**‘The Bureaucracy’ as an Interest Group**

**Patrick Dunleavy**

London School of Economics and Political Science (LSE)

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Just as the theory of the firm started with simple propositions about what firms maximize (profits, sales, etc.), that were subsequently pluralized by alternative theories and empirical research, so the public choice theory of bureaucracy began with ultra-simple ‘classical’ models in the early 1970s, and since then has moved towards more behaviourally realistic and complex models. To assess this contribution I briefly establish the precursor views of public administration that prevailed until the 1970s. Next I examine seven main public choice explanations of the bureaucracy as an interest group, beginning with the classical models that long-defined the field; moving on to revisionist models from the 1990s and 2000s; and then covering two delegation models of the political imperatives for entrusting issues to bureaucracies. Classical public choice and economic models have been enormously influential, especially in creating intellectual foundations for a ‘new public management’ (NPM) quasi-paradigm that was important from 1985 to 2005. The final sections explores why the classical models did not anticipate NPM’s failures and ill-adaptation to the large-scale government austerity measures in many liberal democracies after 2008. Revisionist models, by contrast, anticipated or highlighted many NPM failings.

**Precursors**

Before public choice arrived on the scene, academic public administration was dominated by Weberian theories of meritocratic bureaucracy organized in large, pyramidal hierarchies as a rationally superior form of organization, both in government and large corporations. In the post 1945 period American pluralist thought married with Weberian ideas the twin themes of public bureaucracies securing political control by elected leaders and socializing public officials into detailed responsiveness to interest groups, electoral signals and public opinion – a hybrid that Hood (1995) termed ‘progressive public administration’ (PPA). The PPA model was strongest in the Anglo-American countries. It defended lifetime career civil services, both ‘generalist’ and ‘specialist’/professional patterns of organization, and integrated agencies both identifying policy needs and then supplying services to meet them in monopsonistic fashion. Over time other themes were added to this conventional wisdom, such as a strong faith in rational comprehensive planning, and across most of western Europe a 1960s and ‘70s drive to ‘modernize’ regional and local governments into larger metropolitan units. This was resisted only in the USA, where Charles Tiebout’s (1956) defence of hyper-fragmented local governments as competing to attract residents was influential in preserving suburban fragmentation. In the Samuelson-era economics of the 1950s, when analysts identified a market failure, it was often implicitly assumed that government intervention (whether by regulations or via service provision) could secure public goods provision in a frictionless, optimal way.

Of course, pluralist authors noted that government bureaucracies actually varied a lot across countries, but they gave political explanations of this. Silberman (1993) famously argued that the Weberian administrative tradition split into two streams. Countries where political elites succeeded early on in organizing peaceful leadership transitions (like the USA and UK) opted for a low-key, ‘professional’ mode of socializing public servants into respect for the public interest. Meanwhile in countries where political elites long proved unable to master peaceful political succession (such as France and Japan), far stronger central bureaucracies were developed to act as pillars of the state, preserving government continuity through periods of strong political turbulence.

Before public choice then, theories of public administration were mainly uncritical, assuming a general organizational functionality and responsiveness. Many economists and right-wing critics argued that they essentially treated public servants as ‘saints’ or ‘knights’ (LeGrand, 2007), whose interests were fully aligned by institutional controls and by internal civil service culture and socialization processes with those of the public at large. And indeed to this day this article of faith still recurs in influential modern work (Moore, 1995).

However, pluralist political science theories did recognize two ways in which officials could behave self-interestedly. First, bureaucracies (and political decision-making) are generally conservative, creating incremental policy changes only at the margins. Base-budgets and ongoing programmes were left largely unscrutinised by budgetary systems, thus creating tendencies for government to incrementally expand over time so as to meet new public demands. Public bureaucracies would also characteristically ‘drag their feet’ when faced by radical demands from incoming governments for spending cuts (and to a lesser degree, spending increases), or when asked to make large-scale policy shifts. Bureaucratic inertia was generally seen as stabilizing, protecting against ill-thought-through changes, impractical policy ideas or over-politicized ‘policy churn’.

Second, just as Galbraith (1969) dwelt on the importance of corporation executives’ identification and adaptation with their firms as dominant motivations within the ‘new industrial state’, so officials could become over-attached to their programs. ‘Where you stand depends on where you sit’ dominates bureaucratic decision-making (Allison and Zelikow, 1999), so political executives must always aim off somewhat for agency self-interest in sifting advice. Both these motives were explored in some detail by Antony Downs’ pioneering semi-public choice account, *Inside Bureaucracy* (1967), which used some economic concepts to analyse government hierarchies. However, Downs ended up chiefly with an elaborate and largely un-evidenced typology of bureaucratic motivations, amongst which the best defined were ‘conservers’ (following the first pattern of behaviour above) and ‘zealots’ for an agency or a program (following the second pattern) (Dunleavy, 199, Ch.6).

