The Economics of Bureaucracy

ECO1028: Politics Without Romance

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Roadmap for Today

I. The Puzzle: Bureaucracy in Theory and Practice

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V. Critique 3: The Bureau-Shaper (Dunleavy)

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I. The Puzzle: Bureaucracy in Theory and Practice

The Starting Point: Max Weber (1922)

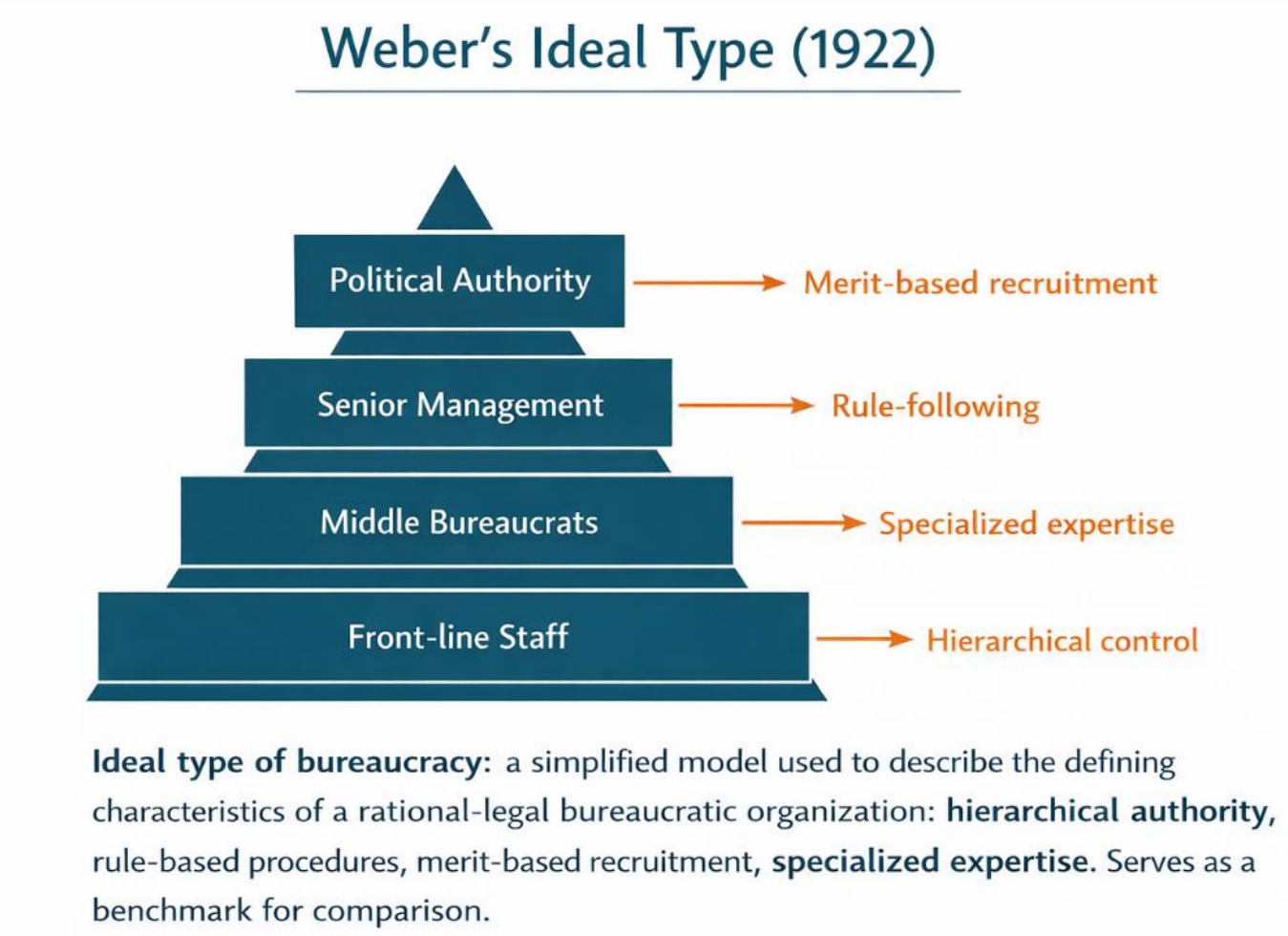
To understand the economics of bureaucracy, we first have to understand the sociological view that came before it.

The "Ideal Type" of Bureaucracy (4 pillars)

- Hierarchy: Clear chain of command.
- Rules: Impersonal application of law.
- Expertise: Merit-based recruitment.
- Neutrality: Execution of the sovereign's will.

Bureaucracy as the most efficient administrative form. *Weber, 1922, Economy and Society*

The "Ideal Type" of Bureaucracy



Information flows up, commands flow down, and everyone follows the rules.

Why Weber Saw Bureaucracy as Efficient

- Specialization increases technical efficiency.
- Rules reduce arbitrariness and corruption.
- Professionalization improves competence.
- Stability ensures policy continuity (even if governments change, the state continues to function).

Do you believe this to be true?

The Public Choice Departure

Politics Without Romance

- Bureaucrats are rational individuals.
- They respond to incentives like all economic actors.
- Organizational behaviour emerges from individual incentives.

The Central Question: Three Actors

Firms	Consumers	Politicians
Maximize: Profit	Maximize: Utility	Maximize: Votes

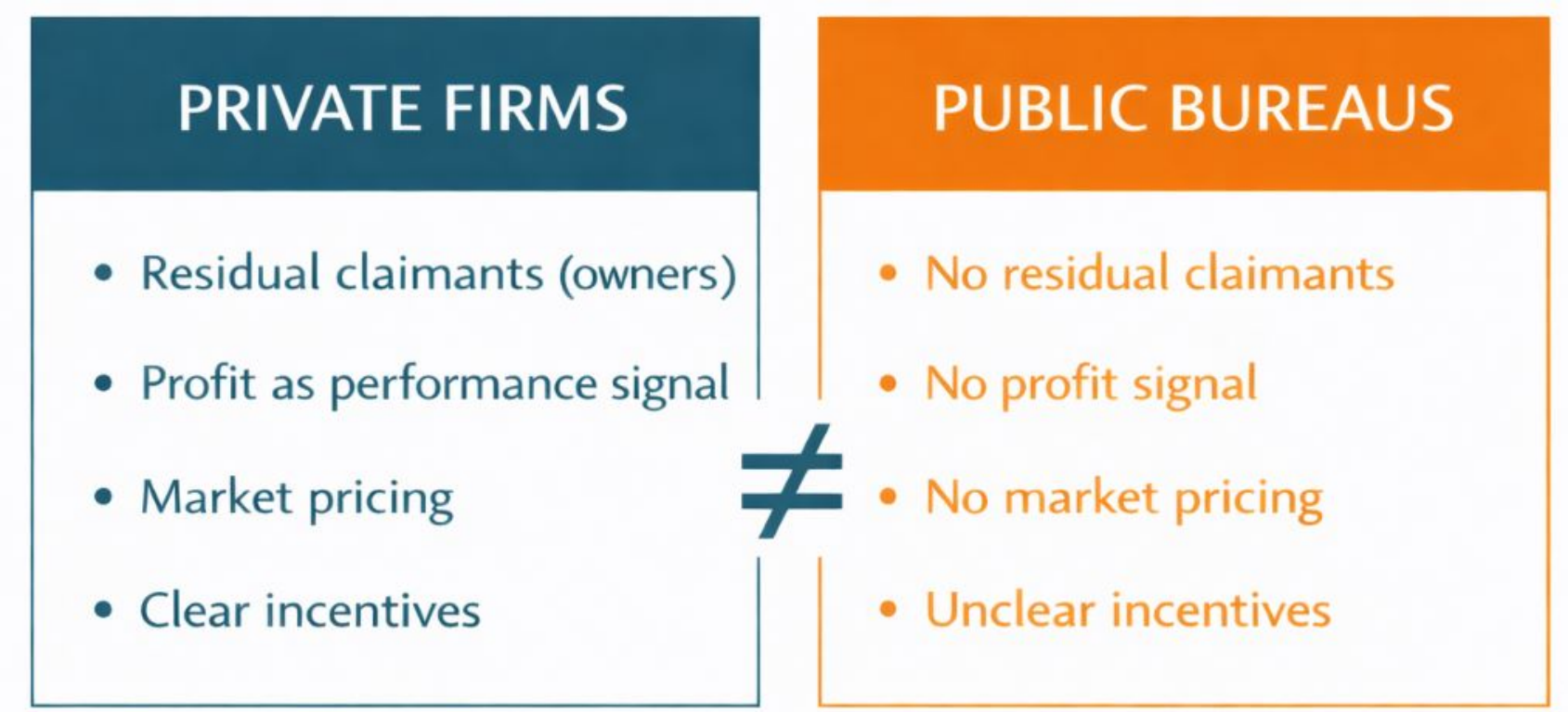
?

What do BUREAUCRATS maximize?

Why Firms and Bureaus Differ i

- **Firms have Residual Claimants (Owners):**
  - *Definition:* The person who keeps the surplus (profit) after costs are paid.
  - *Incentive:* Strong motivation to reduce waste and maximize efficiency to increase that residual.
- **Bureaucracies lack Residual Claimants:**
  - No individual pockets the savings if costs are cut.
  - *Result:* Weaker incentives to minimize costs ("Use it or lose it" budgets $\rightarrow$ If a bureaucrat saves 1 million by being efficient, they don't get a bonus check. In fact, usually, their budget gets cut next year because they 'obviously didn't need the money.').
- Incentive structures therefore differ fundamentally $\rightarrow$ No profit signal, no market pricing.

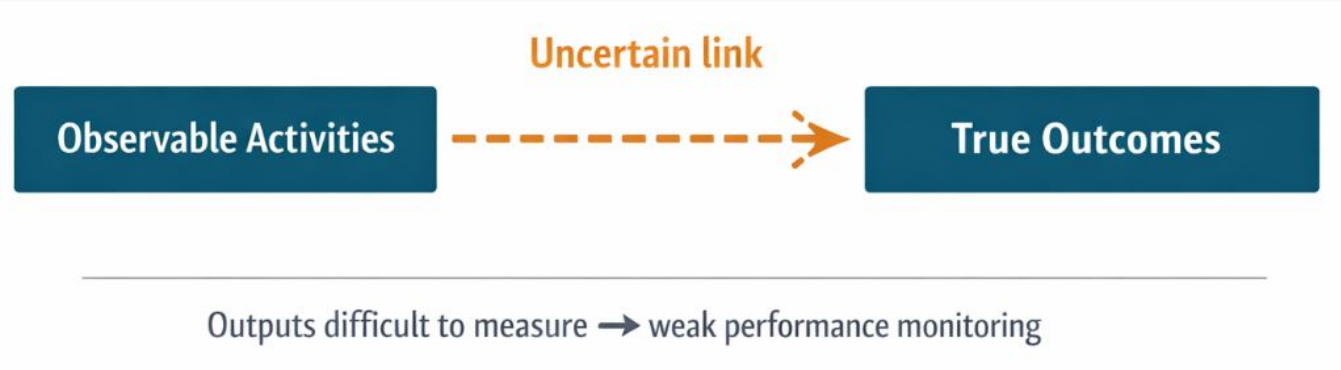
Why Firms and Bureaus Differ ii



The Measurement Problem

In the private sector, output is easy to measure: how many iPhones did you sell?

- Many public outputs are difficult to measure:
  - National defense
  - Environmental protection
  - Judicial quality
- Legislatures often observe budgets and activities rather than outcomes.



Example: Measurement Problems in Large Public Programs i

Many government programs produce outcomes that are difficult to measure directly, making performance evaluation imperfect and creating scope for bureaucratic discretion.

Defense spending (Mueller example):

- Observable activities: troop deployment, procurement of equipment, number of missions.
- True outcome: national security - inherently difficult to measure because it depends on events that *do not occur* (deterrence).

