



Civil service reform [☆]

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ABSTRACT

Civil service rules governing the selection and motivation of bureaucrats are among the defining institutions of modern democracies. Although this is an active area of reform in the US and elsewhere, economic analyses of the issue are virtually nonexistent. This paper provides a welfare evaluation of civil service reform. It describes the effect of reform on the interaction of politicians, voters, and bureaucrats, and shows that society often faces trade-offs between improving the bureaucracy and improving the performance of politicians. My results characterize the conditions under which merit-based recruitment and civil service protections such as tenure can improve welfare.

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1. Introduction

Laws governing the merit-based selection and compensation of bureaucrats and their protection from political pressure are commonly viewed as a staple of a well-functioning democracy. Because bureaucrats protected from politics may also be less responsive to legitimate policy directives, the optimal structure of civil service laws is a non-trivial problem of institutional design. As a result, rules governing the operation of bureaucracies have been an active area of institutional reform in the US and around the world.¹ By this measure, the importance of civil service laws rivals that of electoral rules (e.g., districting, campaign finance) and political decision-making rules (e.g., supermajority requirements, line-item veto powers). But while the latter have been subjected to extensive economic analysis,² little is known about the impact of civil service reform.

This paper presents a theoretical analysis of civil service laws. At their core, these laws govern (i) the selection of bureaucrats, typically

through competitive examinations, and (ii) the degree of control that politicians can exercise over them, which can be limited through civil service protections such as standardized pay scales and job tenure. While in practice laws have other details, understanding the two core mechanisms of selection and control is an important first step towards a better understanding of this institution. In the US federal government, the Pendleton Act of 1883 codified the selection of bureaucrats based on merit (professional qualifications), and this principle has rarely been questioned since. The desirable level of control has been more controversial, and while the Pendleton Act aimed at reducing control, more recent reforms beginning with the Civil Service Reform Act of 1978 increased control and reduced bureaucrats' protections.³ The analysis presented here describes the conditions under which these types of reforms are desirable. It shows that the selection and control of bureaucrats can interact in subtle ways with the electoral process, affecting not just what bureaucrats do, but also which politicians get elected and the policies they choose once in office. In particular, society will often face a trade-off between improving the bureaucracy and improving the performance of politicians.

My results are based on three broad ideas concerning civil service reform. First, civil service rules can interfere with the ability of elections to discipline politicians. This is because bureaucrats affect a politician's payoff from holding office, and therefore the value of being reelected. If a politician gets lower utility from working with a better bureaucracy, then improving the bureaucracy lowers his value of reelection, and hence his incentive to choose policies that benefit voters. For example, a "corrupt" mayor may carry out socially beneficial policies as long as

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¹ Between 1981 and 1991, civil service reforms were a component in 90 World Bank loans to 44 different countries totalling over \$ 4.6 billion (Lindauer and Nunberg, 1996). Every US president in the 20th century had a government reorganization program with personnel implications near the top of his reform agenda (see OPM (2003) for a history of federal reform proposals). State governments are also active reformers. Contentious legislation in Georgia (1996), Florida (2001), and Arizona (2012) ended traditional civil service protections, including tenure, for a substantial number of state employees. In 2011 pay-setting procedures were in the spotlight after a series of states, led by Wisconsin, repealed the collective bargaining rights of public employees.

² See Besley and Case (2003) for a survey of the literature on the policy effects of electoral and decision-making rules in US states.

³ This parallels the history of the British civil service, where the initial emphasis on selection and reduced control beginning in the mid-19th century was followed by reforms towards increased control initiated by the Thatcher government in the 1970s.

being surrounded by loyal (corrupt) bureaucrats makes reelection worthwhile. Civil service reform can reduce bureaucratic corruption either through better selection (if more honest bureaucrats are hired) or reduced control (if bureaucrats become more honest once they are protected from the mayor). This can lower the mayor's utility from holding office, and cause him to abandon the beneficial policies. The more corrupt the politician (i.e., the more he needs elections to remain honest), the more his incentive to choose good policies is likely to decrease when the bureaucracy improves.

Second, civil service rules can interfere with the ability of elections to screen politicians. This is due to bureaucrats' role in transmitting information between politicians and voters. Voters need information on the actions of politicians to hold them accountable, but they rarely observe directly what happens in the legislature or in the White House, much less what happens in a governor's or a mayor's office. What they typically see are the actions of bureaucrats, and they judge politicians based on the policies as implemented by these bureaucrats.⁴ Improving the bureaucracy is likely to make its actions less informative regarding the behavior of politicians. For example, a bureaucrat who always awards procurement contracts to the lowest bidder is less informative to voters than one who awards the contract to the politician's cousin when asked to do so. An honest bureaucrat makes it harder for voters to throw corrupt politicians out of office. Thus, improving the bureaucracy can lower the quality of incumbent politicians.

Finally, civil service protections such as tenure remove the alignment between bureaucrats' and politicians' incentives and this can have socially undesirable consequences. Without tenure a bureaucrat who wants to keep his job needs the politician to be reelected, with tenure he does not. A tenure system can result in strategic behavior by the bureaucrat: when he learns that the politician does not share his preferences, he can lower his reelection chances by implementing bad policies. Thus, tenured bad bureaucrats can sabotage good politicians without having to worry about losing their jobs.⁵ Similarly, tenured good bureaucrats have less reason to protest against bad policies that will get a bad politician thrown out of office.

