

The Economics of Bureaucracy

ECO1028: Politics Without Romance

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Roadmap for Today

I. The Puzzle: Bureaucracy in Theory and Practice

II. The Benchmark: Niskanen (1971)

III. Critique 1: Institutional Constraints

IV. Critique 2: The Slack Maximizer

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

VI. Evidence and The Leviathan

VII. Modern Applications and Contemporary Context

VIII. The Irish Context: Bureaucracy in Practice

I. The Puzzle: Bureaucracy in Theory and Practice

The Starting Point: Max Weber (1922)

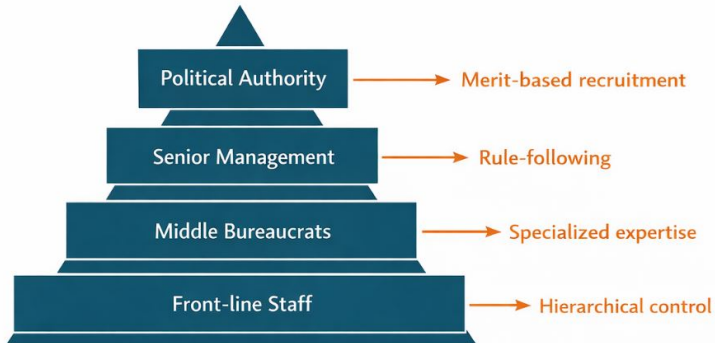
The "Ideal Type" of Bureaucracy

- 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.

The "Ideal Type" of Bureaucracy

Weber's Ideal Type (1922)



Ideal type of bureaucracy: a simplified model used to describe the defining characteristics of a rational-legal bureaucratic organization: **hierarchical authority**, rule-based procedures, merit-based recruitment, **specialized expertise**. Serves as a benchmark for comparison.

Why Weber Saw Bureaucracy as Efficient

- Specialization increases technical efficiency.
- Rules reduce arbitrariness and corruption.
- Professionalization improves competence.
- Stability ensures policy continuity.

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

Maximize:
Profit

Consumers

Maximize:
Utility

Politicians

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).
- Incentive structures therefore differ fundamentally.

Why Firms and Bureaus Differ ii

PRIVATE FIRMS

- Residual claimants (owners)
- Profit as performance signal
- Market pricing
- Clear incentives

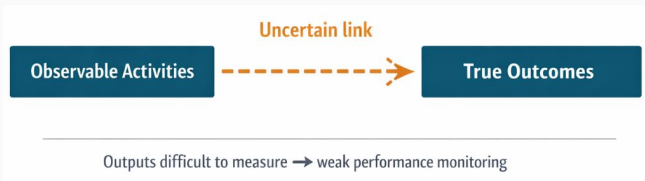


PUBLIC BUREAUS

- No residual claimants
- No profit signal
- No market pricing
- Unclear incentives

The Measurement Problem

- 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).

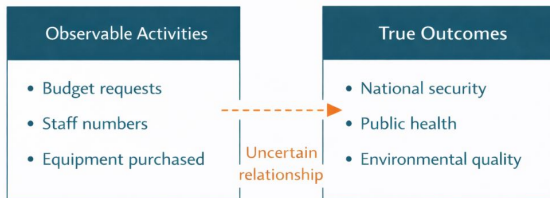
Healthcare provision (Irish HSE):

- 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 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

The Measurement Problem



When outputs are difficult to measure, monitoring weakens

Consequences of Measurement Problems:

- Performance monitoring becomes costly or impossible.
- Budget allocations become weakly tied to performance.
- Administrative discretion 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

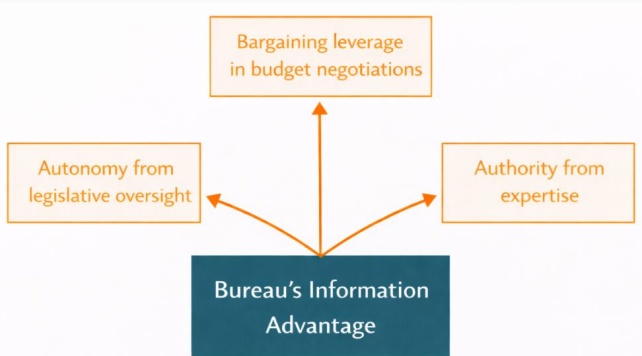
Administrative agencies typically possess superior information regarding production technologies, operational constraints, and the true cost of providing services. Legislatures, in contrast, observe only proposed budgets and aggregate performance indicators.



