

3.5 — Bureaucracy

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Major Players in a Liberal Democracy



- **Voters** express preferences through elections
- **Special interest groups** provide additional information and advocacy for lawmaking
- **Politicians** create laws reflecting voter and interest group preferences
- **Bureaucrats** implement laws according to goals set by politicians
- **Judges** interpret laws to settle individual disputes



Bureaucrats in a Liberal Democracy



- **Bureaucrats** create regulations to implement laws written by legislators
- Sometimes called the “**4th branch of government**”



- The bureaucrat's problem:
 1. **Choose:** < rules >
 2. **In order to maximize:** < ??? >
 3. **Subject to:** < restrictions set by legislature >

The President's Cabinet

Bureaucracy and the Administrative State



- **Today**, an overview of bureaucracy
 - comparisons between firms and bureaus
 - how to model individual bureaucrats
 - general relationship between bureaus and Congress



The President's Cabinet

Bureaucracy and the Administrative State



- **Later**, challenges of the rise of “**the administrative State**”
 - more on regulatory agencies
 - process of making regulation
 - separation of powers concerns between Executive, Legislative, and Judicial
 - progressivism vs. conservatism on role of administration



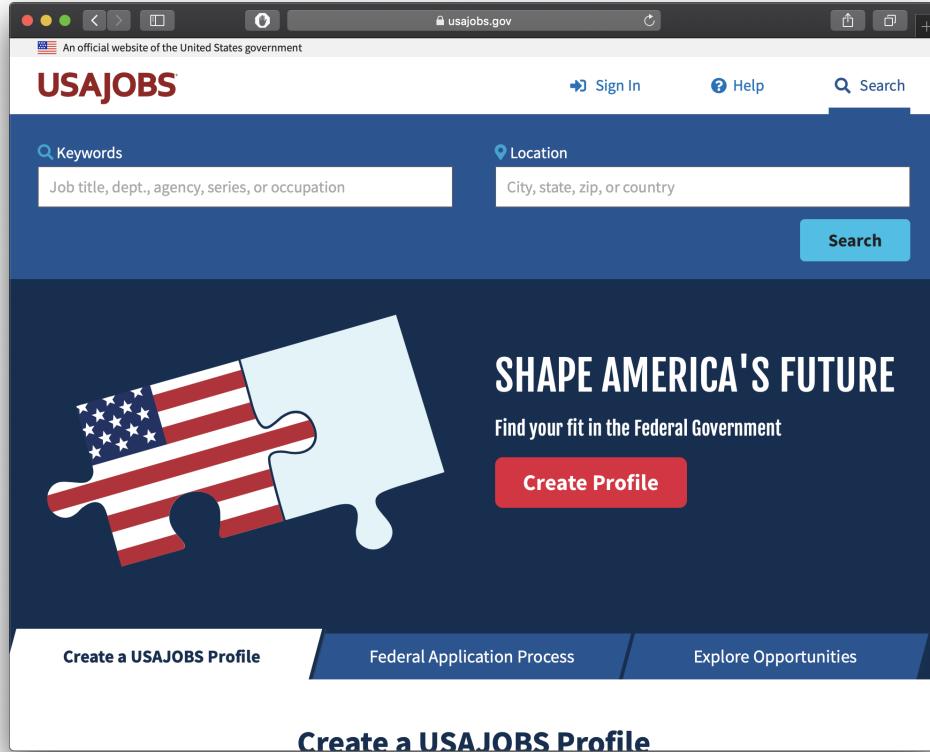
The President's Cabinet

Let's First Address: Connotation



- “**Bureaucracy**,” “**Bureaucratic**,” and “**Bureaucrat**” all have a negative connotation
- Let’s be positive (analytical), not normative (judgmental) about this
- Bureaucrats & bureaus are people and organizations too!
- Understand their incentives, how they work, and compare to other institutions

What Is the Bureaucracy



- **Bureaucrats** are career government employees that work for various government agencies
 - “Civil service”
 - Field of “Public administration” (MPAs, etc.)
- Point is: **isolated from politics**
 - Not elected, very hard to fire
 - Focus on administration and rule-making, not public opinion

