

# POLITICAL ACCOUNTABILITY AND REAL AUTHORITY OF GOVERNMENT BUREAUCRACY<sup>1</sup>

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In a country with weak institutional constraints on the executive, the real power might belong to the government bureaucracy rather than to an autocratic leader. We combine the Aghion – Tirole definition of formal and real authority and Barro – Ferejohn model of political agency to study the relationship between accountability of elected officials and the extent to which their subordinate bureaucrats have real decision-making power. Normatively, we show that the lower is the level of political accountability; the lower should be the level of real authority at the bottom of the government hierarchy. Positively, we find that in lower political accountability countries the political powers have less authority over the public administration. On the contrary, higher accountability countries have bigger governments in terms of administration employment. Our cross-country study supports these conclusions.

In any political regime real authority over policy decisions resides in hands of the political elite. Even in mature democracies, relatively few decisions are made directly by the public; typically the decision-making power is delegated to political representatives. In an institutionalized autocracy, it might be a more narrow body, e.g., a ruling party, that have not only real, but also formal authority over most policy decisions. However, in any regime the political bodies carry out a policy through the multi-tiered government hierarchy. The crucial issue is whether the political bodies have the effective control over policy decisions that are implemented by appointed bureaucrats.

This paper studies the scope of the real decision-making power with which politicians endow their bureaucratic subordinates. Aghion and Tirole (1997) recognize

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<sup>1</sup> I thank Eric Brousseau, Konstantin Sonin, Bertrand Crettez, Andrew Schrank, Scott Gehlbach, Giorgio Bellettini, Anton Suvorov and Sergei Guriev for valuable comments and discussions on earlier variants of this paper. I also acknowledge the ESNIE participants and audience at the ISNIE and EEA meetings as well as seminar audience at the University of Paris Ouest – Nanterre la Défense for critics and helpful advice.

that formal authority to take a decision does not always imply real authority that is an effective control over decisions. The authors note that «the president of a country really controls only a small number of the decisions made by the executive branch». Similarly, shareholders have limited control over their board of directors, which itself may be subject to the domination of the top executives, who in turn often rubber-stamp the divisions' projects, and so forth. A principal who has formal authority over decisions or activity can override her subordinate's proposal, but very often under a comparative uniformity of their goals a poorly informed principal refrains from doing so. Hence, a principal places real authority over decisions at the disposal of an agent. If formal authority resides as a rule at the top of any hierarchy [Baker, Gibbons, Murphy, 1999], actually real authority does not necessarily pertain to the top. Max [Weber, 1968, p. 217–225] mentions that officials, employees and workers attached to the administration staff of a bureaucracy do not themselves own the nonhuman means of production and administration, yet they may exert substantial control over the bureaucratic machinery. We consider this phenomenon of real authority in the political agency and argue that politicians are more tempted to rubber-stamp the decisions of their appointed bureaucrats if they care more for rent seeking. As a result, under low political accountability real decision authority is expanded downward along the government hierarchy.

Acting on behalf of their constituency politicians have not only formal authority over policy decisions but also a range of administrative instruments to extract rents for benefiting themselves. We argue that benevolence of a ruler, or on the contrary, the level of extracted rents, strongly affects the structure of the government bureaucracy and the nature of agency problems within it.

In reality a policymaker may be more interested in rent seeking than in policy efficiency thus distorting incentives of his bureaucrats. When politicians are concerned more with rent seeking bureaucrats get greater discretion that they use to enrich themselves. Moreover, they have a strong incentive to increase this discretion because this often results in greater chances for them to participate in policy decision-making. Otherwise, politicians care more for economic efficiency of policy outcomes; therefore, they control bureaucrats more thoroughly and thus reduce their possibilities to extract rents. In this case, bureaucrats find favorable for themselves to expand their formal administrative charges because it puts more administrative resources and barriers of influence at their disposal. The study of formal and real authority within the government hierarchy undertaken in this paper arises from this basic insight.