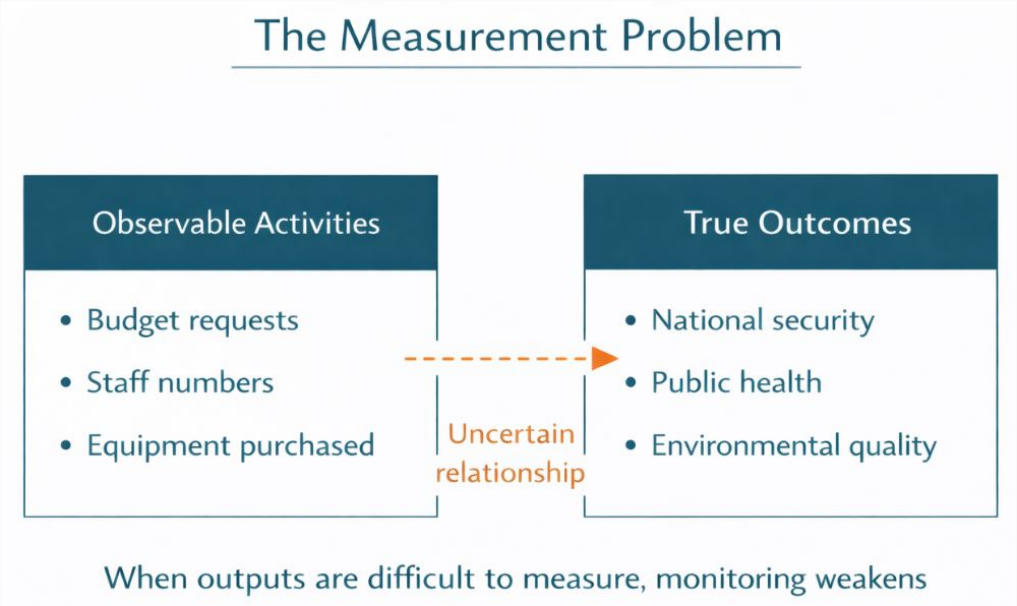
Example: Measurement Problems in Large Public Programs ii

Healthcare provision (Irish HSE):

- Observable activities: hospital staffing levels, procedures performed, number of beds.
- True outcome: population health improvements and long-term patient welfare, which are influenced by many external factors (diet, exercise, and genetics) and are only partially attributable to agency performance.

When outputs are difficult to measure, monitoring relies on inputs rather than outcomes, weakening performance incentives.

Example: Measurement Problems in Large Public Programs iii



Consequences of Measurement Problems:

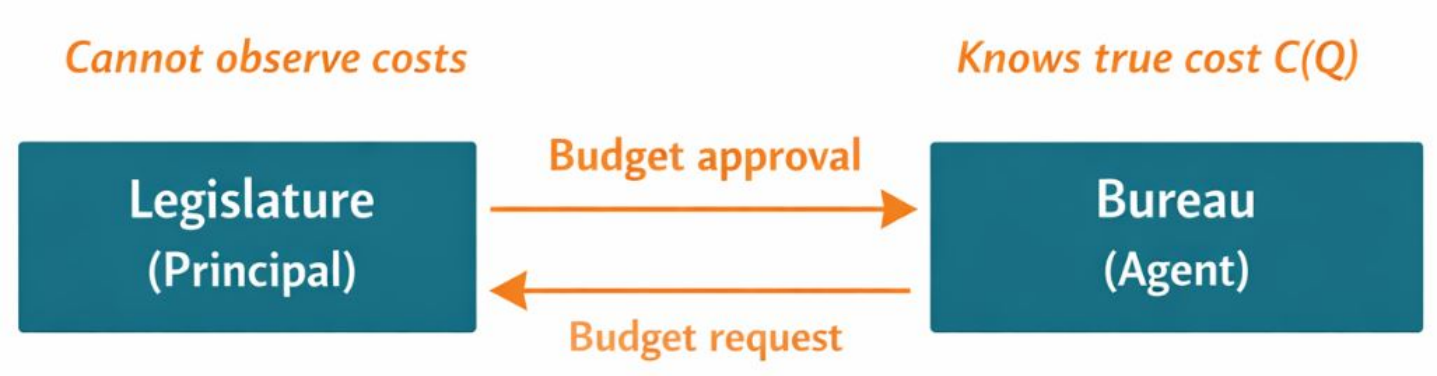
- Performance monitoring becomes costly or impossible.
- Budget allocations become weakly tied to performance.
- Administrative discretion (the power of government officials to make choices and apply laws flexibly) increases.

The Principal–Agent Framework

- Principal: Legislature or taxpayers.
- Agent: Bureau.
- Principal wants efficient service provision.
- Agent has its own preferences.

Information Asymmetry as the Core Friction

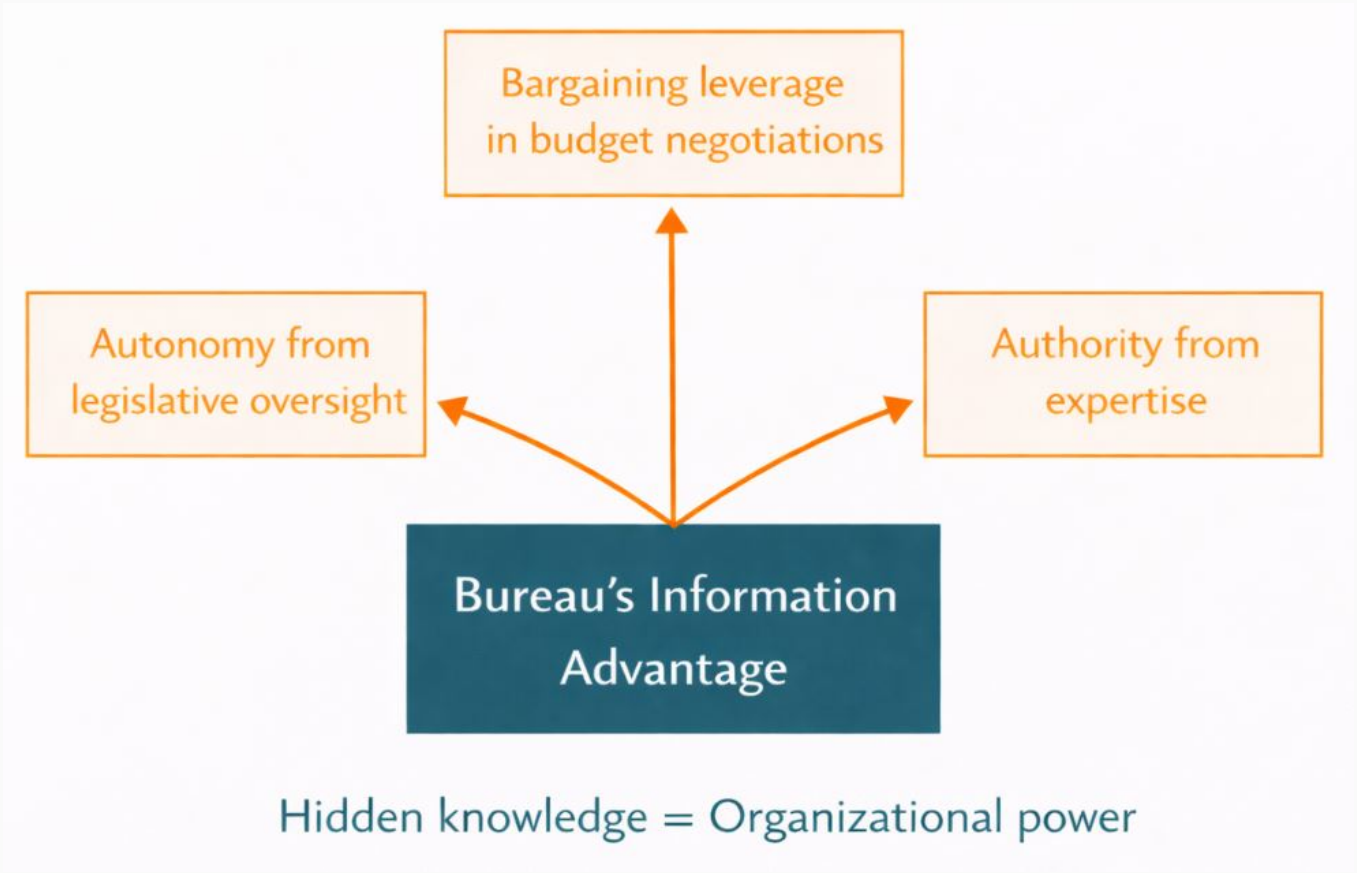
Administrative agencies typically possess superior information regarding production technologies, operational constraints, and the true cost of providing services. Legislatures, in contrast, observe only proposed budgets and aggregate performance indicators.



Example: In healthcare procurement, the legislature observes the requested hospital funding level, but hospital administrators possess detailed knowledge of the true costs of staffing, equipment maintenance, and treatment delivery. This informational **asymmetry gives agencies bargaining power** during budget negotiations.

Information as a Source of Power

- Superior information provides bargaining leverage.
- Hidden knowledge prevents precise legislative control.
- Information asymmetry generates organizational autonomy.



Uncertainty and Bureaucratic Authority

- Authority increases when outcomes are uncertain.
- Expertise becomes indispensable when tasks are complex.
- Control over uncertainty translates into organizational power.

Operational Example:

- Maintenance specialists understand technical systems.
- Managers depend on their expertise.
- Informational monopolies shift real authority away from formal hierarchy.

Institutional Implication

- Bureaucratic power often derives from knowledge rather than formal rules.
- Expertise creates bargaining strength in budget negotiations.
- Informational advantages shape agency behaviour.

From Administration to Economics:

- Bureaucracies operate in environments without market discipline.
- Incentives must therefore be analyzed institutionally.
- Public Choice theory models bureaucratic behaviour using economic tools.

Bureaucrats are economic actors leveraging information asymmetry in a market with no competition, not neutral implementers of rules.

Transition: The Positive Theory of Bureaucracy i

Concept Check: The University as a Bureau

The Measurement Problem:

- **Output A (Research):** Easy to measure (Number of papers, citations).
- **Output B (Teaching):** Hard to measure (Did the student actually learn? Long-term career success?).

Prediction
If the Principal (Govt) only rewards what they can measure...

Agents (Universities) will maximize Research and ignore Teaching.

Transition: The Positive Theory of Bureaucracy ii

This creates the **"Multitask Problem"** (Holmstrom & Milgrom) – a classic feature of bureaucracy: if you give a bureaucrat strong incentives (rewards or punishments) for the Easy Task, they will rationally stop doing the Hard Task completely to focus on the one that gets them rewarded.

Holmstrom & Milgrom's famous conclusion is this: sometimes, it is better to have NO performance incentives than BAD ones.

If you can't measure the important stuff (Task B), you shouldn't put high-pressure incentives on the easy stuff (Task A), or you will destroy the quality of the service. This explains why many bureaucrats are paid flat salaries (low-powered incentives) rather than commissions - it prevents them from gaming the system.

II. The Benchmark: Niskanen (1971)

The Objective of a Positive Theory

- Bureaucracies operate outside competitive markets.
- Standard profit-maximization models do not apply.
- We require a behavioural model consistent with institutional realities.

Niskanen's Core Hypothesis i

This comes from William Niskanen's 1971 book, Bureaucracy and Representative Government. It is the 'supply and demand' model of the bureaucratic world. Standard economics assumes firms maximize profit.

But bureaus don't have profit. So, we need a new be havioural assumption that fits the institutional reality.

Niskanen's Core Hypothesis ii

- Bureaucrats maximize the size of their agency's budget.
- Budget size proxies for:
  - Salary
  - Prestige
  - Career opportunities
  - Organizational influence

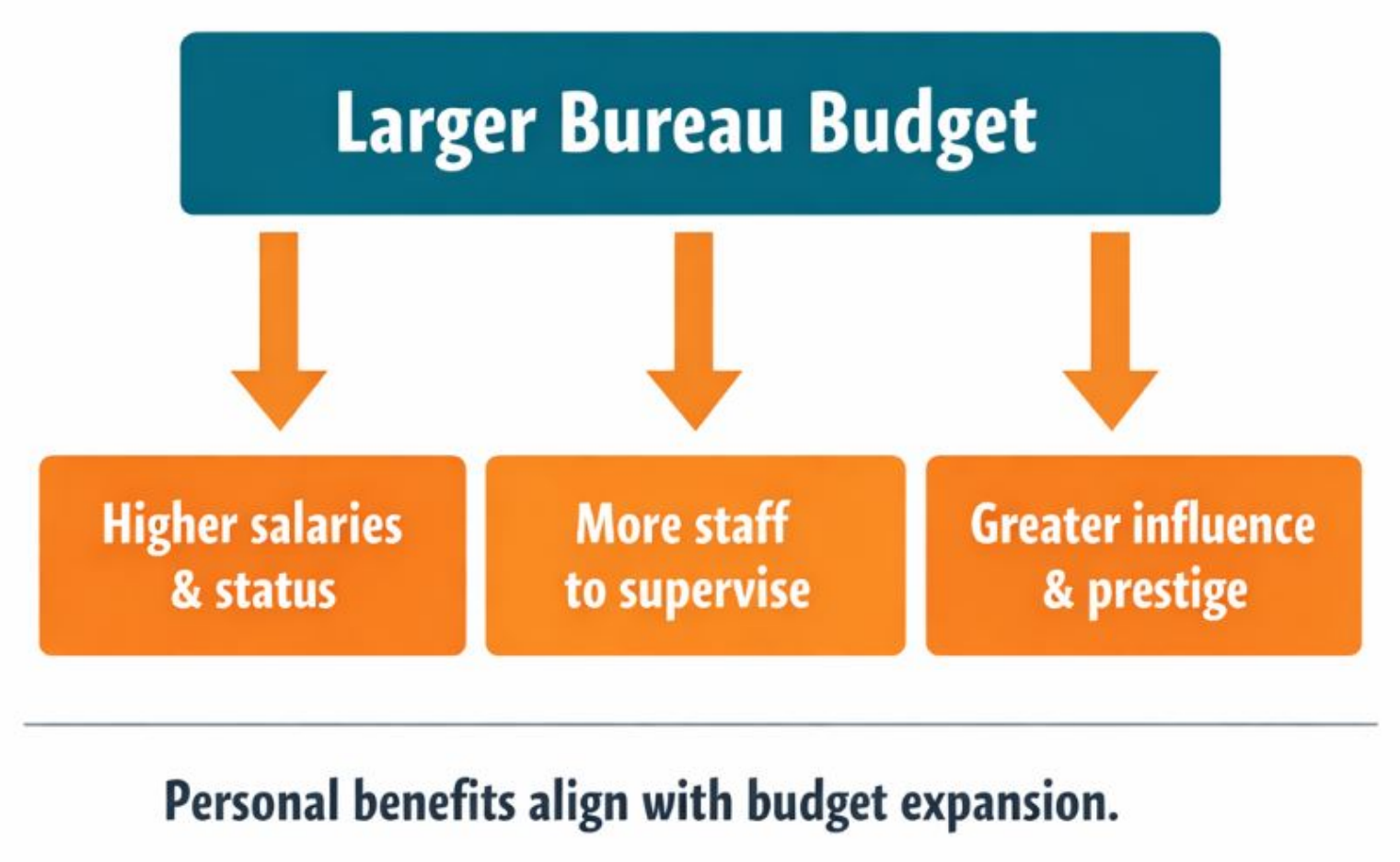
The bureaucrat's utility function is tied to the size of the budget:

$$U = f(\text{Budget})$$

Why Is Budget Size Important?

