

COMPENSATION IN THE PUBLIC SECTOR IN BANGLADESH:
TRENDS, ADEQUACY AND EQUITY

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Dissertation submitted to
the Centre for Governance Studies, BRAC University
in partial fulfillment of the requirements for the degree of MA in Governance and Development

Date: 14 September 2006

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ACKNOWLEDGMENT

At first I would like to thank the Center for Governance Studies of BRAC University for arranging the course 'MA in Governance and Development' and extending institutional support for this study.

This study was supervised by Dr. Akbar Ali Khan, Director, Centre for Governance Studies, BRAC University. His Knowledge, wisdom and experience helped me a lot in formulating the hypothesis, data collection & analysis, organizing my thoughts, creating ideas and finally in writing the paper. I would like to take this opportunity to express my gratitude to Dr. Khan for his all out support.

I would like to express my sincere thank and gratitude to Dr. Salehuddin Ahmed, Pro-VC BRAC University, Dr. M Matiur Rahman, Academic Coordinator and Barrister Manzoor Hasan, (International) Director for their suggestions and support in course of the study. I would also like to thank Mr. Rafiqul Islam, Deputy Director, Bangladesh Bank, Ms. Asma Dina Ghani, Deputy Commissioner of Taxes and Mr. Aminur Rahman, Assistant Commissioner of Taxes for their cooperation in data collection.

Finally, I would like to express my gratitude to all the participants of the course 'MA in Governance and Development', officials of the Centre for Governance Studies, government officers, trade union leaders and members who extended their cooperation and support in course of the study.

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LIST OF ABBREVIATION

PCI	Per Capita Income
GDP	Gross Domestic Product
SRO	Statutory Rules and Order
NMWB	National Minimum Wage Board
SOE	State Owned Enterprise
CBA	Collective Bargaining Agent
ILO	International Labor Organization
RMG	Ready Made Garment
CPI	Consumer Price Index
MDGs	Millennium Development Goals
NGWF	National Garment Workers Federation
BJMC	Bangladesh Jute Mills Corporation

ABSTRACT

Compensation of public sector employees is important on both equity and efficiency grounds. However, academic studies on compensation of public employees are limited. Most of the research on this issue was undertaken by the Pay and Services Commissions and wage and Productivity Commissions, which are appointed by the Government from time to time. The findings of these Commissions are buried in inaccessible government documents. There is, however, intense debate on trends, adequacy and equity of compensation system in Bangladesh. Specifically, this study seeks to explore the following three aspects of salary structure of the public sector in Bangladesh:

- whether the minimum compensation in the public sector is decreasing in real terms since 1971 contributing to the increased misery of low paid employees;
- analyze and carefully review the criteria used by National Pay Commissions for fixing and revising the alternative methods for suggesting minimum salary;
- examine the salary compression ratio in Bangladesh and its likely effects on the top level executives in Bangladesh.

Contrary to popular perception and the assertion of the last pay Commission; this study suggests that the gross minimum salary of public employees has increased in real terms since independence.

All the Pay Commissions in Bangladesh used the same method for determining the minimum salary. They ascertained the money needed for providing the minimum calorie required for the family of a public servant and took into account what they considered to be essential expenditures. This method is arbitrary. This study suggests that additional criteria such as national poverty line, per capita income, and international poverty line (US\$ 1 a day) could also be profitably used for fixing the minimum salary. The study found that the present compensation of government employees is above the national poverty line. However, judged by the criteria of providing a salary equivalent to per capita income in Bangladesh for a 2.5 member family or a salary equivalent to US \$ 1 a day for such a family, minimum salary in Bangladesh is inadequate.

This study also suggests that the issue of salary compression was not properly appreciated by successive Pay Commissions. Firstly, problem lies with the method itself used by the Pay Commissions in calculating compression ratio. Present method (ratio of the highest basic salary to minimum of the lowest scale) is not proper as well as it is not practiced internationally. Ideally it should be the ratio of the highest compensation (not basic salary) to the midpoint of the lowest scale. Secondly, since independence compression ratio in the public sector has been decreasing. But with the acceleration of private sector growth, salaries of the top-level executives in the private sector have increased. Present average private sector salaries at the highest level are 4-5 times higher than that of public sector. Due to these reasons senior government officers are getting demoralized and competent candidates are being attracted from public to private sector. This study highlights the importance of further studies on compensation in Bangladesh.

SECTION ONE

INTRODUCTION

1.1 Background

The World Bank in its report 'Government That Works' describes the compensation in the public sector as "the heart of the matter" in public administration reform. There are several reasons why compensation is so important in Bangladesh. Firstly, it is believed that appropriate compensation is essential for attracting suitable personnel and retaining them in the government service. Secondly, inadequate compensation demoralizes public servants and encourages corruption. Thirdly, inadequate compensation for the lowest paid employees is inequitable. Thus compensation is an important issue both for efficiency of the government and equity in public service. The importance of this issue is recognized by political parties from both the right and the left. However, the solutions proposed by opposite parties are different. The right advocates higher salary of top executives where as the left champions higher compensation for low paid employees.

Prior to independence of Bangladesh there were 2208 scales of pay. The First Pay Commission drastically reduced the existing pay scales and compressed them into ten. This created anomalies because many senior and junior officers were lumped in the same category. The Second Pay Commission recommended a 52 grade pay structure but the Government introduced a pay structure of its own consisting of 21 grades, subsequently reducing to 20 (Report of the National Pay Commission 1984). The subsequent Pay Commissions recommended 20 scales of pay. According to the Services (Reorganization and Conditions) Act 1975, the Government declares one pay structure for all the officers and employees of government, autonomous/semiautonomous bodies, nationalized commercial banks & financial institutions, public universities and state owned enterprises. Within these twenty grades/scales employees and officers of different levels and disciplines are classified according to a graded classification plan. In this system there remains no flexibility to the government because any change is applicable to all. So to avoid complexity compensation is revised after every five to seven year intervals in Bangladesh.

Since independence compensation in the public sector was revised six times, each time taking into account the recommendations of a Pay Commission. Last fixation of pay was made in the year 2004-05 after considering the recommendations of the Sixth National Pay Commission. Recent revision of compensation has not solved the problems of Bangladesh's dysfunctional bureaucracy. Low paid employees feel that there has been continuous erosion in real compensation and over time they have become worse off. On the other hand the salary compression ratio has been decreased. It is argued that this has encouraged corrupt practices amongst senior officers and the more efficient candidates are being attracted from the public sector to the private sector.

Against this backdrop of controversies on the compensation in the public sector in Bangladesh this study seeks to probe into the following three aspects of the salary structure of the public sector in Bangladesh:

- Examine whether minimum compensation of the public sector employees is decreasing in real terms since 1971 contributing to increased misery of low paid employees.
- Analyze and carefully review the criteria used by National Pay Commissions and National Wages and Productivity Commissions for fixing and revising minimum compensation and examine alternative methods for suggesting minimum salary.
- Examine the salary compression ratio in Bangladesh and its likely affects on the top-level officers in the public sector.

1.2 Structure of the paper

The paper is divided into seven sections. The introductory section describes the general background and objectives of the study. Section two discusses detailed methodology of the study. In the third section relevant available literatures on compensation in Bangladesh are reviewed. Section four examines the trends of salary in the public sector in Bangladesh. Here an attempt has been made to determine whether salary is decreasing in real terms since 1971.

Section five analyses the weaknesses of the criteria used for recommending minimum salary by the National Pay Commissions. In this section alternative criteria for fixing minimum salary are also examined. The sixth section explores the issue of salary compression, its trends in the public sector in Bangladesh, review in this context private sector salary at the top management levels and their possible impacts on the public sector. In the seventh and final section recommendations based on the findings and analysis are presented and areas for further research are also outlined.

SECTION TWO

METHODOLOGY OF THE STUDY

In this study two types of data on compensation, public and private sector, were used. The most crucial data for this study is the compensation in public sector. Compensation for the public sector is calculated on the basis of the SROs issued by the Government from time to time. Definition of compensation has varied over time. So it became very difficult to compare the compensation of different years and find out the trends. In 1973 compensation included in addition to basic salaries a fixed amount what was described as “consolidated fringe benefits”. Besides, the Government servants were entitled to rationing facilities, which provided essential food items at subsidized prices. But these provisions were not continued for long. In lieu of consolidated fringe benefits separate House Rent, Medical, Conveyance and Washing allowances were provided in 1977. Rest and Recreation and Festival Allowance were introduced in 1979 and 1984 respectively. In this context, basic salaries as well as fringe benefits of respective years were taken into consideration in analyzing the trend in compensation. Secretaries, Additional Secretaries and Joint Secretaries enjoy full time transport. So average gross salaries and overtime bills of drivers, cost of fuel & lubricants and maintenance were also included while calculating their compensation.

However, some benefits could not be taken into account owing to complexity. For example the Government employees enjoy pension after retirement and more holidays than their private sector counterparts. Officers and employees who live in government houses benefit more than those who live in private houses. The housing allowance is not enough to rent a house privately of the quality of government houses in big cities. It would take more than double the amount government provides as housing allowance to the secretaries to rent a house privately of the quality of government houses earmarked for the secretaries.

Data on private sector compensation at the management level in comparable jobs were collected from both direct and indirect sources on condition of unanimity. Indirect sources were used because in maximum cases private sector Corporations, Banks and Universities did not want to

share information regarding salaries and allowances of their employees even for research purpose. Salaries of private sector Commercial Banks and Universities were collected for three reasons. Firstly, there is a strong presence of these sectors in public sector; secondly, jobs in the private Universities and Banks are almost as secure as in public sector and thirdly, they are close competitors of public sector Universities and Nationalized Commercial Banks. In total salaries of sixteen different private sector organizations were collected. Numbers of employees in some of these organizations are quite high (1134, 855 etc.), in some organizations medium (569, 392 etc.) and in some organizations low (24, 23, 16 etc.). Average basic and gross salaries/compensation of these private sector organizations were calculated to compare with those of public sector. Average salaries of the private sector organizations were taken because in private sector salaries and benefits vary tremendously from organization to organization. In Private Commercial Banks gross salaries of the CEOs varied between Tk.5, 05,000 and Tk.1, 95,000 per month at the highest level. In one case it was found that fifteen bonuses, each equivalent to one full basic, were provided in one year as incentive. In the Private Universities monthly gross salaries ranged from Tk3, 30,000 to Tk.97, 000 at the highest level. In this situation if the highest or the lowest figures of different grades were taken, it would not give the real scenario of the private sector compensation.

This study attempted to analyze the opinions of government employees regarding the lowest and the highest salary, fringe benefits and other aspects of salary structure. For this reason trade union leaders/members were interviewed. The sample consisted of twenty-five union leaders/members and twenty-five officers. For the interviews two different set of semi-structured questionnaires (Appendix 1 & 2) were used, one for the union leaders and one for the officers. Union leaders from government, autonomous/semi-autonomous bodies (Ministries, BJMC, BSEC etc.) and State-Owned Industries (Latif Bawani Jute Mills Ltd., Eastern Tubes Ltd.) were interviewed. In cases where the presidents or general secretaries of unions could not make time their representatives were interviewed.

To examine the criteria used by the Pay Commissions in determining minimum pay and fringe benefits, the reports of the six National Pay Commissions and the National Wages and productivity Commission 2005 were reviewed briefly. Recommendations of International Labor

Organization (ILO) and the World Bank regarding minimum pay and salary structure were also analyzed. Besides, research papers and articles on both existing practices and theories of compensation collected from different sources including websites were reviewed in the literature review. Information collected from various sources were analyzed, compared and evaluated. Finally, based on the analysis and findings some recommendations were made and the areas for further research were identified.

SECTION THREE

LITERATURE REVIEW

This section is broadly divided into two parts. In the first part conceptual and theoretical aspects of compensation are discussed. In the second part literatures on compensation in Bangladesh is reviewed. Besides, a summary on the reviews is made at the end.

3.1 Conceptual and theoretical aspects of compensation

3.1.1 Definitions

Salary

A salary is a form of periodic payment from an employer to an employee, which is specified in an employment contract. The word 'salary' is derived from the Middle English *salaire*, from the Latin word *salarium*, a payment made in salt or for salt, from *salarius* meaning *pertaining to salt*. The first salaried work would have required a human society advanced enough to have a barter system to allow work to be exchanged for goods. By the time of the Hebrew Book of Ezra (550 BC to 450 BC), accepting salt from a person was synonymous with drawing sustenance, taking pay, or being in that person's service. At that time salt production and mining was strictly controlled by the monarchy or ruling elite. Since then the form and mode of paying salary has been changed and modified through an evolutionary process. Today, the idea of a salary continues to evolve as part of a system of all the combined rewards that employer offer to employees. Salary is coming to be seen as part of a "total rewards" system which includes variable pay (such as bonuses, incentive pay, and commissions), benefits and perquisites (or perks), and various other tools which help employers link rewards to and employee's measured performance.

Compensation

Generally compensation means something received in return for something else. In the cases of employees and workers it means wages and other benefits earned from labor.

Wage

Wage is the payment for labor or services to a worker, especially remuneration on an hourly, daily, or weekly basis, in contrast to a salary, which implies a more fixed and permanent form of income (e.g., payment by the month rather than by the hour). In economic theory, wages reckoned in money are called nominal wages, as distinguished from real wages, i.e., the amount of goods and services that the money will buy. Real wages depend on the price level, as well as on the nominal or money wages.

Minimum wage

Minimum wage is the lowest wage legally permitted in an industry or in a government or other organization. The goal in establishing minimum wages has been to assure wage earners a standard of living above the lowest permitted by health and other basic needs. The minimum is usually set by labor unions through collective bargaining, by arbitration, by board action, and finally, by legislation. Introduced (1894) in New Zealand through compulsory arbitration, it has become part of the social legislation of almost all countries. In Bangladesh 'The Minimum Wages Ordinance 1961' and 'The Minimum Wages Rules 1961' constitute the basic framework for determination of minimum wage.

3.1.2 Criteria for minimum wage fixing

At the international level, ILO plays a role in determining minimum wage. ILO policy as regards minimum wages is presented in a number of ILO Conventions and Recommendations on the subject. The most recent one is the Minimum Wages Convention (N° 131) with special reference to developing countries, which was adopted in 1970. This was needed because it was felt that collective bargaining and other non-statutory means of wage determination were not spreading as widely and rapidly as might have been hoped for. Article 3 of the Convention requires that the minimum wage fixing authorities take into account the following elements:

- a. "The needs of the workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;

- b. Economic factors, including the requirements of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment” (ILO, 1999).

In general, most of the criteria formulated internationally for fixing the relative level of minimum wages are variants of the following four concepts:

- The needs of workers;
- Capacity to pay;
- Comparable wages and incomes; and
- Requirements of economic development.

