

# The Interplay Between Bureaucracy and Politics

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# Three Ideas

## A Hierarchy

1. Political control of the bureaucracy
  - ▶ The classic question
2. Experts vs. politicians
  - ▶ Who decides?
3. Endogenous expertise
  - ▶ How do we get experts?

## Omissions?

- ▶ Yes

# Idea 1 — Political Control

## Fundamental Issue in Democratic Societies

- ▶ Bureaucrats:
  - ▶ have significant powers
  - ▶ are not elected
  - ▶ have advantages over principals
- ▶ Early example: Niskanen (1971)
  - ▶ How do legislatures control agency budgets?
  - ▶ Answer: not very well

## Standard Technique

- ▶ Embed *unitary* bureaucratic actor within models of political institutions
- ▶ For example, Congress, president, Supreme Court and a bureaucracy (Ferejohn and Shipan 1990)

# Political Control: Principals and Agents

## Natural Analogy: Principal-Agent Models

- ▶ Bounded rationality
  - ▶ Simon tradition
  - ▶ *e.g.*, Bendor, Taylor and Van Gaalen (1985) on Congressional control
- ▶ Moral hazard and adverse selection
  - ▶ McCubbins and Schwartz (1984): “police patrols” vs. “fire alarms”
  - ▶ Banks (1989): budgeting again, agency tries to hide project cost from legislature
- ▶ Delegation
  - ▶ To better-informed friends, not to enemies
  - ▶ Widely studied (*e.g.*, Epstein and O’Halloran 1994, Aghion and Tirole 1997, Huber and Shipan 2002)

# Political Control: Agency Structure I

## Administrative Procedures

- ▶ Why is U.S. rulemaking so elaborate?
  - ▶ *e.g.*, “notice and comment” procedures
- ▶ Normative defense: transparency, democracy, etc.
- ▶ McCubbins, Noll and Weingast (1987): improves monitoring

## Insulation

- ▶ Moe (1989): procedures can “insulate” programs from electoral risk
  - ▶ *e.g.*, independent commissions, minimizing political appointees
- ▶ Not managerially efficient
  - ▶ But, politically efficient

# Political Control: Agency Structure II

## Redundancy

- ▶ Principal can reduce organizational failure rates with redundant systems, *if* units operate sufficiently independently
- ▶ Heimann (1998): drugs and space shuttles
  - ▶ Organizational tradeoff between Type I, Type II errors

## Comparative Systems

- ▶ Presidential systems and common agency (Wilson 1989, Dixit 1998)
- ▶ Lewis (2008): trade-off between performance and politicization of U.S. federal agencies

# Political Control: Hierarchy

## Why Unitary Actors?

- ▶ Median voter theorem not obviously applicable
- ▶ Hierarchy and organizational economics

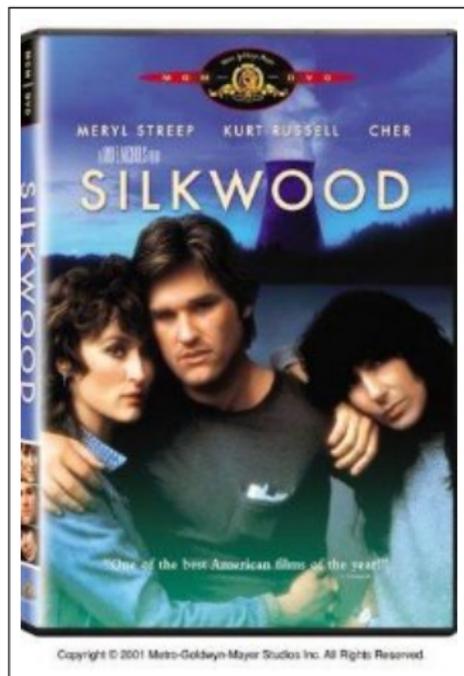
## Three Tier Models

- ▶ Tirole (1986): collusion between agents and supervisors
- ▶ Che (1995): revolving doors in government
- ▶ Prendergast (2003): monitoring and agent capitulation
  - ▶ Why are bureaucracies so “bureaucratic”?

# Political Control: Whistleblowing

Ting (2008): whistleblowing as a three-tier model

- ▶ How might whistleblowing distort managerial incentives?