- Larger agencies justify higher managerial compensation.
- Greater budgets expand political visibility.
- Larger organizations increase discretionary authority.

Budget Maximization Incentives



Institutional Environment

- Bureau is typically a monopoly supplier.
- Legislature acts as monopsony purchaser.
- Absence of competitive suppliers weakens discipline.

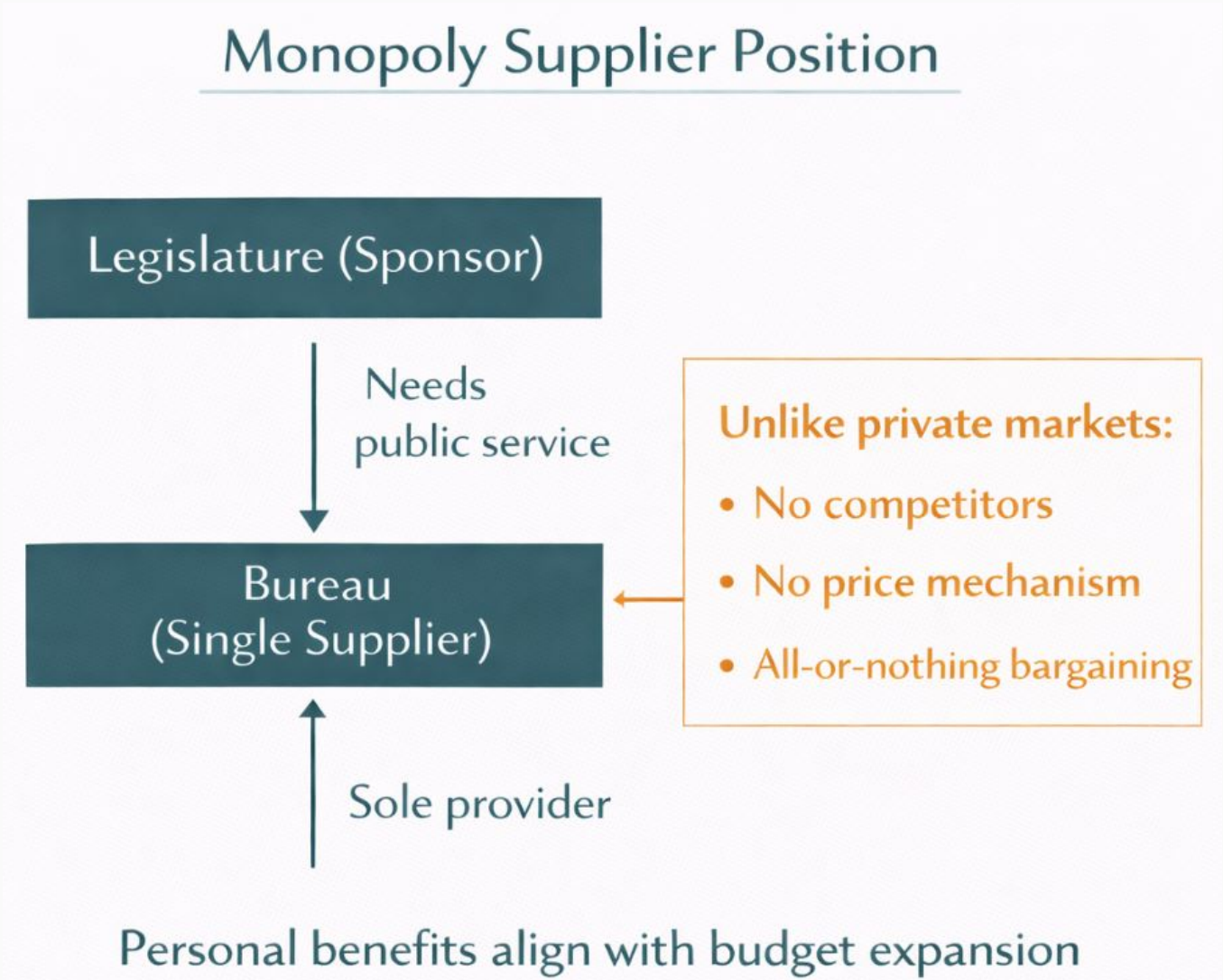
The Bilateral Monopoly Structure:

- One buyer: government.
- One supplier: the bureau.
- Negotiation replaces market price determination.

The Information Structure:

- Bureau knows the cost function $C(Q)$.
- Sponsor knows the benefit function $B(Q)$.
- Cost information is not verifiable.

Monopoly Supplier Position



The Sponsor's Benefit Function

The Sponsor represents the Legislature (and by extension, the Voter)

$$B(Q), \quad B'(Q) > 0, \quad B''(Q) < 0$$

- **Diminishing Marginal Utility:**
  - The first unit of a public service (e.g., Police, Health) provides high value.
  - As Q increases, the value of each additional unit falls ($B'' < 0$).
- **The Demand Side:**
  - This function acts as the "Demand Curve" for the public good.
  - The Legislature is willing to pay up to the total benefit $B(Q)$.
- **Social Efficiency Goal:**
  - The Sponsor wants to stop where $MB = MC$ (maximum net benefit).

The Bureau's Cost Function

The Bureau is the Monopoly Supplier

$$C(Q), \quad C'(Q) > 0, \quad C''(Q) > 0$$

- **Increasing Marginal Costs:**
  - Costs rise more than proportionally with output ($C'' > 0$).
  - Driven by scarcity of skilled labor, organizational complexity, and overtime.
- **The Information Asymmetry:**
  - **Critical Friction:** The true cost schedule $C(Q)$ is *privately known* only by the Bureau.
  - The Sponsor cannot observe the true minimum cost of production.
  - This hidden knowledge gives the Bureau bargaining power. The Bureau can claim that costs are higher than they really are, and the politician often lacks the expertise to challenge them.

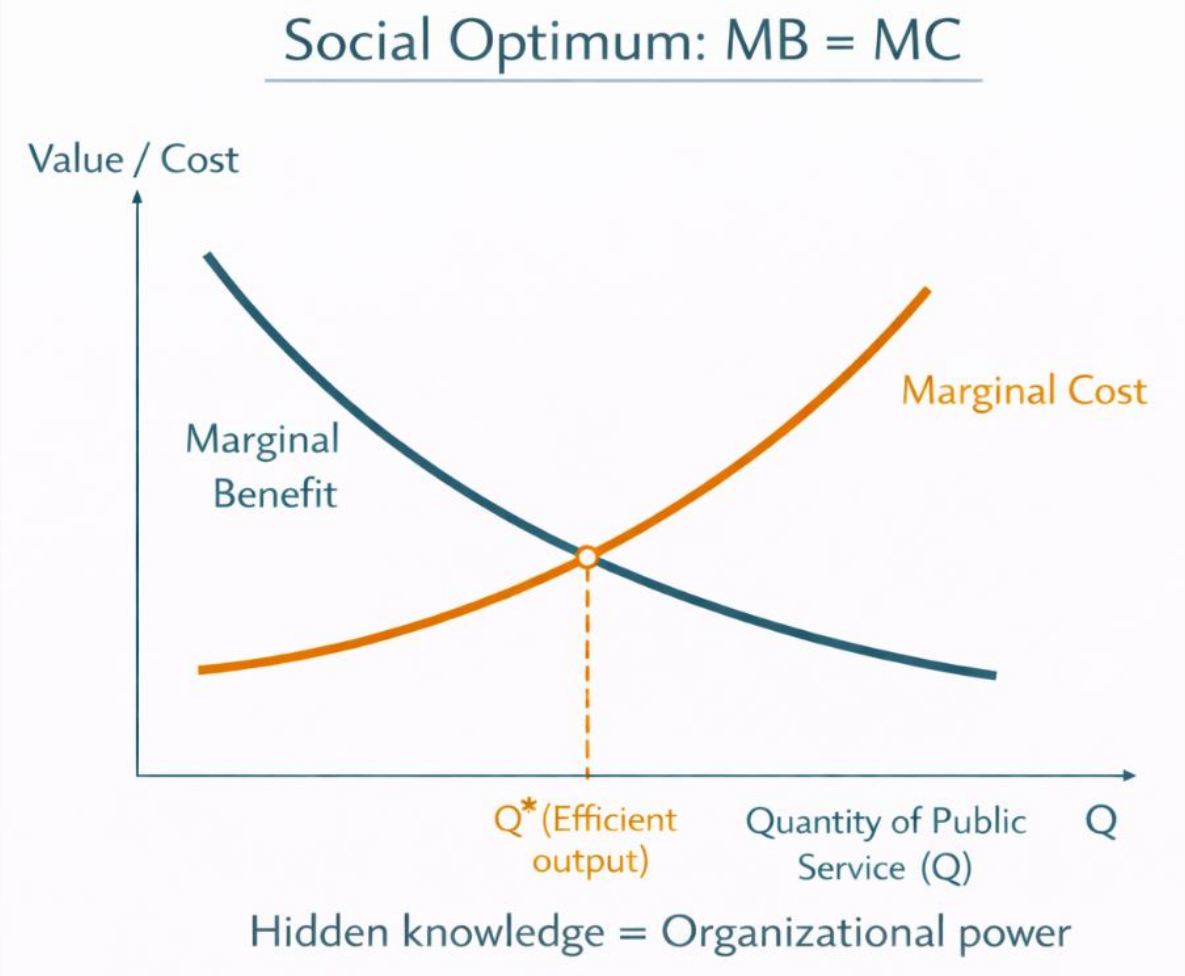
Socially Efficient Output i

The Legislature (Principal) seeks to maximize **Net Social Benefits** ($B(Q) - C(Q)$).

$$\max_Q [B(Q) - C(Q)] \implies B'(Q^*) = C'(Q^*)$$

- **The Optimal Point (Q^*):**
  - At this level, the marginal value of the last unit equals the cost of producing it ($MB = MC$).
  - Any output beyond Q^* destroys value (Deadweight Loss).
- **The Conflict:**
  - The Legislature wants to stop at Q^*.
  - The Bureau wants to push Q as high as possible (until Total B = Total C).