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.



Hidden knowledge = Organizational power

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.

Transition: The Positive Theory of Bureaucracy

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.

This creates the "Multitask Problem" (Holmstrom & Milgrom) – a classic feature of bureaucracy.

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.

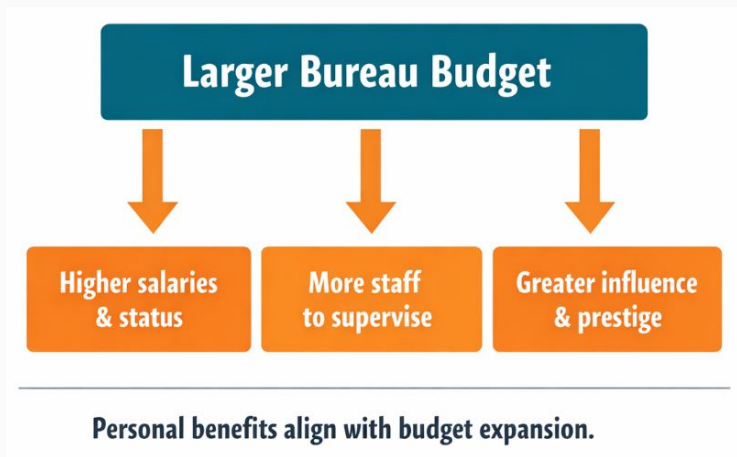
Niskanen's Core Hypothesis

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

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

Why Is Budget Size Important?

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



Institutional Environment

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

The Bilateral Monopoly Structure:

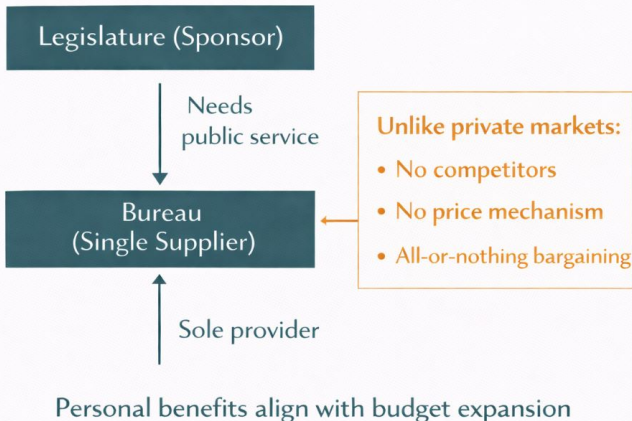
- One buyer: government.
- One supplier: the bureau.
- Negotiation replaces market price determination.

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

Monopoly Supplier Position



The Sponsor's Benefit Function

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

- Marginal benefits decline as output increases.
- Social efficiency occurs where $MB = MC$.

The Bureau's Cost Function

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

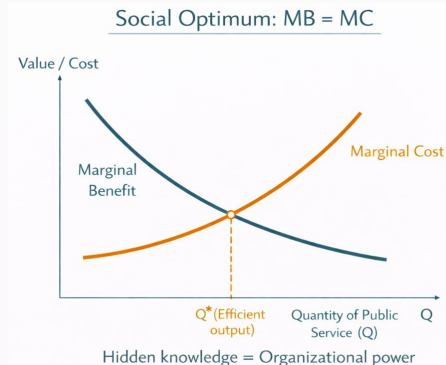
- Production costs rise with output.
- True cost schedule is privately known by the bureau.