## Idea 2 — Experts vs. Politicians

### Who Decides?

- ▶ A variant on delegation problem
- ▶ Previously, politicians had “policy” motivations
- ▶ Here, electoral and pork motivations

### Conventional Wisdom

- ▶ Separate “policy” from “administration” (Wilson 1889)
  - ▶ Policy is for elected leaders; *e.g.*, what is the tax rate?
  - ▶ Administration is for bureaucrats; *e.g.*, how do we collect taxes?
- ▶ No one fully believes this any more

# Experts vs. Politicians: Electoral Motives

Alesina and Tabellini (2007): optimal allocation of tasks between politicians and bureaucrats

- ▶ Bureaucrat cares about career concerns
  - ▶ Specifically, the perception of her talent
- ▶ Politician cares about re-election

## A Model

- ▶ Output:  $y = \theta + a + \epsilon$ 
  - ▶  $\theta \sim N(0, \sigma_\theta^2)$  is policy-maker's ability
  - ▶  $a$  is policy-maker's effort
  - ▶  $\epsilon \sim N(0, \sigma_\epsilon^2)$  is noise, independent of  $\theta$
- ▶ Policy-maker receives  $R(a) - C(a)$
- ▶ Policy-maker chooses  $a$  before  $\theta$  realized;  $y$  not contractible

# Experts vs. Politicians: Electoral Motives, continued

## Motivations

- ▶ Bureaucrat wants to maximize *ex post* assessment of  $\theta$
- ▶ Politician wants output to hit performance threshold  $W$ 
  - ▶ A retrospective voting rule

## Who Works Harder?

- ▶ Comparison is ambiguous
- ▶ Effort increasing in wages/value of office
- ▶ Higher noise ( $\sigma_\epsilon$ ) reduces effort of both types
- ▶ Higher uncertainty about skill ( $\sigma_\theta$ ) reduces effort of politician, increases effort of bureaucrat
  - ▶  $y$  becomes a better signal of  $\theta$ , so incentive for bureaucrat to pretend to be good
  - ▶ Hitting re-election threshold  $W$  becomes more random for politician, so effort less important

# Experts vs. Politicians: Another Take

Maskin and Tirole (2004)

- ▶ “Politician” faces re-election, “judge” does not
- ▶ Two actions  $\{a, b\}$ 
  - ▶ Probability that  $a$  is better for voter is  $p > 1/2$
  - ▶ Official knows which is better
- ▶ Two periods
- ▶ Uncertainty over whether official shares voter’s preferences
  - ▶ Probability  $\pi > 1/2$  of “congruence”

Which is Better?

- ▶ If politician values office highly, then chooses  $a$  even when it’s the wrong policy (pandering)
- ▶ Politician better than judge:
  - ▶ only if office-holding motive is weak
  - ▶  $p$  low, so voter uncertainty high

# Experts vs. Politicians: Bureaucracy Meets the Pork Barrel

## Earmarks vs. Criteria-based selection

- ▶ NSF/NIH peer review
- ▶ Highway bills, academic earmarks . . .

## The Tension

- ▶ *Distributive* politics central to legislative politics
- ▶ Bureaucratic expertise matters

## A Model (Ting 2011)

- ▶ When are programs “professionalized” or “politicized”?
  - ▶ Professionalization: bureaucracy not just a conduit
  - ▶ Politicization: divide-the-dollar legislative bargaining
- ▶ Implications for distribution of public spending, quality of government

# Bureaucracy and Pork: Environment

## Districts and Projects

- ▶ In each, project of uncertain quality  $(\underline{\theta}, \bar{\theta})$
- ▶ Type  $\tau \in \{h, l\}$ : probability  $p_\tau$  of quality  $\bar{\theta}$  ( $p_h > p_l$ )
- ▶  $n \geq 5$  (odd) districts,  $n_\tau$  of type  $\tau$
- ▶ Approved projects financed by uniform tax

## Legislators

- ▶ One per district
- ▶ Care only about pork (bias against “good government”)

## Bureaucrat

- ▶ Can investigate (at a cost) and approve/reject projects
- ▶ Cares about implementing exogenous standard  $s$  (career concerns)

# Bureaucracy and Pork: Three Easy Pieces

## 1 Bureaucratic Decision-Making

- ▶ If given authority, chooses whether to investigate and whether to approve projects in every district

## 2 Politicized Allocation

- ▶ Finite-horizon Baron-Ferejohn (majority rule, closed rule)
- ▶ Offers can discriminate among districts
- ▶ A workhorse model for distributive politics
- ▶ Skips #1

## 3 Professionalized Allocation

- ▶ Same bargaining game, but bargain only over uniform project budget
- ▶ Then goes to #1

# Bureaucracy and Pork: Politicization vs. Professionalization

Let  $\rho_{\tau,s}$  denote the bureau's probability of accepting a type  $\tau$  project under standard  $s$ .