Evolution of Bureaucracy



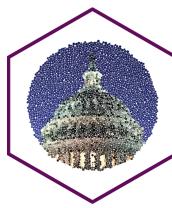
- State capacity & effective government requires a formal professional bureaucracy
- Max Weber's "ideal types" of bureaucracy:

1) Traditional/patrimonial

- rules and power arbitrary (come from ruler)
- hiring/firing/promotion based on personal connection



Evolution of Bureaucracy



Puck satirical cartoon of U.S. President Chester Arthur doling out patronage to his cronies

- In United States, political offices were clientelist¹, no professional bureaucracy
- Elected officials merely appointed their friends, donors, and cronies with political offices in administration, regardless of qualification or merit



¹ Also called “patronage” or “the spoils system”.

Evolution of Bureaucracy



2) Rational and legal

- staffed by professionals
 - meritocratic hiring, firing, and internal promotion
 - governed by objective legal rules

A word cloud centered around the term "government". Other prominent words include "public", "administration", "business", "office", "meeting", and "professional". The words are in various sizes and colors (blue, black, red), and some are rotated.

Evolution of Bureaucracy



- 1883 Pendleton Civil Service Reform Act
 - Most modern democracies have very developed bureaucracies
 - Meritocracy and expertise over political connections
 - Rational rules over loyalty
 - Very difficult to fire bureaucrat (insulated from politics)
 - Divorce **politics** from **administration**
 - Conversely, anti-democratic

What Constitutes the U.S. Federal Bureaucracy



The President's Cabinet



- **Federal Departments**

- Part of **executive branch** under U.S. President
- Cabinet-level secretaries (leaders) are appointed by the President and confirmed by Senate
- serve "at the pleasure of the President" i.e., the President can fire them at any time, for any reason

What Constitutes the U.S. Federal Bureaucracy



- **Independent (Regulatory) Agencies**
 - Established by *Congress* via a statutory grant of authority
 - Most have 5-7 Commissioners appointed by President and confirmed by Senate¹, most required to be bipartisan
 - "Independent" of President

¹ Most have staggered terms that extend beyond a Presidential administration, so a President cannot appoint entire Commission.



Modeling Bureaucrats

Firms vs. Bureaus as Organizations



Ludwig von Mises
1881-1973

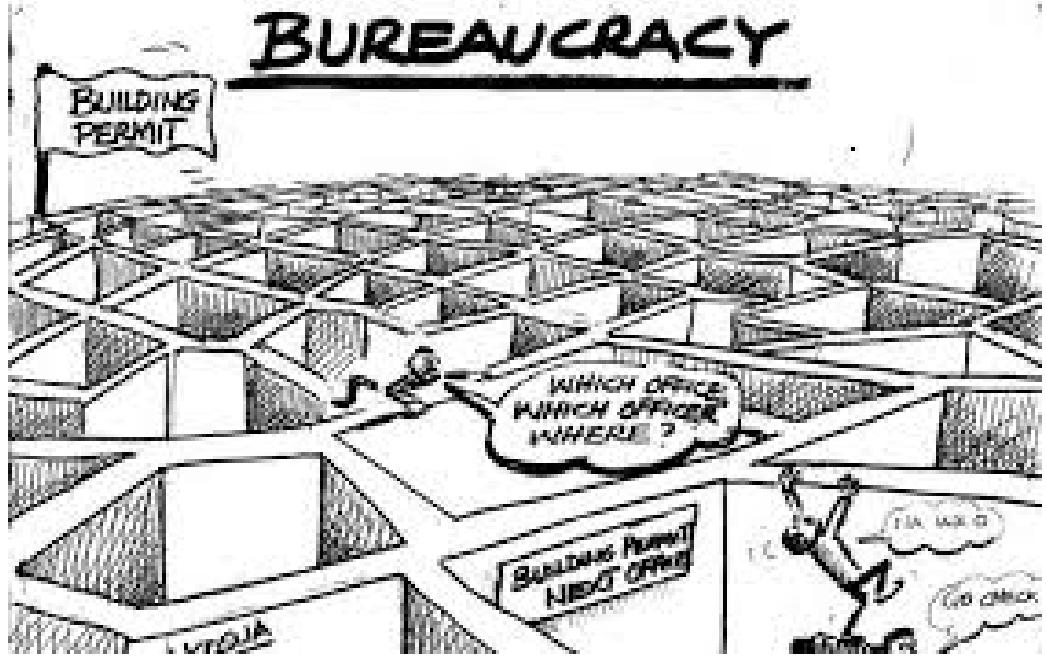
- von Mises: "**profit management**" vs. "**bureaucratic management**"
- Bureaucracy is not an evil, the only alternative to profit management
- To the extent collective choice is necessary, so is bureaucracy
 - Firms can be bureaucratic
 - Market failures may require government, run bureaucratically