These concepts represent the sectoral interest of workers, employers and the macroeconomic concerns of the authorities. In practice, minimum wage fixing authorities are normally given a greater or lesser degree of discretion as regards the interpretation and application of these criteria, as they are usually expected to strike a balance between economic and social concerns. In some cases the initial minimum wage rate has been fixed based on empirical studies regarding the basic needs of a standard household. Sometimes the criterion used has been a more or less an arbitrary basket of goods and services. Once a subsistence minimum is agreed upon, the extent to which the minimum wage can meet that level remains to be decided. For many poor countries, estimates of required income for subsistence are so high relative to prevailing wage rates that they remain impractical in the short-term. Adopting such high minimum wage rates could have disastrous effects on the economy, contributing to inflationary pressures or to massive unemployment, and thereby entering into contradiction with the requirements of economic development. Where level of the subsistence wage is beyond the capacity of the employer at a particular point in time, desired levels may be achieved through economic development over time.

The capacity of employer to pay should also be a predominant criterion. In Japan the minimum wage fixing bodies need to take into account the cost of living, wages of similar workers and the industry's capacity to pay. Special attention is paid to capacity of small enterprises, as minimum

wage earners are more likely to work in small industries. In this way the minimum wage fixing authorities are more aware of the capacity to pay of the employers most directly affected by their decisions.

So it can be shown that all four criteria have to be considered together, which does not mean that all four criteria are necessarily satisfied at a particular point in time. But minimum wage fixing is not a once for all exercise. Fixing the initial levels and the successive adjustments should be seen as part of a process (ILO, 1999).

3.1.3 Criteria for adjusting wages

The most common reference for minimum wage adjustments is the Consumer Price Index, the logic being that it provides useful information on the evolution of the purchasing power of workers' income. From that point of view, adopting such a reference would take into consideration the interest of workers. However, exclusive reliance on this criterion would render it difficult for minimum wage adjustments to reflect the evolution of the capacity to pay of the employer, another key criterion. There are countries, which during certain periods have adopted formal indexing systems, linking the minimum wage adjustments to the change of prices, following a predetermined formula.

Another criterion for adjusting minimum wages is the change of average wages in the economy. In a sense, average wages may be considered as a proxy for the capacity to pay. If average wage increases there is the presumption that, in general, the capacity to pay has also improved. In this case, in order to maintain the relative wage structure, a minimum wage increase should take place. In France for example, minimum wage adjustments take into consideration not only the evolution of prices, but also average wages. While price indexation was adopted at an early stage of the minimum wage system (1952), the incorporation of average wages as a criterion took place in 1970. The rationale of this was that although price increases were fully compensated, in a context of sustained growth and full employment, the minimum wage was losing importance in relative terms. Minimum wage should be linked to average wage in order to ensure that minimum wage earners enjoy the benefits coming from economic development.

In general, it has been observed that the frequency of adjustments of minimum wage is directly related to the inflation rate of the economy, with high rates of inflation pushing for more frequent adjustments of the minimum wage levels. In many economies characterized by low inflation rates, revisions of minimum wage level take place once a year (e.g. Belgium, France, Japan, Spain, Mexico, Portugal, South Korea, and Mauritius) or every second year (e.g. Canada). However, there are very stable economies, for example United States, where minimum wages have been adjusted at irregular intervals. In 1996 the US Congress passed the first minimum wage increase in six years, which was implemented in two phases (ILO, 1999).

3.1.4 Importance of periodic general reviews

Adjustment of minimum wages or salaries though fulfills the objectives for a short-term perspective in the long terms it fails to achieve the objectives of compensation plan. Main idea of minimum wage is that it should fulfill the basic needs, which change over time. For example, in the case of a minimum wage originally set after a basic needs survey, even if the periodic adjustments managed to maintain its purchasing power after 10 or 15 years, it is almost certain that it does not satisfy the new basic needs. It is normal to expect that with the development of the economy, the patterns of consumption also evolve. Therefore, after a period of 10 to 15 years it seems necessary to review the minimum wage system with regard to the original principles that guided its introduction (ILO 1999).

Such periodic reviews would also be useful to adapt the minimum wage system to certain changes of the labor market. In the past, it has been common that minimum wages intended to cover the needs of a worker and his/her family. Increased participation of women in the labor market has changed the number of income earners per household. While the expansion of basic needs justifies an increase in minimum wage, the increase in the participation of female member in labor market implies that the fixation of minimum wage should not be based on the earnings of one spouse but on the earning capacity of both the spouses. This type of issue may be considered in periodic reviews.

Minimum wage earners are not evenly distributed among the different sectors and enterprises. Periodic reviews will make it possible to keep track of the sectoral and occupational characteristics of minimum wage earners, to allow for better targeting. In order to take into account the needs and constraints of these sectors where the low paid tend to be concentrated, it is also advisable that tripartite minimum wage fixing bodies include representatives of these particular sectors or type of enterprises among their members or, at least, are able to effectively consult them (ILO, 1999).

Finally, the need for a major revision is more pressing in countries that go through major political and economic changes, such as those undergone by the former socialist countries of Eastern Europe. There is the need to re-discuss the principles that guide minimum wage fixing and the possibility of satisfying them (ILO, 1999).

3.1.5 Wage and Productivity-a Historical Precedent

During the early part of the century, many economists argued the value of an efficiency wage on the premise that those who were paid more would be able to maintain themselves better and thus produce more. Webb, in particular, argued that a wage floor would be beneficial to employees and employers alike. Employers would most appreciate the security it would provide them against being undercut by dishonest or disloyal competition. From the standpoint of economic theory, Webb reasoned that there was nothing in a legal minimum wage that could contribute to diminish productivity. On the contrary, it would actually increase productivity. Universal enforcement of a minimum wage would in no way eliminate competition for employment; rather it would transfer pressure from one element in the bargain to the other. Unregulated employment leads employers to select the cheapest labor but not necessarily the best labor. A legal minimum wage, then, would positively increase the productivity of the nation's industry by ensuring that those who are left unemployed would be the least productive members of the workforce. Not only would employers be forced to look for the best workers so as to increase their overall productivity, employees would be forced to develop their skill so that they could be counted among the better class of workers (Webb, 1912).

Edward Filene argued (Filene, 1923) that one way of increasing efficiency was for employers to pay wages that would command higher quality employees. This would be more efficient because employers would not have to spend as much time providing direction and correcting the errors of those who were inefficient. With regard to the traditional argument that minimum wages would simply drive certain businesses out of the state, Filene thought that it was just as well to let them go. From his standpoint, any business that could not pay a living wage was not good for the state. Low wages simply result in employers having cheap standards and that these low standards produced inefficient employees. Employers would not be able to get effective organization out of those who were unintelligent, and they could not be intelligent if they did not have enough to live on properly. If the state fixes a minimum wage it prevents employers from having a body of employees who, because they are poorly paid, are able to be consumers of his business. Employers who do pay more in turn forced to take an interest in their employees – to educate them to a level that will make them worth the wage.

Minimum wage laws force employers to be interested in community affairs. Even if the wages result in a certain number of people losing their jobs, it is still to the good of the larger community because it would force the state to do its job of providing education and training to the workers. To this extent, the minimum wage would serve to enhance public efficiency (Filene, 1923). Supporters of minimum wage further argued that those who paid less than what was necessary to support their labor were essentially parasites on the community, as the difference would ultimately have to come from some place (Leher, 1987). Or as H. LaRue Brown noted, nothing would make for greater inefficiency than hunger, worry, and discontent.

Only a few years after the initial minimum wage laws took effect in USA, Arthur Holcombe of Harvard observed that the minimum wage neither led to the replacement of women by men nor did it result in any decrease in efficiency. On the contrary, the experience suggested that the benefits originally anticipated by the early advocates were indeed being secured (Holcombe, 1917).

3.1.6 Argument for increasing minimum wage

From the standpoint of economic theory, there are essentially three arguments to be made in favor of the minimum wage. Two are microeconomic and the other is macroeconomic (Waldman, O.M.L., 1997). The first microeconomic argument is a monopsony one because it assumes there to be something called market power, and because of that power firms are in a position to pay lower wages. An increase in the wage would then serve to empower low-skilled workers, and this in turn may result in some supply side effects. Card and Krueger brought it back, suggests that there are potential benefits from increases in the minimum wage that may counter most of the negative consequences. Higher wages will offer greater incentives to work. The higher the minimum wage, the more likely it is to attract individuals into the labor market. Such an approach then becomes a powerful one for assisting the poor. According to this model, the minimum wage might be viewed as a positive vehicle for lifting those at the low end of the wage scale out of poverty.

The second microeconomic argument is an efficiency-wage argument that suggests that higher wages lead to greater efficiency because workers become more productive. Therefore, raising the minimum wage might have the effect of offering positive inducement to work. Moreover, they will work harder and thus be more productive. The employers concern about shirking will pay less in monitoring costs because the higher wage is likely to result in less shirking (Shapiro and Stiglitz, 1984). According to R. Gordon (1995) those who are forced to pay higher wages would simply be forced to find ways to improve their productivity. Freeman and Medoff have argued that although many unionized firms may have lower levels of profitability, they nonetheless have greater efficiency because the wage gains achieved through collective bargaining has resulted in greater productivity. Despite the reduced profitability for some, there are still some social efficiency gains to be derived from wage and securities arising from collective bargaining agreements (Freeman & Medoff, 1984).

Lastly, the macroeconomic argument suggests that higher minimum wage will increase the purchasing power of the workers. The worker in turn will be able to demand more goods and services. As they do this, businesses will produce more, and they in turn will hire more workers,

which may have the inevitable result of naturally bidding up wages across the board. So an increase in the minimum wage, though it may lead to some short-term adverse consequences, will lead to long-term benefits to the economy as a whole.

According to Waldman, the irony about these three arguments is that they were indeed instrumental in attaining the adoption of the minimum wage in the first place. Therefore, there would be ample historical precedent to return to these arguments as foundations for a new policy that would establish an independent mechanism for automatically adjusting the minimum wage on a regular basis (Waldman, O.M.L., 1997).

3.1.7 Relationship between Wages and Corruption

According to the World Bank the erosion of compensation packages of policy-makers and bureaucrats, particularly in the post independence period in Bangladesh, has increased temptations for them to supplement their incomes illegally (The World Bank, 1996). Rijckegham and Weder present econometric evidence from 31 countries showing a correlation between civil service wages, meritocracy and corruption, and that of active wage policy can help in tackling corruption (PricewaterhouseCoopers, 2004). On the other hand in cross-country studies, Rauch and Evans (2000) and Treisman (2000) find no robust evidence that higher wages deter corruption. So it can be seen that the systemic evidence of the relationship between pay and corruption is ambiguous. However Becker and Stigler (1974) show that by paying the official a wage above the official's opportunity wage, one can ensure, under certain conditions that the official will behave honestly. They give importance of the third-party enforcement. Di Tella and Schargrodsky (2003) also find that higher wages have a negative and quantitatively important effect on procurement prices but only when audit intensity takes intermediate levels (Svensson, J., 2005)

It is interesting to note that the recent findings of social scientists which emphasize a two pronged strategy of higher salary and punishment for the delinquent was appreciated as early as 7th century by the Fourth Calip of Islam Hazrat Ali (Ra.). In a letter to Malik Ibn Haris Ashter

the Governor designate of Egypt in 658 AD Hazrat Ali (Ra.) gave the following instructions regarding State Executives (A Classic Administrative Policy letter, 1976):

“Keep them well paid so that they are not tempted to lower their moral standards. This will enable them to have due control over themselves and over the funds which they hold in trust. If they prove dishonest and misappropriate funds in spite of handsome emoluments you will have a good case against them to bring them to book. Therefore, have a cautious eye over their method of work and performances and do not leave them to themselves after their appointment.” - Hazrat Ali (Ra.)

From the above discussion it can be concluded that higher wages for the government employees can reduce corruption provided that strong anticorruption measures and auditing are in place.

3.1.8 Public Sector Compensation

The scope of minimum wages goes from the broadest possibility, which is a general minimum level applicable nation-wide, to a minimum wage system limited to a few occupations. In between, there are systems based on regional differentiation or by industry or branch of activity. Of course, the determination of a national minimum wage requires a certain level of homogeneity of economic development and labor market conditions across the country. In cases where this condition is absent, regional, and occupational minimum have to be applied. But these systems require careful coordination. In the countries of South Asia (India, Pakistan, Bangladesh, Sri Lanka and Nepal) there are different configurations of occupational minimum wage rates, regional rates and national rates, applied with varying degree of success (ILO, 1999). In Bangladesh a general minimum wage is applicable nation wide for public sector workers and a general minimum salary is applicable nation wide for public sector employees. In the case of private sector the National Minimum Wage Board (NMWB) sets different minimum wages for different industries.

3.1.8.1 Objectives of public sector compensation policy

The classic problem in civil service compensation is how to value the labor that produces the output of government employees, given that such output is generally not marketable. The general solution is to make compensation comparable (not equal) to that for equivalent skills, which are marketed, i.e. private sector pay (World Bank, 1997). Civil service compensation operates in practice within the broad framework of public sector compensation. There are four major objectives of public sector compensation policy:

- Equal pay for equal work performed under the same condition;
- Differences in pay should be based on differences in work, responsibilities, and qualifications;
- Levels of government pay should be comparable to those in the private sector;
- Levels of government compensation should be periodically reviewed and systematically revised to assure the continued validity of the compensation plan.

3.1.8.2 Design of a compensation plan

The most important and difficult part is to design a compensation plan. Usually the starting point is job classification in which the positions are systematically arranged. Many kinds of classification plans exist, but the most important distinction is whether the plan is “graded” or “ungraded”. Graded classification plans have the following characteristics:

- a formalized procedure for measuring the level of difficulty, effort and responsibility of each class of position;
- identification of grades, each constituting a specified level of difficulty, skill and responsibility, with successively higher grades constituting successively higher levels of difficulty, effort and responsibility. All classes in any one grade are supposed to require essentially the same level of difficulty, effort and responsibility, regardless of the occupation to which the class belongs; and
- a single pay range for all positions in all classes assigned to any one grade. No other grade in the same pay plan uses that pay range.

Graded classification plans provide equal pay for equal work within each occupation and among different occupations. At present this kind of classification is being followed in Bangladesh. Graded classification plans are able to serve large establishments with even thousands of job classes, since pay levels for only a small number of grades are required to be set. They are not at all flexible. Graded Classifications are superior only when they are correct.

By contrast ungraded classifications provide equal pay for equal work only in same occupation. Their principal advantages are that they are simple in concept and structure and are therefore easily designed and installed. Under such classification, pay changes for individual classes can be made whenever a need arises, without having to change the entire pay schedule (World Bank, 1997).

3.1.8.3 Salary compression ratio

An efficient salary structure should offer pay rates that are competitive both internally and externally, and internal equity in grading and compensation. A good indicator of the efficacy of the salary structure is the salary compression ratio (also called disparity ratio) - the ratio of the highest salary to the lowest. Compression occurs (compression ratio become smaller) when the salary differential between the lowest and the highest become smaller and decompression occurs when ratio increases. Compression ratio can be calculated in three different ways. Firstly, the ratio of the lower end of the highest salary grade to the lower end of the lowest; secondly the ratio of the midpoint of the highest salary grade to the midpoint of the lowest; and thirdly; the ratio of the higher end of the highest salary grade to the higher end of the lowest. But the second method is more acceptable and practiced internationally.

