

## Pay for honesty? Lessons on wages and corruption from public hospitals

Theft, graft, absenteeism and soliciting bribes in the health sector in developing countries is often blamed on low pay. But does low pay actually explain corruption? Several studies of public hospitals in Latin America suggest otherwise. In particular, they show that low pay may contribute to corruption; however, without some form of monitoring to detect corruption and a real chance of penalties, raising wages is not likely to make a difference.



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### Pay levels and corruption

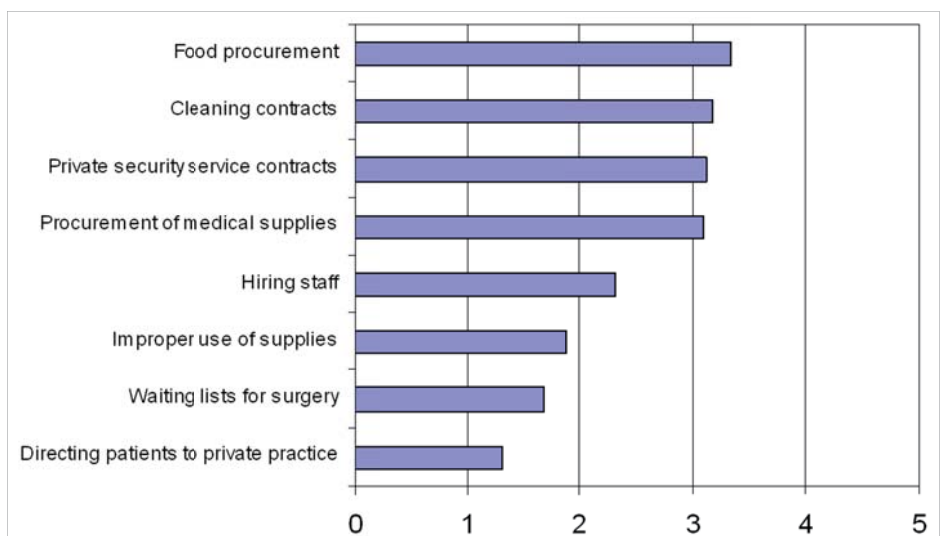
The idea that low pay explains corruption is widespread and seems reasonable. If someone is poorly paid, the temptation to steal or commit fraud would be greater. The difficulty with this argument is apparent, however, upon considering the pervasiveness of corruption across income levels. Other factors are either more important or necessary for poorly paid individuals to resort to illicit forms of enrichment. These other factors include the expected gain from corruption, the probability of being detected, and the magnitude of the penalty if caught.

One of the most important ways that pay can deter corruption is if it increases the penalty of being caught and dismissed. If an individual earns a premium in their job above what they would otherwise earn in another job, then that premium is at risk if that individual should commit fraud and be caught and dismissed. One study specifically estimated this premium for purchasing managers at 33 hospitals in the City of Buenos Aires at a time when purchasing was decentralized to each hospital's purchasing department (1996-1997). The average monthly salary of a purchasing manager was US\$1,295, estimated to be about US\$375 more than that same manager would earn in another job based on

their age and experience. Was the risk of losing this premium sufficient to deter corruption?

In this particular case, data on prices paid for non-pharmaceutical medical supplies by Buenos Aires's hospitals was analyzed and the authors argued that the unexplained differences in prices paid across hospitals provided a good indicator of the level of corruption in those same hospitals (See U4 Brief 2008 - No. 7 for more detail). Using this information, the authors tried to see if the premium paid to purchase managers above what they would otherwise earn in the labor market could explain the different levels of corruption. Surprisingly, there was no statistical relationship between pay and corruption – even after making adjustments for hospital size, experience, and other factors.

**Figure 1:**  
Extent of corruption in four Buenos Aires public hospitals, average of responses by doctors and nurses, 1998 (Scale of 0 to 5)



Source: Schargrodsky et al 2001, Chapter 4 in Di Tella and Savedoff 2001.

Note: Scores represent the average of responses to the following question: "In your view, what is the level of corruption in public hospitals for the following activities: very high, high, moderate, low, very low, or non-existent?" [author's translation]. Question asked to 240 randomly selected doctors and nurses at four hospitals.

The study considered several explanations. They rejected the suggestion that there was no corruption in the hospitals based on several surveys and numerous interviews with patients, hospital staff, and administrators (See Figure 1). They also rejected the possibility that purchase managers were unresponsive to financial incentives – this is contradicted by a great deal of empirical evidence. Instead, they argued that the size of the earnings premium was unrelated to corruption because purchase managers were under very little risk of losing their jobs. In fact, no purchase manager was ever fired, disciplined or even investigated during a period when the city’s Health Secretariat was collecting the price data that demonstrated large deviations from market prices.

A follow-up study distinguished time periods during which the intensity of monitoring varied. That study found that higher wages did reduce corruption in the presence of moderate intensities of auditing. It is reasonable to conclude that the level of pay that purchase managers receive is unlikely to deter them from committing fraud if they face no risk of losing their pay. Impunity undermines any impact that rewards or penalties might have on corruption.