Socially Efficient Output ii



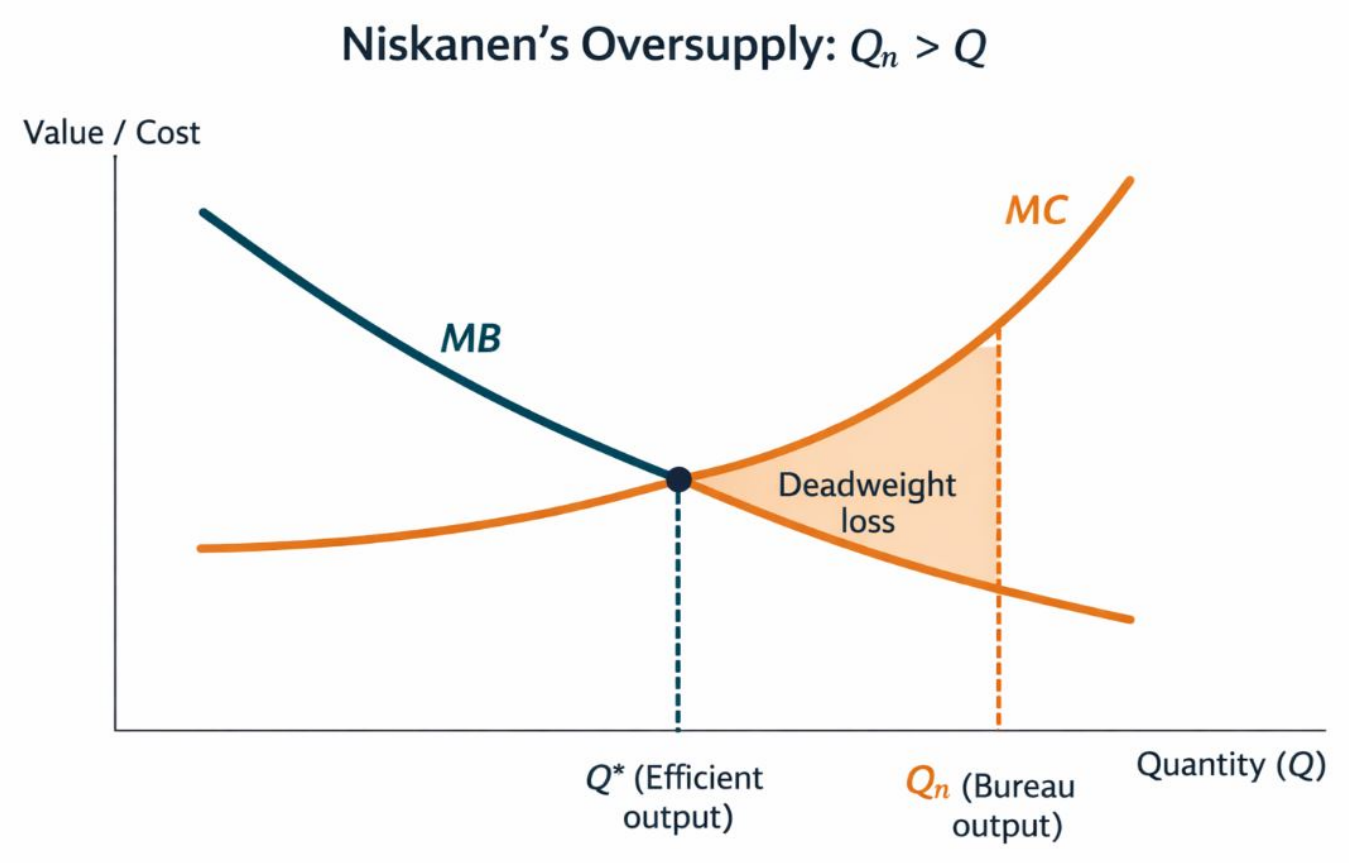
Budget Constraint in Bureau Negotiation i

- Bureau acts as a **Perfectly Discriminating Monopolist**.
- It does *not* sell units at a marginal price.
- It offers a **"Take-It-Or-Leave-It"** package.

The All-or-Nothing Deal:

- **The Offer:** Total Output Q for Total Budget B.
- **The Sponsor's Choice:** Accept the whole package or get zero service. Politician faces voters who need the service (police, health, roads), they can't say no.
- **The Result:** The Bureau captures the entire Consumer Surplus, converting it into a larger budget.

Budget Constraint in Bureau Negotiation ii



Q^* is the efficient level. Q_n is the Niskanen level. The Bureau pushes output way past the efficient point. The extra area on the right is Deadweight Loss - society is paying more for these extra units than they are actually worth. This is Allocative Inefficiency: The bureau is doing too much.

The Budget Maximization Problem

$$\max B(Q) \quad \text{s.t.} \quad B(Q) \geq C(Q)$$

- Bureau expands output while ensuring budget covers costs.

First-Order Condition:

$$(1 + \lambda)B'(Q) = \lambda C'(Q)$$

$\rightarrow$ Constraint is binding (check full derivation at the end)

- Implies $B'(Q) < C'(Q)$ at equilibrium $\rightarrow$ At the point where the bureau stops, the marginal value of the last thing they did (B') is less than what it cost to produce (C'). They are producing "junk" units at the margin just to keep the budget large. This is the definition of economic waste.
- Does the bureau always get away with this? That depends on Elasticity (η). In plain English: can the politician say "no"?

The Role of Demand Elasticity

If the Bureau sets a unit price P, the budget is $B(P) = P \cdot Q(P)$.

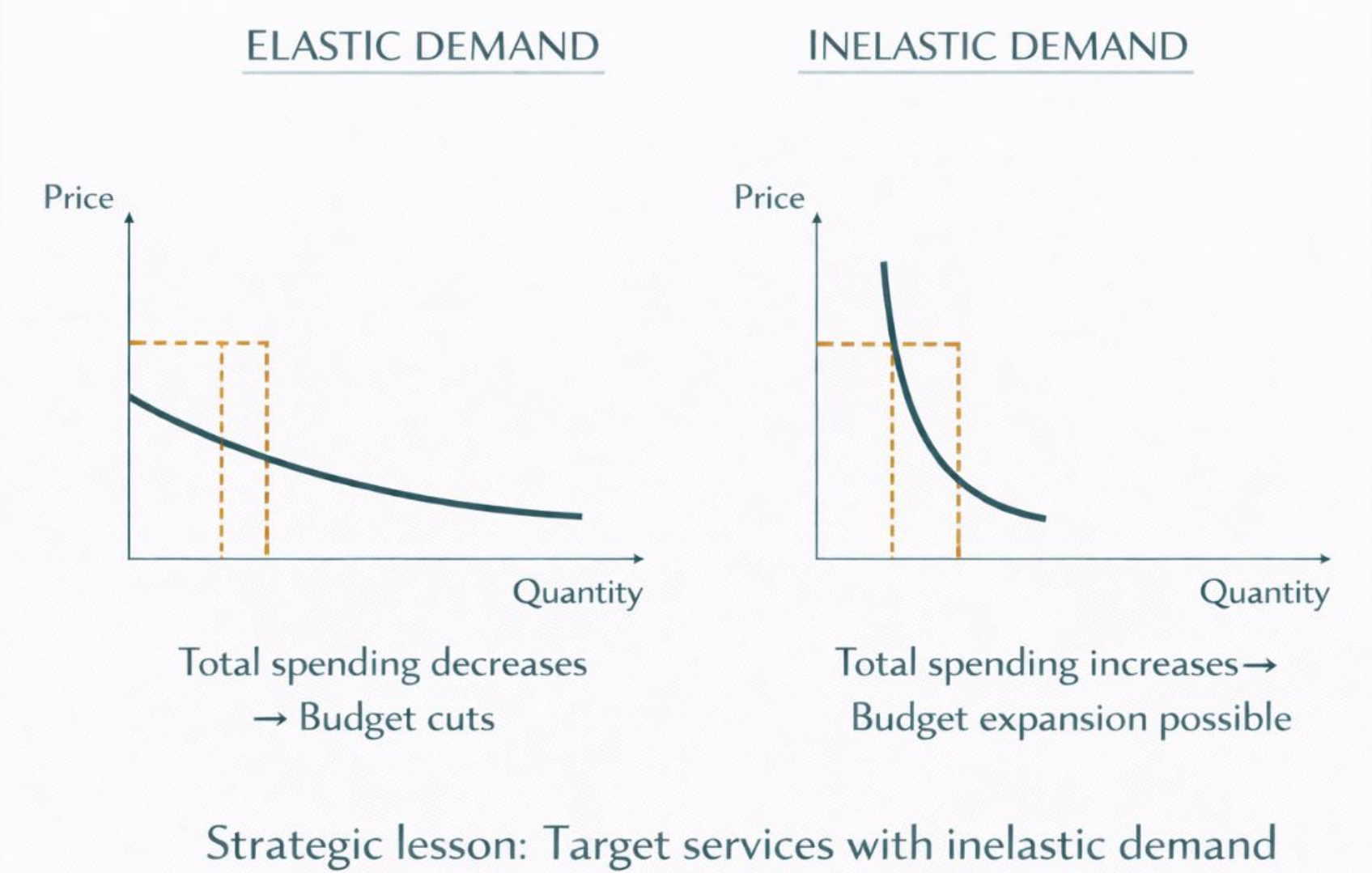
$$\frac{dB}{dP} = Q + P\frac{dQ}{dP} \implies \text{Revenue change depends on } \eta$$

The Power of Essential Services:

- **Elastic Demand ($\eta > 1$):** If the Sponsor is price-sensitive (e.g., parks, culture), raising prices ($P \uparrow$) *reduces* the total budget ($B \downarrow$). The Bureau is disciplined by demand.
- **Inelastic Demand ($\eta < 1$):** If the service is essential (e.g., defense, water), the Sponsor *must* buy it. Raising prices ($P \uparrow$) *increases* the total budget ($B \uparrow$).

Implication: Bureaus providing essential services have significantly more power to extract rents/slack than those providing discretionary services.
Derivations are in the Appendices.

Elastic vs Inelastic Demand



Geometric Intuition: The Surplus Trap

- **1. Capture the "Infra-Marginal" Surplus:**
  - *Infra-marginal units* are the initial, high-value units (e.g., the first hospital) where Benefit $\gg$ Cost.
  - These generate a massive "profit" (Consumer Surplus) for society.
- **2. The Cross-Subsidization Mechanism:**
  - Instead of returning this surplus to the taxpayer, the Bureau uses it to subsidize **inefficient extra units** (where Cost $>$ Benefit).
  - The "profit" from the good units pays for the "waste" of the bad units.
- **3. The Result ($Q_N > Q^*$):**
  - Expansion continues until the *Total* Surplus is exhausted ($TotalBenefit = TotalCost$).
  - The Bureau grows until it breaks even, not where it is efficient.

Strategic Lesson: If you want a big budget, make your *core* service essential. The surplus from the essential part funds the expansion of the discretionary part.

The Satiation Case: "The Buffet Problem"

Scenario 2: The Sponsor gets "full" before the budget runs out.

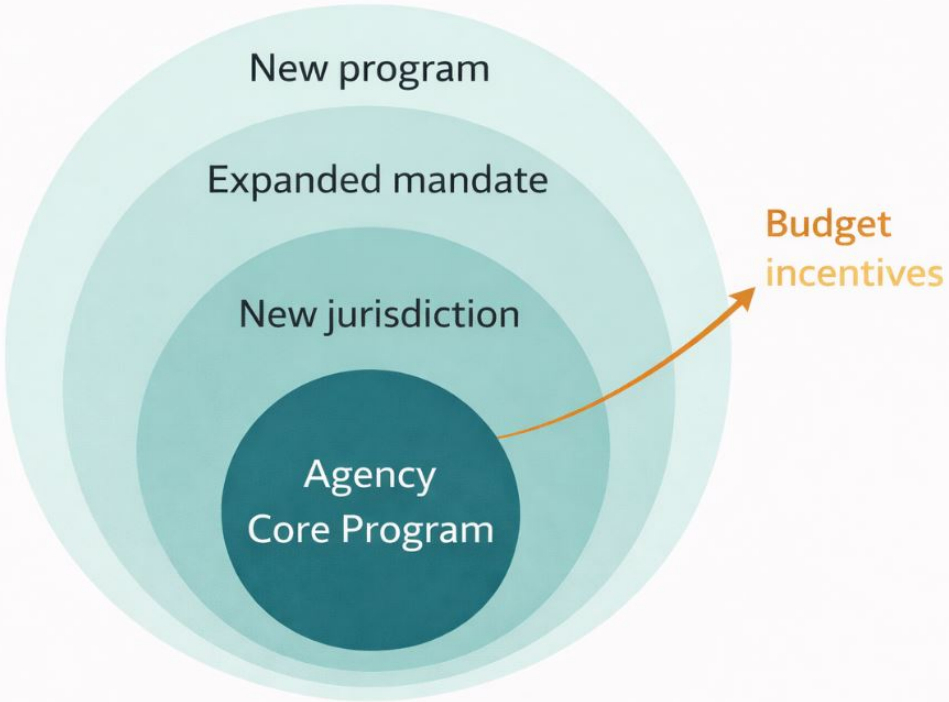
- **Satiation Point:** The Bureau expands output until the Sponsor's Marginal Benefit drops to zero ($MB = 0$).
- **Result:** Output stops at Q_{max} rather than the budget limit.
- **Comparison:** Since costs are positive ($MC > 0$), producing until $MB = 0$ is still a massive oversupply ($Q_{satiation} > Q^*$).

Important Distinction in Niskanen's Model:

- **Technical Efficiency:** The Bureau is NOT wasteful. It produces every unit at the minimum cost (it sits *on* the Cost curve).
- **Allocative Inefficiency:** The Bureau produces *too many* units. Society pays for output that costs more than it is worth.
- *"They are doing the job right, but doing too much of it."*

Program Expansion and Domain Growth

Budget-maximizing incentives can shift from expanding the *scale* of an existing program to expanding the agency's *scope*: new programmes, broader mandates, and entry into adjacent jurisdictions.