Salary compression has been a chronic problem of civil service pay structures in many countries. Internationally the compression ratio (the ratio of the midpoint of the highest salary grade to the midpoint of the lowest) varies widely, from highs of 30:1 (in Malawi) or more to lows of 3:1 (in Mauritania) - with a mode of around 6 or 7 to one (World Bank, 1997). According to Ibrahim Shihata (1994), in developing countries the adjustments in public service

pay have entailed, firstly, a compression of the salary structure, i.e., generally greater increases in lower grades at the expense of those in higher grades, resulting in a reduction in the difference between the highest and the lowest paid job groups. In developing countries, salary compression increased considerably and persistently as a result of a combination of factors including trade union negotiations, equity concerns, and egalitarian and socialist policies. Consequently, these public services have difficulty in attracting and retaining high-level staff (PricewaterhouseCoopers, 2004). Although understandable from a short-term equity point of view, the longer-term impact of such an approach has been minimal to both efficiency and equity.

3.2 Compensation in Bangladesh

In Bangladesh the Government plays a crucial role in setting the minimum pay in both public and private sector. The Government constitutes National Pay Commissions and National Wages and Productivity Commissions after every 5-7 year intervals to recommend salaries/wages for the public sector employees and industrial workers respectively. After analyzing the recommendations of the above-mentioned commissions, the Government fixes one pay scale for public sector employees and one wage scale for the industrial workers. But different minimum wages are fixed by the Government for different private sector industries upon the recommendations the National Minimum Wage Board (NMWB) formed under the Minimum Wage Ordinance 1961. In a country where under-employment is widespread and administrative capacity is weak, there is a widespread agreement that the Government is unable to enforce minimum wage legislation in the private sector industries. In a recent survey of 166 industrial enterprises, the World Bank found that only 47% of sample enterprises adhere to minimum wage regulations while the remaining 53% apparently do not concern themselves with this issue and more likely enter into contractual arrangements that actually bypass the minimum wage laws (Report of the National Wages and Productivity Commission, 2005). To understand the basis of adjustments and revisions of salaries and wages the reports of six National Pay Commissions and National Wages and Productivity Commission 2005 are reviewed briefly:

3.2.1 National Pay Commission 1972 – A Brief Review

The first Pay Commission was set up by a Notification, dated 21 July 1972 and its report was submitted to the Government on 20 May 1973. It was constituted to recommend a National Pay Structure for all public sector employees including the members of the Armed Forces. According to this Commission, the determination of the salary of public employees demands consideration of different factors, e.g., social, economic, historical, moral and psychological. The commission opined that it would be unfair and socially explosive to allow very wide differences in incomes including that in salaries of government employees. So it is clear that the Commission took egalitarian and socialist approaches in recommending salary structure. According to the Commission minimum needs of an employee and members of his family include, a. essential food items with requisite calories to keep them in physical fitness, b. a shelter containing minimum liable accommodation for the family, c. minimum medical coverage and d. education for children. This Commission was able to bring the existing 2208 scales down to only 10. It recommended for fixing minimum salary at Tk.130, considering the requirements of a family of four adults. In addition to that, it recommended for providing some essential commodities at subsidized prices. A consolidated fringe benefit of Tk.70, Tk.60, and Tk.45 was also suggested respectively for five big cities, other municipal and town committee areas and the then Thana headquarters, and for places other than those mentioned above. It proposed Tk.2000 as the basic salary and Tk.300 as consolidated fringe benefit for the secretaries (Report of the National Pay Commission, 1973). The ratio of the lowest to the highest salary (compression ratio) was 15.38: 1. The Government accepted the proposed 10 scales, but implemented proposed 1-4 scales partially and 5-10 scales fully (Report of the National Pay Commission, 2004).

3.2.2 National Pay and Services Commission, 1977 – A Brief Review

The Second Pay Commission was both a Pay and Services Commission, set up by a Notification dated 20 February 1976 and its report was submitted to the Government on 27 May 1977. This Commission evaluated the recommendations of previous Pay Commission's report as well as Pay Commission reports of India and Pakistan. It argued that the living wage is bound to vary

on the existing poverty, minimum subsistence, health and decency, comfort and cultural level. According to the Commission, the rationale of the floor salary is to keep the employee alive so that he /she can produce in return for the public sector. It recommended a total of 52 scales with the lowest and the highest basic salary Tk.230 and Tk.4000 respectively. The Government declared the 'New National Pay Scale' consisting of 20 scales with the lowest salary and the highest salary Tk.225 and Tk.3000 respectively. The compression ratio was 13.33:1 (Report of the National Pay Commission, 2004). Recommended fringe benefits were:

- Larger funds should be provided for residential accommodation and the maximum permissible rent should be raised to Tk.3000. House Rent Allowances of the support employees (Messenger, Clerk etc.) should be enhanced by 33.50%.
- Medical allowance should continue to be paid at the flat rate of Tk.30 per month to all categories of employees but at the same time hospital facilities should be substantially extended. It was also suggested to the Government to examine and to give concrete shape to the health insurance scheme at the earliest.
- Conveyance Allowance as admissible in the government sector might be supplemented by adequate number of staff buses.
- Rest and Recreation Allowance might be revived (Report of the National Pay and Services Commission, 1977).

3.2.3 National Pay Commission, 1984 – A Brief Review

The Third Pay Commission was set up by a Notification dated 31 May 1984. This Commission evaluated the recommendations of previous two Pay Commissions' reports. According to this Commission, the living wage should be sufficient to meet the needs of food, clothing, shelter, healthcare and educational facilities for the children. It argued that a newly recruited government employee should have a family consisting of two adult members and a minor child. The total monthly cost of food and clothing for an adult semi-sedentary worker was estimated as Tk.260. So the total cost of food and clothing of a family consisting of 2.5 adults was Tk.650 (Tk.260+260+130). Finally the Commission submitted its report proposing 20 different scales of pay with the lowest salary and the highest salary Tk.660 and Tk.7500 respectively (11.36:1). The Government approved minimum salary was Tk.500 and the highest salary was Tk.6000,

with a compression ratio of 12:1 (Report of the National Pay Commission, 2004). The recommended fringe benefits were:

- House Rent Allowance should continue at the existing rate in all places of posting other than Dhaka, Narayanganj, Chittagong, Rajshahi and Khulna where the rates should be increased by 10% for all groups of employees.
- Medical allowance to be raised to Tk.100 per month. It also recommended for introducing Health Insurance Scheme.
- Existing practice of allowing the officers of top three grades use whole time government transport to be discontinued and Car Allowance of Tk.3000 per month in lieu thereof should be introduced.
- Conveyance Allowance should be raised to Tk.40 per month for the grades XX - XI. Conveyance Allowances for employees from grades X-IV, III and II should be Tk75, 150, and 250 respectively.
- Rest and Recreation allowance as at present should continue.
- Festival allowance to be paid every year to all grades of employees irrespective of whether they had drawn Rest and Recreation allowance during the same year.
- Washing Allowance for employees of Grade XIX and XX to be raised from Tk5 to Tk.10 per month (National Pay Commission, 1984).

3.2.4 National Pay Commission, 1991 – A Brief Review

The Fourth Pay Commission was set up by a Notification dated 31 July 1989. The Commission opined that salaries in the public sector should be enough to attract and retain the brightest and the best. The Commission argued that salaries in public and private sector should not be comparable. According to the Commission salaries in the public sector should be fixed after considering the basic needs and social as well as ethical aspects. It recommended a minimum salary of Tk.1200 after considering minimum calorie requirements, and cost of other essential commodities for a family of 2.5 adults. The recommended maximum salary was Tk.13, 500, with a compression ratio of 11.25:1. It kept the provision of 20 different scales unchanged. The Government approved minimum basic salary was Tk.900 and the highest basic salary was

Tk.10, 000, with a compression ratio of 11.11:1 (Report of the National Pay Commission, 2004).
The recommended fringe benefits were:

- House Rent Allowance should be 55%, 50%, 45%, and 40% of basic salary in a. Dhaka Metropolitan area, b. Narayanganj, Chittagong, Rajshahi, Sylhet and Khulna Metropolitan/Paurashava areas, c. District Towns and d. other areas respectively.
- Employees having service length of ten years or less should get Tk.150 and employees having service length of more than ten years should get Tk.250 per month as Medical Allowance.
- Conveyance Allowance should be Tk.150, 100, 50 per month for the employees working in a. Dhaka, Narayanganj, Chittagong, Rajshahi, Sylhet and Khulna Metropolitan/Paurashava areas, b. District Towns and c. Upazila and other areas respectively. Officers who are not entitled to full-time use of government transport should get Tk.250, 200, 100 per month as Conveyance Allowance in a. Dhaka, Narayanganj, Chittagong, Rajshahi, Sylhet and Khulna Metropolitan/Paurashava areas, b. District Towns and c. Upazila and other areas respectively.
- Rest and Recreation allowance including fifteen days earn leave should be given after every two years in place of three years.
- Festival allowance equivalent to two months basic salary to be paid every year to all grades of employees irrespective of whether they had drawn Rest and Recreation allowance during the same year.
- Dress Allowance should be given after completing three years of service in place of five years.
- Washing Allowance should be increased from Tk.20 to Tk.33.
- Education Allowance should be introduced at a rate of Tk.50 per school going child for maximum of two children.
- Family planning bonus at a rate of 10% of basic and up to a maximum of Tk.300 for those who restrict their families within two children to be introduced.

3.2.5 National Pay Commission, 1996 – A Brief Review

The Fifth Pay Commission was set up by a Notification dated 07 September 1996. This Commission analyzed the reports of previous Pay Commissions as well as reviewed the status of pay in neighboring countries. According to the Commission it considered basic needs, ethical aspects, living standard, socio-economic condition, private sector pay and the need of attracting talent in public sector at the time of fixing salaries and benefits. The Commission argued that a newly appointed government employee should not have a family consisting of more than 2.5 adults (two adults and a minor child). Finally the Commission submitted its report proposing 20 different scales with the lowest salary and the highest salary Tk.1, 850 and Tk.18, 000 respectively (9.73:1) (Report of the National Pay Commission, 1996). But the Government approved minimum salary was Tk.1500 and the highest salary was Tk.15000, with a compression ratio of 10:1 (Report of the National Pay Commission, 2004). The recommended fringe benefits were:

- House Rent Allowances should be 60%, 55%, 50%, 40%, and 30% of basic salary in a. Dhaka Metropolitan area, b. Chittagong Metropolitan area, c. Rajshahi, Sylhet, Khulna, Narayanganj, Metropolitan/Paurashava areas and other old District Headquarters, d. New District Headquarters and e. Other areas respectively.
- Employees who are less than 40 years of old should get Tk.250 and employees who are 40 years of old or more should get Tk.350 per month as Medical Allowance.
- Conveyance Allowance for the non-gazette employees should be Tk.125 and 100 per month in a. Dhaka Metropolitan area and other areas respectively. Officers who are entitled to full-time use of government transport should enjoy either the same facility or Tk.8000 per month.
- Rest and Recreation allowance including fifteen days earn leave should be given after every three year intervals.
- Festival allowance equivalent to two months basic salary to be paid every year to all grades of employees irrespective of they had drawn Rest and Recreation Allowance during the same year.

- For the fourth class employees and drivers Tk.125 should be given per month as Dress Allowance instead of providing dress.
- Washing Allowance should be increased to Tk.50.
- Education Allowance should be provided up to secondary level at a rate of Tk.75 per school going child for maximum of two children.

3.2.6 National Pay Commission, 2004 – A Brief Review

The Sixth and the latest Pay Commission was set up by a Notification dated 10 July 2004. It also analyzed the reports of previous Pay Commissions and reviewed the status of pay of the government employees in neighboring countries. Private sector pay and inflation rates were also taken into account. The Commission opined that previously salaries of the government were not fixed at a desired level and salaries of the government employees were not increased keeping pace with the prices of essential commodities. The Commission thought that the lowest level employees should have families consisting of not more than three adults. Considering all those things it finally recommended to fix the lowest salary at Tk.2800 and the highest salary at Tk.27, 500 (9.82:1) (Report of the National Pay Commission, 2004). But the Government did not implement all the recommendations fully. The Government approved minimum salary at Tk.2400 and the highest salary at Tk.23, 000 with a compression ratio of 9.58:1. The recommended fringe benefits were:

- House Rent Allowances should be 60%, 55%, 50%, 45%, 40%, and 30% of basic salary in a. Dhaka Metropolitan area, b. Chittagong Metropolitan area, c. Rajshahi, Sylhet and Khulna, Narayanganj Metropolitan/Paurashava areas d. Old District Headquarters, e. New District Headquarters and f. Other areas respectively.
- Employees who are less than 45 years of old should get Tk.500 and employees who are 45 years of old or more should get Tk.600 per month as Medical Allowance.
- Conveyance Allowance should be Tk.125, 100, 90 per month for the non-gazette employees working in a. Dhaka Metropolitan areas, b. Chittagong Metropolitan areas c. other areas respectively.
- Officers who are entitled to full-time use of government transport should enjoy either the same facility or Tk.14000 per month. Other First Class Officers should get Tk.250, 200,

150 per month as Conveyance Allowance in a. Dhaka Metropolitan areas, b. Chittagong Metropolitan areas c. other areas respectively. All second class officers should get Tk.150, 125, 100 per month as Conveyance Allowance in a. Dhaka Metropolitan areas, b. Chittagong Metropolitan areas c. other areas respectively.

- Officers who are entitled to full-time use of government transport may be sanctioned Tk.14, 00,000 and other officers may be sanctioned Tk.5, 00, 000 as interest free/low interest loan to buy their own transport instead of government transport facilities if they want.
- Rest and Recreation Allowance including fifteen days earn leave should be given after every three year intervals.
- Festival allowance equivalent to two months basic salary to be paid every year to all employees.
- For the fourth class employees and drivers Tk.1800 should be given as Dress Allowance per year after completing five years of service.
- Washing Allowance should be increased from to Tk.50.
- Education Allowance should be introduced at a rate of Tk.100 per school going child for a maximum of two children.
- In lieu of present Tiffin Allowance (Tk.100 per month) food could be provided in the canteens at subsidized prices.

3.2.7 National Wages and Productivity Commission 2005 – A Brief Review

The Commission was given the responsibility to recommend basic wages and fringe benefits for the workers and production clerks as defined under the Shops & Establishment Act 1965 and Factories Act 1965, working in state owned enterprises (SOEs). According to the Commission wages and salaries of workers increased irrespective of whether productivity increased, decreased or remained constant. On the above circumstance the Commission opined that the SOEs do not have the ability to pay any higher wages/salaries and any more benefits. Wage increases for the employees of SOEs may also have a significant impact on the economy, as they tend to affect private sector wages also. Public sector workers represent around 25% of formal employment in Bangladesh. Whenever they receive wage increases, pressures for similar

wage increase in the private sector mount, particularly in the sectors with a strong public sector presence. Thus an excessive increase in public sector wages could result in a generalized loss of competitiveness including the manufactured exports in the private sector through an increase in domestic cost and a decline in private sector employment (Report of the National Wages and Productivity Commission 2005).