**Proposition 1 (Project Quality):** There exists a cutoff probability  $\rho_{\tau,s}^*$  such that a type  $\tau$  majority politicizes if and only if  $\rho_{\tau,s} < \rho_{\tau,s}^*$ .

So, picky bureaucrats  $\rightarrow$  politicization

Intuition

- ▶ Allocating money directly can be nice
- ▶ But, competition for votes in coalition building introduces uncertainty
- ▶ So, legislators may prefer “expert” scrutiny instead
- ▶ NB: type  $l$  majority can professionalize, type  $h$  can politicize

# Bureaucracy and Pork: Other Results

**Legislative Composition.** Politicization is more attractive as  $n_h$  increases for type  $h$  majority, and less attractive as  $n_l$  increases for type  $l$  majority.

- ▶ Bigger type  $h$  majorities raise taxes
- ▶ Bigger type  $l$  majorities reduce taxes

**Budgets.** Total spending under politicization is strictly higher than under professionalization.

- ▶ Politicization generates inefficiently large allocation to proposer, which spreads costs across districts

**Quality of Bureaucrats.** Better investigators result in more politicization if project quality is low.

- ▶ Follows from Proposition 1

# Experts vs. Politicians: When Do Experts Decide?

1. Ideological differences are small
2. Variability in skill levels is high
3. Office motivation is high
4. Project quality is high

## Idea 3 — Endogenous Experts

Literature *assumes* that bureaucrats are experts

“Spoils System”

- ▶ Patronage, party dues

Main Vehicle for Expertise: Civil Service

- ▶ At U.S. federal level, key components:
  - ▶ Merit selection (Pendleton Act, 1883)
  - ▶ Protection from dismissal (Lloyd-La Follette Act, 1912)
  - ▶ Central classification of jobs (Classification Act, 1923)
  - ▶ Restrictions of political activity (Hatch Act, 1939)
- ▶ A central component of good government
  - ▶ Improved performance, corruption control in developing countries (Rauch and Evans 2000)
  - ▶ Increased long-term investment in U.S. cities (Rauch 1995)

# Endogenous Experts: Explanations

Interest group politics (*e.g.*, Knott and Miller 1987)

- ▶ Progressive anti-machine constituencies for good government

Transaction costs (Johnson and Libecap 1994)

- ▶ As government grows, managing patronage machine becomes too difficult

Wages (*e.g.*, Sorauf 1960)

- ▶ Rising private sector wages made patronage jobs undesirable

Theoretical accounts

- ▶ Reduce pre-election shirking (Horn 1995)
- ▶ Investment in expertise (Gailmard and Patty 2007)

# Endogenous Experts: the Investment Argument

Gailmard and Patty (2007): tenure protection as a means to improve policy choice

- ▶ Overlapping generations model, bureaucrats live two periods
- ▶ Suppose there are two types of bureaucrats
  - ▶ *Slackers* care only about income
  - ▶ *Zealots* also care about policy
- ▶ Slackers leave for private sector
- ▶ To prevent losing zealots, can concede some policy
  - ▶ Back to delegation problem: only if zealot is better informed
  - ▶ Zealot will only invest in becoming informed if she has job protection