**‘Classical’ public choice models**

Figure 1 shows seven major public choice or economic approaches that have transformed the understandings of how bureaucracies work, which I discuss in turn.

***1.******The******budget-maximizing******model*** was the earliest, one of the most radical, and so far has proved by far the most influential public choice account. It was formulated by William Niskanen in a 1970 book, drawing on his experiences of working as a Pentagon defense analyst (Niskanen, ([1971] 1995); Niskanen, 1975; Dunleavy, 1991, Ch. 6-7). In economics the law of diminishing returns implies that the first units of output delivered by a firm or an agency are intensely valuable to consumers/citizens, but that as provision expands the marginal benefits (MB) to society necessarily decline, until they exactly equal the costs of providing that unit of output (its marginal cost, MC). Assuming that MCs includes a normal profits component, and that super-normal profits cannot be secured, then for a profit-maximizing, price-taking firm this is an equilibrium point. It halts production where MB = MC.

However, Niskanen assumed that top government bureaucrats

1. always gain from maximizing their *total* budgets, which expands their responsibilities and salaries; and
2. control all the key information about the shape of their agency’s marginal benefit (MB) and marginal cost (MC) curves, which they can hide from legislators.

He further argued that in a relatively efficient and supervised agency, officials absolutely could not expand their total costs (TC, or budgets) beyond the total benefits (TB) that their activity yielded. Nor could they deliver output units that have no positive marginal benefit at all. However, they could expand the supply of outputs so as to include some or many activities whose marginal benefits to society exceed their costs of provision (MC >MB). Agencies could exploit their monopoly control

**Figure 1: Seven major public choice or ‘economic’ models of bureaucratic interests, and their key policy prescriptions**

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| **Approach *and core authors*** | | **Core propositions** | **Key policy prescriptions** |
| *Classical models* | | | |
| 1. **Budget-maximization and bureaucratic over-supply** – *William Niskanen* | | Government officials always seek to maximize budgets, achieved by creating an area of ‘waste’ (low-return activities) offsetting the consumers’ surplus achieved by early, necessary units of output. | Disaggregate large agencies; separate bureaucratic ‘commissioners’ from ‘providers’; introduce mandatory competition and outsourcing; use quasi-markets for procurement (NPM, themes 1 and 2). Conservative governments should make random cuts on entering office, to force the bureaucracy to reveal accurate spending information. |
| 2. **Rent-seeking** – *William Niskanen, Gordon Tullock* | | Government officials artificially under-supply public outputs in order to raise super-normal payments (‘rents’) from queues and scarcities – e.g. to bid up civil service or public professional salaries, impose entry restrictions, or create ‘slack’ conditions for staff. | De-privilege public service trade unions and professions; bring in mandatory ‘efficiency dividends’; shift to ‘pay for performance’ incentivization strategies; use private finance (NPM, theme 3). |
| *Revisionist approaches* | | | |
| 3. **Bureau-shaping** – *Patrick Dunleavy* | (a) *If* rational bureaucrats maximize budgets, they should focus only on agencies’ core budgets and on contracting that gives patronage powers - not on welfare entitlements and grants which give no flowbacks of benfits to top officials. Hence budget maximization will be strong in ‘delivery’ and ‘contract’ agencies (like defence and armed forces); and very minor in welfare state ‘control’ and ‘transfer’ agencies (handling mass payment systems). Contractorization *increases* budgetary growth pressures.  (b) Rational top officials have incentives to help politicians moderately under-supply outputs, so as to force down public workers’ wages and enhance politically salient consumers’ surplus, as with new public management (NPM) strategies. | | (a) Concentrate budgetary scrutiny and controls on direct provision of services by government, especially departments with large staffs (like police agencies, armed forces) and with large-scale contracting in oligopolistic markets (as in defence, government IT, and most outsourced services). Outlaw political donations and any campaigning by contractors. Expect regulatory supervision to be under-supplied.  (b) Reverse most new public management (NPM) strategies by reintegrating key services into the national/federal public sector, cutting out agencies and duplications, scaling up provision for ‘digital era’ governance, seeking to radically enhance government productivity, and meeting citizens’ needs holistically wherever feasible. | |