The Commission found that for a family of four (husband, wife and two minor children equivalent to one adult) of an unskilled worker, average expenditure on food per month amounted to Tk.3030 and the total average monthly expenditure on food and non-food was Tk.4872. But for the same family of the unskilled worker, the calorie-based poverty line was Tk.3807 (including food and non-food expenditure). The Commission concluded that the basic monthly wage for unskilled workers should be Tk.2365 to cover total family expenditure of Tk.3807 per month at the calorie based urban poverty line.

In the consideration of the facts that the workers have the right to live above the poverty line, the GOB has committed itself to alleviate poverty by 2015, the GOB dictates upon procurement, purchases and sale system of SOEs etc., the Commission recommended for increasing the salaries and benefits of the workers and production related clerks working in SOEs. The Commission recommended for fixing the minimum salary at Tk.2850, but the Government fixed basic minimum wage at Tk.2450. In this connection it may be mentioned that minimum wages recommend by the previous four Wages and Productivity Commissions (Commission-1977, 1985, 1991 and 1998) were Tk.270, 560, 950 and 1550 respectively. The recommended fringe benefits were:

- House Rent Allowances should be 60% and 50% of the basic in Dhaka Metropolitan areas and other areas outside Dhaka Metropolitan areas respectively.
- Tk.500 should be given per month as Medical Allowance.
- Conveyance Allowance for the workers should be Tk.100 per month if the enterprise/Government provides no transport.
- Festival Allowance equivalent to two months basic salary to be paid every year to the workers.

- Washing Allowance should be paid at a rate of Tk.25 per month per livery provided by enterprises.
- Night shift Allowance would be paid to the worker at the rate of Tk.10 per working night subject to a maximum of Tk.200 per month.
- Tiffin Allowance would be paid at the rate of Tk.100 per month.
- Profit bonus would be paid at the rate of 10% of the net profit of the enterprise each year provided the enterprise makes 10% net profit over the working capital of that year.

3.2.8 Salary Compression

In order to appreciate the problem of salary compression the issue may be analyzed from the historical perspective. According to the 'Arthashastra' of Kautilya, in Kautilya's time the highest salary was 48,000 panas and the lowest was 60 panas, compression ratio was 800:1. Kautilya's logic behind the high compression ratio was that higher salary would prevent higher-class employees of the kingdom from succumbing to the temptations or rising up in revolt, make them efficient in their work and ensure that they remain loyal and powerful supporters of the king. It was high in Mughal and British period. In the year 1949 and 1962 compression ratio was 143:1 and 61:1 respectively. But after the independence of Bangladesh it dropped. According to the National Pay Commission 2004, in the year 1973 compression ratio was 15.38:1 and present compression ratio is 9.58:1 (the ratio of the highest to minimum of the lowest scale). So it can be seen that since independence compression ratio is decreasing.

An even more disconcerting aspect of salary and benefits is that even though the compression ratio between officers (class I and II) and staff (class III and IV) is around 1:5 based on salary grade structure, it drops to 1:2 when actual payments are taken into account. This is because class III and IV staff enjoy a large number of additional allowances (World Bank, 1996).

As mentioned earlier most pay revisions have tended to be biased towards the lower level staff rather than the officers and this has contributed to the problem of salary compression. In 1962 terms, the basic pay of a secretary has declined by 87% while that of a peon declined by only

43%. “Between 1962 and 1994, secretaries, joint secretaries and deputy secretaries suffered a sharp decline in real incomes. Looked at another way, if the purchasing power of the secretary’s salary of Tk.3000 in 1962 was maintained, by increasing it at same rate as CPI, it should be at least Tk.260, 000 now--it is only Tk.10, 000. In dollar terms, a secretary’s salary has dropped from \$667 in 1962 to \$ 250” (World Bank, 1996).

3.3 Summary of the literature on compensation in Bangladesh

Since independence six Pay Commissions and five Wages and Productivity Commission was formed to review the compensation of the public sector employees and workers. All the Commissions submitted their reports but the recommendations were not fully implemented. The Government increased the basic salaries/wages of the employees and workers and introduced new fringe benefits as well as increased existing benefits time to time on the basis of the recommendations of these Commissions. The review of the literature shows that Pay Commissions did not follow a consistent definition of compensation. In the year 1973 basic salary and a fixed amount was given as consolidated fringe benefit with rationing facilities. Later on rationing facilities were dropped and new fringe benefits, e.g., Rest and Recreation Allowance, Festival Allowance, Tiffin Allowance etc. were included in the compensation package. Components of the compensation kept on changing. But while analyzing the trend of minimum salary only the basic salary was taken into consideration. This is not at all justified because compensation includes basic salaries as well as fringe benefits. The existing studies on trends of compensation in public sector in Bangladesh are based on net salary and not on gross salary. This study proposes to examine the trends in both gross and net salary.

All the Pay Commissions considered more or less one formula in fixing the minimum salary. They worked out the cost of living of a family of an employee using basic need approach. In this regard minimum daily calorie requirements of an individual and its cost were calculated first and then expenditure on food for a family was found out. Expenditure on food was added to the expenditure on non-food items to calculate the total expenditure of a family. But this method has limitations. On the issue of family size of the lowest level employees Pay Commission were

also of different opinions. In order to evaluate the strengths and weaknesses of present method, it is necessary to explore alternative methods, which could be used in fixing the minimum salary.

Salary has been compressed in the public sector since independence. But the way Pay Commissions calculated salary compression ratio is not practiced internationally. Internationally salary compression ratio is calculated taking the mid point of the highest and mid point the lowest grade into consideration. But all the Pay Commissions took the ratio of the highest salary to minimum of the lowest grade. Another point is that the Commissions used basic salary in calculating compression ratio. It would be interesting to see what happens if gross salary/compensation is used to calculate the compression ratio. By examining alternative measures of compression ratio, this study proposed to have an in-depth analysis of the problem.

SECTION FOUR

TRENDS OF MINIMUM SALARY IN PUBLIC SECTOR

4.1 Trends in minimum salaries in public sector

It is already mentioned that since independence the Government has formed six Pay Commissions and five Wages and Productivity commissions. Each commission has suggested an increase in the pay in comparison to the previous commission. But the Government didn't implement the recommendations of the Pay Commissions fully. The difference between recommended and actual salary shows the level of inadequacy of pay judged from an objective point of view. The recommendations of Six National Pay Commissions regarding minimum basic pay and subsequent government decisions are presented in the following table:

Table 1: Summary of the recommendations of six Pay Commissions regarding monthly minimum basic pay and the amounts approved by the Government

Pay Commission	Recommended minimum basic Pay per Month (in Taka)	% increased than the previous Pay Commission	Amount implemented By the Government (in Taka)	% implemented by the Government	% increased from the previous year's actual salary
Pay Commission 1972	130	-	130	100	-
Pay Commission 1977	230	73.07	225	97	73
Pay Commission 1984	660	122.22	500	76	122
Pay Commission 1991	1200	80.00	900	75	80
Pay Commission 1996	1850	66.66	1500	81	67
Pay Commission 2004	2800	60.00	2400	85.7	60

Source: The report of the National Pay Commission, 2004

In 1973-74 the then Government implemented the minimum pay recommended by the First Pay Commission fully. Since then no Government implemented the minimum salary recommended

by Pay Commissions. The Government implemented 97%, 76%, 75%, 81% and 85.7% of the monthly minimum basic salary recommended by the Pay Commissions in the year 1977-78, 1984-85, 1991-92, 1997-98 and 2004-05 respectively. In comparison to the previous pay fixing year the increase in actual pay (nominal) was 73%, 122%, 80%, 67% and 60% in the year 1977-78, 1984-85, 1991-92, 1997-98 and 2004-05 respectively. It can be seen that though the recommendations of the Pay Commissions were not fully implemented (except 1973-74) monthly minimum basic salary (nominal) was increased from 60% to 122% in different pay fixing years. But there is a general belief that salaries and benefits of the Government employees are decreasing in real terms in course of time. The National Pay Commission 2004 opined that minimum basic salary of the government employees has been decreasing in real terms. Basic pay in the year 1973-74 was Tk.130. At that time the Government used to provide essential food items to the employees at subsidized prices. According to the National Pay Commission 2004 due to this privilege the government employees could save an additional amount of Tk.80.12 each month (The report of the National Pay Commission 2004, page 318). If this monetized benefit were added to the basic, the minimum basic pay of 1973-74 would reach at Tk.210 (130+80.12) (fractions are ignored). So the minimum basic salary of 1973-74 is considered as Tk.210 and it is updated to 2004-05, on the basis of CPI, to have a comparative picture with the present.

Table 2: Comparative pictures of actual monthly minimum basic salaries fixed by the Government in different years with the CPI adjusted monthly minimum basic salary of 1973

Year of pay fixation	Actual monthly minimum basic salary fixed by the Government (in Taka)	Consumer Price Index numbers (base year 1973-74=100)	CPI adjusted monthly salary of 1973 (in Taka)
1973-74	210	100	210 (130+80)
1977-78	225	177	372
1984-85	500	397	834
1991-92	900	673	1414
1997-98	1500	940	1974
2004-05	2400	1238	2600

Note: Monthly minimum salary was fixed at Tk.130 in 1973-74. As some essential food items were supplied at subsidized prices employees were able to save Tk.80.12. So to get the real figure minimum basic salary of 1973-74 is considered as Tk.210 (130+80) while adjusting with the Consumer Price Index numbers (the National Pay Commission, 2004).

Source: The report of the National Pay Commission, 2004.

Basic salaries per month in 1973-74, 1977-78, 1984-85, 1991-92, 1997-98 and 2004-05 were fixed at Tk.210, 225, 500, 900, 1500 and 2400 respectively. If monthly minimum basic salary of 1973-74 (Tk.210) were updated on the basis of CPI it would become Tk.372, 834, 1414, 1974 and 2600 in the year 1977-78, 1984-85, 1991-92, 1997-98 and 2004-05 respectively. In each case CPI adjusted monthly salary of 1973-74 is higher than the actual monthly minimum salary of the concerned year (Table-2). Based on the above findings the National Pay Commission 2004 concluded that though in nominal terms minimum basic salaries have increased, in real terms minimum basic salaries have decreased since independence. But in this regard it must be remembered that in public sector basic salary of an employee is a component of total compensation. There are other components of compensation.

In the public sector in Bangladesh definition of compensation have changed over time. In 1973 minimum compensation included in addition to basic salary a fixed amount of Tk.70 for five big cities and Tk.45 for Thana Headquarters and other peripheral areas for the lowest-level employees what was described as consolidated fringe benefit. Besides the Government servants were entitled to rationing facilities, which provided essential food items at subsidized prices. But these provisions were not continued for long. In 1977 in lieu of consolidated fringe benefits separate House Rent, Medical, Conveyance and Washing allowances were provided. Rest and Recreation allowances were introduced in 1979. This allowance is given once in three years at the rate of one month's basic salary along with 15 days Rest and Recreation leave. Festival Allowance was introduced in 1984. At that time the Government used to provide one month's basic salary annually as festival allowance, which was made two months' basic salary in 1988. But until 1997 officers were allowed to draw either festival allowance or Rest and Recreation in the same year. Tiffin Allowance for the non-gazetted employees has been introduced since 1997.

Table 3: Components of compensation introduced by the Government in different years for the public sector employees in Bangladesh

Salary and Benefits	Compensation (nominal) received by the government employees in different years					
	1973 (in Taka)	1977 (in Taka)	1985 (in Taka)	1991 (in Taka)	1997 (in Taka)	2005 (in Taka)
Basic pay	Lowest 130 Highest 2000	Lowest 130 Highest 2000	Lowest 500 Highest 6000	Lowest 900 Highest 10000	Lowest 1500 Highest 15000	Lowest 2400 Highest 23000
House Rent Allowance (% Of basic)	Consolidated fringe benefit (Lowest 45, Highest 300) and essential food items at subsidized prices	Highest 35% Lowest 15%	Highest 55% Lowest 35%	Highest 55% Lowest 35%	Highest 55% Lowest 35%	Highest 65% Lowest 35%
Medical Allowance		30	100	150	150 up-to June 99 300 up-to June 04 400 up-to June 06	500 from July 2006
Conveyance Allowance (employees only)		10	40	60	60 up-to June 99 80 up-to June 06	100 from July 2006
Washing Allowance (4 th class employees only)		05	20	20	35	50
Tiffin Allowance (non-gazetted employees only)		-	-	-	100	100
Festival Allowances		Annually one full basic (from 1984) (officers were entitled to either R&R Allowance or bonus in the same year)	Annually two full basics (from 1988) (officers were entitled to either R&R Allowance or bonus in the same year)	Annually two full basics (officers were entitled to either R&R Allowance or bonus in the same year)	Annually two full basics for all	Annually two full basics for all
Rest and Recreation Allowance		One full basic in every three years (from 1979)	One full basic in every three years	One full basic in every three years	One full basic in every three years	One full basic in every three years
Dress Allowance	Dress for the 4th class employees and drivers	Dress for the 4th class employees and drivers	Dress for the 4th class employees and drivers	Dress for the 4th class employees and drivers	Dress for the 4th class employees and drivers	Dress for the 4th class employees and drivers

Source: SROs issued by the Government time to time.

Besides introducing new fringe benefits quantity/share of the existing components of compensation was also increased in nominal terms. In 1977 the highest House Rent Allowance was 35% of the basic, which has been increased to 65% in 2005. In the year 1973 Medical Allowance was Tk.20, now it is Tk.500. In 1977 Conveyance and Washing Allowances were Tk.10 and Tk.05 respectively, which have been increased to Tk.100 and Tk.50 respectively at

present. So it can be seen that both the components of the compensation and the share of the individual components in the compensation have been changed since independence in the public sector in Bangladesh. So it is not at all justified to conclude that compensation in the public sector have decreased in real terms since independence taking only basic salary into consideration. To find out the trends of minimum compensation basic salaries as well as fringe benefits of respective years must be taken into account.

In table-04 a comparative study is made between monthly minimum compensation of 2004-05 and 1973-74 taking all the components of compensation into consideration. Minimum compensation is different in different regions because of differences in House Rent Allowances. In big cities House Rent Allowances are higher than that of the periphery. So the highest and the lowest compensation of the respective years are presented separately.