Key Predictions of the Model

- Systematic budget expansion
- Output oversupply
- Weak cost-reduction incentives

Transition: Can Institutions Constrain Bureau Growth?

- The Niskanen model assumes strong agenda power.
- Institutional rules may alter bargaining outcomes.
- We next examine how monitoring and pricing rules change behaviour.

III. Critique 1: Institutional Constraints

Constraint 1: The Unit Price Rule

The Proposal: The Sponsor rejects the "All-or-Nothing" budget package and insists on a standard market rule: *"Tell us the Unit Price (P), and we will decide the Quantity (Q)."*

Does this constrain the Bureau? Recall our elasticity analysis (η):

- **Scenario A: Elastic Demand ($\eta > 1$):**
  - The Sponsor is price-sensitive (e.g., Parks, Culture).
  - **Result:** The Bureau creates *less* waste to keep P low. The constraint **Works**.
- **Scenario B: Inelastic Demand ($\eta < 1$):**
  - The Sponsor is captive (e.g., Defense, Health).
  - **Result:** The Bureau raises P aggressively to increase the budget. The constraint **Fails**.

Conclusion: Market-like rules only discipline bureaus that face real market-like demand.

Constraint 2: Monitoring and Whistleblowers

The Penalty Function: Suppose the Sponsor audits the agency. If the Bureau inflates costs ($P > MC$), it risks a penalty $\pi(P)$ (e.g., firing, budget cuts, legal action).

$$\text{Max } B - \pi(P)$$

Result:

- Even a small probability of detection forces the Bureau closer to the true cost curve.
- Whistleblowers reduce the cost of monitoring for the Sponsor.

Constraint 3: Competition as Discipline

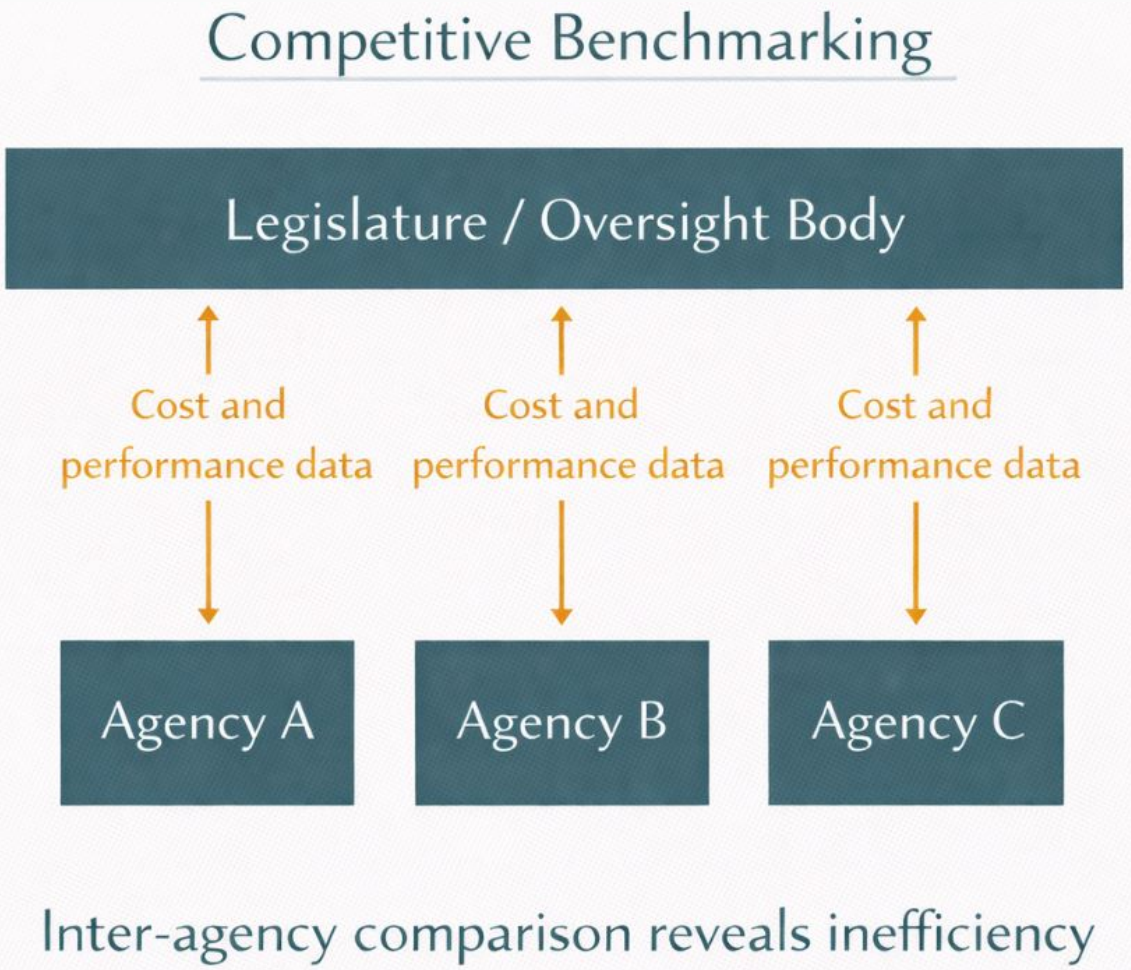
The Power of Multiple Bureaus: Niskanen assumes a monopoly, but often bureaus share jurisdictions:

- **Defense:** Army vs. Navy vs. Air Force.
- **Intelligence:** CIA vs. NSA vs. FBI.

Effect on Information Asymmetry:

- The Sponsor can use **benchmarking** (Yardstick Competition).
- Rival bureaus leak information **about** each other's costs to win budget share.
- This forces agencies to reveal their true costs to stay competitive.

Competitive Benchmarking



Inter-agency comparison reveals inefficiency and breaks the monopoly information advantage.

Discussion Question

Application Exercise: The Flypaper Effect

Question: Why might politicians support lump-sum grants to local governments, even if they suspect the money will "stick" in the bureaucracy rather than lower local taxes?

- What are the political incentives?
- Who benefits from increased local government spending?
- What does this tell us about principal-agent problems in federalism?

IV. Critique 2: The Slack Maximizer

The "Hamster on a Wheel" Critique

Migué & Bélanger (1974):

- Niskanen assumes the bureaucrat maximizes the budget but spends *every penny* on production.
- This means managing a huge, complex organization with zero perks. That's an odd view of human behaviour.
- Where is the utility in that?

The Slack Maximand

Alternative Objective: Organizational Slack

$$\text{Slack} = \text{Budget} - \text{Minimum Cost}$$

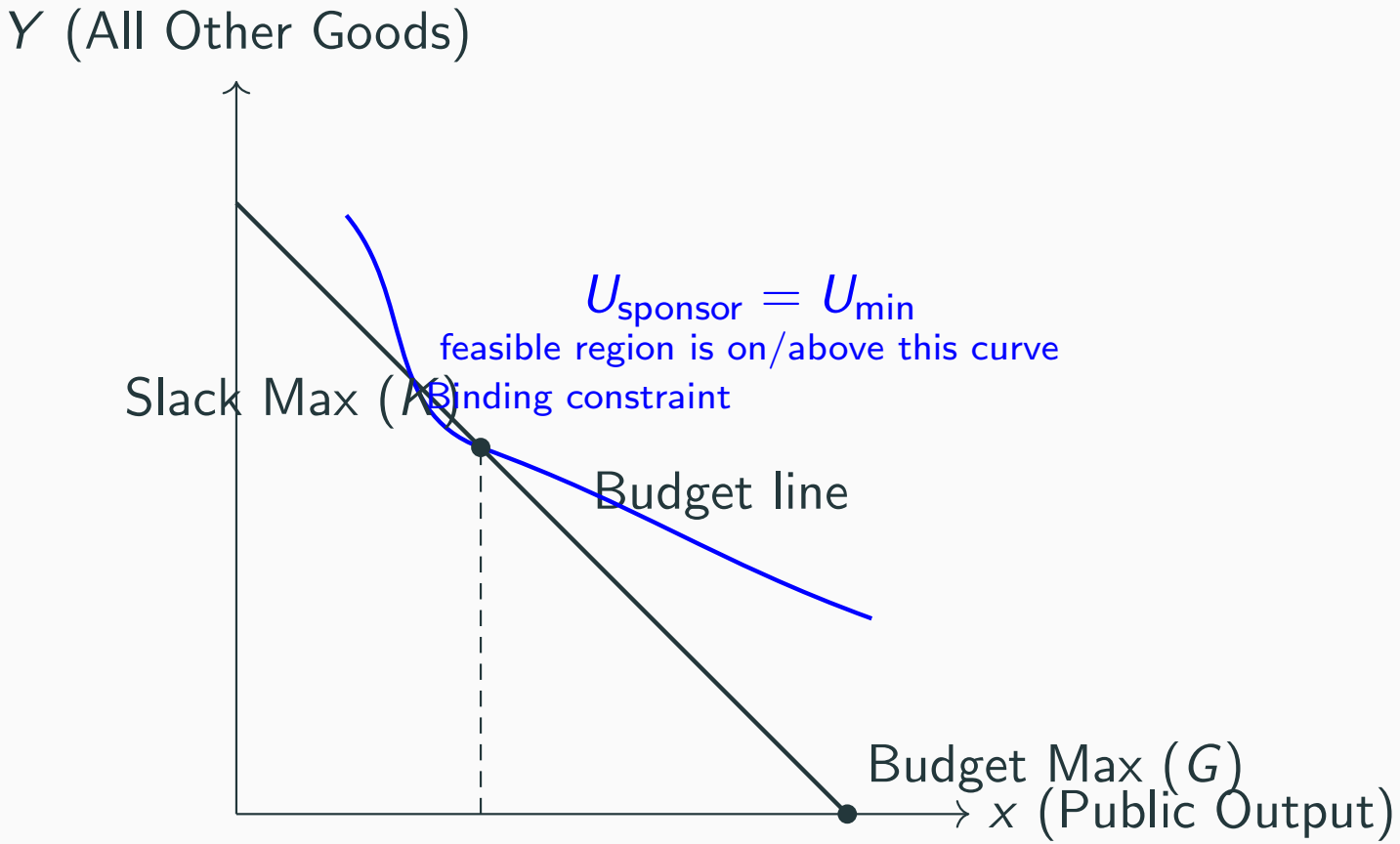
Forms of Slack:

- Excess staff (easier workload).
- Nice offices, travel, assistants.
- "Gold-plating" (excessive quality/risk reduction).
- Managerial discretion (hiring friends).

Forms of Organizational Slack

Wyckoff (1990): The Analytical Model i

Wyckoff formalises the slack-maximiser using a simple constrained choice diagram with indifference curves.



Wyckoff (1990): The Analytical Model ii

- **Budget Max (G):** Max output, zero slack.
- **Slack Max (K):** Lower output, max slack subject to $U_{\text{sponsor}} \geq U_{\text{min}}$ (binding at K).

- **X-axis:** Public output (Q).
- **Y-axis:** All other goods (resources kept by the sponsor / taxpayers, i.e. money *not* absorbed by the bureau).

What the diagram is doing

- The sponsor values Q but also values keeping resources for other priorities (or lower taxes), so the sponsor's preferences can be drawn as indifference curves over (Q, other goods).
- The sponsor requires a minimum acceptable outcome, shown by a reservation indifference curve U_{min}.

Wyckoff (1990): The Analytical Model iii

The constraint on the bureau

- If the bureau delivers a bundle *below* $U_{\min}$, the sponsor is worse off than its minimum acceptable level and intervenes (cuts budget, restructures, replaces management).
- So the bureau must choose a point *on or above* $U_{\min}$ to remain in place.