*Figure 1 continued*

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| **Approach *and core authors*** | **Core propositions** | | **Key policy prescriptions** |
| 4. **Agencies and NGOs** **with intrinsically motivated staff** – *Timothy Besley and Maitreesh Ghatak* | Distinct both from private markets and public hierarchies, is a third way of services delivery, creating organizations strongly focused on an inherently attractive mission. A pooling equilibrium is to recruit a like-minded staff group, all drawing benefits from their work – and willing to commit extra effort and forego some pay in consequence. | Some NPM and ‘neo-liberal’ strategies for increasing surveillance and audit, can reduce the scope of professional identification with work and so be counter-productive. As staff withdraw commitment, costs will increase and service quality will fall, perhaps radically. Accountability arrangements matter far more than public/private ownership issues. | |
| 5. **Hierarchies as efficient under some defined conditions** – *Oliver Williamson* | Hierarchical organization (here presumably by government, but perhaps by macro-contractors also) out-performs spot-contracting in markets wherever:  - there are only small numbers of potential  contractors;  - the risks of opportunistic or collusive  behaviour are high;  - asset specificity is high, so complex and  costly expertise or skills must be  developed by staff and organizations, long-  term, with a risk of under-investment; and  - decision-makers must satisfice because of  weak information or future uncertainties. | Government should always safeguard its core competencies. Over-using ‘re-engineering’ or ‘best in world’ criteria to contract out government services creates dangers - including the loss of strategic capabilities to join up functions and act as an ‘intelligent customer’. Many major risks in government are non-transferable via contracts. Catastrophic failures by para-state providers will simply cause these risks to revert unchanged to the state, often at high cost. Contractors also introduce new sources of potential financial instability in government services. | |
| *Delegation models* | | | |
| 6. **Straightfor-**  **ward delegation**, as in most liberal democracies  – *Murray Horn* | A rational legislative majority delegates where (i) decision costs are high and (ii) doing so strengthens commitment to their current policy against a future change of majority control. Delegation creates (iii) secondary ‘agency’ problems, that are fairly easily combatted via institutional design (e.g. lifetime civil service careers). Rational legislators also (iv) allocate the costs of policy change and compliance to those societal groups best able to insure against them. | Recognize that the institutional status quo is normally an equilibrium, welfare-maximizing outcome. Carefully conserve and maintain aspects of Weberian/’progressive public administration’ practices that secure political control of the bureaucracy, its detailed responsiveness to citizen interests, and the maximization of a multi-dimensional ‘public value’. | |
| 7. **Difficult delegation**, as in the USA’s dual control executive/ Congressional system – | Rational legislators and executive actors often seek to micro-control policy directly. They only delegate powers where they believe an existing or new agency has values or an institutional set-up consistent with their individual or party preferences, and with a direct flowback of (short-term) benefits to politicians. | Multiple principals (e.g. the President, congressional committees) stabilize policy against a risk of ceaseless policy churn – especially with ‘divided government’. Agencies will accrete new functions to enhance their longer term political survival. | |

of information so as to mislead the legislature or ministers, and use their control of outputs to offset all of the consumers’ surplus for society by undertaking low value (‘wasteful’) activities. The equilibrium point for an agency will thus be where TB = TC, beyond which officials cannot further push up budgets.

So Niskanen’s model predicted the large-scale over-supply of government outputs. He assumed that most agencies are relatively efficiently run (because of some legislative and budgetary surveillance), so the key strategy for top officials is to expand outputs in ‘wasteful’ ways, with some positive MB for society, but less than their MC level. In a few special cases, however, the public’s demand for some services may be so high, and agency costs so low, that agencies cannot fully exploit the consumer’s surplus from their early outputs, and here agencies may be able to create organizational ‘slack’. There were few further developments of the model, but Kraan (1996) restated the argument more formally, and added a discussion of how the impacts of officials consuming their own outputs might strengthen budgetary expansion.

The key implications of the over-supply model were that legislators should break up bureaucratic monopolies and hierarchies, separating out the functions of planning and commissioning services from the job of providing services. Delivery should be made competitive by introducing contracting and privatization, forcing competing suppliers to reveal detailed costs information to legislators. These ideas helped create two key foundation themes for new public management (NPM) strategies (disaggregating large hierarchies and introducing competition). Multiple variants and embroiderings of these themes were subsequently developed under the Thatcher and Reagan governments, and extended to more ‘humanistic’ NPM under other governments, such as Blair’s in the UK and Keating’s in Australia (Pusey, 2003).