Table 4: Comparative data of the highest and the lowest minimum compensation per month (including fringe benefits) of the year 2004-05 and 1973-74

Salary/ Benefits	The highest compensation per month (including fringe benefits) (in Taka)			The lowest compensation per month (including fringe benefits) (in Taka)		
	2004-05	1973-74		2004-05	1973-74	
		Actual amount	Updated to 2004-05 on the basis of CPI		Actual amount	Updated to 2004-05 on the basis of CPI
Basic pay	2400	210 (130+80)	2599.8	2400	210 (130+80)	2599.8
House Rent	1590	70 (consolidated fringe benefits in big cities)	866.6	1250	45 (consolidated fringe benefits in Thana headquarters)	557.1
Medical Allowance	500			500		
Conveyance Allowance	100			100		
Washing Allowance	50			50		
Tiffin Allowance	100			100		
Festival Allowances	400			400		
Rest and Recreation Allowance	66			66		
Total	5206	280	3466.4	4866	255	3156.9

Note: Two months' basic salary is given annually as Festival Allowance and one month's basic salary is given as Rest & Recreation Allowance in every three year. So, monthly proportions of these allowances are presented. Rest of the allowances is provided in every month. Dress Allowance is given after completion of five years of service. So it is not included in calculating gross minimum salary.

Source: SROs issued by the Government from time to time and the report of the National Pay Commission 2004.

We can see that the highest and the lowest minimum compensation in the year 1973-74 were Tk.280 and 255 respectively. If the government had provided salary and benefits at this rate, the highest and the lowest compensation would become Tk.3466.40 and 3156.90 respectively at present. On the contrary at present the highest and the lowest actual monthly compensations are Tk.5206 and 4866 respectively, which are higher than the CPI adjusted monthly highest and the lowest compensations of 1973-74. The highest minimum compensation (in big cities) has increased by 50.18% and the lowest minimum compensation (in the periphery) has increased by 54.14%. So it can be concluded that compensation in the public sector in Bangladesh has not decreased in real terms rather it increased by 50.18 – 54.14% since independence. This finding directly contradicts the latest Pay Commission's assertion that there has been a secular erosion in the minimum salary in the public sector since independence. This finding is also inconsistent with the complaints of the unions that they are becoming worse-off over time.

SECTION FIVE

DETERMINANTS OF MINIMUM PAY

This can be studied from three points of view, a. opinions of the employees; b. methods used by Pay Commissions; and c. actual minimum wages in the private sector.

5.1 Opinion of the employees

5.1.1 Opinion of the employees regarding determinants of minimum compensation

It has already been observed that minimum pay fixing authorities should take into account the needs of the employees and their families, general level of wages in a country, cost of living, social security benefits, living standards of other social groups, requirements of economic development, levels of development, need of attaining and maintaining a high level of employment, capacity to pay etc. In course of this study union leaders/members and officers were asked to mention the key elements that need to be taken into consideration in determining the minimum pay and put them in order of preference. Opinions of the respondents are summarized in the following tables:

Table 5: Summary of the suggestions of the respondent union leaders regarding the determinants of minimum pay

Ranking of the determinants by the respondents	Productivity		Capacity to pay		Cost of living		Market wages		Wage bargaining		Nature of job		Per Capita Income		Poverty Line	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
First	02	08	-	00	20	80	-	00	-	00	01	04	01	04	01	04
Second	05	20	03	12	02	08	03	12	-	00	01	04	01	04	07	28
Third	-	00	06	24	02	08	01	04	02	08	09	36	02	08	01	04
Fourth	03	12	07	28	01	04	02	08	01	04	01	04	02	08	01	04
Fifth	02	08	-	00	-	00	01	04	-	00	-	00	02	08	05	20
Sixth	01	04	-	00	-	00	03	12	-	00	02	08	01	04	01	04
Seventh	01	04	01	04	-	00	-	00	02	08	-	00	02	08	-	00
Eighth	-	00	-	00	-	00	-	00	03	12	01	04	1	04	01	04
Total	14	56	17	68	25	100	10	40	08	32	15	60	12	48	17	68

Source: Interviews for the study.

Table 6: Summary of the suggestions of the respondent officers regarding the determinants of minimum pay

Ranking of the determinants by the respondents	Productivity		Capacity to pay		Cost of living		Market wages		Wage bargaining		Nature of job		Per Capita Income		Poverty Line	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
First	01	04	-	00	18	72	01	04	01	04	03	12	-	00	01	04
Second	08	32	01	04	02	08	04	16	01	04	05	20	02	08	01	04
Third	04	16	09	36	01	04	01	04	01	04	05	20	01	04	02	08
Fourth	05	20	03	12	01	04	03	12	01	04	03	12	07	28	01	04
Fifth	01	04	04	16	01	04	04	16	03	12	04	16	04	16	03	12
Sixth	01	04	03	12	-	00	05	20	06	24	03	12	02	08	04	16
Seventh	04	16	-	00	01	04	05	20	05	20	01	04	04	16	04	16
Eighth	-		04	16	01	04	01	04	06	24	-	00	04	16	08	32
Total	24	96	24	96	25	100	24	96	24	96	24	96	24	96	24	96

Source: Interviews for the study.

Out of twenty-five respondent officers 72% opined that cost of living should be given first preference at the time of fixing minimum salary (Table-6). Among others 12% put nature of job, 04% put productivity, 04% put market wages, 04% put wage bargaining and 04% put poverty line in the first place. Of the respondents 32%, 36% and 28% officers opined that productivity, capacity to pay, and Per Capita Income should be the second, third and fourth important element in determining minimum pay respectively. In the case of trade union leaders/members 80% respondents opined that cost of living should of given first preference during fixing minimum salary (Table-5). Of course, they also emphasized the importance of other elements, e.g., productivity, nature of job, poverty line, and capacity to pay. So it can be seen that though the importance of productivity, nature of job, poverty line, capacity to pay, market wage, per capita income and wage bargaining were more or less emphasized by the respondents, cost of living was identified as the most important determinant of minimum pay by both the union leaders/members and officers.

5.1.2 Expectations of the employees

Expectations of the government employees regarding their compensation are one of the important determinants of pay fixation. In Bangladesh trade unions play an active role in the pay fixation process in the public sector. The wage bargaining by the unions is one of the causes of salary compression in the public sector in Bangladesh. National Pay Commissions always

invite suggestions and opinions from the trade union leaders and higher-level officers of the public sector regarding the salaries and benefits. CBAs place their demands to the Pay Commissions and the Government. They also play active role in the process of determining minimum wages of the workers of the SOEs (State Owned Enterprises). In the Wages and Productivity Commission 2005, two members were appointed from the trade unions. Of course, all the demands of the trade unions were not accepted due to limited financial resources. Now let us see the expectations of the government employees regarding the adequacy of present minimum salary in the public sector:

Table 7: Summary of responses of the officers and union leaders regarding monthly minimum salary

Minimum salary suggested by the respondents	Union Leaders/Members		Officers	
	No.	Percentage of the total respondents	No.	Percentage of the total respondents
Tk.2500 to Tk.3000	04	16	-	00
Tk.3001 to Tk.4000	04	16	03	12
Tk.4001 to Tk.5000	10	40	11	44
Tk.5001 to Tk.6000	04	16	02	08
Tk.6001 to Tk.8000	01	04	02	08
Tk.8001 to Tk.10, 000	02	08	04	16
Above Tk.10, 000	-		02	08
Minimum salary should be sufficient to fulfill basic needs and support a descent life.	-		01	04
Total	25	100	25	100

Source: Interviews for the study.

All the fifty respondents said that present minimum basic pay was not enough. Maximum respondents (40% union leaders/members and 44% officers) suggested figures in between Tk.4001 and 5000 (Table-7). All respondent union leaders/members also spoke in favor of increasing the present fringe benefits. Among the respondent union leaders 52% suggested that house rent allowance should be in between 80% to 100% of the basic salary in big cities. House

rent in Dhaka is so high that it is almost impossible to get a suitable house with the government provided house rent allowance. Those who are at the lowest grade and do not get a government house are the worst sufferers. In District and Upazila levels situations are much better. So this problem needs to be addressed. 48% respondents opined that medical allowance should be Tk.1000 or more per month and transportation allowance should be Tk.500 or more per month. Some respondents suggested for education allowance, which was in fact recommended by the last three National Pay Commissions but was not implemented by the Government.

Though over time the Government has increased gross salaries and benefits of its employees, according to the employees and officers, present minimum compensation is not adequate. What could be the reason of such kind of perceptions of the government employees? This issue is addressed in the later part of the paper.

In this connection it can be mentioned that in the private sector in Bangladesh trade unions are not strong. In some industries there is no trade union activity even. Probably this is one of the main reasons of low wages in the private sector manufacturing industries. Inadequate wages may lead to violence and agitation, which we have experienced in the Ready-Made Garment (RMG) industry in the middle of 2006. So in order to ensure adequate salaries or wages this is very important to have a wage bargaining mechanism in the pay fixation process.

5.1.3 Opinions of the employees regarding salary adjustments

Fixing the initial levels of compensation and the successive adjustments are seen as part of a process. In Bangladesh salary is increased annually. For each grade a fixed amount (yearly increment) is added to the basic salary, irrespective of the increases in the prices of the essential commodities. This yearly increment is considered to be insufficient because in Bangladesh prices of the essential commodities increase rapidly due to inflation and distortions in the commodity market. For this reason purchasing power of the employees falls. Another important aspect is that liabilities and responsibilities of the employees increase in course of time. Due to

the increased liabilities and responsibilities family expenditure also rises. In course of the study this issue was placed before the union leaders and officers.

Table 8: Summary of the responses to the question “whether annual increment should be calculated every year taking the changes in Consumer Price Index (CPI) and other expenditures (due to increased liabilities & responsibilities within a year) of the employees into consideration”

Serial No.	Opinion of the respondents	Union Leaders/Members		Officers	
		No.	Percentage of the total respondents	No.	Percentage of the total respondents
01	Annual increment should be calculated every year taking the changes in CPI and other expenditures within a year into consideration.	22	88	24	96
02	Present system of fixed increment should be continued	03	12	01	04
03	Total			25	100

Source: Interviews for the study.

Among the respondents 96% officers and 88% union leaders/members were of the opinion that annual increment should be calculated every year taking the changes in Consumer Price Index and other expenditures of the employees into consideration. Fixed yearly increment is not consistent with the increase in the prices of essential commodities. So it does not address the problem of continuous erosion of purchasing power of the Government employees caused by inflation. To solve the problem, as opined by the respondents, salaries need to be adjusted with CPI.

5.1.4 Periodic General Reviews

Levels of government compensation should be periodically reviewed and systemically revised to assure the continued validity of the compensation plan. Socio-economic condition changes in course of time. For example, as economic condition improves average wage of the economy increases. As already mentioned, with the increase of average wages it is presumed that general capacity to pay also increases. To maintain the validity of the wage structure minimum wage should also be increased as average wage increases. Another important aspect is that the number of income earners per household is changing in Bangladesh with the increased participation of

women in the economic activities. According to the National Garment Workers Federation (NGWF) 12, 30, 000 (July 2003) women work in Ready Made Garment industries. This has a positive impact on the respective families. Also large number of women is being self-employed through micro-credit programs. The issues of consumption basket and change of basic needs with time are already discussed in the literature review section. So, periodic general review is necessary for longer-term validity of compensation policy.

Table 9: Summary of the responses to the question “whether wages/salaries of the public sector employees should be revised after every five to seven years interval”

Opinion of the respondents	Union Leaders/Members		Officers	
	No.	Percentage of the total respondents	No.	Percentage of the total respondents
Wages/salaries of the public sector employees should be thoroughly revised after every five to seven years interval	08	32	15	60
Wages/salaries of the public sector employees should be thoroughly revised after every three years interval	07	28		
Wages/salaries of the public sector employees should be thoroughly revised after every four years interval	02	08	01	04
A permanent Pay commission or any other machinery should be there for annual/continuous revision of salaries taking prices of essential commodities into consideration.	08	32	09	36
Total	25	100	25	100

Source: Interviews for the study.

In response to the question on periodic general review 64% respondent officers and 68% respondent union leaders opined in favor of periodic general review (Table-9). Regarding the periods there were differences in opinion, 32% union leaders said that pay should be thoroughly revised after every five to seven year, 8% said four year and 28% said three year intervals. Rest of the 36% respondent officers and 32% respondent union leaders opined in favor of annual or continuous revision by a permanent pay commission.

5.2 Methods used by Pay Commissions

5.2.1 Cost of living

All the Commissions recommended minimum compensation on the basis of cost of living of the families of the lowest level employees. To calculate the cost of living, at first one has to decide on two important issues, one is family size and another is basic need. Recommendations of the Commissions regarding these two issues are discussed below:

5.2.1.1 Family size of the lowest level employees

On the issue of family size Pay Commission were of different opinions. Let us see the recommendations of six National Pay Commissions and National Wages and productivity Commission, 2005 regarding the family size of the lowest level employees at the entry level.

Table 10: Recommendations of six Pay Commissions and National Wages and Productivity Commission, 2005 regarding family size of the lowest level government employees (One minor child is considered as half of an adult)

Pay Commissions	Family size considered in determining the minimum pay
Pay Commission, 1973	4.0
Pay Commission, 1977	3.0
Pay Commission, 1984	2.5
Pay Commission, 1991	2.5
Pay Commission, 1996	2.5
Pay Commission, 2004	3.0
National Wages and productivity Commission, 2005	3.0

Source: Reports of six National Pay Commissions and the National Wages and Productivity Commission 2005.

Out of six, three pay commissions were in favor of two and a half member family and fixed the minimum pay considering the basic needs of two adults and a minor child. First Pay Commission considered a family consisting of four adults, but nothing is mentioned about the justification of four members. The second and the sixth Pay Commissions, and the National Wages and productivity Commission, 2005 considered a family consisting of three adults (two adults and two minor children) while fixing minimum salary. Now let us see the responses of the union leaders/members and officers regarding the family size of the lowest level employees.

Table 11: Responses of the union leaders/members and officers regarding the family size of the lowest level employees to be taken into consideration while fixing the minimum salary

Family size suggested by the respondents	Union Leaders/Members		Officers	
	No.	Percentage of the total respondents	No.	Percentage of the total respondents
Two member family (Husband & Wife)	01	04	02	08
Two and a half member family (Husband, Wife and one minor child)	02	08	04	16
Three member family (Husband, Wife and two minor children)	09	36	11	44
Three and a half member family (Husband, Wife and three minor children)	-	00	01	04
Four member family (Husband, Wife, and father -mother)	-	00	05	20
Four and a half member family (Husband, Wife one minor child, father-mother)	05	20	-	00
Five member family (Husband, Wife, two minor children and father -mother)	07	28	02	08
Five and a half member family (Husband, Wife, three minor children and father -mother)	01	04	-	00
Total	25	100	25	100

Source: Interviews for the study.

Among the respondents 36% trade union leaders and 44% officers opined that the lowest level employees should have three-member family (Husband, Wife and two minor children). 52% union leaders and 28% officers opined in favor of including father and mother into the family while calculating the cost of living of the families of the lowest level employees. This issue is

very important because everybody has the responsibility to his/her parents. Family size is one of the crucial determinants of minimum pay. This issue needs to be analyzed in details. The minimum academic qualification for the lowest level posts is SSC. In the normal course of action one can have SSC at the age of 16 to 17 years and can enter into the lowest grade of the government service at around 20 years. Usually at this position one's parents (around fifty years old) remain capable of earning. Moreover in majority of the families in Bangladesh parents have more than one son and daughter. In this situation it is the joint responsibility of the sons and daughters to take care of their parents. So it is not justified to count parents as family members at the time of calculating the cost of living for the families of the lowest level employees.

