcher investigates heterogeneity of the effect across decades and finds that, for cohorts that started between 1981-1990, the bottom 10% exam performers were 22% more likely to be fast-tracked than the mid 80%. However, this trend reversed in the 1990s. With a rise in the power of the seniors, cohorts that start between 1991-2000, have a 38% higher probability than the base category to be fast-tracked, while the bottom 10% have a 41% lower probability of being fast-tracked. The differential effect at the top and bottom end of the distribution is statistically significantly different from each other. This continues for cohorts that start in the 2000s. For every one rank above average increase in the power of the potential seniors, the bottom 10% exam performers in the 2000s cohorts have a 69% lower probability of being fast-tracked than the base category, while the top 10% and mid 80% have a positive probability. The differential effects at the top and bottom are statistically significantly different from each other.

- 2) Next the project investigates the reason behind meritocracy. Results show that with an increase in their power, seniors are 1.5 times less likely, relative to the base category, to pull a bottom 10% exam performing junior into their team and promote them. This effect reverses for the top 10%. The effect at the bottom is larger in magnitude than the top 10% and it is statistically significantly different. Both these effects are larger for the senior's own team versus teams of others. Of the two competing mechanisms behind meritocracy of promotions, it appears that discretion in choice of the team is a more significant channel, rather than referrals to other teams.

The researcher then investigates the decadal trends in these two mechanisms, to understand whether (and which) of the two competing mechanisms can help shed light on the move to meritocracy in the 1990s. There are two main takeaways. First, direct self-interest of the senior, through discretion in choice of their teams, has always been an important channel for meritocracy. This is true even for the 1980s cohorts when promotions were not meritocratic. Second, the kind of referrals made by seniors mimics the move to meritocratic discretionary promotions starting in the 1990s. For the 1980s cohorts, with an increase in the power of seniors, bottom 10% exam performers are more likely, than the base category, to move teams and be promoted there. This effect reverses for the cohorts that start in the 1990s and 2000s. Results of the decadal analysis are consistent with the idea that reputation concerns on referrals by seniors might have been a driver of change towards meritocracy starting in the 1990s. What triggered this change is an exciting agenda for future research.

- 3) This project then investigates whether seniors use their private information meritocratically. Results show that with increases in the power of potential seniors, those top 10% exam performers that are not top 10% tax collectors, are 50% less likely to be promoted than those that are star performers in both dimensions. The effects are statistically significantly different across the two categories of performance. More importantly, with a one rank above average increase in the power of potential seniors, those bottom 10% exam performers who are in the top 10% of tax collectors, have a two times higher probability of being promoted, than those who are bottom in both dimensions. Again, the two effects are statistically significantly different from each other. Taken together these results suggest that seniors are not just able to discern

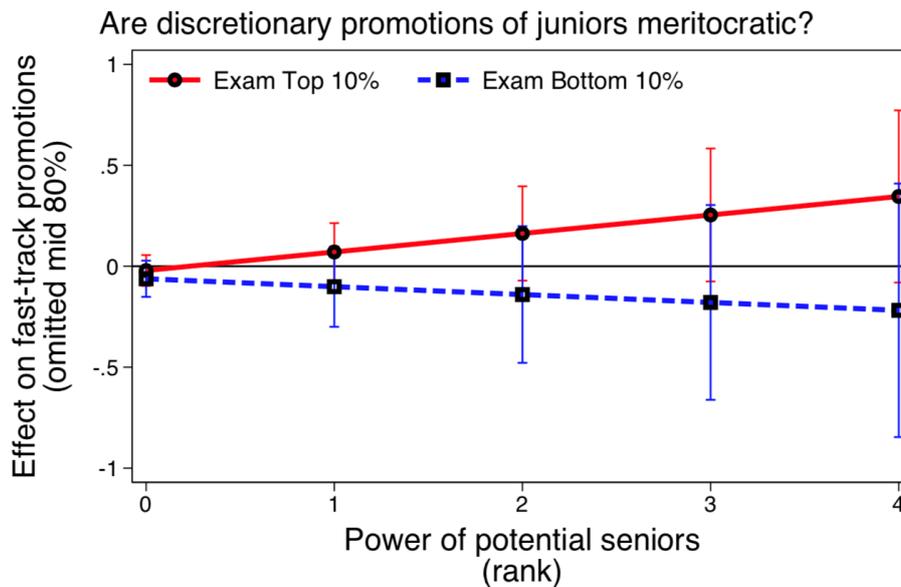
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official promotions, that are based on a bureaucrat's experience, mandatory training and subjective performance evaluation by their immediate bosses. These promotions are discretionary only to the extent that they use subjective performance evaluation of bosses.