Where slack enters

- For any given output level Q, there is a *minimum cost* of producing it.
- If the bureau receives a budget larger than this minimum cost, the difference is **slack**:

$$S = B - C_{\min}(Q)$$

Wyckoff (1990): The Analytical Model iv

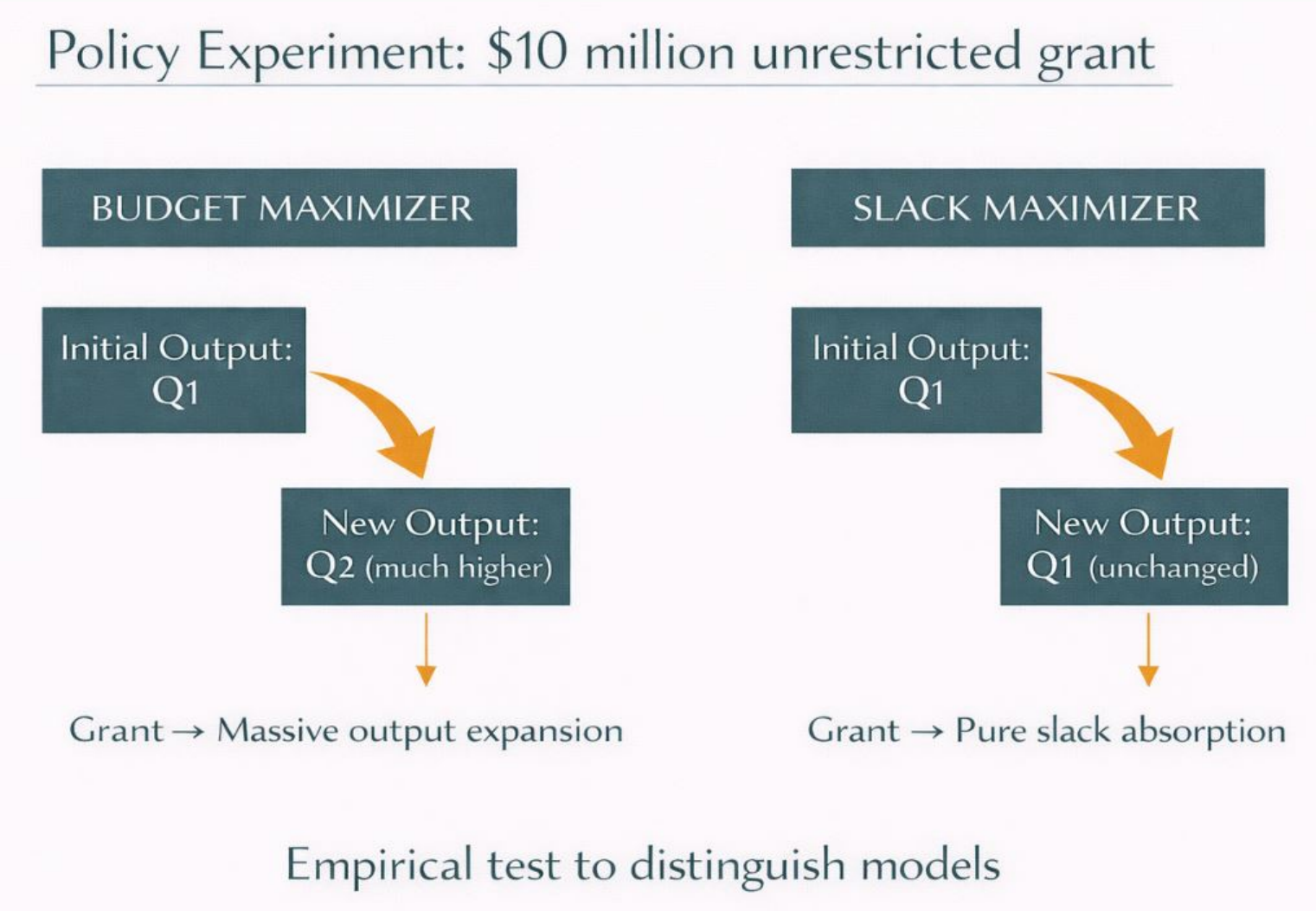
- A slack-maximiser keeps the sponsor just satisfied (at $U_{\min}$) while choosing production and spending so that slack is as large as possible.

The Diagnostic Test: Lump-Sum Grants
Scenario: The Central Government gives the Bureau a $10m "No strings attached" grant.

How does the equilibrium shift?

- This shifts the Budget Line outward (Parallel shift).

Lump-Sum Grant Test



Response 1: The Budget Maximizer

Niskanen's Prediction:

- The grant reduces the effective "price" of output to the sponsor.
- The Bureau pushes output until the new budget is exhausted.
- **Result:** Massive expansion of Output ($> \$10m$ if elastic).

Response 2: The Slack Maximizer

Wyckoff's Prediction:

- The Bureau treats the grant as pure income.
- It keeps output constant (at K).
- It absorbs the entire \$10m as **Slack** (Perks/Waste).
- **Result:** No change in Output. Total Cost rises by exactly \$10m.

Evidence: The Flypaper Effect

The Puzzle: How do local governments spend lump-sum grants?

1. **Standard Economic Theory:**
   - Money is fungible.
   - A $10m grant is just extra income for the community.
   - *Prediction:* Local taxes should fall (passing money to citizens).
2. **Empirical Reality:**
   - **"Money sticks where it hits."**
   - Spending increases by $10m; taxes rarely fall.
   - The money stays in the public sector.

Verdict: Wyckoff argues this supports the **Slack Maximizer** model: the bureau absorbs the grant as perks/costs rather than expanding service.

Money Sticks Where It Hits

V. Critique 3: The Bureau-Shaper (Dunleavy)

Dunleavy's Sociological Critique (1985)

Is the Bureau a Monolith?

- Niskanen assumes the whole bureau wants the same thing.
- Dunleavy argues there is a **Collective Action Problem**. Large organisations have internal politics.

Divergent Interests:

- **Rank-and-File:** Benefit from budget growth (Job security, promotion).
- **Elites (Top Officials):** Do not benefit. Managing a larger bureau means more headaches, more scrutiny, less time for policy.

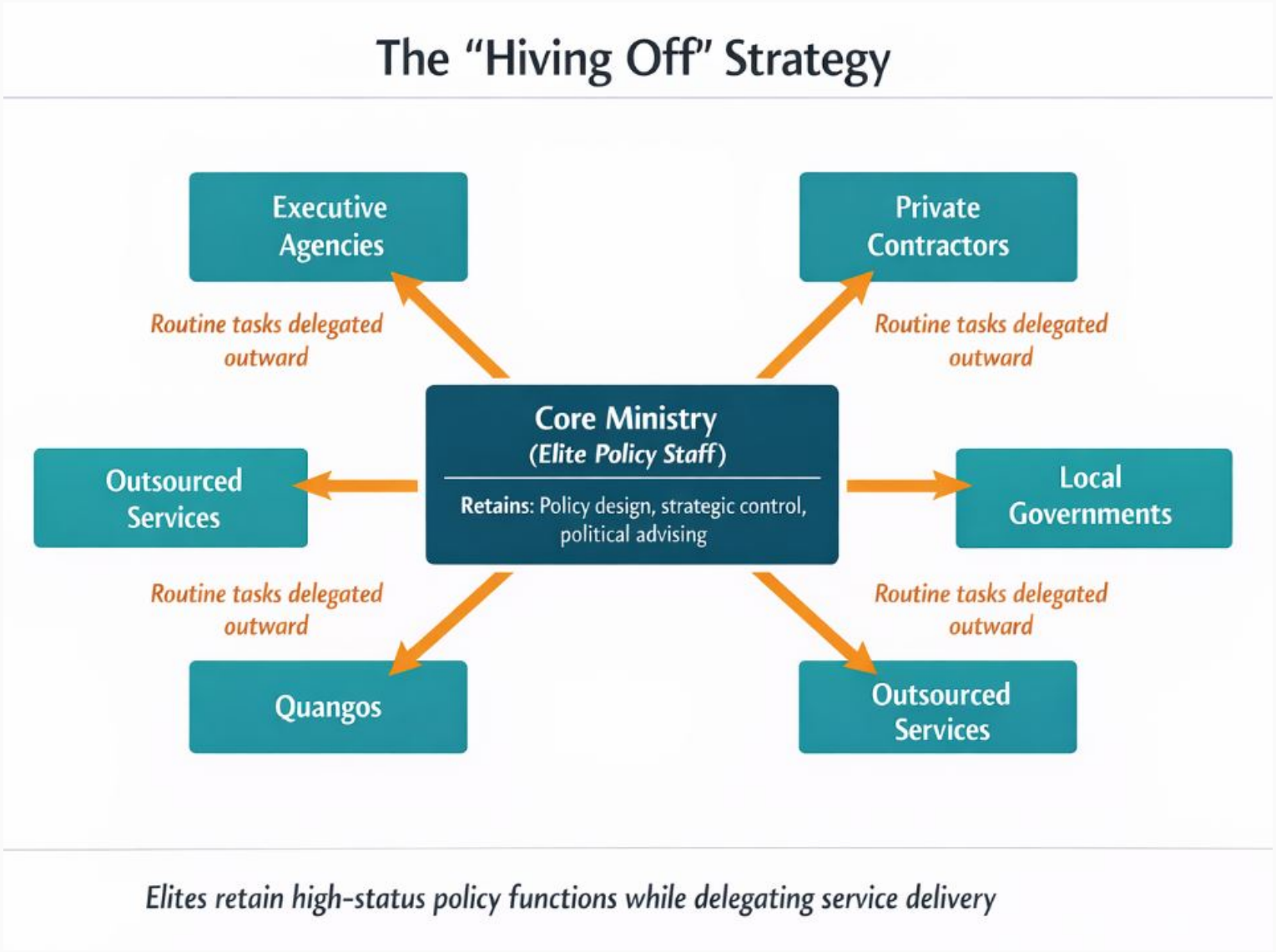
What do Top Bureaucrats Want?

The Elites maximize:

- **Interesting Work:** Policy formulation, strategy.
- **Proximity to Power:** Access to Ministers/Politicians.
- **Status:** Being part of the "core executive."
- **Comfort:** Avoiding industrial relations (strikes) and routine management.
- Their preferences point toward shaping the organisation, not expanding it.

Hierarchical Interests Diverge

The "Hiving Off" Strategy



The Bureau-Shaping Strategy

The Goal: Not to maximize the budget, but to **reshape** the bureau.

Strategy: "Hiving Off"

- Top bureaucrats actively try to **shed** routine, risky, or boring functions (e.g., garbage collection, IT services).
- They push these tasks to:
  - Private contractors (Privatization).
  - Separate agencies (Agencification).
  - Local government.

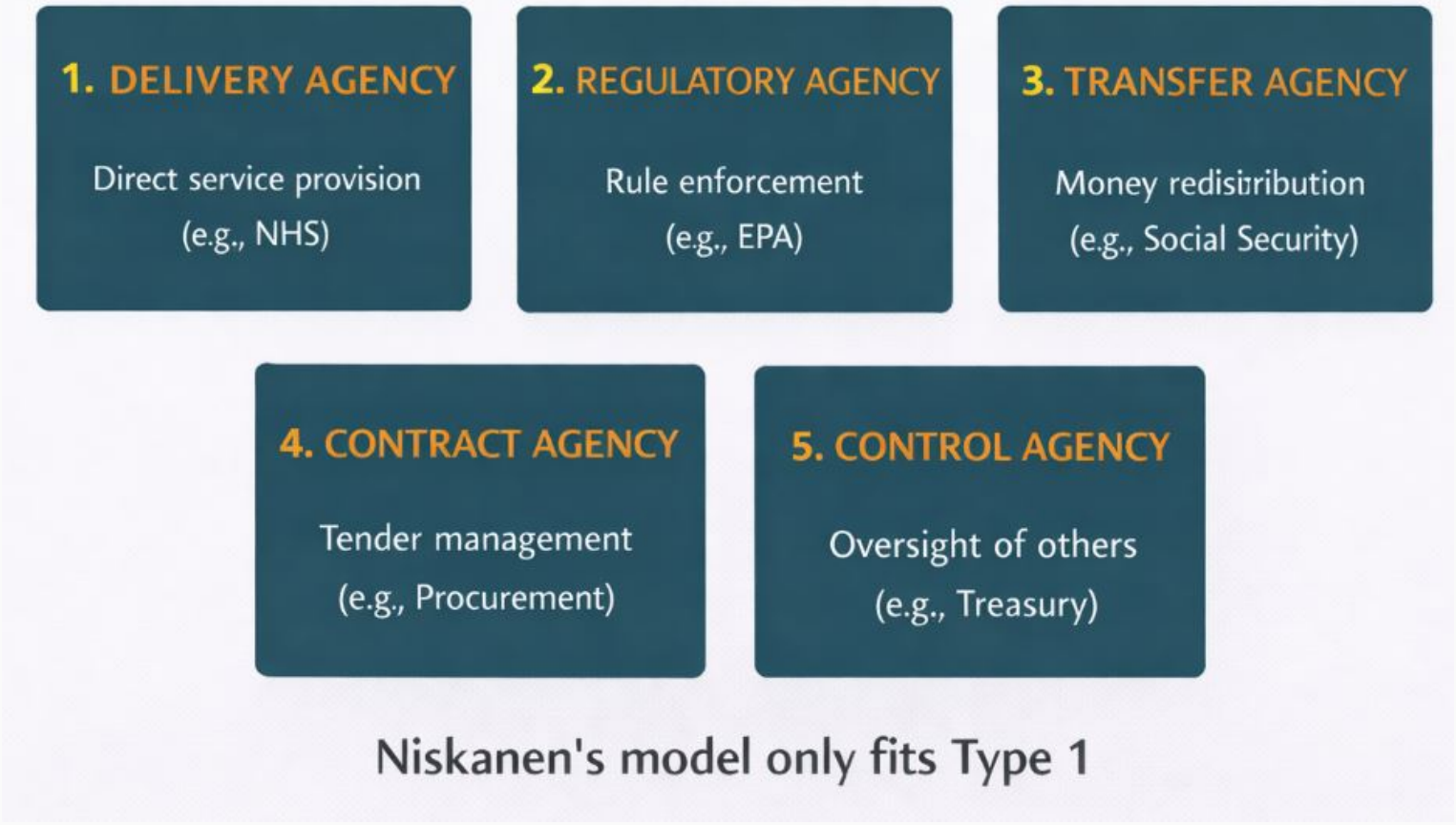
Agency Types Matter

Niskanen's model only fits **one** type. Dunleavy identifies five:

1. **Delivery Agency:** Delivers services (e.g., NHS). Budget Max applies here.
2. **Regulatory Agency:** Regulates be haviour. Small budget, high power.
3. **Transfer Agency:** Moves money (e.g., Social Security). No benefit to staff from larger payouts.
4. **Contract Agency:** Manages tenders.
5. **Control Agency:** Supervises others (e.g., Treasury). Elites love this.