Now let us see what should be the standard size of a family of a newly recruited employee. Bangladesh is an over populated country. The Government is trying to lower the population growth rate by implementing different family planning programs. Present policy of the Government is that every citizen of the country should have children not more than two. This stand of the Government should be reflected in the Government's wage policy. Now let us see what should be the standard size of a family of a newly recruited employee. It is already discussed that one enters into the lowest grade of the government service at around 20 years. It is not expected that someone get married before getting a job. But someone might get married just after joining the service and might have a child immediately after marriage. In this situation an employee would have a two and a half member family. But as the existing government policy allows having two children, legally government employees are and should be permitted to take another child within three to five years time. Considering all those things it can be concluded that compensation of the lowest level employees can be fixed taking the food and non-food expenditure of a family consisting of two and a half member family. Simultaneously yearly increment should be made high enough so that within three to five years time employees receive an amount as basic salary, by which one can bear the expenses of a three member (two adult and two minor children) family. Here a minor child is considered as half of an adult, because according to the experts, a minor child consumes half of an adult as far as food consumption is concerned (Report of the National Pay Commission 1984).

5.2.1. 2 Basic Needs

All the six Pay Commissions calculated cost of living on the basis of basic needs. Maximum emphasis was given on the expenditures on food.

Table 12: Estimated monthly cost of living for a three-member family by the sixth National pay commission, 2004

Heads of expenditure	Estimated cost (in Taka)
Food items	2293.72
Gas bill for one burner oven	340.00
Electricity bill	200.00
Spices	150.00
Clothing, furniture and other household items	250.00
Miscellaneous	50.00
Total monthly expenditure	3283.72

Source: The Report of the National Pay Commission 2004

The National Pay Commission 2004 calculated the expenditure on food taking into consideration the daily calorie requirements of an adult man, adult women and a minor boy/girl 2252, 1874 and 1283.5 Kilo Calorie respectively. At first minimum daily calorie requirements for adult man, woman and minor child were calculated. From the requirements of the individuals, monthly calorie requirement for a family was calculated. This method is arbitrary because food consumption varies from one individual to another. Two different individuals might also produce different amount of calorie from the same amount of food depending on the digestive capacity. Choices of food items also vary from man to man. Some prefer bread while other prefer rice, some prefer meat while other prefer fish, some like vegetable than meat and fish and so on. The choice of the food items does matter because prices of different food items are different. The National Wages and Productivity Commission 2005 found that for a family of three adults of an unskilled worker, average expenditure on food per month amounted to Tk.3030, but for the same family of the unskilled worker, the calorie based average expenditure on food was Tk.1965 per month (Report of the National wages and Productivity Commission 2005) . The difference between expenditure on calorie based estimation on food and actual expenditure on food for a single family was Tk.1065. This shows the limitation and arbitrariness of the calorie-based estimation. So it is not justified to use same menu and same formula to

calculate the minimum calorie requirements of thousands of employees and their family members. Monthly family expenditure on fuel was estimated as per the rate fixed by the Government rate for one burner oven. Expenditures on other non-food items were estimated on the basis of assumption; no definite methodology was followed. So it can be said that philosophically the Pay Commissions were right because they attempted to recommend a minimum compensation, which could enable the lowest level employees to fulfill their basic needs. But methodologically they were not fully correct because they followed a procedure, which failed to produce optimum results because of its limitations. To overcome the above-mentioned limitations of the existing method the Commissions could look for alternative methods for fixing minimum compensation.

5.3 Minimum wages in the private sector in Bangladesh

The minimum wage for unskilled workers was set for different sectors by the National Minimum Wage Board (NMWB) in the first half of the 1990s. These minimum wage rates have been adjusted on the basis of CPI to obtain wages for the year 2004-05. Details of some industries are given in the following table:

Table 13: The minimum wages for unskilled workers for different sectors in Bangladesh

Sector	Minimum wages set for unskilled workers by NMWB		Minimum wages for the year 2004-05 (Taka/month)	
	Taka/Month	Year	Adjusted by CPI (General)	Adjusted by CPI for industrial workers
Printing press	900	1993	1650	1400
Tannery industry	900	1994	1600	1350
Soap and Cosmetic industry	950	1994	1700	1400
Jute bailing	751	1992	1400	1150
Garments	627	1992	1200	1000
Shoe factory	751	1992	1400	1150
Glass factory	630	1992	1200	1000

Source: Report of the National Wages and Productivity Commission 2005

Minimum wage for the workers of the SOEs is Tk.2450 per month, which is much higher than that of private sector industrial workers. Average minimum basic salary and gross salary of the employees in private sector enterprises are Tk.2662 and Tk.4823 respectively. So it can be seen that minimum basic salaries of public sector employees are lower but gross salaries (compensation) are higher than that of private sector enterprises. This is because in public sector employees enjoy more fringe benefits. It can be said that overall compensation at the lowest level in the public sector is higher than the private sector. So at one side government employees think that present compensation is not adequate in the public sector and there is a demand for increasing the present amount and at other side private sector minimum compensation is even lower than the public sector. In this situation further increase in the public sector minimum compensation might result in generalized loss of competitiveness in the private sector through an increase in the domestic cost and might also increase corruption in the recruitment process of the public sector.

5.4 Alternative Methods

5.4.1 Per Capita Income

Levels of a country's economic development have a great impact on the public as well as private sector salaries. Per Capita GDP is one of the widely used indicators of a country's economic development. Internationally average public wages range between 3 and 6 times Per Capita Income. In the early nineties in Asia average central government wage was 3.0 times per capita GDP (World Bank, 1997). At present per capita GDP in Bangladesh is Tk.29, 986 (Bangladesh Economic Survey 2006). If Per Capita GDP is multiplied by the number of family members, we will find GDP per family. Monthly proportion of GDP of a two and a half member family would be Tk.6247. At present the highest minimum gross salary is Tk.5206. So for a two and a half member family GDP per family is higher than the highest gross minimum salary of the public sector employees. As per capita GDP is a widely accepted indicator of macroeconomic condition of a country and data are easily available it could be one of the important determinants of the minimum compensation in the public sector. Judged by the criteria of per capita income, the minimum salary of the public sector is inadequate. The present minimum salary is about 20 per cent less than what is needed to have an income equivalent to per capita income of a family of 2.5 persons.

5.4.2 Poverty Line

Poverty can be measured in different ways. Bangladesh Bureau Of Statistics estimated Poverty lines using the cost of basic needs (CBN) method. With the CBN method poverty lines represent the level of per capita expenditure at which the members of a household can be expected to meet their basic needs (comprised of food and non-food consumption). According to Household Income & Expenditure Survey, 2005 upper poverty lines for Dhaka, Chittagong, Khulna Rajshahi, Barisal and Sylhet urban areas were Tk.889.75, 963.33, 825.29, 856.61, and 1020.31 respectively, with an average of Tk.917.67. For families of 2.5 and 03 adults average monthly urban poverty line would be Tk.2294.17 and 2753.01 respectively. Monthly upper poverty line for Dhaka metropolitan areas was Tk.1017.52 (Bangladesh Bureau Of Statistics, 2006). For families of 2.5 and 03 adults average monthly poverty line in Dhaka metropolitan areas would be Tk.2543.8 and 3052.56 respectively. According to international poverty line people who earn less than US \$ 1 per day are considered as extremely poor and people who earn less than US \$ 2 are considered as moderately poor (UN Millennium Development Goals 2002). If daily income of an individual is US \$1 (=Tk.70), then the monthly income of a family consisting of 2.5 adults and 03 adults would be Tk.5250 ($1 \times 2.5 \times 30 \times 70$) and Tk.6300.00 ($1 \times 3 \times 30 \times 70$) respectively. Present minimum compensation of a government employee is Tk.5206, which is above the poverty line set by Bangladesh Bureau of Statistics. But as per the international standard the lowest level government employees having both 2.5 and 3 adult members in their families live in absolute poverty. This could be the reason of the expectation of union leaders/members and officers that minimum salary in the public sector is inadequate.

As long as working people's earnings are inadequate to meet even poverty standards of income, their families will remain poor; furthermore, their poverty will be reproduced from one generation to the next. A society will continue to suffer from all the ills associated with poverty: disease, degradation, crime, hostility and anger (Fusfeld, D. R., 1973). One of the 'Millennium Development Goals' is to half the poverty level of 1990 by 2015. To achieve this goal Bangladesh has already formulated National Strategy for Accelerated Poverty Reduction. Now

it is in the implementation stage. We know that government employees implement government decisions and policies. It is not realistic and wise to launch poverty alleviation programs, leaving the majority of government employees in poverty. It is the fundamental and constitutional responsibility of the state to ensure a reasonable wage not only to its employees but also to all its citizens (Article 15b of The Constitution of the People's Republic Of Bangladesh).

By comparing the compensation of the lowest level employees with the poverty line we could know about their standard of living, i.e., whether they live in poverty or not. So poverty line could be used as one of the determinants of the minimum compensation in the public sector.

SECTION SIX SALARY COMPRESSION

6.1 Compression Ratio – Method of Calculation and Trends

It has already been observed that salary compression ratio is declining in course of time in the public service in Bangladesh (see section 3.2.8). This has happened due to greater increases in lower grades at the expense of those in higher grades. Pay Commissions calculated salary compression ratio taking the ratio of the highest to minimum of the lowest scale into consideration. This method is not correct as well as not justified. According to the existing rule the highest-level officers draw a consolidated amount as basic salary; there is no minimum or maximum. At other grades there are minimum and maximum levels and one can reach from minimum to maximum gradually. Fourth-class employees draw the lowest salary at a very young age and at the initial stage of their service. On the other hand officers get the highest salary after completion of 20 to 25 years of service. At that point liabilities and responsibilities of the highest-level officers are much more than the lowest level employees. So it is obvious that salary compression ratio should be the ratio of the highest salary to the maximum of the lowest scale. But internationally the practice is to take the ratio of midpoint of the highest to midpoint of the lowest scale. So we should at least follow the method practiced internationally. In Bangladesh at the highest grade there is a fixed amount as the highest salary. So in Bangladesh the salary compression ratio could be the ratio of the highest to mid-point lowest grade.

Table14: Trends in Compression Ratios

Year	The Highest Basic Salary) (Taka per Month)	Minimum of the lowest scale (Taka per Month)	Mid-point of the lowest scale (Taka per Month)	Maximum of the lowest scale (Taka per Month)	Compression Ratio (Ratio of the highest to Minimum of the lowest scale)	Compression Ratio (Ratio of the highest to Midpoint of the lowest scale)	Compression Ratio (Ratio of the highest to Maximum of the lowest scale)
1	2	3	4	5	2/3	2/4	2/5
1949	4000	28	30	32	143:1	133:1	125:1
1962	4000	65	72.5	80	61:1	55:1	50:1
1973	2000	130	185	240	15.38:1	10.81:1	8.33:1
1977	3000	225	270	315	13.33:1	11.11:1	9.52:1
1984	6000	500	680	860	12:1	8.82:1	6.98:1
1991	10000	900	1215	1530	11.11:1	8.23:1	6.54:1
1997	15000	1500	1950	2400	10:1	7.69:1	6.25:1
2005	23000	2400	3355	310	9.58:1	6.86:1	5.34:1

Source: Reports of six National Pay Commissions and SROs issued by the Government from time to time.

In 1949 (1st Scales of Pay of Pakistan) ratios of the highest basic salary to midpoint of the lowest grade, the lowest level of the lowest grade and the highest level of the lowest grade were 133:1, 143:1, and 125:1 respectively (table-14). The salaries were compressed drastically in 1973 (1st Scales of Pay of Bangladesh) and ratios of the highest basic salary to midpoint of the lowest grade, the lowest level of the lowest grade and the highest level of the lowest grade became 10.81:1, 15.38:1 and 8.33:1 respectively. Since 1973 salary compression in the public sector continued and ratios of the highest basic salary to midpoint of the lowest grade, minimum of the lowest grade and maximum of the lowest grade become 6.86, 9.58, and 5.33 respectively now. If compensation (basic salary and all benefits) is taken into consideration in 1973 ratio of the highest (Tk.3, 430) to midpoint of the lowest grade (Tk.335) was 10.24 and present ratio of the highest (Tk.65, 022) to midpoint of the lowest grade (Tk.6, 939) is 9.37. So either basic salary or compensation is taken into account we see a decreasing trend in the compression ratio. But in case of compensation, compression ratio decreased at a lower rate. As compensation includes salary and all the benefits it reflects the true benefits offered by the Government to the public sector employees. So compensation should be the basis of calculation of compression ratio

in the public sector. Present compression ratio in the public sector is not smaller than the international average (6-7 to 1), but it is much smaller than that of the private sector (62.72 to 1) of Bangladesh in comparable jobs. This creates frustration amongst the top-level officers, which leads to inefficiency and encourage corrupt practices in the public sector.

6.2 Public Sector Pay and Corruption

According to the World Bank, the salary decline of the last three decades is a major cause of the low levels of efficiency, low morale, absenteeism, rent seeking and the deteriorating quality of new entrants” (World Bank, 1996). There are differences of opinion on the relationship between wage and corruption. It is found that high wage alone cannot curb corruption always. As already discussed a combination of higher wage, strong anticorruption measures and proper auditing gives better result. Singapore and Hong Kong are the two countries where anticorruption agencies have become successful in curbing corruption. The reasons behind this success is that in Singapore public sector salaries are very high and at the same time strong anticorruption agency namely the Corrupt Practices Investigation Bureau (CPIB) is in place. The officers and staff of the anticorruption agencies in Singapore and Hong Kong are also very highly paid. So it can be said that there is a relationship between wage and corruption.

Table 15: Summary of the responses about the relationship between wage and corruption

Opinion of the respondents regarding relationship between wage and corruption	Union Leaders/Members		Officers	
	No.	Percentage of the total respondents	No.	Percentage of the total respondents
Adequate wage can to some extent reduce corruption	20	80	23	92
There is no link between wage and corruption	05	20	02	08
Total	25	100	25	100

Source: Interviews for the study.

In response to a question regarding the relationship between wage and corruption 92% respondent officers and 80% union leaders opined that adequate wage would to some extent reduce corruption. This kind of opinion is well supported by other studies conducted in different countries with different socioeconomic conditions around the globe. It is found that one of the consequences of wage erosion is the rise in petty corruption (World Bank 1997), if not grand.

Corruption is widespread in the public sector in Bangladesh. So the issue of corruption in the public sector should be addressed properly.