Niskanen’s scepticism about agencies and his formally-stated model both jolted the study of public administration/management out of its previous torpor. But systematic evidence supporting it proved hard to find, and to this day remains elusive. The model resonated with right-wing politicians, so lending it practical credence and topicality. Initial and early rounds of privatization processes generated some supportive momentum in showing some apparent cost-savings from contractorization. Political science and public management academics often queried its assumptions, repeatedly demonstrating that very few officials admit to budget maximizing, and that detailed behavioural evidence is mostly unfavourable (Blais and Dion, 1991). But economists still extensively cited Niskanen because of his model’s formal statement and fit with market-based expectations.

***2. Rent-seeking*** is a term that Niskanen himself never used, apparently because of its prior association with Gordon Tullock’s work. Instead, in a later edition of his book, Niskanen developed a different formal model of a ‘price-discriminating’ bureaucracy. It could so control and dupe its legislative or ministerial overseers as to directly appropriate every increment of consumers’ surplus by overcharging different societal groups exactly the MB for that unit. How this feat was to be achieved his book did not say.

Tullock’s more loosely specified model was simpler and more specific. Bureaucrats radically under-supply outputs in order to create artificial scarcity effects (e.g. queues for hospital operations in a public health system) that lets them bid up unit prices, bid down labour costs and so extract unearned ‘rents’ (essentially proxies for super-normal profits), even where they cannot price-discriminate. These might be used to boost officials’ pay, or diverted by trade unions or public sector professions into various forms of ‘privileging’, over-manning or ‘slack’. Alternatively top officials might extract the rents in inflated ‘leadership’ salaries and perks, perhaps sharing the benefits with politicians or interest groups, who can use rents to make campaign gains or harvest oversight perks. Some versions of the model went further. Tullock claimed that rent-seeking agencies could extract the consumers’ surplus from the reduced range of outputs, as well as the normal rents rectangle. Amahi Glazer and Esko Niskanen (1997) argued that officials effectively collude with majoritarian politicians so as to expel wealthy groups from using public services like hospitals and schools, Officials help politicians to optimally ‘crowd’ these facilities just enough to put off the quality-sensitive rich, without damaging services for other less quality-sensitive citizens too much. Electors thus secure rents in the form of wealthy people’s taxes to support services that they do not use – an argument underpinning the US push to introduce education vouchers.

Again many economists have applied the terminology of rent-seeking in describing government services, although supportive evidence is exceptionally sparse – and inherently hard to produce, since marginal benefits and costs are difficult to determine. Evidence of chronic unmet demand (like queues for hospital operations in the British NHS) might be suggestive of aggregate under-supply, but attributing that to officials and trade unions permanently campaigning to boost spending (rather than to taxpayer and politicians’ resistance) seems almost perverse. Some evidence exists of professional restrictive practices (such as limits on the numbers of doctors trained in the NHS). But the general lags of public sector professionals’ and workers’ pay levels below private sector equivalents does not suggest widespread successful rent-extraction. However, rent-seeking accounts have under-pinned the third key element of NPM practices - an insistence on ‘deprivileging’ public sectors professions and unions, and instead bringing in direct financial incentives for public services delivery. Key ideas here include performance-related pay for staff, contractual incentive for providers meeting targets, and public-private partnerships (Dunleavy et al, 2006) – again all pursued despite little or no evidence of any positive effects.

**Revisionist models**

Where classical public choice models used first principles assumptions, ignored institutional design factors and focused only on sweeping predictions as a test of models’ value, revisionist accounts have sought more behaviourally realistic premises, offered more granular models adapted to diverse institutional conditions and generated more diverse predictions. And whereas the classical models often suggested chronic disequilibria with markedly adverse public interest implications, revisionist models seek to show how bureaucratic arrangements endure and the functionalities they maximize.

***3. The bureau-shaping model*** developed by Dunleavy (1985, 1992 Chs. 7 and 8) operates within rational choice assumptions, but systematically queries every stage of budget-maximizing and rent-seeking accounts. To realize any collective benefit, bureaucrats must solve a collective action problem where the benefits of supporting a collective push (rather than using individual utility maximizing strategies) must exceed the marginal advocacy costs involved. In rank-structured hierarchies the big gains from budget expansion accrue to marginal and low-level staff, but their probability of individually influencing outcomes is very low – so even if their advocacy costs are small they should remain inactive. By contrast, top bureaucrats are highly influential in shaping outcomes, but derive little benefit from budgetary expansion (since their positions are secure already), and would confront high advocacy costs in pushing for budgetary expansion in modern political times, such as post-2008 austerity conditions. For policy-level bureaucrats the discounted marginal utility (DMU) of a budget or rent increase must exceed their marginal advocacy costs (MAC) – only then will they actively push for such collective benefits. Otherwise, officials sit on their hands.

