SZÉCHENYI PLAN

POLITICAL ECONOMY

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Bureaucracy

What is it?

- „Bureau" – French for: office
- Salaried people, supplying policy
- What are they after?
- *Power* – a difficult concept. In an uncertain, limited information world, information also generates power.
- Bureaucracy: public (and private)

What is it (Max Weber)

- Official business is conducted continuously,
- with strict accordance to the following rules:
  - The duty of each official to do certain types of work is delimited in terms of impersonal criteria..

        - The official is given the authority necessary to carry out his assigned functions.
        - The means of coercion at his disposal are strictly limited and conditions of their use strictly defined.
    - Every official's responsibilities and authority are part of a vertical hierarchy of authority, with respective rights of supervision and appeal.
    - Officials do not own the resources necessary for the performance of their assigned functions but are accountable for their use of these resources.
    - Official and private business and income are strictly separated.
    - Offices cannot be appropriated by their incumbents (inherited, sold, etc.).
    - Official business is conducted on the basis of written documents.

(Weber 1922, Wikipedia)

What will salaried managers be after?

- Higher salary, on-the-job consumption, excess staff and emoluments (most of this is positively linked to the size of the budget)
- A lot of that will be linked to the size of the organization under the bureaucrat.
- In a private firm, the profit motive will counterbalance that somewhat.
- There is no profit motive over state bureaucracies.
- And even the output is often not clearly defined.

Niskanen's model

- Budget $B(Q)$ (linked to the social utility of the activity) depends on perceived output Q. $B'>0$, $B''<0$.
- The true cost $C(Q)$ depends on output Q. $C'>0$, $C''<0$. But it is only known to the bureaucrat, not the funding politician.
- The bureaucrat wants as great a B as possible as long as $B(Q)$-$C(Q)$.

- Thus the bureaucrat maximizes: *B(Q)+λ(B(Q)–C(Q))* in *Q* (*).
- The funding politician would want to pick a Q where *B'(Q)= C'(Q).*
- But the first order condition from maximizing (*) is different! The Q picked by the bureaucrat will be greater: *[(1+λ)/λ] B'(Q)=C'(Q).*

Other approaches and extensions

- Risk-aversion, etc.
- The informational structure of the politician/sponsor – bureacrat/agency matters a lot.
- Not a take-it-or-leave it offer but a schedule offered.
- Bilateral bargaining.
- Yardstick competition.

The lazy (slack-maximizing) bureaucrat

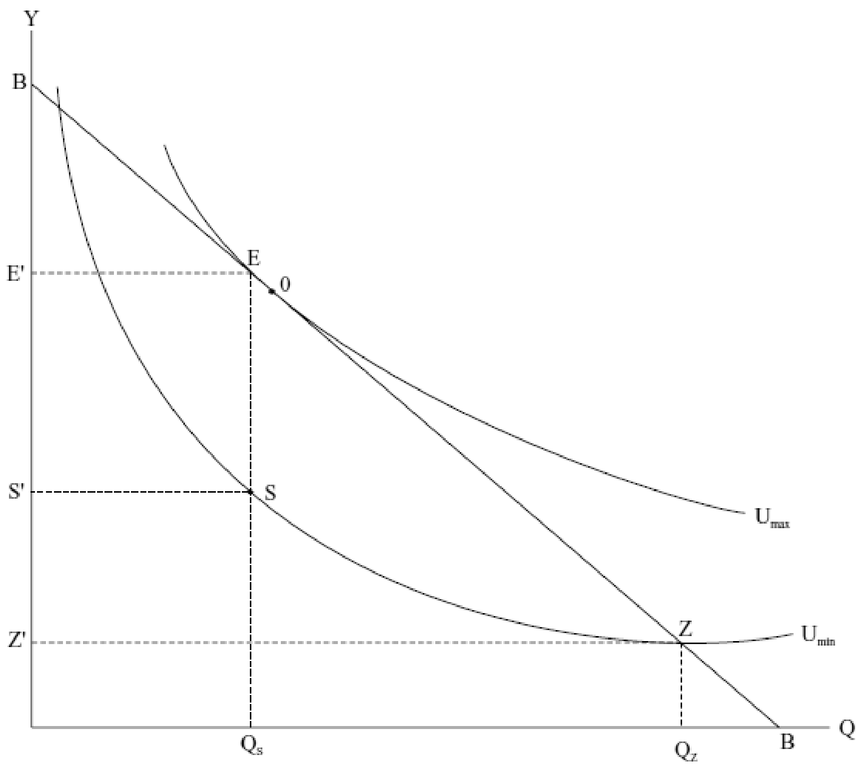

Figure 16.3. The output choice of a slack-maximizing bureau.

Cost differences between publicly and privately provided services

- Mueller, table 16.1

The Leviathan hypothesis

- The state (politicians and bureaucrats) do not set redistribution levels at social optimum…
- …it simply maximizes revenue.
- Normative implications for taxation will be quite different from standard public finance ones.
- A tax can be ”too good”, distortions might be good, it might be good to tie individual expenditure items and taxes together, etc.

Leviathan: the evidence

- Is the state like a marketplace,
- or is it an insatiable beast?
- Hard-to-change rules that limit the tax-base produce smaller government.
- E.g. the U.S. state of New Hampshire