Profit Management



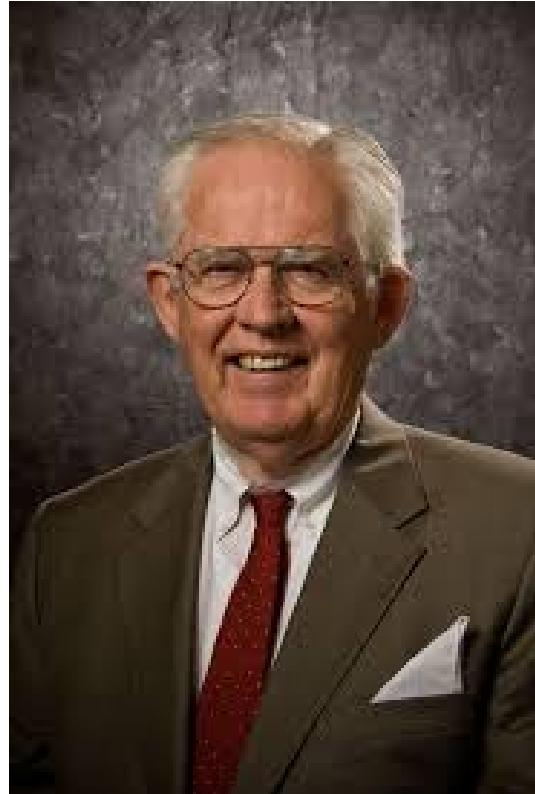
- Uses **prices** and **profits**, managers can be left to do as they please to maximize organization profits
- Capital allocated according to **profitability, comparisons to alternative uses** in the economy

Bureaucratic Management



- Does not use prices or profits, cannot determine efficient use of capital
- Managers cannot be autonomous--abuse funds and no way to verify efficient use
- Thus, managers must comply with specific rules about use of money and activities, often determined by legislature

Modeling Bureaucrats

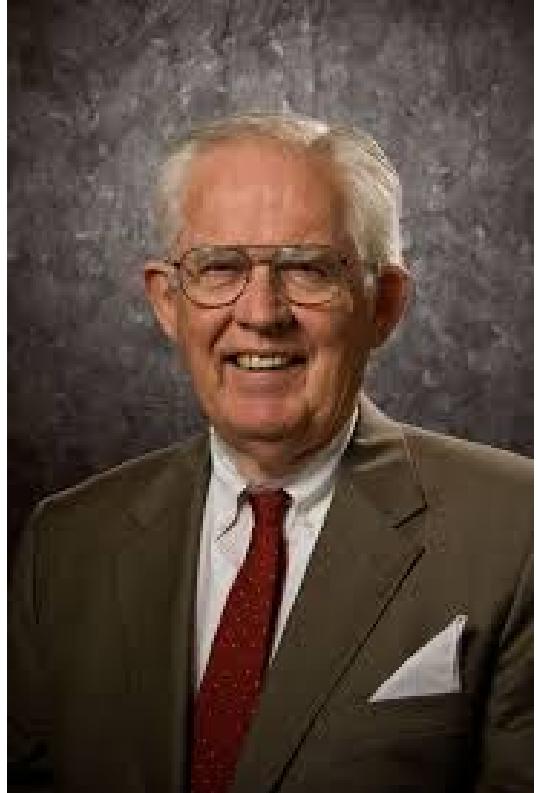


- Niskanen's hypothesis: bureaus maximize (discretionary) budget
- "Income" of bureau is almost entirely from Congressional grant, not sales to consumers

William Niskanen

1933-2011

Modeling Bureaucrats



- Responses to Niskanen:
- Bureaus cannot maximize budget, in competition with other agencies for budget
 - Implies we will get the efficient amount allocated bureau by bureau