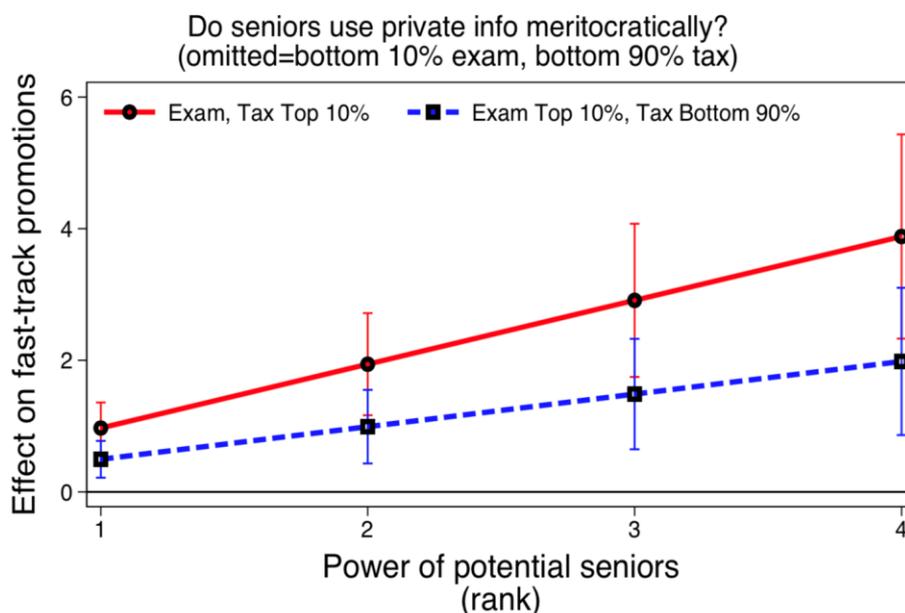
hidden lemons from the true stars, but also hidden gems from the bottom of the distribution. This sheds light on the true value of discretion in organisations.

- 4) The fourth set of results on lateral allocations show that with an increase in their power, seniors are more likely to move top 10% exam performers out of competitive jobs that they do not prefer. On the other hand, they are less likely to allocate preferred and competitive jobs to bottom 10% exam performers. These results are in line with the results on promotions. Seniors allocate heterogeneous jobs meritocratically and use their power to accommodate the high types.
- 5) However, further investigations show that this might not be the most efficient allocation. Descriptive evidence on the tax performance of different types of juniors, in these heterogeneous locations, suggests that a system that supports the bottom 10% exam performers is more likely to improve performance. Bottom 10% exam performers perform relatively better in jobs that are preferred by them and for which there is very little outside competition. On the other hand, bottom 10% exam performers perform the worst in jobs that are competitive but which they do not prefer. These results highlight the tension between meritocracy and efficiency. This trade-off might be more prominent for public sector organisations where workers have job security for life and there is limited exit of workers. Results suggest that in such a system preferences of low types also need to be given due consideration.

**Figure 1: Predicted probability of fast track promotions based on exam performance**



**Figure 2: Predicted probability of fast track promotions based on exam performance and tax collection**



## Conclusion

State institutions and the bureaucrats that execute policy are increasingly seen as a key determinant of economic development. By studying the promotions and lateral allocations of civil servants that design and implement policy for 110 million people, this project contributes to the rapidly expanding literature on organisation economics of the state.

This project speaks to the debate on rules versus discretion in bureaucracies. By showing that discretionary allocations by seniors are meritocratic, it challenges the centuries old wisdom on bureaucracies. The project argues that while there might not be a universal answer to the question of discretion, giving center stage to the incentives of the person exercising discretion are key for meritocracy.

*Note: This policy brief is based on a project funded by IGC Pakistan. The principal investigator on the project is Shan Aman-Rana. Usman Naeem, Country Economist at IGC Pakistan, and Zara Salman, Senior Research Associate at Consortium for Development Policy Research (CDPR), have prepared this brief by editing the revised academic paper from this project.*

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