Different agencies also vary widely in their budget structures. Delivery agencies and old-style regulatory agencies historically have had large workforces and spend most of their budget on their own activities. Here incentives for budget-maximization are tagged to the agency’s total budget. Similarly capital-intensive delivery agencies (like the armed forces and agencies heavily dependent on IT) spend their budgets both on staff and on large, industrial contracts to firms well able to organize a flowback of benefits to top officials and political executives. Here too incentives for budget maximization relate to almost all of the agency’s total budget. Historical experiences also suggest sustained and obvious oversupply episodes – notably in the Cold War nuclear arms race (when the USA acquired the capacity to destroy the Soviet Union many times over) and continuing US dominance of half of worldwide military spending. By contrast most welfare state agencies at national/federal level are either ‘transfer’ agencies that deliver social security to millions of isolated individual recipients via automated payments systems, or are ‘control agencies’ that pass on the vast bulk of their budgets to lower tiers of inter-governmental finance systems or myriads of NGOs to deliver services. Rational officials can get no utility boost from electronically remitting larger numbers to pensioners’ or claimants’ bank accounts, nor from increasing budgets that get passed on directly for other organizations to spend. Typically control agencies’ running costs are around 2% of their total budgets, and those of transfer agencies are under 5%.

Dunleavy offered a quite different account of top central/federal officials’ motivations, arguing that wherever feasible rational bureaucrats should maximize their immediate work-related utilities and cut their transactions costs. They should seek positions in small, policy shops insulated from dependence on large budgets, with congenial planning and policy-development workloads, elite contacts, political influence and no industrial relations problems. Top officials in large departments should separate out big budget delivery functions wherever feasible, separating them out from the policy-making core – a prediction validated by the huge ‘agencification’ trend in the UK (James, 1995, 2003), and across much of Europe and Japan/Korea (Pollitt et al, 2004). Alternatively senior bureaucrats should also seek to offload the maximum feasible functions onto privatized contractors, even when this proves dysfunctional or costly – as with government IT in the UK, Australia and Japan (Dunleavy et al, 2008) and with defence contracting and homeland security in the USA.

Thus the bureau-shaping model in 1985 accurately predicted the course of new public management changes over the next two decades, and additionally forecast that the overuse of NPM nostrums (disaggregation, competition and incentivization) would lead to crises and diseconomies. In particular, top officials have incentives to moderately under-supply outputs, so as to reduce the demand for labour, cut wage levels and conditions for their grass roots staffs, and help short-termist politicians realize temporary consumers’ surplus increases for voters and taxpayers. Similarly expenditure reviews might start out as ‘more for less’ exercises, but will typically transition into ‘less for less’ cutbacks, without improving productivity or outcomes effectiveness.

At decentralized levels of government the bureau-shaping model predicts strong incentives for officials to ‘client shape’, creating ‘boutique’ delivery agencies with clienteles moulded to exclude troublesome or low status service users and tasks. This approach would probably create multiple cracks in public provision into which needy but offputting people could easily fall.

Finally the bureau-shaping account fits closely the whole post-war development of welfare states in advanced industrial countries – which show stable or shrinking central/federal government employment, and welfare state growth instead highly concentrated in regional, local and NGO sectors. The model also accurately forecast the structural patterns of US federal government, shown in Figure 2. Here a formally recognized civil service of around 2 million supervises a far larger (less visible or ‘deniable’) ‘para-state’ apparatus, made up of contractors, sub-national governments and NGOs, employing in all around a further 12 million externalized staff – a pattern that has greatly intensified since 1990 (DeIulio, 2017; 2014).

**Figure 29.2: The estimated size and composition of US federal government and contracted/funding staffs**

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| **Main components** | **Estimated staff**  **(millions, FTE)** | **Comments** |
| Federal civil service | 2.2 | Precise data. Little changed since 1960, when total was 2 million. |
| Private sector ‘para state’ contractors | 7.5 | Hard to estimate. Greatly expanded since 1990, especially in homeland security and defence. |
| State and local government staff on federally financed programs | 3.0 | Around a sixth of the 18 million American state and local government workers are federally funded. |
| NGO ‘para-state’ staff on federal funded programs | 2.2 | Of 11 million NGO staffs nationwide, an estimated fifth depend on federal programs. |
| **Approximate total** | **14.2** | Estimated federal proxy staffing in 1960 was 2million, so the total federal state at that time = 4 million. |

Source: DiIulio, 2017.

