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Are Bureaucrats Paid like CEOs? Performance Compensation and Turnover of Top Civil Servants*

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Abstract

Recent research explores the effect of financial and career incentives on public-sector hiring processes and subsequent performance. The reverse relation between performance and bureaucrats' compensation and turnover has received only limited attention. Due to the distinct features of public-sector organizations, bureaucrats are traditionally argued to require either permanent positions and fixed wages, or low-powered performance incentives. This article studies how the performance of top civil servants in Norwegian local governments affects their compensation and turnover. We thereby build on a unique new dataset over the period 1991-2014. Our results indicate that better performing top civil servants obtain a higher compensation and are less likely to be replaced. Nonetheless, these incentives remain low-powered in line with agency theory prescriptions.

Key words: Bureaucracy, performance pay, public administration, executive compensation, Norway.

JEL codes: D73, H11, H70, L30.

Highlights

- Top civil servants in local government are rewarded for good performance.
- Better budgetary outcomes translate into higher wages and lower turnover.
- Improving negative budgetary outcomes has stronger effects than further increasing budget surpluses.
- Pay-for-performance remains modest, consistent with low-powered incentives in the public sector.

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