William Niskanen

1933-2011

Modeling Bureaucrats



1. **Choose:** < rules >
2. **In order to maximize:** < utility >
3. **Subject to:** < restrictions set by legislature >
 - Bureaucrat maximizes own utility
$$u(z, c)$$
 - Two ideal types of bureaucrat (or hybrid):
 - "Zealots"
 - "Climbers"

Modeling Bureaucrats: Zealots



$$u(z, c)$$

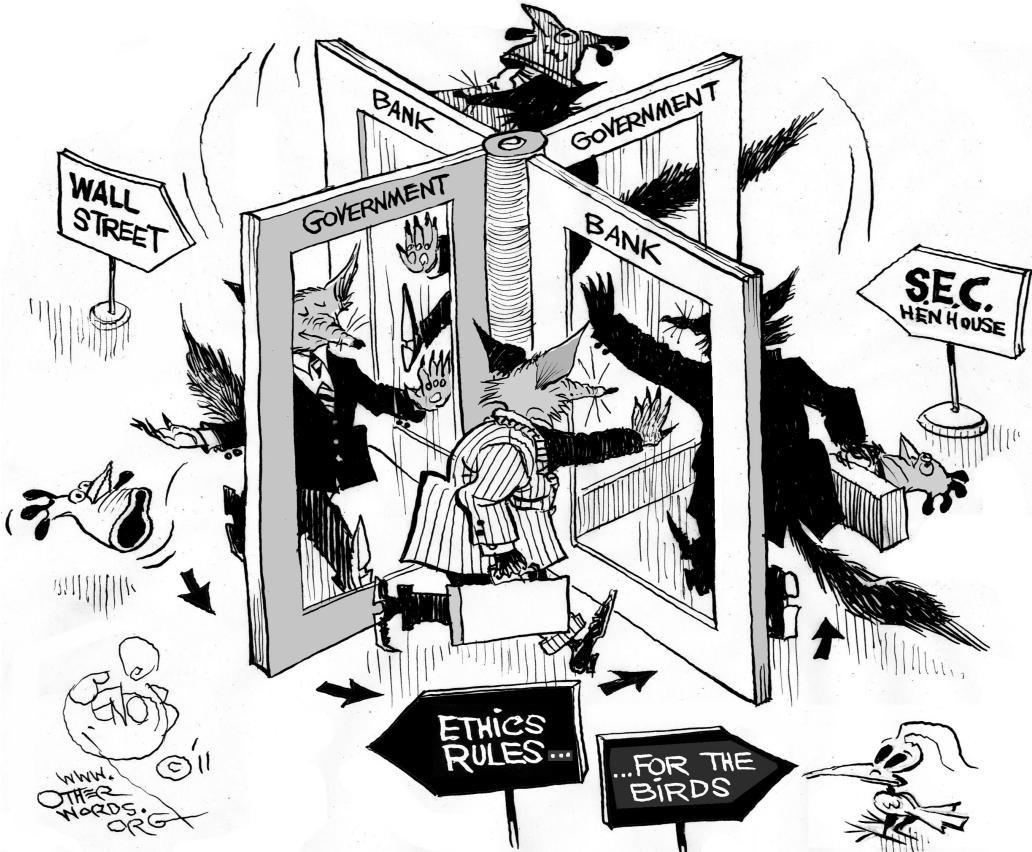
- "**Zealots**" want to maximize rules made to reshape the world in their ideal vision
- Truly believe that existing market equilibria are wrong
- Note: this \neq socially optimal regulation (necessarily)
 - Zealot may be mistaken, have unique preferences, etc.

Modeling Bureaucrats: Climbers



- $u(z, c)$
- "**Climbers**" want to maximize own career prospects or perks
 - May involve passing more rules (to put on resume)
 - Want promotions, high salary, good work environment, more respect/clout, more subordinates to manage, directing more resources (bigger budget)
 - Again, also \neq public interest

Recall: The Revolving Door



- Recall the "**revolving door**" between the public and private sector
- Legislators & regulators retire from politics to become highly paid consultants and lobbyists for the industry they had previously "regulated"
- Again, source for **regulatory capture** of agency by industry