The bureau-shaping model has been widely debated and cited outside the USA, and most empirical evidence is broadly supportive (Gaines and John, Peter (2010). Some critics mistakenly argued from empirical research that bureau-shaping theory understated the influence of politicians (Marsh et al, 2000), but in fact it was no part of the original model to claim that bureaucratic processes were dominant (Dowding and James, 2004).

***4.******Organizations drawing on intrinsically motivated staff*** have re-merged strongly into modern economics in the work of LSE economists Tim Besley and Maitreesh Ghatak (2003, 2005, 2014). Starting in development contexts where NGOs and not-for-profits have played dominant roles, they argued that ownership of service provision should rest with the agency or NGO partner for whom the quality of the service was most valuable (2001). Their work developed in parallel to institutional theories of the firm from Hart (1995) and others, and has now extended into a generally applicable model with supporting evidence from advanced industrial countries also.

A not-for-profit organizational set-up (where managers pre-commit to not extracting residual income, except via distribution to staff or for investment) can help managers attract more committed workers than they could in a for-profit operation, perhaps allowing staff to be paid less also. Not-for-profits and public service agencies with strongly defined and attractive missions can often (but not always) attract strongly committed staffs who derive intrinsic benefits from the nature of their work - e.g. nursery teachers who value working with young children, doctors with commitments to health improvement, charity workers helping the homeless, or workers on development projects in still industrializing nations. Tapping these intrinsically motivated professional and other staffs, and grouping them in strongly defined units, can create a pooling equilibrium where like-minded workers dominate an organization in ways that foster productivity gains (for instance, having a self-policing organizational culture). Again managers may be able to replace some wage costs with intrinsic benefits (including working with like-minded people), lowering costs and improving competitiveness in contractorized markets.

At first sight this might seem to flip back to the eclecticism of Downs’ *Inside Bureaucracy*, but Besley and Ghatak’s work is formally set out, with precise conditions for workers’ and managers’ utility functions and costs specified. The deductive models also have a smattering of supportive behavioural evidence - from African and developing economies (Besley and Ghatak, 2007); from some experimental work (Besley and Ghatak, 2014); and from systematic economic analyses of the importance of managerial effectiveness and productivity gains in public services (Bloom et al, 2009, 2010). The analysis points to the many contextual features that affect public service delivery systems, and to the potential damage that NPM strategies of pecuniary incentivization and over-auditing may have for staff involvement. Yet Besley and Ghatak still insist that while ownership arrangements and public/private locations matter little for performance, accountability architectures and modelling behaviourally realistic motivations remain key.

In empirical terms it remains unclear whether the pooling equilibrium model developed is as generalizable as the authors claim. For instance, is it strong enough to cope with ‘dark’ incentives, such as paedophiles being attracted to nursey work; or with mixed contexts, such as pressurized workers in private old people’s homes debasing care standards (Braithwaite et al, 2007), or over-stretched doctors and nurses in large public health facilities ‘going through the motions’ without effectively checking NPM-style managerial abuses, as happened in some major NHS scandals in the UK.

***5. Institutional economics of the firm*** has had a far broader influence on reinterpreting bureaucratic hierarchies, especially in the work of Oliver Williamson (1985, 1999). Although not focused on public bureaucracies at all, Williamson’s explanation of widespread hierarchical organization in large private sector corporations has clear read-across to government agencies. If markets are so efficient, Williamson asks, why do large firms exist and seem to matter so much for performance? His core answer stresses the importance of five conditions that make spot-contracting in markets sub-optimal, especially

- *small numbers bargaining* where purchasers are vulnerable to oligopolistic pressures from suppliers, a condition pervasive in major government procurements;

- *opportunism*, where suppliers might take advantage of the purchaser to make short-term gains, for instance by debasing quality standards in contracted-out public services;

- *information impactedness*, where the first outsourced contractor for a government department gains critical informational advantages over any rivals at the re-contracting stage, and may be able to build proprietary elements (such as software or analysis techniques)into its delivery solutions that rivals cannot use or match;

- *asset specificity*, where the organizer of a service needs to encourage potential staff or contractors to invest in acquiring costly expertise, but where reliance on market provision can create chronic under-supply; and

- *bounded rationality*, where policy-makers or purchasers lack the information needed to optimize performance, but must instead only ‘satisfice’, choosing courses of action that are quickly accessible and acceptable without necessarily or even frequently realizing optimal outcomes.

