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The effects of bureaucracy on political accountability and electoral selection

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ABSTRACT

This paper examines how bureaucracy affects political accountability and electoral selection, using a three-tier political agency model consisting of voters, politicians and bureaucrats. In the model's hierarchy, politicians are constrained by elections while bureaucrats are controlled by budgets. If voters and bureaucrats prefer different types of politicians (i.e. they have a conflict of interests), incumbents pass oversized budgets to prevent bureaucrats from engaging in strategic behaviours that damage incumbents' reputations. If, instead, voters and bureaucrats prefer the same type of politicians (i.e. they have an alignment of interests), bureaucrats cannot obtain a concession from politicians. In the latter case, however, bureaucrats send voters a credible signal regarding an incumbent's type, which improves electoral selection. This paper also shows that political appointment systems improve political accountability in the conflict-of-interests case while they weaken electoral selection in the alignment-of-interests case.

1. Introduction

The purpose of this paper is to examine how bureaucracy affects political accountability and political selection. Incumbent politicians need to control the bureaucracy and show their competence in policy making to the electorate to obtain re-election. Bureaucrats, however, may act strategically in policy implementation. For example, bureaucrats can sabotage policy implementation, which could damage incumbents' reputations. In fact, the 37th President of the U.S., Richard Nixon, was worried about sabotage by federal bureaucrats opposed to his conservative policies (Wilson, 1989). Bureaucrats want politicians to make decisions that do not conflict with their interest in preserving their jobs. Moe (2006) conjectures that politicians worrying about bureaucrats' political power being used against them may choose policies that are more preferable to bureaucrats.¹ Bureaucrats' political power, thus, could make it difficult to hold incumbents accountable to voters. On another front, voters can infer incumbents' types from bureaucrats' sabotage, if the sabotage is publicly observed, since sabotage shows a political conflict between incumbents and bureaucrats. Bureaucrats, thus, may use sabotage as a form of political endorsement, which could influence citizens' voting behaviour.

Building on political agency models regarding public finance problems (e.g. Barro, 1973; Rogoff, 1990; Besley, 2006), I construct a three-tier model: the top principal is voters, the supervisor is politicians and the agent is bureaucrats. While politicians have authority to determine the size of the government budget (taxes), bureaucrats have discretion over its use. The model assumes that an incumbent politician is either the informed type who observes the cost of public goods provision or the uninformed type who does not.

Bureaucrats' choice of public goods provision affects voters' belief regarding incumbents' type. By reducing public goods

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¹ Moe (2012) points out that although the analysis of bureaucrats' political power is important, it is completely missing from the literature.

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provision (i.e. sabotaging), bureaucrats try to give voters a negative (or positive) impression of incumbents. Bureaucrats prefer an incumbent who allocates larger budgets to them, and thus have an incentive to help the incumbent's re-election. Bureaucrats may try to obstruct their non-preferred incumbents' policy implementation.

The main result is that bureaucrats' strategic motivation causes an oversized government when bureaucrats and voters have a 'conflict of interests' regarding politicians' type (i.e. when bureaucrats prefer uninformed politicians while voters prefer informed politicians). Bureaucrats may try to damage an informed incumbent's reputation by reducing public goods provision. The informed politician needs to increase bureaucrats' budgets to prevent them from manipulating information (incentive-compatibility conditions), an outcome that supports Moe's conjecture. Bureaucrats, however, cannot obtain any concession from politicians when bureaucrats and voters have an 'alignment of interests' (i.e. when both prefer informed politicians). This is because bureaucrats in this case prefer not to damage informed incumbents' reputations.

Another major finding concerns electoral selection. Voters infer incumbents' type from bureaucrats' policy choices. In the alignment-of-interest case, bureaucrats can send a credible signal to voters at minimal cost to remove bureaucrats' non-preferred incumbents from office. This result is regarded as bureaucrats' information-leak strategy to damage their non-preferred incumbents' reputation (Tullock, 2002).