6.3 Public sector pays at the top level

Top-level salaries in the public sector in Bangladesh have started to fall since independence due to equity concerns and egalitarian policies. “The take-home pay of secretary in Civil Service in 1969 was about Rs.3000, compared to salaries of corporate chief executives in the private sector, which averaged Rs.4000. Based on a survey in 1968, top management salaries were on average higher in the public sector. Take-home pay at the top is too low to provide a decent middle class living, to send children to good private schools, or to pay for private medical costs; with quality of government provided education and health services abysmally low now, people have little choice but to turn to the private sector” (World Bank, 1996).

Table 16: Basic salaries and compensations of top level Government officers

Designations	Basic monthly salaries (in Taka)	Monthly Compensation (including all benefits) (in Taka)
Secretary	23, 000	65, 022 (Including salaries, benefits & overtime bills of the driver and fuel costs)
Additional Secretary	19, 300	56, 163 (Including salaries, benefits & overtime bills of the driver and fuel costs)
Joint Secretary	16, 800	51, 927 (Including salaries, benefits & overtime bills of the driver and fuel costs)
Deputy Secretary	13, 750	23, 799
Senior Assistant Secretary	11, 000	19, 689
Assistant Secretary	6, 800	12, 362

Note: Secretaries, Additional Secretaries and Joint Secretaries enjoy full time Government transport.
Source: SROs issued by the Government from time to time.

At present the highest basic and gross salaries in public sector are Tk.23, 000 and 65, 022 respectively (Table 16). There is a general belief that compensation at the top level in the public sector is not adequate in comparison the CEOs of the private sector as well as in comparison to public sector salaries of our neighboring countries. In course of this study opinions of the officers and trade union leaders were collected regarding the highest basic salary in the public sector in Bangladesh.

Table 17: Summary of responses of the officers and union leaders regarding the highest salary

Minimum salary suggested by the respondents	Union Leaders/Members		Officers	
	No.	Percentage of the total respondents	No.	Percentage of the total respondents
Tk.20, 000 to Tk.30, 000	14	56	02	08
Tk.30, 001 to Tk.40, 000	04	16	05	20
Tk.40, 001 to Tk.50, 000	04	16	12	48
Tk.50, 001 to Tk.60, 000	-	00	04	16
Above Tk.60, 000	03	12	01	04
Same as the private sector Chief Executive Officers	-	00	01	04
Total	25	100	25	100

Source: Interviews for the study.

Among the respondent officers in 48% cases the suggested amounts were in between Tk.40, 001 to 50, 000. On the other hand in the case of union leaders 56% suggested amounts between Tk.20, 000 and 30, 000 as the highest basic salary in the public sector. The opinions of the union leaders and the officers are quite different regarding the highest salary. Actually it is very difficult to determine the salaries of the civil servants. As already mentioned the general solution is to make compensation comparable to that of private sector.

6.4 Private sector pays in Bangladesh

Private sector pay is one of the very important determinants of minimum pay in the public sector. Low public sector salaries lead to demotivation and underperformance. On the other hand excessive increases in public sector wages and salaries could result in generalized loss of competitiveness including the manufactured exports in the private sector through an increase in domestic cost and a decline in private sector employment. It also increases corruption in the recruitment process as the demand for public service increases. So a critical ratio needs to be maintained between public and private sector pay. The Pay and Services Commission 1977 opined that comparability with the private sector emoluments, specially at the top tiers, is of great practical significance in determining public sector pay. The National Pay Commission 1991, of course, was of the opinion that public and private sector salaries should not be comparable. The National Pay Commission 1996 and 2004 acknowledged the importance of private sector pay in determining public sector compensation plan. In these two reports it was mentioned that private sector salaries were taken into consideration while fixing salaries of the government officers. But in fact it was not at all reflected in the case of higher- grades.

Table 18: Monthly salaries of the top level Government officers and average monthly salaries at comparable positions in private sector

Posts	Basic salaries (in Taka)	Total Gross salaries (Inclusive of Benefits) (in Taka)	Comparable Private Sector Basic Salaries (in Taka)	Comparable Private Sector gross Salaries (Inclusive of Benefits) (in Taka)	Ratio of Private Sector to Civil Service Basic Salary	Ratio of Private Sector to Civil Service Gross Salary
1	2	3	4	5	4/2	5/3
Secretary	23, 000	65, 022	1,66,962	2,66,447	7.26	4.10
Additional Secretary	19, 300	56, 163	1,28,239	2,07,465	6.64	3.70
Joint Secretary	16, 800	51, 927	88, 934	1,58,138	5.29	3.04
Deputy Secretary	13, 750	23, 799	68,315	1,20,944	4.97	5.08
Senior Assistant Secretary	11, 000	19, 689	45,853	85,081	4.17	4.32
Assistant Secretary	6, 800	12, 362	25,724	46,894	3.78	3.79

Source: Data collected from different direct and indirect sources for the study.

In 1977 average private sector salary at the highest level (Tk.5350) was 2.14 times higher than the highest salary (Tk.2500) in the public sector (Report of the Pay and Services Commission 1977). During the last three decades while private sector salaries have increased dramatically and have kept pace with inflation, those in the public sector have dropped dramatically in real terms (World Bank, 1996). At present top-level salaries in the private sector enterprises, universities and commercial banks are very high in comparison to that of public sector in Bangladesh. At present comparable private sector basic salaries are 4-7 times and gross salaries are 4-5 times (table-18) those of the public sector, at the management level. As a comparison, public sector salaries (as % of private sector salaries) are: 110% (Singapore), 70% (Korea), 47% (Thailand), 40% (Malaysia). So it can be seen that both the actual salaries at the top level and compression ratio in the private sector are higher than that of the public sector. In course of this study union leaders and officers were asked to give their opinion regarding the levels of public and private sector pay.

Table 19: Summary of the responses to the question “whether the salary of an employee in public sector and private sector in comparable jobs should be equal”

Opinion of the respondents	Union Leaders/Members		Officers	
	No.	Percentage of the total respondents	No.	Percentage of the total respondents
Salary of an employee in public sector and private sector in comparable jobs should be equal	13	52	14	56
Salary of an employee in public sector and private sector in comparable jobs should not be equal	02	08	08	32
Salary of an employee in public sector in comparable jobs should be higher than that of private sector	02	08	03	12
Salary of an employee in private sector in comparable jobs should be higher than that of public sector	08	32	-	00
Total	25	100	25	100

Source: Interviews for the study.

Among the respondents 56% officers and 52% union leaders/member said that salaries in the public and private sector should be equal, 32% officers and 08% union leaders/member said that salaries in the public and private sector should not be equal. So it can be seen that majority of the officers and employees think that wages in the public and private sector should be equal. On the other hand 08% union leaders/members opined that salaries in the public sector should be higher than that of private sector in comparable jobs and 32% said that salary should be higher in the private sector than the public sector. Those who spoke in favor of higher salary in the private sector argued that job security in the private sector is much less than the public sector and the opponent argued that public sector employees have to shoulder higher responsibility.

However, non-monetary factors should be taken into account in any meaningful comparison of compensation in the public and private sector.

- Firstly, job security in the public service is more. A public servant cannot be removed from the service without giving the opportunity of self-defense.
- Secondly, public service employees enjoy pension, which makes their life after retirement more secure.
- Thirdly, public service employees are the employees of the state; they work for the people of the state, not for the benefits of one or group of individuals. This gives them a great satisfaction and pride.
- Fourthly, public service employees in general and upper level officers in particular have respect, honor and social recognition more than that of private sector employees. This is very important because money is not every thing; at some point in time most human beings want to be respected and honored.

Due to these additional advantages, salaries of the top-level civil servants and chief executive officers of the private sector enterprises should not and need not be equal, but they should bear a reasonably uniform relationship to them and should not get too far out of line. Such a policy would have two important advantages. First, it would reflect the reality that governments have to compete for talent in the national labor market. Second, it would provide a simple, objective basis for setting salary differentials within the public sector. Japan and Singapore, for instance,

have a rule not to permit civil service salaries to fall below two-thirds of those in the private sector (World Bank, 1996).

Now the reality is that public sector has to compete for talent with the private sector in the labor market. At present private sector is offering attractive compensation and incentive packages for the top-level managers. So the Government will have to increase public sector salaries to attract and retain the brightest and the best at the top.

SECTION SEVEN

RECOMMENDATIONS AND CONCLUSION

7.1 Key findings of the study

Compensation in public sector is very important for the proper functioning of public sector institutions. In the above sections an attempt was made to analyze key areas of compensation of the public sector of Bangladesh. Important findings are as follows:

- Definition of compensation changed over time since independence. New components were included and share of the old components were increased from time to time. It is found that minimum compensation in the public sector has increased in real terms if all the components are taken into consideration. This finding contradicts the finding of the National Pay Commission 2004. The Commission found out the trend of minimum salary taking into account only basic salaries. This is incorrect and misleading because basic salary is only a component of the compensation.
- At present minimum compensation in the public sector is higher than that of the private sector. Minimum wages the workers of SOEs are also higher than the workers of the private sector enterprises. Conversely compensation of the top-level executives in the private sector is 4-5 times higher than their public sector counterparts.
- Present minimum compensation (for a family of 2.5 adult members) of the public sector employees stands above the urban poverty line (Bangladesh Bureau of Statistics, 2006), but lower than per capita GDP and international poverty line (US \$ 1 a day). As per international standard lower level employees of the public sector live in absolute poverty.
- All the Pay Commissions calculated the expenditure on food using the calorie-based method. This method is arbitrary in nature. It is not at all justified to calculate the expenditures on food for a heterogeneous population using the same formula, because

food habit and digestive capacity varies from individual to individual. Alternative methods like Poverty Line and Per Capita Income could be used while suggesting minimum compensation.

- On the issue of family size Pay Commissions were of different opinions. From the discussions in section 5.4.2, it is obvious that minimum salary should meet the basic needs of a family of 2.5 adult members.
- The way compression ratio is calculated by the Pay Commissions is incorrect and not practiced internationally. At present ratio of the highest to minimum of the lowest scale is regarded as the compression ratio. But it should be the ratio of the highest to the midpoint of the lowest scale. In lieu of basic salary gross salary should be used to find out compression ratio, because basic salary alone does not represent the compensation offered by the Government to its employees.
- It is found that compression ratio has decreased since independence irrespective of whether basic salary or compensation and minimum, maximum or mid-point of the highest or the lowest scale is considered. But it is found that salary has compressed at a lower rate if total compensation is taken into account. Like the compensation present compression ratio in the private sector (62.72: 1) is much higher than that of public sector . As a result the best talents may be attracted to private sector.

7.2 Recommendations

Based on the above findings and discussions following recommendations may be considered for a more realistic compensation system in Bangladesh:

- All the Pay Commissions recommended minimum compensation on the basis of cost of living. But present system of estimating cost of living on the basis of minimum calorie requirements is arbitrary and does not provide realistic estimates. To solve this problem, indicators like income poverty line and Per Capita Income (PCI) could be used as

alternative methods to determine the minimum compensation. Advantages of these two indicators are, firstly, these indicators are widely used and accepted; secondly, poverty line helps us to know about the income level necessary for minimum subsistence and the PCI indicate the level of average standard of life; and finally, data on income poverty line and PCI are readily available. Minimum compensation should be above the poverty line and at least equal to GDP for a family of 2.5 members. Simultaneously yearly increment should be made high enough so that within three to five years time employees receive such amounts as basic salary, by which they can bear the expenses of a three member (two adult and two minor children) family maintaining same standard of living.

- At present House Rent Allowance is quit insufficient for the big cities. There could be two solutions: either extending government-housing facilities to accommodate all government employees; or increasing housing allowance for big cities. The first alternative is very difficult to implement because prices of land are very high in Dhaka and other big cities. So the second option is more practical.
- In place of fixed yearly increment salary should be adjusted annually taking the changes in Consumer Price Index (CPI) and other expenditures of the employees into consideration. Salaries and benefits of the government should also be revised periodically in order to ensure continuous validity of compensation plan. Because firstly, with the economical and technological development basic needs of the citizen changes; secondly, as economic condition improves average wage of the economy increases; thirdly, income earners per household is changing in Bangladesh with the increased participation of women in economic activities. For the salary adjustment and periodic review continuous monitoring, research and evaluation is necessary. So a permanent Pay Commission or similar machinery, e.g., separate wing in the Ministry of Finance should be established to perform these tasks.
- Salary compression ratio in the public sector is decreasing and gap between top-level public and private sector salaries is increasing. Due to these reasons higher-level officers are getting frustrated. Potential candidates are being attracted from public sector

to private sector. If this problem is not addressed properly efficiency of the civil service will fall. Increasing salary compression on the issue of equity is really counterproductive from the point of view of the citizen/tax payers of Bangladesh. The citizens are undoubtedly more concerned about the quality of service provided rather than what the secretary or head of agency makes (World Bank 1996). Salary at the entry level of first class officers is very important to attract brilliant candidates to the civil service. At the same time career opportunity as well as the highest-level salaries in the public service should also be attractive.

7.3 Areas for further research

This is an exploratory study on compensation in the public sector in Bangladesh. Unfortunately, empirical studies on compensation in Bangladesh are limited. The focus of this study is also narrow. It did not examine how additional resources for higher compensation could be mobilized in Bangladesh. The affordability of increased compensation needs to be examined.

Secondly, this study could not collect comprehensive data in the private sector in systematic manner. It also did not collect the views of private sector employees on the issue of compensation in public and private sectors.

Thirdly, the employment of women has increased in every sector in recent years. Also women are being self-employed through micro-credit programs undertaken by NGOs and financial institutions. Increased participation of women in economic activities has different dimensions. One of the impacts is that it increases the number of income earners in a household, which could be positive. But we do not know exactly how big the impact is. We also do not know in how many cases the wives of the employees and officers are employed. This information could be important in determining the minimum compensation of the employees.

Fourthly, the relationship between compensation in public and private sectors needs to be explored with further precision. Particularly, it is necessary to take into account the effects of pension and provident fund on the salary differentials between private and public sector.

Finally there is a serious dearth of data on the number and demographic characteristics of public employees in Bangladesh. It is essential to undertake a comprehensive census of public employees.

Despite the unsatisfactory performance of the public sector, Bangladesh is a country with considerable potential. The Country has experienced a moderate growth during the last decade. To sustain the trend and achieve further development it is required to improve the governance indicators. Weak implementation capacity, inefficiencies of public institutions and widespread corruption are the areas of major concern. Ability of the public institutions depends on how efficiently and effectively public servants perform their duties. In other words, compensation is the heart of the public administration reform. So to make the public service works better it is very important to undertake more studies on compensation.

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APPENDIX- 1

CENTER FOR GOVERNANCE STUDIES
BRAC UNIVERSITY
MA IN GOVERNANCE AND DEVELOPMENT

*QUESTIONNAIRE FOR THE TRADE UNION LEADERS / MEMBERS REGARDING SALARY
STRUCTURE IN THE PUBLIC SECTOR*

01. General information

- a. Name:
- b. Age:
- c. Name of the enterprise:
- d. Name of the trade union:

02. What family size should be taken into consideration while fixing the minimum pay of the lowest level employees (Please give tick mark)?