Socially Efficient Output

The legislature seeks to maximize net social benefits:

$$B'(Q^*) = C'(Q^*)$$

At this output level, marginal benefit equals marginal cost, ensuring allocative efficiency.



Budget Constraint in Bureau Negotiation

- 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.
- **The Result:** The Bureau captures the entire Consumer Surplus, converting it into a larger budget.

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:

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

- Constraint is binding.
- Implies $B'(Q) < C'(Q)$ at equilibrium.

The Role of Demand Elasticity

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

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

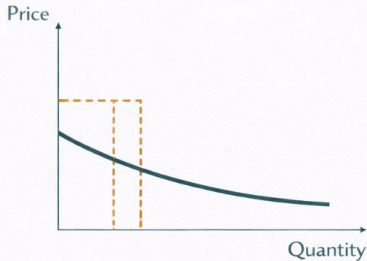
The Power of Essential Services:

- **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.

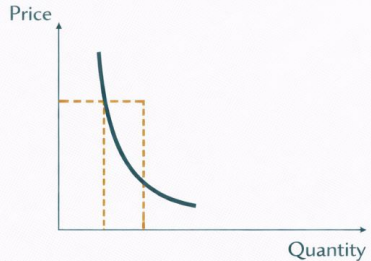
Elastic vs Inelastic Demand)

ELASTIC DEMAND



Total spending decreases
→ Budget cuts

INELASTIC DEMAND

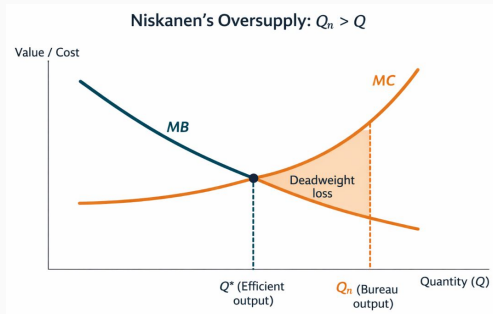


Total spending increases →
Budget expansion possible

Strategic lesson: Target services with inelastic demand

Geometric Intuition

- Bureau captures consumer surplus from infra-marginal units.
- Surplus finances production of inefficient extra units.
- Expansion continues until total benefit equals total cost, producing $Q_N > Q^*$.



Satiation Case

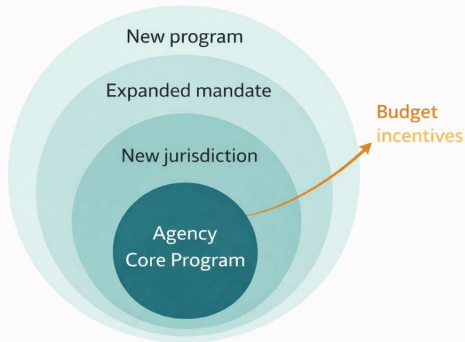
- If sponsor marginal benefit reaches zero first,
- Bureau expands output until sponsor is satiated.
- Oversupply persists under alternative parameter values.

Implication: Allocative Inefficiency

- Bureau produces efficiently at each output level.
- But produces too much overall.
- Inefficiency arises from institutional incentives.

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

Can the Sponsor Fight Back?

Niskanen assumes the Sponsor is passive. But institutions matter.

Alternative Rule: What if the Bureau must announce a **Unit Price** (P), and the Sponsor chooses Quantity (Q)?

$$B = P \times Q$$

.

The Role of Demand Elasticity

If the Bureau sets a unit price P , the budget is:

$$B(P) = P \cdot Q(P), \quad \frac{dB}{dP} = Q + P \frac{dQ}{dP}$$

Assume $P_1 > P_2$ (a price increase from P_2 to P_1).

If demand is elastic ($\eta > 1$), $P \uparrow$ reduces B . If demand is inelastic ($\eta < 1$), $P \uparrow$ increases B , creating an incentive to raise P even when Q falls.