I study these ideas in a simple political agency model with voters, politicians, and bureaucrats.⁶ In the model, policies are chosen by politicians but implemented by bureaucrats, and bureaucrats can decide not to comply with the politician's choice. Noncompliant bureaucrats may be punished, capturing the politician's degree of control over the bureaucracy. Politicians as well as bureaucrats can have preferences aligned with voters' ("good") or misaligned with voters' ("bad"). Voters observe implemented policies, attempt to infer the quality of both the politician and the bureaucrat, and decide whether to reelect the politician. Section 3 presents the simplest version of the model, where in each period the politician interacts with a bureaucrat randomly chosen from a large bureaucracy. In Section 4 bureaucrats "live" for two periods, engage in forward-looking strategic behavior, and the politician has the option to fire them. Section 5 studies various other extensions.

The results help rationalize various aspects of real-world civil service reforms. I find that lowering politicians' control over bureaucrats is beneficial if politicians' quality is low *and* elections are ineffective at disciplining them, which is in line with the views commonly held by

reformers in the Progressive era. My results also explain why it is important to pair reduced control with improved selection that raises the quality of bureaucrats. This provides a rationale for early US reforms emphasizing merit-based recruitment. However, unless the quality of bureaucrats can be improved substantially, improving the bureaucracy can lead to lower welfare because this makes it harder for voters to discipline and screen bad politicians. When the quality of bureaucrats is low, giving politicians more control can raise welfare, in line with provisions of the Civil Service Reform Act and other recent reforms aimed at increasing the responsiveness of the bureaucracy. Interestingly, I find that increasing political control can increase welfare even if politicians are worse than bureaucrats. More generally, my findings suggest that traditional civil service rules emphasizing reduced control and improved bureaucratic selection may be a useful substitute for, but not a good complement to well-functioning democratic elections.

In this model, tenure makes both bad and good bureaucrats less likely to implement good policies. The latter happens because a bad policy reveals to voters that the incumbent politician is bad, and a tenured bureaucrat can thus get the politician replaced while keeping his job. In the short run, any welfare gains from bureaucrats' tenure can only come from improving the performance of politicians. Alternatively, tenure can raise welfare when the long-run gains from an improved bureaucracy offset the short run welfare losses from worse bureaucratic performance. My results provide a rationale for putting top-level bureaucratic positions that offer more possibilities for strategic behavior outside the scope of civil service protections, as is done in many civil service systems. The results also suggest that pairing tenure with provisions to support whistle-blowers can be important. This may allow a bureaucrat to reveal a bad politician's type to voters without implementing bad policies.

2. Related literature

Most of the existing literature directly addressing theoretical considerations related to civil service reform is informal (see Pfiffner and Brook (2000) for an overview).⁷ In particular, I know of no formal analysis of the welfare effects of civil service rules. Indirectly, the most relevant literature is that on bureaucracies, which remains small compared to the body of work on other political actors. Much of this literature has dealt with the question of delegation: whether policy makers are/should be elected or appointed. Recent work in economics includes Maskin and Tirole (2004), Alesina and Tabellini (2007), Coate and Knight (2011), and Vlaicu and Whalley (2011). These studies deal with the normative question of whether a decision maker should be elected (a politician), or appointed (a bureaucrat or a judge). Like them, my focus is normative, but I take it as given that the policy-making process involves *both* elected and non-elected decision makers. One question I study is how regulating the *interaction* between these two types of decision makers affects voters' ability to hold politicians accountable. While the existing literature seems most relevant in the case of high-level decision makers (e.g., whether the head of a federal agency or a city should be elected or appointed), I focus on the relationship between a politician and lower level bureaucrats who are typically the subject of civil service regulations.

In political science, studies on delegation usually take a positive (as opposed to normative) approach and ask about the conditions under which a politician will *choose* to delegate some of his authority to another, possibly non-elected, decision maker (e.g., Horn, 1995; Epstein and O'Halloran, 1999; Gailmard and Patty, 2007, 2013; Fox and Jordan, 2011). Applied to civil service rules, this literature suggests interesting reasons why a politician might want to introduce laws that

⁴ This seems well understood by the mayors interviewed by Tolchin and Tolchin (1971), who complained that voters hold them responsible for the policies implemented by bureaucrats who have a large degree of discretion. "Adding to their difficulties as mayor is the public belief that they do command, causing the shower of blame which inevitably rains on them when services fail to run optimally" (p 73).

⁵ Indeed, politicians often worry that bureaucrats protected by tenure will have electoral costs for them. As Roosevelt "kingmaker" James A. Farley noted: "Some of the greatest troubles the President has had were caused by subordinate officials who were in sharp disagreement with his policies and, rightly or wrongly, were sabotaging the job he was trying to accomplish." (quoted in White and Smith, 1939, p 92).

⁶ This model is one of the few existing attempts to understand the "multilayered agency problem between voters, politicians, and bureaucrats which has not been studied extensively in the agency model" (Besley, 2006, p 232).

⁷ A handful of empirical studies exist on civil service systems in specific settings, including municipal reforms in the Progressive era (Rauch, 1995), merit selection of US judges (Hanssen, 2004), the tenure system of English judges (Blanes i Vidal and Leaver, 2011), and merit systems in US states (Folke et al., 2011; Ujhelyi, 2014).

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