- a. Two members (Husband & Wife)
- b. Two and a half members (Husband, Wife & One minor child)
- c. Three members (Husband, Wife & Two minor children)
- d. More than three members (Please specify)

03. What should be the minimum basic pay of the lowest level employees?.....(In Taka)

04.

- a. Do you think that present benefits and the rates at which they are being provided are enough?
- b. If not, please give your opinion.

.....

.....

5. Whether the salary of an employee in public sector and private sector in comparable positions should be equal? Yes/No

06. Please mention the key factors to be taken into account in determining the minimum wage/wages (Please number in order of preference):

- a. Productivity
- b. Profit and loss of the enterprise
- c. Cost of living
- d. Market wages determined by labor demand & supply
- e. Wage bargaining at the enterprise level
- f. Nature of job
- g. Per Capita Income
- h. Poverty Line

07. Do you think that annual increment should be calculated every year taking the changes in the CPI (Consumer Price Index) and other expenditures (due to increased liabilities & responsibilities) of employees in one year into consideration? Yes/No

08. Whether the wages of the public sector employees should be thoroughly revised after every 5 to 7 years interval? Yes/No

09. Do you think that adequate or high wage to some extent can reduce the level of corruption? Yes/No

10. What should be the highest basic pay in the public sector?

Signature of the interviewee

APPENDIX- 2

CENTER FOR GOVERNANCE STUDIES
BRAC UNIVERSITY
MA IN GOVERNANCE AND DEVELOPMENT

*QUESTIONNAIRE FOR THE FIRST CLASS GOVERNMENT OFFICERS
REGARDING SALARY STRUCTURE IN PUBLIC SECTOR IN BANGLADESH*

01. General information

- a. Name:
- b. Designation:

02. What family size should be taken into consideration while fixing the minimum pay of the lowest level employees (Please give tick mark)?

- a. Two members (Husband & Wife)
- b. Two and a half members (Husband, Wife & One minor child)
- c. Three members (Husband, Wife & Two minor children)
- d. More than three members (Please specify)

03. What should be the family size of the highest-level government employees?

- a. Three members (Husband, Wife & one children)
- b. Four members (Husband, Wife & two children)
- c. Five members (Husband, Wife, two children and one Servant)
- c. More than five members (Please specify)

04. Please mention the key factors to be taken into account in determining the minimum salary (Please number in order of preference):

- a. Productivity of the employee
- b. Capacity of the enterprise to pay
- c. Cost of living
- d. Market wages determined by labor demand & supply
- e. Wage bargaining at the enterprise level
- f. Nature of job
- g. Per Capita Income
- h. Poverty line

05. What should be the minimum basic pay of the lowest level employees (In Taka)? -----

06. What should be the highest basic pay in the public sector?

07. Prices of the essential commodities and family liabilities & responsibilities of government employees increase in course of time. Do you think that annual increment should be calculated every year taking the changes in the CPI (Consumer Price Index) and other expenditures (due to increased liabilities & responsibilities) of employees in one year into consideration?
Yes/No

08. Whether the wages of the public sector employees should be thoroughly revised after every 5 to 7 years interval?
Yes/No

09. Do you think that adequate or high wage to some extent can reduce the level of corruption?
Yes/No

10. Whether the salary of an employee in public sector and private sector in comparable positions should be equal?
Yes/No

Signature of the interviewee

APPENDIX-3

Average monthly salaries at different levels in private sector universities:

Designations	Basic monthly salaries	Total Gross salaries (including benefits)
Vice Chancellor	1, 91, 591.67	2, 13, 133.33
Pro Vice Chancellor	1, 34, 364.25	1, 86, 982.125
Professors	80, 242.313	1, 23, 717.31
Associate Professor	65, 152.306	94, 982.77
Assistant Professor	38, 714.33	61, 717.208
Lecturer	27, 318.54	40, 188.45

Source: Data collected for the study.

APPENDIX-4

Average monthly salaries at different levels in private sector enterprises:

Equivalent Government Posts	Basic monthly salaries (in Taka)	Total Gross salaries (including benefits) (in Taka)
Secretary	1, 31,794	2, 33, 708
Additional Secretary	1, 10, 353	1, 96, 379
Joint Secretary	87, 074	1, 78, 932
Deputy Secretary	53, 794	1, 18, 966
Senior Assistant Secretary	33, 413	76, 459
Assistant Secretary	19, 353	42, 543

Source: Data collected for the study.

APPENDIX-5

Average Monthly salaries at different levels in Private Commercial Banks:

Equivalent Government Posts	Basic monthly salaries (in Taka)	Total Gross salaries (including benefits) (in Taka)
Managing Director	1, 77, 500	3, 52, 500
Deputy Managing Director	1, 40, 000	2, 39, 033
General Manager	99, 485	1, 71, 766
Deputy General Manager	86, 000	1, 48, 883
Principal Officer	65, 433	1, 17, 066
Senior Officer	30, 500	57, 950

Source: Data collected for the study.

APPENDIX-6

Gross monthly salary of the secretary:

Monthly salary, benefits and other expenditures	In Taka
Basic salary	23, 000
House Rent Allowance	11, 500
Medical Allowance	500
Festival Allowance	3, 833
Rest and Recreation Allowance	639
Servant Allowance	1, 000
Entertainment Allowance	590
Driver's salary, benefits and overtime bill	12, 460
Fuel and Lubricant	10, 500
Maintenance cost of the car	1, 000
Total	65, 022

Source: National Pay Scale, 2005 (S.R.O. No.-119), Finance Division, Ministry of Finance.

APPENDIX-7

Summary of the pay scales recommended by the National Pay Commission 1973 and the Government approved pay scales:

Grades	Pay scales recommended by the National Pay Commission 1973(in Taka)	Pay scales declared by the Government in 1973 (in Taka)
1	2000 (Fixed)	Partially implemented
2	1475-1850	Partially implemented
3	1150-1570	Partially implemented
4	800-1455	Partially implemented
5	475-1275	475-1275
6	375-975	375-975
7	310-670	310-670
8	220-420	220-420
9	145-275	145-275
10	130-240	130-240

Source: The Report of the National Pay Commission 2004.

APPENDIX-8

Pay scales recommended by the National Pay and Services Commission 1977:

Grades	Scale	Grades	Scale
1	230-320	27	725-1040
2	240-325	28	750-1550
3	250-345	29	800-1450
4	260-400	30	850-1680
5	280-500	31	925-1875
6	280-525	32	980-1435
7	300-565	33	1150-1675
8	325-625	34	1250-2000
9	350-665	35	1400-2300
10	370-670	36	1450-2150
11	385-700	37	1500-2300
12	385-725	38	1550-2150
13	400-790	39	1750-2350
14	400-850	40	1800-2500
15	425-750	41	1800-2800
16	425-975	42	2000-2500
17	450-810	43	2000-3000
18	450-1000	44	2200-2700
19	475-850	45	2300-2925
20	475-1100	46	2200-2950
21	490-1040	47	2500-3000
22	500-1225	48	2500-3500
23	550-1280	49	3150-3600
24	575-925	50	3650 (Fixed)
25	625-1000	51	3800 (Fixed)
26	650-1435	52	4000 (Fixed)

Source: The Report of the National Pay and Services Commission 1977.

APPENDIX-9

Summary of the pay scales approved by the Government in 1977:

Grades	Pay scales declared by the Government in 1977 (in Taka)
1	3000 (Fixed)
2	2850 (Fixed)
3	2350-100-2750
4	2100-100-2600
5	1850-75-2375
6	1400-75-2000
7	1150-65-1800
8	900-55-1285-65-1610
9	750-50-900-E.B.-55-1230-60-1470
10	625-45-985-E.B.-55-1315
11	470-35-645-E.B.-45-915-55-1135
12	425-30-575-E.B.-40-735-50-1035
13	400-25-525-E.B.-30-825
14	370-20-470-E.B.-25-745
15	325-15-430-E.B.-20-610
16	300-12-396-E.B.-18-540
17	275-10-375-E.B.-15-480
18	250-6-280-E.B.-8-360
19	240-6-282-E.B.-7-345
20	225-6-315

Source: The Services (Grades, Pay and Allowances) order, 1977 (S.R.O. No. MF (ID)-I-3/77/850)
Finance Division (1977), Ministry of Finance.

APPENDIX-10

Summary of the pay scales recommended by the National Pay Commission 1984 and the Government approved pay scales

Grades	Pay scales recommended by the National Pay Commission 1984(in Taka)	Pay scales declared by the Government in 1985 (in Taka)
1	7500 (Fixed)	6000 (Fixed)
2	7000 (Fixed)	5700 (Fixed)
3	5500-200-6700	4750-150-5500
4	4500-170-6030	4200-150-5250
5	3900-155-5450	3700-125-4825
6	3250-140-4930	2800-125-4425
7	2700-125-3700-135-4375	2400-120-3600
8	2350-125-3350-130-4000	1850-110-2620-120-3220
9	2050-100-2850- E.B.-120-3570	1650-100-2250-E.B.-110-3020
10	1650-75-2250- E.B.-100-3050	1350-90-2250-E.B.-100-2750
11	1325-65-1845- E.B.-85-2525	1000-70-1560-E.B.-90-2280
12	1200-60-1680- E.B.-75-2280	900-65-1550-E.B.-75-2075
13	1125-55-1565- E.B.-60-2045	850-55-1400-E.B.-60-1700
14	1050-50-1450- E.B.-55-1890	800-50-1300-E.B.-55-1630
15	975-45-1335- E.B.-50-1735	750-45-1200-E.B.-50-1550
16	900-40-1220- E.B.-45-1580	700-40-1100-E.B.-45-1415
17	825-35-1175- E.B.-40-1495	650-35-1000-E.B.-40-1280
18	750-30-1050- E.B.-35-1330	600-30-900-E.B.-35-1110
19	700-25-950- E.B.-30-1190	550-25-725-E.B.-30-965
20	660-20-860- E.B.-27-1076	500-20-860

Source: The Report of the National Pay Commission 1984 and Modified New Scales Of Pay, 1985 (No. S.R.O. 354-L/85/MF/FD (Impl.)-1/M.N.S.-16/85-58), Finance Division, Ministry of Finance.

APPENDIX-11

Summary of the pay scales recommended by the National Pay Commission 1991 and the Government approved pay scales:

Grades	Pay scales recommended by the National Pay Commission 1991 (in Taka)	Pay scales declared by the Government in 1991 (in Taka)
1	13500 (Fixed)	10000 (Fixed)
2	11500-310-13050	8600-225-9500
3	9450-300-11550	7800-200-9000
4	8450-250-10450	7100-200-8700
5	7500-225-9750	6300-175-8050
6	5750-210-8690	4800-175-7250
7	4900-190-7940	4100-150-6500
8	3950-160-6510	3200-140-5440
9	3490-150-5890	2850-125-3725-E.B.-130-5155
10	2800-130-3710-E.B.-135-5195	2300-115-3105-E.B.-125-4480
11	2200-110-2970-E.B.-115-4235	1725-105-2460-E.B.-115-3725
12	2000-100-2700-E.B.-105-3855	1550-100-2250-E.B.-105-3405
13	1900-95-2565-E.B.-100-3665	1475-90-2105-E.B.-95-3150
14	1800-90-2430-E.B.-95-3475	1375-80-1935-E.B.-85-2870
15	1700-80-2260-E.B.-85-3195	1300-70-1790-E.B.-75-2615
16	1600-70-2090-E.B.-75-2915	1200-60-1620-E.B.-65-2335
17	1500-60-1920-E.B.-65-2635	1125-55-1510-E.B.-60-2170
18	1400-50-1750-E.B.-55-2355	1050-45-1365-E.B.-50-1915
19	1300-40-1580-E.B.-45-2075	975-40-1255-E.B.-45-1750
20	1200-18-1848	900-35-1530

Source: The Report of the National Pay Commission 1991 and National Pay Scales, 1991 (S.R.O. No. - 275), Finance Division, Ministry of Finance.

APPENDIX-12

Summary of the pay scales recommended by the National Pay Commission 1997 and the Government approved pay scales:

Grades	Pay scales recommended by the National Pay Commission 1996 (in Taka)	Pay scales declared by the Government in 1997 (in Taka)
1	18000 (Fixed)	15000 (Fixed)
2	15600-400-17200	12900-350-14300
3	14275-375-16525	11700-300-13500
4	13000-350-15800	10700-300-13100
5	11500-325-14750	9500-260-12100
6	8975-300-13175	7200-260-10840
7	7700-275-12100	6150-225-9750
8	6150-250-10150	4800-210-8160
9	5650-230-E.B.-240-9900	4300-185-5595-E.B.-195-7740
10	4425-215-E.B.-225-8405	3400-170-4590-E.B.-185-6625
11	3350-200-E.B.-210-7060	2550-155-3635-E.B.-170-5505
12	3025-190-E.B.-200-6555	2375-150-3425-E.B.-155-5130
13	2900-170-E.B.-180-6070	2250-135-3195-E.B.-140-4735
14	2725-150-E.B.-160-5535	2100-120-2940-E.B.-125-4315
15	2600-130-E.B.-140-5050	1975-105-2710-E.B.-110-3920
16	2425-115-E.B.-125-4605	1875-90-2505-E.B.-100-3605
17	2275-100-E.B.-110-4185	1750-80-2310-E.B.-90-3300
18	2150-90-E.B.-100-3880	1625-65-2080-E.B.-75-2905
19	2000-80-E.B.-90-3550	1560-60-1980-E.B.-65-2695
20	1850-70-3110	1500-50-2400

Source: The Report of the National Pay Commission 1997 and National Pay Scales, 1997 (S.R.O. No. - 242), Finance Division (1997), Ministry of Finance.

APPENDIX-13

Summary of the pay scales recommended by the National Pay Commission 2004 and the Government approved pay scales:

Grades	Pay scales recommended by the National Pay Commission 2004 (in Taka)	Pay scales declared by the Government in 2005 (in Taka)
1	27500 (Fixed)	23000 (Fixed)
2	23000-26680	19300-700-22100
3	20230-25900	16800-650-20700
4	18200-24600	15000-600-19800
5	16150-23650	13750-550-19250
6	12500 – 20160	11000-475-17650
7	10770-18595	9000-405-15480
8	8975-16740	7400-365-13240
9	8160-15780	6800-9075-EB-13090
10	5970-12445	5100-7060-EB-10360
11	4865-10090	4100-5850-EB-8820
12	4510-9335	3700-5310-EB-8060
13	4260-8835	3500-4970-EB-7500
14	4020-8345	3300-4630-EB-6940
15	3785-7860	3100-4290-EB-6380
16	3560-7385	3000-4050-EB-5920
17	3340-6940	2850-3760-EB-5410
18	3150-6525	2600-3440-EB-4870
19	2970-6170	2500-3270-EB-4590
20	2800-5800	2400-3100-EB-4310

Source: The Report of the National Pay Commission 2005 and National Pay Scale, 2005 (S.R.O. No. - 119), Finance Division (2005), Ministry of Finance.