The Penalty Function: Suppose the Sponsor audits. If the Bureau inflates costs ($P > MC$), it risks a penalty $\pi(P)$.

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

Result: Even a small probability of detection forces the Bureau closer to the true cost curve.

Competition as a Discipline

Multiple Bureaus:

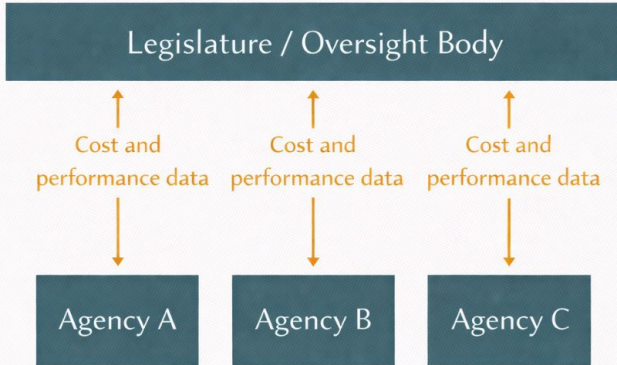
- Defense: Army vs. Navy vs. Air Force.
- Intelligence: CIA vs. NSA vs. FBI.

Effect:

- The Sponsor can "benchmarking."
- Rival bureaus leak information frameabout each other's costs to win budget share.
- Reduces the information asymmetry.

Competitive Benchmarking

Competitive Benchmarking



Inter-agency comparison reveals inefficiency

Application Exercise:

Question: Why might politicians support lump-sum grants to local governments, even if they suspect the "flypaper effect"?

- 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.
- Where is the utility in that?.

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

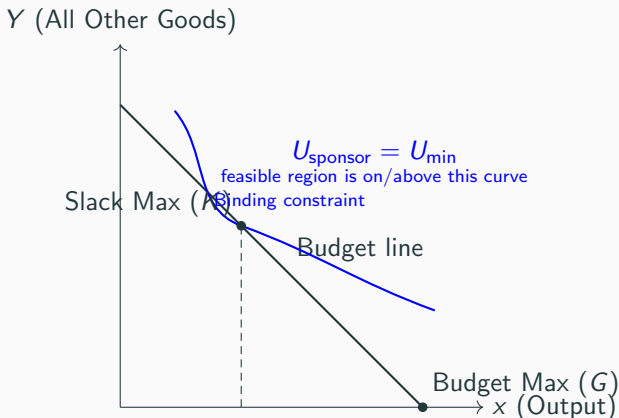
Wyckoff models the bureaucrat's choice using Indifference Curves.

- **X-axis:** Public Output (Q).
- **Y-axis:** All Other Goods (Sponsor's Money).

The Trade-off:

- The Sponsor has an indifference curve (U_{min}).
- The Bureau must keep the Sponsor on U_{min} to avoid being fired.

Budget vs. Slack Equilibrium



- **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).

The Diagnostic Test: Lump-Sum Grants

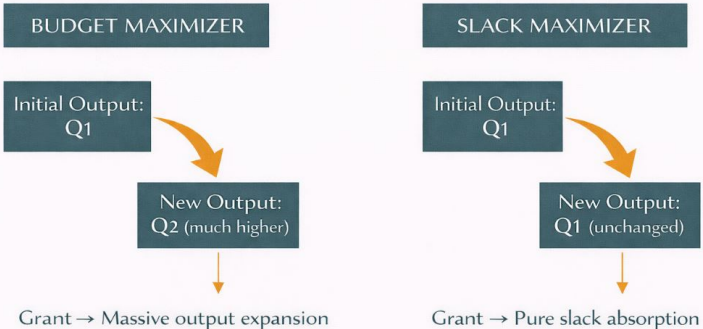
Scenario: The Central Government gives the Bureau a \$10m "No strings attached" grant.

How does the equilibrium shift?

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

Lump-Sum Grant Test

Policy Experiment: \$10 million unrestricted grant



Empirical test to distinguish models

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

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**.