Williamson’s more sophisticated view of the positive advantages of hierarchic organization has re-emphasized some important points casting doubt on classical models’ influence on NPM and contracting-out approaches. Like the other revisionist models it stresses conditionalities in the usefulness of contracting, but also the non-transferable quality of many risks. Just as firms must assure their key suppliers’ stability, so governments embarking on privatizations cannot transfer the risk of catastrophic failures in the process. Hierarchical and in-house provision may not simply reflect bureaucratic self-interest, but organizational safeguards against key adverse developments.

**Delegation models**

The final two models in Figure 1 focus on principal-agent and transaction costs issues involved in legislators or ministers deciding to delegate administration of a policy area to a bureaucracy. Some areas have been retained under immediate political control, such as setting tax rates, normally done by governments or ministers directly (albeit following tax agency advice and protocols). Other areas have been assigned away to departments or agencies to handle more autonomously. And some functions are also deliberately vested in hard-to-control ‘independent’ agencies (such as most central banks nowadays), as a form of pre-commitment by politicians not to interfere. What explains these decisions?

**6. Straightforward delegation** is the norm in most parliamentary liberal democracies, where ministers can easily set up, revise or reorganize delegated matters via normal legislation and statutory instruments or regulation changes. Murray Horn (1995) sees these choices as driven first by a technical imperative – the decision costs for legislatures or ministers are too high if they were to seek to retain direct control over some issues, and nor can these costs cannot be reduced via simpler forms of expert systems. So legislators can debate tax rate changes directly, but must delegate to a machine bureaucracy how to fully specify a system of immigration or welfare payment rules; and must give substantial work autonomy to professionals to act case-by-case on decisions like how to treat a patient arriving at hospital with possible heart attack symptoms.

Second, though, there is a strong political incentive for delegation, namely to solve the ‘commitment problem’ that today’s legislative majority may be overtaken by a different one tomorrow, restricting the value of today’s electoral promises to constituents or stakeholders, if the current policy stance does not endure. Delegation helps solve the commitment problem by auto-insulating the devolved issue area. It ensures the that organizational architectures and policy cannot be easily changed by the executive fiat of a new political majority alone, but must instead wait on new legislation, creating extra costs and time constraints. Typically also, delegation involves a search for some cross-political compromise, where the current majority concedes influence to opposition groups so as to co-opt them into an inclusive solution that is more likely to endure, and hence has increased value for the current majority’s stakeholders.

In Horn’s account agency problems are not the pervasive and intractable barriers to delegation that many economic models assume. Instead they are only ‘second-order’ difficulties, which can be managed quite easily using a wide range of bureaucratic designs and incentives – especially using life-long career civil services, where political elites periodically filter officials competing for promotion for their loyal responsiveness and ‘ideological’ stances; and where end-loaded benefits like generous retirement pensions create strong incentives for officials’ compliance with political direction and intentions.

Finally, Horn (1995) stresses the importance of a fourth, functional consideration – allocating the risks of new policies to those societal groups who have the best developed capacity to cheaply insure against them. All bureaucracies have incentives not to antagonize civil society groups unnecessarily, and so when costs and risk have to be allocated they seek out solutions that will least painfully implement them. For instance, if a government has to collect taxes from employed people it makes sense to make businesses do the tax-collection and paying directly in PAYE (pay as you earn) mode, rather than to ask individual employees to take responsibility for making payments. Businesses can easily hire specialist staff for the firm’s HR department to cope with the extra tax workload, far more cheaply and effectively than if millions of employees filed individual tax returns.

**7. Difficult delegation** is a phenomenon largely confined to the USA, where there is an almost unique system of dual presidential and Congressional control over federal executive agencies. The dominant accounts in the field stress that both kinds of politician adopt delegation far more easily and promptly, and with fewer initial restrictions on agencies’ powers, where

– the agent in prospect has preferences (or an ‘ideology’ or worldview) that are close to those of the politicians;

* politicians can easily review how agencies use their delegated powers once started, and intervene so as to correct agents’ performance deviations or to tweak allocations of responsibilities for the future;
* the agent has a greater capability than the delegating politicians to generate information and expertise;
* the agent has a high capacity to implement what politicians ask of them (Huber and McCarty, 2004); and
* ‘policy drift’ occurs over time that creates incentives for adaptive behaviour by agents that can attract support from a supermajority of (even if not all) political principals, and do so even in a grid-locked or highly partisan political situation (Callander and Krehbiel, 2014).