Mission Creep



- A bureau that accomplishes its mission or sees it as less important → budget cuts
- Bureaus have an incentive to overplay the importance of their mission and the severity of the problem
- **Mission creep:** attaching new (and tangential) goals to the bureau's original mission



Congress and the Bureaucracy

Congress and the Bureaucracy

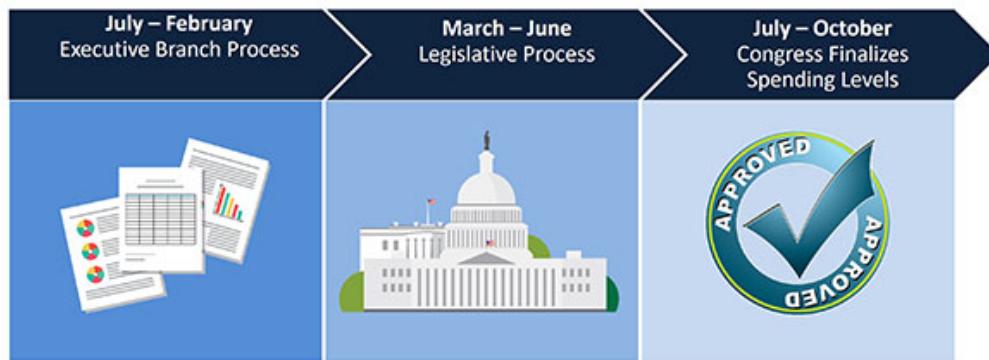


- Exchange between a producer and a consumer is a price for a marginal unit
 - Wide set of choices about how many units to purchase, how much of substitutes to purchase, purchase none at all, etc.
- Exchange between an agency and Congress is a year of total output for a year of total budget

The Budget Appropriations Process

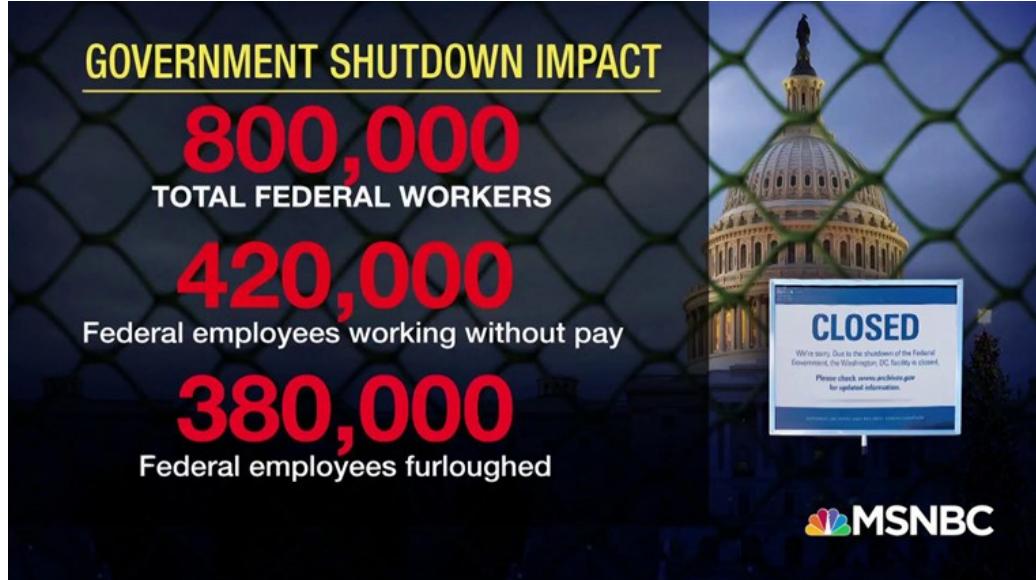


The Federal Budgeting and Appropriations Process



1. President submits a budget *request* to Congress for fiscal year (October 1)
2. House and Senate pass their own budget resolutions ("appropriation bill")
3. Appropriations Committees in each house mark up the bills
4. Houses reconcile their differences, send to President
5. President signs budget into law

The Budget Appropriations Process: Failures



- Note: often Congress fails to (agree upon and) pass their appropriations bills in time
 - “Continuing Resolutions” (CR) to keep budget items from last year
- Government shutdowns
 - 13 since 1980
 - Longest was Dec 2018-Jan 2019 (35 days)

Congress and the Bureaucracy



- Congress has "power of the purse"
- All government agencies are funded by Congress' budget allocations process
- Exchange between an agency and Congress is a year of total output for a year of funding
 - e.g. an "all or nothing" transaction

Bureaucracy: Supplier or Demander of Gov't Spending?