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:

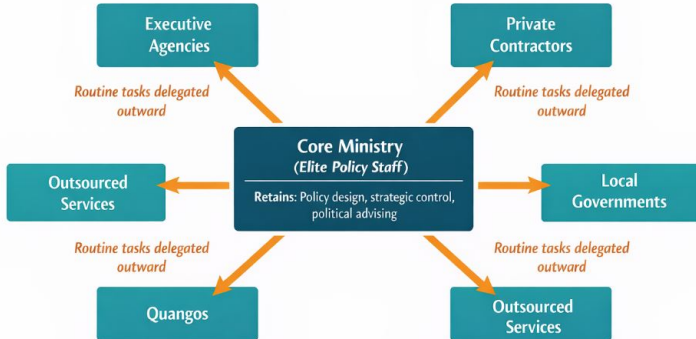
- **Interesting Work:** Policy formulation, strategy.
- **Proximity to Power:** Access to Ministers/Politicians.
- **Status:** Being part of the "core executive."
- **Comfort:** Avoiding industrial relations (strikes) and routine management.

Hierarchical Interests Diverge



The “Hiving Off” Strategy

The “Hiving Off” Strategy



Elites retain high-status policy functions while delegating service delivery

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.

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 behavior. 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.

Five Agency Types

1. DELIVERY AGENCY

Direct service provision
(e.g., NHS)

2. REGULATORY AGENCY

Rule enforcement
(e.g., EPA)

3. TRANSFER AGENCY

Money redistribution
(e.g., Social Security)

4. CONTRACT AGENCY

Tender management
(e.g., Procurement)

5. CONTROL AGENCY

Oversight of others
(e.g., Treasury)

Niskanen's model only fits Type 1

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.

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

The Darkest View:

- Government is a Revenue-Maximizer (Leviathan).
- Electoral constraints are weak (Rational Ignorance).

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?

Crucial 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 behavior?

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?

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

Example: UK Behavioural Insights Team

- Small, elite unit (bureau-shaping model)
- Low budget, high policy impact
- Uses behavioral 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?

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)

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)

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 also matter.

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

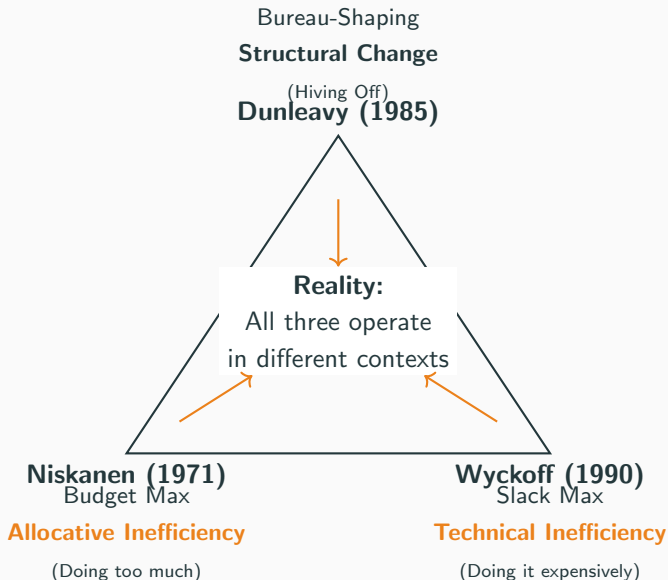
Trade-offs: Each reform has costs (compliance burden, gaming, loss of flexibility). No perfect solution exists.

A Matrix: Ownership vs. Competition

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

Key Insight: Competition disciplines behavior 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.

“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

Ireland illustrates the modern bureaucratic landscape:

1. **Budget cycles are limited:** Strong Weberian tradition + post-crisis institutions constrain Niskanen-type behavior
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

Further Reading

Foundational Public Choice Theory of Bureaucracy

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Cultural Resources

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

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

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)

Public Administration and Policy:

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

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)

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?