In Venezuela, evidence points to an even stranger outcome. Researchers also used unexplained differences in prices for medical supplies as an index of corruption and tested whether higher wages for purchasing managers would be associated with less corruption. To their surprise, they found the opposite effect – hospitals that paid their purchase managers *more* were also the hospitals that paid more for their medical supplies. How is it possible that higher pay would be associated with more corruption?

The study looked for an answer in the probabilities of detection and punishment. It measured the likelihood that corruption would be detected from a survey of hospital staff. Respondents felt that the likelihood of being detected for graft was only 31%, compared to 48% for theft and 72% for being absent without an excuse. Beyond these perceptions, the actual experience of impunity was quite wide-

spread – many hospitals reported never having applied sanctions to staff for malfeasance and 40% reported never even investigating the possibility of graft.

As in Argentina, it appears that the absence of effective monitoring and punishment for infractions undercut any potential effect that wages would deter corruption. But in Venezuela, the situation appeared to be even worse. Researchers speculated that the positive association between wages and corruption confirmed widespread suspicion regarding collusion between some hospital directors and purchasing managers. In other words, under conditions of impunity, higher wages and graft are two complementary ways that corrupt staff can extract resources from the public hospital.

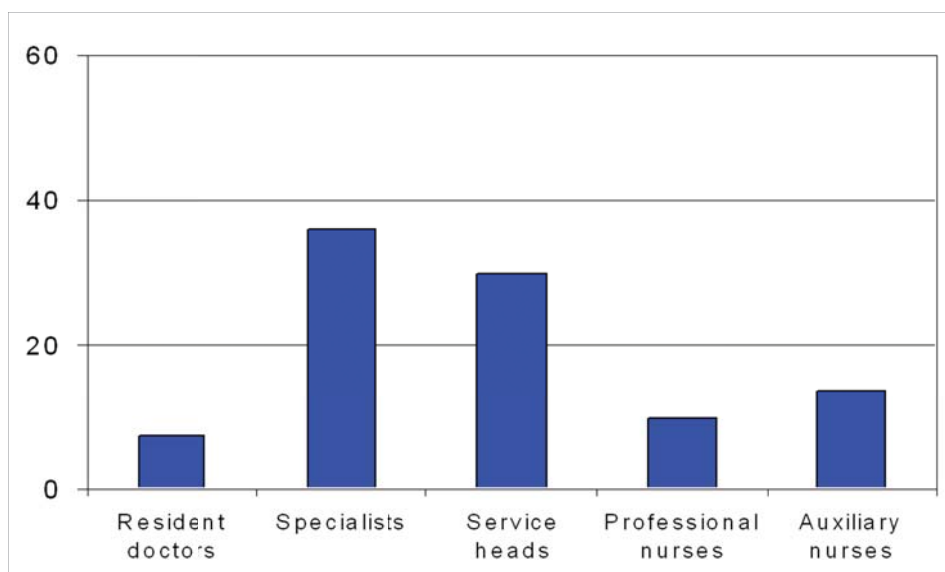
Further support for this hypothesis can be found by contrasting findings on absenteeism. Doctors frequently absented themselves from work so that they could earn money outside the hospital in their private practices (See Figure 2). However, absenteeism was more likely to be detected and more likely to be punished. In this case, doctors’ absenteeism was found to be less likely in hospitals where the probabilities of detection were higher and where doctor’s wages were lower.

## Carrots or sticks?

It would be a mistake to conclude that wage-levels play no role in the likelihood of corruption; but the evidence does show that raising wages in situations of generalized impunity is likely to be ineffective. When policymakers choose to combat corruption in public services, they are most likely to be successful if they address low pay wage levels in combination with improving basic audit mechanisms and prosecution. ■

*This U4 Brief draws heavily on research conducted by Schargrodsky, E., Mera, J., Weinschelbaum, E., Jaén, M. H., and Paravisini, D., as reported in Di Tella Savedoff (2001).*

**Figure 2:**  
Reported share of hours that staff are absent in Venezuelan hospitals, 1998 (%)



Source: Jaén and Paravisini 2001, Chapter 4 in Di Tella and Savedoff 2001.  
Note: Responses by Doctors and Nurses to a survey in 20 Venezuelan Hospitals in 1998.

## Further reading

Di Tella, Rafael and William D. Savedoff, eds. 2001. *Diagnosis corruption: Fraud in Latin America’s Public Hospitals*. Inter American Development Bank: Washington, DC.

Di Tella, R. and E. Schargrodsky (2003) “The Role of Wages and Auditing during a Crackdown on Corruption in the City of Buenos Aires”, *Journal of Law and Economics*. 46(1):269-92. April.

Van Rijckeghem, C. and B. Weder (2001) “Bureaucratic Corruption and the Rate of Temptation: Do Wages in the Civil Service Affect Corruption, and by How Much?”, *Journal of Development Economics*, 65, 2, 307-331.