- Bureaucracies as **suppliers of government spending/regulation**
 - Bureaus produce regulation, spend government money, implement desires of Congress

Bureaucracy: Supplier or Demander of Gov't Spending?



- Bureaucracies as **demanders of government spending/regulation**
 - Bureaus get almost entire income from Congress
 - Each bureau is its own special interest seeking to lobby Congress
- Congressional budget is a tragedy of the commons
 - Competition between each bureau over rivalrous, scarce budget

Congress and the Bureaucracy

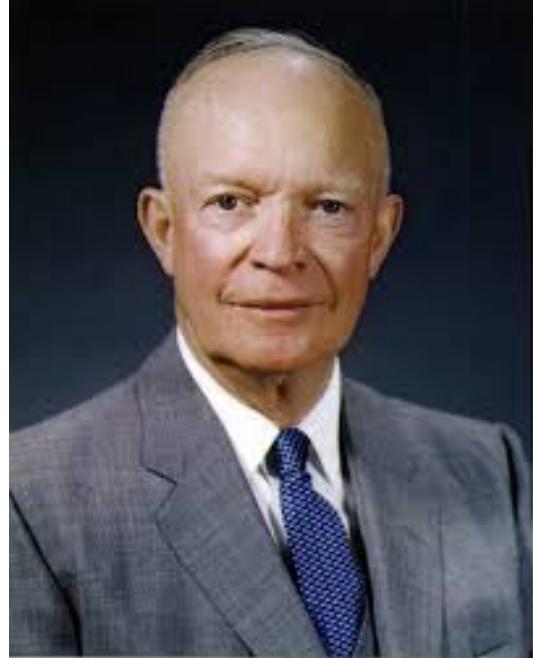


- **Asymmetric information** between Congress and agency
 - Congress: generalists, agencies: specialists
- Only the agency knows its true costs and social benefits
- Congress must deal with many many agencies, each agency only has to deal with Congress

Congress and the Bureaucracy



Competition Between Agencies

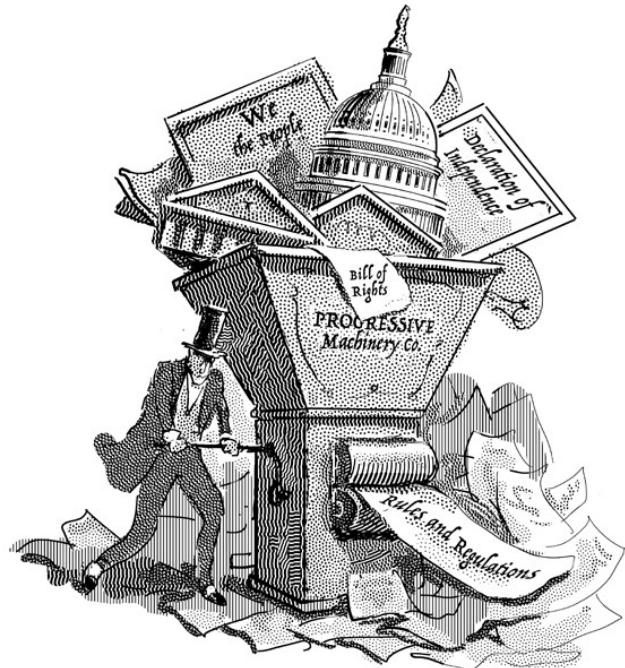


Dwight Eisenhower

1890-1969

"Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed...The cost of one modern heavy bomber is this: a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 population. It is two fine, fully equipped hospitals. It is some fifty miles of concrete pavement."

A Future Class: Rise of the Administrative State



- Over 20th Century, Congress offloaded most real law-making to the agencies
 - Acts of Congress and hearings are more media spectacles for the politicians
 - *Real* governing and law-writing is done in **the administrative state**
 - unelected, unaccountable, bureaucrats
 - Can Congress delegate *legislative* power to *executive* agencies?

Bureaucracy in Media



Bureaucracy in Media