Other Rationales for Tenure Exist

- ▶ But this one is grounded in a model of politics

# Endogenous Experts: Another Approach

## Electoral Incentives for Reform

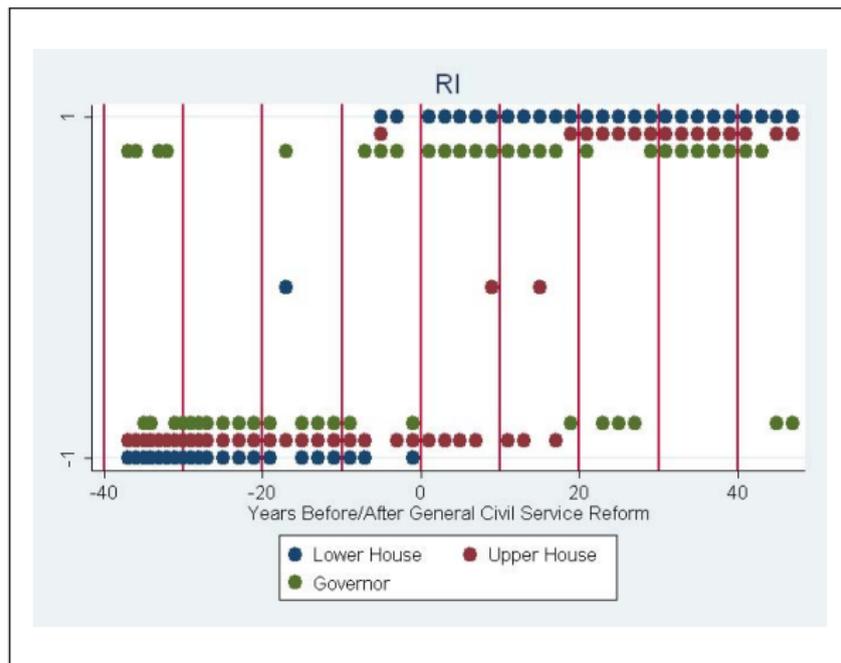
- ▶ Government institutions can be used for electoral advantage
  - ▶ Civil service is a prominent way to de-politicize government
  - ▶ ANES data: pre-civil service, voters more likely to vote for incumbent party
- ▶ So, elections should produce incentives to insulate or de-insulate institutions
- ▶ U.S. states are a laboratory for examining this

## Our Project (Folke, Hirano, Snyder and Ting, n.d.)

- ▶ A model of reform and elections
- ▶ Empirical findings on state civil service reform

# Endogenous Experts: Rhode Island Example

## Partisan control and civil service reform



Civil service reform (year 0 = 1939) occurs in transition from Republican to Democratic dominance

# Endogenous Experts: A Model

Partisan elections in one district over an infinite horizon

Two parties, L and R

- ▶ Fixed policy platforms  $p_L, p_R$
- ▶ Three overlapping generations
  - ▶ Oldest = current incumbent/election loser
  - ▶ Middle, youngest = next two elections' candidates
- ▶ Each generation cares about election prospects of both lower generations

Outcomes (in each period  $t$ )

- ▶ Policy ( $p_L$  or  $p_R$ )
- ▶ Distribution of resources (goodies)  $g > 0$
- ▶ Personnel system ( $c, s$ )
  - ▶  $c$  is civil service
  - ▶  $s$  is spoils system (belonging to one party)

# Endogenous Experts: Why Voters Care

## Voters

- ▶ Continuum with uniform distribution of ideal points
- ▶ Care about:
  - ▶ Policy
  - ▶ Goodies: total of  $kg$  delivered ( $k \approx$  efficiency)
  - ▶ Valence: two additive shocks per period;  $v^1 \sim U[-\omega, \omega]$   
“early,”  $v^2 \sim U[-1, 1]$  “late”

## Why does personnel system matter?

- ▶ More experienced system yields higher expected benefits (*i.e.*, higher  $k$ )
- ▶ Spoils system targets goodies to supporters (uniformly)
- ▶ Civil service distributes neutrally
  - ▶ No assumption that civil service more productive

# Endogenous Experts: Sequence

Within each period  $t$ :

1. Government benefits are allocated by incumbent
2. Valence shock  $v^1$  is realized
3. Incumbent politician chooses personnel system
  - ▶ Affects personnel system of period  $t + 1$
4. Valence shock  $v^2$  is realized
5. Citizens vote

Key Features

- ▶ Personnel system can change in response to early information about election prospects
- ▶ Changing to/from civil service, or changing partisanship of spoils system, results in low human capital in next period

# Endogenous Experts: Intuition

## Personnel and Partisan Matchups

- ▶ Civil service: goodies not a factor for voters (for any  $k$ )
- ▶ New spoils system: also not a factor for voters
  - ▶ Both parties offer same expected benefit)
- ▶ “Up and running” spoils system: advantages incumbent party

Easy to derive “cutpoint” on  $v^1$  that determines election victor

# Endogenous Experts: Main Result

Focus on party  $L$  incumbents; party  $R$  symmetric

**Proposition.** There exists a unique cutpoint equilibrium characterized by  $(\theta^{S^*}, \theta^{C^*})$ , where party  $L$  adopts civil service iff  $v^1 < \theta^{S^*}(\theta^{C^*})$  under spoils (civil service). ■

Translation

- ▶ When things look bad for incumbent ( $v^1$  is bad), choose civil service reform
- ▶ Implies reducing the incumbent's successor's election prospects
  - ▶ Driven by the fact that incumbent cares about more than just her immediate successor
- ▶ When things look good, impose spoils system
  - ▶ Transitions both into and out of civil service