A rather large (and now somewhat repetitive literature (reviewed in Moe, 2012) explores the consequences of varying different conditions for the presumed capacity of politicians to do institutional design, optimizing the realization of their preferences – but still with little evidence of which factors matter.

Most of this public choice literature mentions agents a lot but actually treats them in the abstract, focusing on politicians’ choices and saying very little about actual bureaucracies. However, Prendergast (2007) tackles an important issue for the character of agencies – that sometimes principals seem to want their agents to behave in pro-client ways (think teachers or child social workers), while at other times principals want agents who behave in overtly anti-client ways (think IRS tax assessors, police people, or immigration officials). She sees bureaucrats as ‘individuals who assign treatments to clients, and who have weak monetary incentives.. for doing what they do’ (p.180). Key influences here are

* Whether clients want what society wants (positively-valued services, attracting pro-client staff), or diverge from what society wants (regulatory or coercive services, attracting anti-client staff).
* How internal bureaucratic oversight works. Clients who suffer from harmful mistakes are likely to report them and seek rectification and redress. But clients benefiting from mistakes stay silent, and these clients value dealing with less-informed agents, so principals may prefer agents whose character and values are (somewhat) hostile to client interests.
* Cases where clients want a benefit only when it is needed (e.g. a risky medical operation), hence they prefer a better-informed agent, and so does the principal.

Somewhat disturbingly, Prendergast’s formal model predicts a polarization of bureaucrats into pro-client and anti-client officials, to the exclusion of applicants or staff with ‘middle of the road’ positions – partly because of applicant’s incentives, partly because of principals’ recruitment strategies, and partly because of pooling effects.

**New public management and austerity changes**

Classical public choice models were a key component of the shift to new public management (NPM) strategies in many countries, from the mid 1980s through to the late 2000s. NPM has been variously characterized but an influential view sees it as a quasi-paradigm composed of three top-level themes supported by ‘swarms’ of component detailed public management strategies (Dunleavy et al, 2006; Margetts and Dunleavy, 2013);

* *Disaggregating large hierarchies*, e.g. via purchaser-provider separation, agencification, and separating out micro-local agencies from municipalities or public service boards.
* *Competition,* e.g. via mandatory outsourcing, competitive commissioning, quasi-markets, and performance league tables. And
* *Incentivization,* e.g. via ‘de-privileging’ professions or unions, mandatory ‘efficiency dividends’, imposing performance-related pay, ‘light touch’ regulation, public asset charges, and unified rates of return.

Initially this shift realized some public interest gains and cost reductions (as any new, exogenous shock may do). However, even in the most enthusiastic NPM countries there is little evidence of sustained cost reductions being achieved (Hood and Dixon, 2015).

Figure 2 above (from DeIulio, 2017) rather vividly demonstrates that the main effect of NPM strategies has been to disguise the growth of a para-state (especially in defense and homeland security) behind static numbers of civil servants. Both exponents of classical public choice models and delegation models have so far responded only very weakly to these trends, whereas the revisionist accounts offer much richer explanations of bureaucratic interests in the modern era.

Both classical and more recent economics accounts basically failed to foresee two key lessons of modern governance trends. First, privatizing and reconfiguring the actors and accountability structures involved in service delivery may not much alter the allocations of risks and rewards, and may often worsen government’s costs and performance - as with agencification in the UK, now reversed; or private prisons in the USA, where big contractors now provide campaign funding to state legislators who keep their jails stuffed. Second, detailed studies of government productivity across long periods suggest that substantive changes of policies and organizations (especially digital era technology changes) have been the key routes for improving government productivity, not tinkering around with ownership structures, public management processes and accountability architectures (Dunleavy and Carrera, 2013a; Dunleavy, 2016; Pollitt, 2011). For example, since 1995 many old-style, heavily staffed Weberian machine bureaucracies have transitioned fastest towards ‘robot state’ developments and capital intensification, not just with drone warfare in defence (always a more capital-intensive area) but also in previously ‘backwards’ agencies like tax departments and border forces (Dunleavy and Carrera, 2013b). Adapting public choice models of bureaucracy to recognize and explain these current realities is a substantial challenge, intellectually and methodologically, for radically disruptive shifts in government are likely to dominate the next twenty years of changes (Margetts and Dunleavy, 2015).

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