This paper also explores whether political appointment systems can restrict bureaucrats' strategic behaviour. I show that political appointees prevent bureaucrats from damaging incumbents' reputations. In conflict-of-interest cases, political appointees help informed politicians implement the first-best policy, showing an improvement in political accountability. In alignment-of-interest cases, however, the political appointment system leads to the persistence of the incompetent government and thus a deterioration in electoral selection.

The remainder of this paper is organised as follows. The next section presents a review of the related literature. Section 3 presents a benchmark model with voters, politicians and honest bureaucrats (who have no strategic motivation). Section 4 introduces strategic bureaucrats who could engage in sabotage strategically. Section 5 analyses political appointments. Section 6 provides the conclusion. Proofs are contained in the Supplemental material.

2. Related literature

This study is related to several research areas. The model in this study builds on political agency models (e.g. Barro, 1973; Rogoff, 1990; Besley, 2006). The several studies show that politicians' strong re-election incentives lead to inefficient policy making decisions (Morris, 2001; Canes-Wrone et al., 2001; Maskin and Tirole, 2004; Hodler et al., 2010; Acemoglu et al., 2013; Smart and Sturm, 2013). My model with strategic bureaucrats also shows that informed politicians set inefficiently high taxes to achieve re-election. Maskin and Tirole (2004) argue that in such an inefficient situation, the policy making process should be allocated to non-accountable officials. My model shows that a hierarchical policy making process of politicians and bureaucrats provides voters with different sources of information about politicians' competence, which serves for better electoral selection in the alignment-of-interest case.² In addition, I show that political appointment in the hierarchical government strengthens political accountability but weakens electoral selection.

The literature on political agency models often differentiates politicians' type in terms of their preferences, e.g. a 'good' type shares policy preference with voters and a 'bad' type has a different preference from voters. In contrast, following Tirole (1986) and Canes-Wrone et al. (2001), I model politicians' competence regarding information acquisition as their type. A competence-based analysis describes my three-tier hierarchy model better than a preference-based analysis. A preference-based analysis needs to specify the four players' preferences: voters, good politicians, bad politicians and bureaucrats.³ However, in the competence-based analysis where both types of politicians have an identical preference (i.e. re-election in my study), the model's specification is structurally simplified.

This study also relates to research on bureaucracies, which has been developing since the seminal work of Tullock (1965) and Niskanen (1971). Brehm and Gates (1997) discuss the phenomenon of bureaucratic sabotage, which prevents political authorities from implementing their preferred policies. Tirole (1994), Dewatripont et al. (1999) and Dixit (2002) examine career-concern incentives of bureaucrats who engage in multiple tasks and pursue multiple missions. Swank (2002) and Warren (2012) study the role of appointed bureaucrats in governments' policy making processes. Alesina and Tabellini (2007) examine the policy-task allocation between politicians motivated by re-election and bureaucrats motivated by career concerns. In contrast to the literature that focuses on the two-tier political relationship between politicians and bureaucrats, I employ a three-tier model to study how bureaucrats' strategic action affects political accountability and electoral selection.

A three-tier hierarchical model (principal-supervisor-agent) was originally examined by Tirole (1986). One main difference between this paper's approach and Tirole's is the role given to the top principal. While Tirole's top principal is a constitutional designer who can offer complete contracts with monetary transfers to both supervisor and agent, my top principal is a voter who can only select a politician in an election, which implies that my top principal possesses quite limited ability.⁴ Three recent papers have

² Ashworth and Bueno de Mesquita (2014) provide a detailed discussion about how increases in voters' information influence political accountability and electoral selection.

³ Although voters and good politicians have the same 'policy' preference in a preference-based analysis, good politicians also obtain a payoff from winning re-election.

⁴ Another difference is that Tirole (1986) allows a side contract (collusion) between supervisor and agent. I, instead, consider 'implicit' collusion between them (e.g. bureaucrats trying to manipulate an incumbent's type to enable her re-election).

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