# Endogenous Experts: Preliminary Evidence

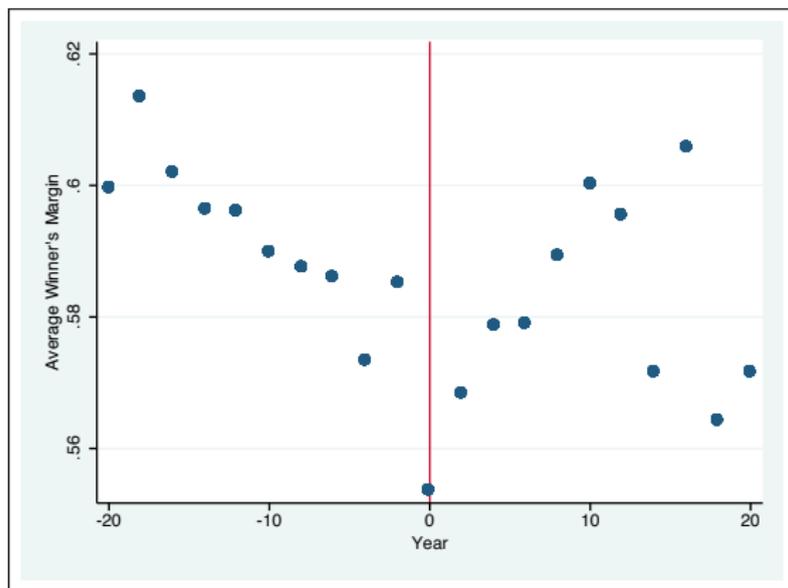
Not a test (yet)

Look at some state-wide variables around time of civil service reform

- ▶ Winning margin for statewide offices
  - ▶ Predict adoption of reform when party loses dominance
- ▶ Relative employment changes
  - ▶ Hypothesis of Johnson and Libecap (1994)
  - ▶ Does employment growth cause reform?

Sources: *Civil Service Agencies in the United States: A 1940 Census*, *Book of the States*, Aronson (1979), ICPSR

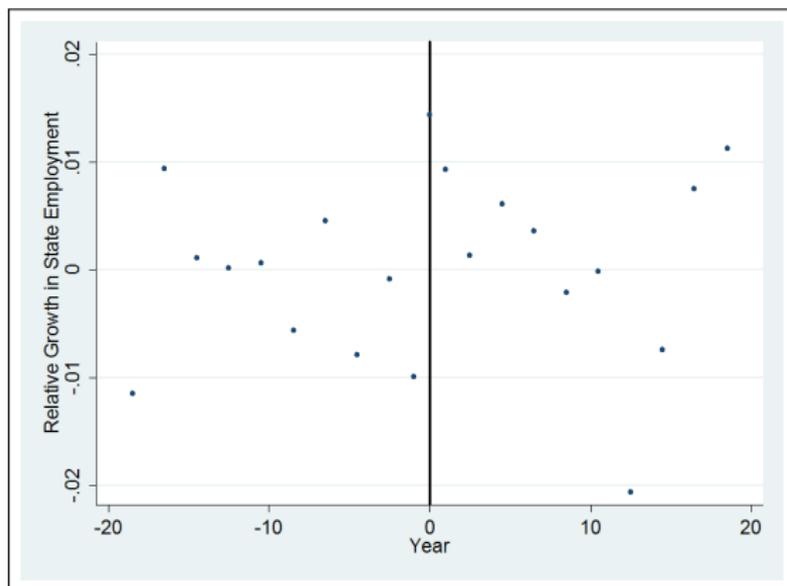
# Endogenous Experts: Statewide Office Vote



Civil service reform (year 0) coincides with increased competitiveness across all statewide offices

Similar figure if we calculate “normal vote,” lower house votes

# Endogenous Experts: the Employment Hypothesis



Civil service reform (year 0) does not seem to correspond to outsized increases in patronage rolls (*cf.* Johnson and Libecap 1994)

Reform seems to happen when growth is relatively slow

# Summary: Climbing Back Up

## Endogenous Experts

- ▶ Rationales for tenure protections, including investment in expertise
- ▶ Electorally induced reform
  - ▶ Other reforms, such as contracting laws?

## More Broadly

- ▶ Interactions between expertise and elections, legislatures
- ▶ Role of experts remains an important topic

## Even More Broadly

- ▶ Much progress made on control of the bureaucracy
- ▶ But, coverage is uneven
  - ▶ One growth area: courts and administrative law
- ▶ Needed: more integration with empirical work