Bureaucratic structure and bureaucratic performance in less developed countries

James E. Rauch[a,b,*], Peter B. Evans[c]

[a]*Department of Economics, University of California, San Diego, La Jolla, CA 92093, USA*
[b]*National Bureau of Economic Research, Cambridge, MA 02138, USA*
[c]*Department of Sociology, University of California, Berkeley, CA 94720, USA*

Abstract

We argue that several easily identifiable structural features constitute the key ingredients of effective state bureaucracies and should help to predict ratings of bureaucratic performance: competitive salaries, internal promotion and career stability, and meritocratic recruitment. We collect a new dataset on these features for bureaucracies of 35 less developed countries. Controlling for country income, level of education, and ethnolinguistic diversity, we find that our measure of meritocratic recruitment is a statistically significant determinant of ratings supplied by two of three country risk agencies. The importance of competitive salaries and internal promotion and career stability could not be clearly established.   © 2000 Elsevier Science S.A. All rights reserved.

Keywords: Bureaucracy; Economic development

JEL classification: D73; O10

1. Introduction

The important role of the quality of state institutions in the process of economic growth is being increasingly recognized in recent research. The revisionist studies of South Korea by Amsden (1989) and Taiwan by Wade (1990) brought into currency the term 'developmental state'. The World Bank broadened the focus to

state institutions in the rest of East (and Southeast) Asia in *The East Asian Miracle: Economic Growth and Public Policy* (1993). The use of institutional ratings produced by country risk services for international investors permitted extension of this line of research to cross-country statistical analysis by Knack and Keefer (1995) and Mauro (1995). Indices of 'institutional quality' based on these ratings are now becoming standard explanatory variables in cross-country growth regressions (e.g. Rodrik, 1999, p. 86).

In this paper we will be especially concerned with ratings of the performance of the central government bureaucracy. Knack and Keefer (1995) use ratings by the International Country Risk Guide (ICRG) of 'corruption in government' and 'bureaucratic quality' in one of their indices of institutional quality and use a rating by Business and Environmental Risk Intelligence (BERI) of 'bureaucratic delays' in the other, and Mauro (1995) uses ratings by Business International (BI) of 'bureaucracy and red tape' and 'corruption' in his index of bureaucratic efficiency. Knack and Keefer find positive and significant effects of both of their institutional quality indices on growth in per capita GDP, and Mauro finds the same for his index of bureaucratic efficiency.

While the cross-country statistical evidence reinforces the idea that differential governmental performance may have an impact on economic growth, it tells us little about what kind of institutional characteristics are associated with lower levels of corruption or red tape. If the findings just listed are meaningful, it is worth identifying which characteristics of government bureaucracies lead to good ratings from the ICRG, BERI, and BI on the variables cited above.[1] This is our aim in the present paper. In a companion paper (Evans and Rauch, 1999) we examine the direct impact of bureaucratic structure on economic growth.

To achieve this aim required a major data collection effort. Although it is increasingly recognized that without the help of the central government bureaucracy, it is difficult if not impossible to implement or maintain a policy environment that is conducive to economic growth, this recognition has not spurred any institutional initiative to maintain a database on the characteristics of state bureaucracies. Certainly there exist many fine case studies, but to our knowledge no previous set of quantitative, internationally comparable data has been assembled on this subject.

Our data collection and analysis will be guided by what we call the 'Weberian state hypothesis'. Drawing on the original insight of Weber (1968 [1904–1911]), Evans (1992, 1995) argues that replacement of a patronage system for state officials by a professional state bureaucracy is a necessary (though not sufficient) condition for a state to be 'developmental'. The key institutional characteristics of what he calls 'Weberian' bureaucracy include meritocratic recruitment through competitive examinations, civil service procedures for hiring and firing rather than

---

[1]La Porta et al. (1999) use some of these ratings as dependent variables but do not use characteristics of government bureaucracies as explanatory variables.