Dunleavy says: different agency types imply different incentives. The budget-maximisation logic fits best for delivery agencies. But for regulators, control agencies, and transfer agencies, budget size is a poor proxy for what staff want.

Five Agency Types



Prediction: The Regulatory State

Niskanen predicted: Massive growth of centralized line bureaucracy.
Reality: The rise of the "Hollow State" or "Regulatory State."

- Central departments stay small and elite (Treasury, Cabinet Office).
- Service delivery is fragmented/contracted out.
- This explains the "New Public Management" (NPM) revolution of the 1980s/90s.

Discussion Question

Irish Context:

Question: Can you identify examples of "hiving off" or "agencification" in Ireland?

- Think about services that used to be provided directly by government departments but are now:
  - Contracted to private firms
  - Delivered through semi-state bodies
  - Delegated to local authorities
- Does this fit Dunleavy's bureau-shaping model?

VI. Evidence and The Leviathan

Leviathan (Brennan & Buchanan)

The Darkest View:

- Government is a Revenue-Maximizer (Leviathan).
- Electoral constraints are weak (Rational Ignorance $\rightarrow$ Voters don't monitor closely).

The Constraint: The Constitution

- **Fiscal Federalism:** Competition between regions limits tax rates ("Vote with your feet").
- **Tax Base Rules:** Earmarked taxes make costs visible.

Empirical Evidence: Public vs. Private (Mueller)

Comparing Costs (Table 16.1):

- **Airlines:** Private 12-100% more efficient (Davies 1971).
- **Refuse Collection:** Public 40-60% more expensive (Savas 1977).
- **Water Utilities:** Public costs 20% higher (Crain & Zardkoohi 1978).

Consensus: Public production is generally less efficient.

Why? Ownership or Competition?

Necessary Distinction:

- Is inefficiency due to **Public Ownership**?
- Or due to **Monopoly Status**?

Nuance:

- Private monopolies behave badly too.
- Public firms in **competitive** markets (e.g., Renault, Statoil) often behave efficiently.
- Competition is the discipline, not just ownership.

Conclusion: The Synthesis

Three Models, Three Insights:

1. **Niskanen:** Incentives lead to **Oversupply** ($Q > Q^*$).
2. **Wyckoff/Slack:** Incentives lead to **Inefficiency** (High Costs).
3. **Dunleavy:** Incentives lead to **Complex Structures** (Hiving off).

Final Thought: *"If you want efficiency, you must design institutions that align the Agent's incentives with the Principal's goals."*

VII. Modern Applications and Contemporary Context

Digital Government and Information Technology

How has technology changed bureaucratic be haviour?

Reducing Information Asymmetry:

- **Open data portals:** Performance dashboards, spending transparency
- **E-government platforms:** Gov.uk, e-Estonia (digital-first delivery)
- **Real-time monitoring:** GPS tracking, automated reporting

New Forms of Bureaucratic Power:

- Control over algorithms and data systems
- Technical expertise becomes more valuable
- "Digital hiving off" (cloud services, platform dependencies)

Question: Does technology strengthen or weaken the principal's control?

Be havioural Public Administration

The "Nudge Unit" Revolution (2010s–present)

Example: UK Behavioural Insights Team

- Small, elite unit (bureau-shaping model)
- Low budget, high policy impact
- Uses be havioural science to improve outcomes without regulation

Examples of Nudges:

- Changing organ donation to opt-out (doubled registration rates)
- Text message reminders for court appearances, tax payments
- Simplifying government forms (reduced processing costs)

Implication: Not all bureaucratic expansion involves budget maximization - some agencies maximize intellectual influence instead.

COVID-19 and Temporary Agencies

Case Study: Emergency Response Bureaucracies

Characteristics:

- **Mission-focused:** Clear objective (pandemic response), not budget maximization
- **Temporary:** Built-in sunset clauses (NPHET in Ireland dissolved 2022)
- **Cross-departmental:** Broke traditional bureau boundaries
- **High urgency:** Reduced information asymmetry (daily reporting, public scrutiny)

Puzzle for Public Choice Theory:

- Why did agencies voluntarily dissolve after pandemic?
- Suggests organizational mission can override self-interest
- Or: elites avoided becoming "routine delivery agencies"

International Variation in Bureaucratic Performance

Not all bureaucracies behave the same way

High-Performing Models

- **Singapore:** High salaries, strict meritocracy
- **Nordic Countries:** High trust & transparency
- **Botswana:** Strong institutions

Common Features

- Meritocratic recruitment
- Performance measurement
- High social status
- Political stability

Key Question

Why do Public Choice pathologies appear stronger in some countries than others?

Limitations of Public Choice Models i

Important Caveats:

1. **The Self-Interest Assumption**

   - **Public Service Motivation (PSM):** Many bureaucrats are genuinely motivated by mission, service, civic duty
   - Selection effects: Public sector attracts different personality types than private sector

2. **The Role of Professionalism**

   - Professional norms and ethics constrain opportunism (doctors, teachers, judges)
   - Organizational culture matters (esprit de corps)

Limitations of Public Choice Models ii

3. Mixed Empirical Evidence

- Some public agencies perform exceptionally well (NASA, CDC pre-COVID)
- Models don't explain cross-country variation
- Crowding-out effects: Monetary incentives can backfire when intrinsic motivation is high

4. Oversimplification

- Real bureaucrats face multiple principals (legislature, courts, media, interest groups)
- Career concerns and reputation matter (repeated game dynamics)
- Not all agencies are monopolies (police forces, universities compete)

Limitations of Public Choice Models iii

5. Normative Concerns

- Market-mimicking reforms can undermine public values (equity, due process)
- "What gets measured gets managed" - but not everything important is measurable
- Gaming of performance metrics (teaching to the test, cream-skimming)

Bottom Line: Public Choice provides valuable insights but should not be the only lens. Institutional context, culture, and professionalism are also important.

Institutional Design: Policy Prescriptions

If bureaucratic incentives are the problem, what's the solution?

Supply-Side Reforms:

- **Performance contracts:** Tie funding to measurable outcomes (New Zealand model)
- **Sunset clauses:** Programs automatically expire unless renewed (Texas, Colorado)
- **Cost-benefit analysis mandates:** OMB Circular A-4 (US), Green Book (UK)
- **Independent audit institutions:** Comptroller & Auditor General (Ireland), NAO (UK)

Demand-Side Reforms:

- **Competitive tendering:** Force agencies to bid against private firms
- **School choice / vouchers:** Give "customers" exit options
- **Fiscal federalism:** Interjurisdictional competition ("voting with feet")

Institutional Design (continued)

Transparency Reforms:

- **Freedom of Information Acts:** Reduce information asymmetry (Ireland 2014, UK 2000)
- **Open data portals:** Publish spending, performance metrics (data.gov.ie)
- **Citizen charters:** Explicit service standards with complaint mechanisms

Governance Reforms:

- **Arm's length agencies:** Separate policy (political) from delivery (technical)
- **Independent regulators:** Insulate technical decisions from politics (Central Bank)
- **Third-party monitoring:** Watchdog NGOs, investigative journalism

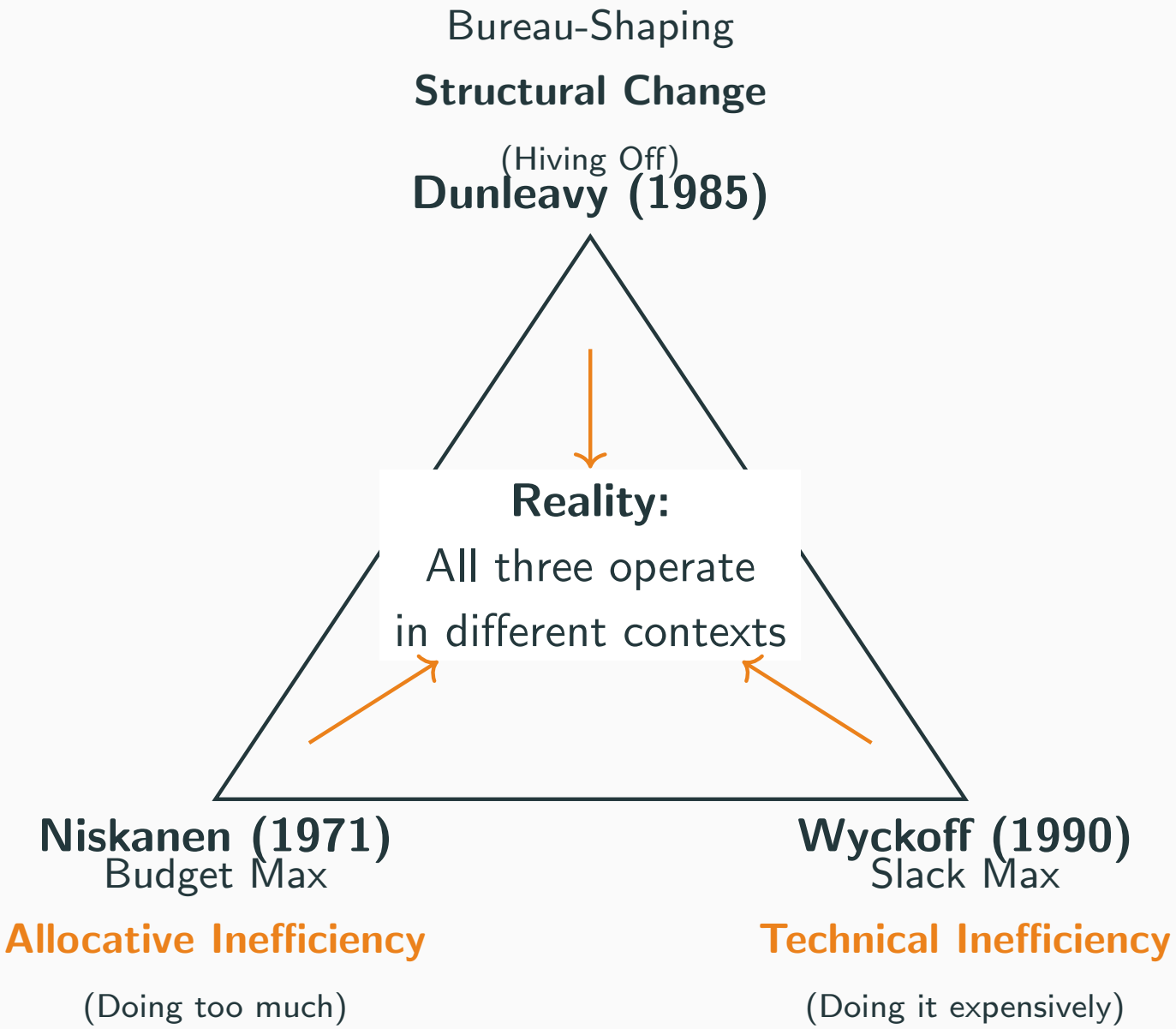
Trade-offs: Each reform has costs (compliance burden, gaming, loss of flexibility). No perfect solution exists.

A Matrix: Ownership vs. Competition

	Public Ownership	Private Ownership
Competitive	*Best of public sector* Municipal utilities in competitive markets European state railways competing for routes	*Textbook ideal* Airlines (deregulated) Refuse collection (multiple bidders)
Monopoly	*Classic pathology* Pre-1980s telecom Nationalized industries without competition	*Also problematic* Unregulated utilities Private monopolies extract rents too

Key Insight: Competition disciplines be haviour more than ownership structure.

Final Synthesis: Where Do We Stand?



Takeaways for Institutional Design

1. **Information asymmetry is the core friction.** Reducing it through transparency, competition, and monitoring is essential.
2. **Incentives matter, but so does context.** The same reform works differently across agency types, countries, and cultures.
3. **No single model explains everything.** Budget maximization, slack, bureau-shaping, and public service motivation all coexist.
4. **Competition is the key discipline.** Ownership matters less than whether agencies face competitive pressure.
5. **Design institutions, don't rely on virtue.** As Madison wrote: "If men were angels, no government would be necessary." The same applies to bureaucrats.

Final Thought

"If you put the federal government in charge of the Sahara Desert,
in 5 years there'd be a shortage of sand."

— Milton Friedman

But the Public Choice insight is subtler:

Bureaucrats are not bad people, they just respond rationally to the incentives they face.

Design better institutions, get better outcomes.

Summary: The Three Models of Bureaucracy

Model	Bureaucrat Wants...	Mechanism	The Problem
Niskanen (1971)	**Max Budget** (Power, Prestige)	All-or-Nothing Offer (Take it or leave it)	**Allocative Inefficiency** (Too much output)
Wyckoff (1990)	**Max Slack** (Perks, Easy Life)	Asymmetric Info (Hiding true costs)	**Technical Inefficiency** (Costs are too high)
Dunleavy (1985)	**Bureau Shaping** (Intellectual Interest)	Hiving Off (Delegating boring work)	**Structural Complexity** (Fragmented state)

Rule of Thumb: *Big Agencies = Niskanen; Wasteful Agencies = Wyckoff; Elite Agencies = Dunleavy.*

VIII. The Irish Context: Bureaucracy in Practice

Irish Bureaucracy: A Brief Overview

The Irish Civil Service:

- **Size:** Approximately 40,000 civil servants (2024)
- **Structure:** 17 government departments
- **Tradition:** Strong Weberian foundation (merit-based, professional)
- **Reform waves:** Strategic Management Initiative (1990s), Public Service Reform Plan (2011), Civil Service Renewal Plan (2014-2020)

Question: Which of our three models best explains Irish bureaucracy?

Irish Health Service Executive (HSE): A Case Study

The HSE as a bureaucratic puzzle:

- Created 2005 (consolidating 11 health boards)
- Budget: €24.5 billion (2024) - largest single agency
- Staff: 130,000 employees

Measurement problems:

- Observable inputs: staffing levels, beds, procedures
- Hard-to-measure outputs: population health, patient satisfaction, equity
- Frequent cost overruns and waiting list controversies

Does this fit Niskanen's budget maximization or Wyckoff's slack model?

Bureau-Shaping in Ireland: Evidence of Hiving Off

Dunleavy's prediction: Elite bureaucrats "hive off" routine functions

Irish examples:

- **Semi-state bodies:** ESB, Bord Gáis, Irish Water (2014)
- **Independent agencies:** Revenue Commissioners, National Transport Authority
- **Agencification:** Creation of HIQA (2007), FSPO (2018)
- **Privatization:** Eircom (1999), Aer Lingus (partial, 2006)
- **PPPs:** M50 toll roads, schools, courthouses

Pattern: Core departments stay small and strategic; delivery fragmented outward.

Irish Fiscal Institutions: Constraining the Bureaucracy

Post-crisis reforms created new accountability mechanisms:

- **Irish Fiscal Advisory Council (IFAC, 2012):** Independent fiscal watchdog
- **Parliamentary Budget Office (2017):** Technical support for Oireachtas
- **Rainy Day Fund (2019):** Limits discretionary spending growth
- **Performance Budgeting Initiative:** Links outputs to expenditure
- **Freedom of Information Acts (1997, 2014):** Transparency requirements

These institutions address the principal-agent problem by reducing information asymmetry.

Irish Regulatory Agencies: Small Budgets, High Power

Dunleavy's "regulatory agency" type dominates in Ireland:

Examples:

- Commission for Regulation of Utilities (CRU)
- Central Bank of Ireland
- Competition and Consumer Protection Commission
- Environmental Protection Agency

Characteristics:

- Small staff
- Low budgets
- High technical expertise
- Significant regulatory power
- Elite bureaucrats prefer these roles

These agencies fit the bureau-shaping model better than budget maximization.

The Children's Hospital Saga: Multiple Pathologies

National Children's Hospital (NCH) cost escalation:

- **Original estimate (2014):** €650 million
- **Current projection (2024):** €2.2+ billion

The Diagnostic: Which Model Fits?

- **Niskanen (Oversupply):** Is the hospital simply too large/fancy?
- **Wyckoff (Slack):** Are we paying too much for inputs (concrete/consultants)?
- **Key Concept: The Soft Budget Constraint**
  - The project is "Too Big to Fail."
  - The Agency knows the Govt *must* bail them out.
  - *Result:* No incentive to control costs once construction starts.

Likely a combination of Slack + Soft Budget Constraints.

Irish Public vs Private Efficiency: Limited Evidence

Comparative data is scarce, but suggestive:

- **Refuse collection:** Mixed public-private provision across local authorities
- **Public transport:** Dublin Bus (public) vs private operators
- **Healthcare:** Public hospitals vs private/voluntary sector

A testable student research question:

- Compare unit costs of waste collection across Irish local authorities
- Control for: population density, service quality, geography
- Test: Does ownership (public/private/contracted) or competition (number of bidders) matter more?

Data available from: CSO, EPA, local authority annual reports

Student Research Opportunity: Irish Bureaucratic Growth

Mini-project idea:

1. Collect data on:
    - Department employment (2000-2024)
    - Semi-state body creation dates
    - Independent agency establishment
2. Test Dunleavy's prediction:
    - Are core departments shrinking or staying stable?
    - Is total public employment growing through agencies/semi-states?
3. Compare pre/post financial crisis (2008):
    - Did austerity reverse bureau-shaping?
    - Or accelerate it (more contracting out)?

Sources: CSO, Department of Public Expenditure & Reform, Comptroller & Auditor General reports

Irish Takeaways

Ireland illustrates the modern bureaucratic landscape:

1. **Budget cycles are limited:** Strong Weberian tradition + post-crisis institutions constrain Niskanen-type be haviour
2. **Bureau-shaping is evident:** Proliferation of agencies, semi-states, PPPs fits Dunleavy model
3. **Slack exists but is contested:** Public scrutiny (media, Oireachtas, C&AG) limits extreme waste
4. **Information asymmetry persists:** Major projects (NCH, MetroLink) still suffer cost overruns due to measurement/monitoring problems
5. **Institutions matter:** IFAC, PBO, FOI Acts improve accountability but can't eliminate principal-agent friction

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Cultural Resources

Films & Documentaries

Bureaucracy, Power, and Institutions:

- **Yes Minister / Yes Prime Minister** (TV series, 1980-88) – Classic satire on bureau-shaping and bureaucratic power
- **The Thick of It** (TV series, 2005-12) – Modern political satire showing principal-agent conflicts
- **12 Angry Men** (1957) – Group decision-making and institutional processes
- **Erin Brockovich** (2000) – Regulatory capture and bureaucratic failure
- **Inside Job** (2010) – Regulatory agencies and the financial crisis
- **The Post** (2017) – Whistleblowing and bureaucratic accountability

TV Series: Politics and Administration

How bureaucracies actually work:

- **The Wire** (Season 3-4) – Baltimore city bureaucracy, measurement problems
- **Borgen** – Civil service vs political leadership in Denmark
- **The West Wing** – White House bureaucracy and policy implementation
- **Parks and Recreation** – Local government and public service motivation
- **Utopia** (Australian) – Infrastructure agencies and cost overruns
- **The Office** (UK/US) – Organizational slack and workplace incentives

Books for General Audience

- **James C. Scott** – *Seeing Like a State* (1998)
  - How bureaucracies simplify and sometimes fail
- **Michael Lewis** – *The Fifth Risk* (2018)
  - What government agencies actually do
- **Jennifer Pahlka** – *Recoding America* (2023)
  - Digital transformation in government
- **David Graeber** – *The Utopia of Rules* (2015)
  - Bureaucracy and modern life
- **Francis Fukuyama** – *Political Order and Political Decay* (2014)
  - State capacity and bureaucratic quality

Irish Context: Books and Reports

Understanding Irish public administration:

- **Muiris MacCarthaigh** – *Public Sector Reform in Ireland* (2017)
- **Tom Garvin** – *Preventing the Future* (2004)
  - How Irish bureaucracy shaped development
- **Comptroller & Auditor General Reports**
  - Real examples of bureaucratic performance (www.audit.gov.ie)
- **IFAC Fiscal Assessment Reports**
  - Fiscal institutions in action (www.fiscalcouncil.ie)

Podcasts & Media i

Public Administration and Policy:

- **EconTalk** – Episodes on bureaucracy, regulation, public choice
- **Planet Money** – Government programs and incentives
- **Freakonomics Radio** – Be havioural economics in government
- **99% Invisible** – Design and infrastructure (bureaucracy in action)
- **Working** (Slate) – How government workers actually work

Podcasts & Media ii

Irish Policy and Politics:

- **Inside Politics** (RTÉ) – Irish political economy
- **The Business** (RTÉ) – Public sector and regulation
- **Oireachtas TV/Radio** – Committee hearings (bureaucratic accountability in real time)

Podcasts & Media iii

Data and Transparency:

- **Our World in Data** – Cross-country government effectiveness
- **The Economist – Democracy Index**
- **Transparency International** – Corruption perceptions
- **World Bank – Worldwide Governance Indicators**

Case Studies: Real Bureaucratic Puzzles

Use these to test the models:

1. **NASA:** High-performing agency despite government ownership
    - What institutional features explain this?
2. **UK's National Health Service:** Persistent efficiency debates
    - Budget max, slack, or measurement problems?
3. **Singapore Civil Service:** High pay, high performance
    - How do incentives differ from typical bureaucracies?
4. **Irish Water controversy (2014-2017):**
    - Bureau-shaping gone wrong? Political backlash to agencification?

Appendices

Appendix A: Deriving the Budget Maximizer (1/3)

The Bureaucrat's Optimization Problem

The Bureau wants to maximize its total budget $B(Q)$, subject to the constraint that the budget must cover total costs $C(Q)$.

$$\max_{Q} B(Q) \quad \text{subject to} \quad B(Q) \geq C(Q)$$

Step 1: The Lagrangian Function We set up the Lagrangian ($\mathcal{L}$) with a multiplier λ (representing the "shadow price" or tightness of the constraint):

$$\mathcal{L} = B(Q) + \lambda[B(Q) - C(Q)]$$

Appendix A: Deriving the Budget Maximizer (2/3)

Step 2: First-Order Condition (F.O.C.) To find the maximum, we take the partial derivative with respect to Output (Q) and set it to zero:

$$\frac{\partial \mathcal{L}}{\partial Q} = B'(Q) + \lambda[B'(Q) - C'(Q)] = 0$$

Step 3: Rearranging terms We group the marginal benefit terms $B'(Q)$:

$$(1 + \lambda)B'(Q) - \lambda C'(Q) = 0$$

Moving the cost term to the right-hand side gives us the equilibrium condition:

$$(1 + \lambda)B'(Q) = \lambda C'(Q)$$

Appendix A: Economic Interpretation (3/3)

Step 4: Interpreting the Multiplier (λ) Solving for Marginal Benefit:

$$B'(Q) = \frac{\lambda}{1+\lambda} C'(Q)$$

- Since the Bureau spends its entire budget, the constraint is **binding**, so $\lambda > 0$.
- This implies that the fraction $\frac{\lambda}{1+\lambda} < 1$.

Conclusion: Allocative Inefficiency

$$\implies B'(Q) < C'(Q)$$

At the bureau's equilibrium, the **Marginal Benefit** of the last unit produced is **less** than its **Marginal Cost**. The bureau has expanded output into the region of negative net value (waste).

Appendix B: Elasticity and Budget Revenue (1/2)

Deriving the Revenue Change Condition

If the Bureau sets a price P for its services, the total budget is:

$$B(P) = P \cdot Q(P)$$

Step 1: Differentiate with respect to Price (P) Using the Product Rule ($uv' + vu'$):

$$\frac{dB}{dP} = 1 \cdot Q(P) + P \cdot \frac{dQ}{dP}$$

Step 2: Factor out Quantity (Q) To find elasticity, we factor out Q from the right-hand side:

$$\frac{dB}{dP} = Q\left[1 + \frac{P}{Q}\frac{dQ}{dP}\right]$$

Appendix B: Elasticity and Budget Revenue (2/2)

Step 3: Substitute Price Elasticity of Demand (η) Recall the standard definition of elasticity (absolute value):

$$\eta = \left| \frac{\%\Delta Q}{\%\Delta P} \right| = -\frac{dQ}{dP} \cdot \frac{P}{Q}$$

Rearranging terms implies that $\frac{P}{Q}\frac{dQ}{dP} = -\eta$.

Step 4: The Final Condition Substitute $-\eta$ back into the budget equation:

$$\frac{dB}{dP} = Q[1 - \eta]$$

Conclusion:

- **Elastic ($\eta > 1$):** The term $[1 - \eta]$ is negative. $\frac{dB}{dP} < 0$ (Budget shrinks).
- **Inelastic ($\eta < 1$):** The term $[1 - \eta]$ is positive. $\frac{dB}{dP} > 0$ (Budget grows).