We consider the government hierarchy composed of a politician accountable to citizens through elections and the two-tier bureaucratic structure<sup>2</sup>. The politician

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<sup>2</sup> We include only two levels of bureaucrats in our model but such a scheme can be easily extended to the multi-tiered government bureaucracy.

is elected to conduct a policy, which provides for citizens a certain level of public welfare. Politicians are disciplined by their future election prospects in a retrospective-voting model (e.g. [Persson, Tabellini, 2000]). The two-tier bureaucracy helps the politician to take policy decisions by acquiring information about different policy outcomes (e.g. [Egorov, Guriev, Sonin, 2008]). The policy course is shaped by implementing approved projects on each level of bureaucracy. Besides improving re-election prospects by successfully implementing policy projects, the politician may benefit by extracting rents; e.g., a non-benevolent policy-maker may prefer not to make effort on implementing policy projects but extract the maximum possible rents. The decision rights mainly are not contractible; elected officials may rubber-stamp their appointed bureaucratic subordinates' decisions and proposals without effective control.

Our modelling approach inherits the main building blocks of Barro – Ferejohn political accountability model [Barro, 1973; Ferejohn, 1986] and the Aghion – Tirole authority model [Aghion, Tirole, 1997]. We extend Aghion-Tirole's analysis by considering the three-level hierarchy of both strictly vertical and flat structure<sup>3</sup>. In doing this, we keep to the positive approach and neglect the case of the agent's formal authority: here the span of formal authority is fixed for each tier of the hierarchy. We combine this authority model with the Barro – Ferejohn accountability model by allowing the politician to choose between rent-seeking and costly efforts to provide a good policy. We use the model of retrospective voting for demonstrating how the level of rents extracted by a policy-maker affects on incentives of bureaucratic agents to acquire information and implement government projects.

The conflict of interests between politicians and bureaucrats is a classic topic in political economy. One of the main problems distinguished by many scholars is information asymmetry between them, which gives bureaucrats the possibility to manipulate political outcomes. To inform themselves about costs and benefits from different alternative policies politicians rely on bureaucrats as experts. This causes at least two effects. On the one hand, policymakers aim to buy loyalty of bureaucrats by doing them a favor (e.g. [Gregory, Lazarev, 2003]). On the other hand, rulers prefer loyal rather than capable viziers [Egorov, Sonin, 2006].

There are different treatments of the information asymmetry problem in the political agency literature. For example, Alesina and Tabellini (2007, 2008) in their most related study argue that the allocation of tasks between politicians and bureaucrats depends on their different motivation (reelection versus career concerns) originating from different accountability mechanisms.

Our analysis suggests two main patterns of the disposal of authority and incentives of bureaucrats. First, we argue that in low accountability countries bureau-

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<sup>3</sup> Within the flat hierarchy a higher-level bureaucrat hires several agents, so that each of them is charged with its own range of projects.

crats have more real authority over policy decisions being formally made by politicians as the latter care more for reelection and rents and not for meeting true public needs. Since in low accountability countries elected politicians are more engaged in rent seeking, they are more likely to rubber-stamp the decisions and proposals of their bureaucratic subordinates. It increases their initiative and discretion. So at the next level of the hierarchy the bureaucrats would devote more time and effort for upper projects over which they have real authority rather than to those over which they have formal authority. This effect is passed from level to level within government bureaucracy so that real authority is expanded downward along the hierarchy. Normatively, we observe that in low accountability countries the level of real authority at the bottom of the government hierarchy should be low. Second, we demonstrate that in countries with high political accountability one can observe more often the process of bureaucratization. Indeed, under high accountability the government bureaucracy tends to enlarge because it gets optimal for the higher-level bureaucrat to expand his formal authority and be in greater overload. The politician's possibility to overrule the proposal of the bureaucrat under higher accountability decreases his initiative so that the latter is tempted to expand his formal authority horizontally rather than vertically.

Hence, we reveal two important features of the government bureaucracy subject to the level of the policymaker's benevolence. Firstly, under lower accountability the government bureaucrats are more likely to participate in policy decisions in comparison with higher political accountability regimes. Secondly, in higher accountability regimes, the government bureaucracies are bigger than in lower accountability regimes in terms of government administration employment. The cross-country data on institutional development in democratic countries from the World Bank and French Ministry for the Economy, Industry and Employment (MINEIE) allows to corroborate our theoretical predictions. It appears that in low accountability countries the bureaucratic machinery is likely to be smaller and less controlled by the political powers.

The paper drives to better understanding of existing regime types in the light of studies of political scientists. We extend the results of Persson and Tabellini (1999) and Lassen (2000) that less accountability leads to the more powerful bureaucracy but the smaller size of government in the terms of not only spending and tax revenue but also government employment. Our results are also consistent with the conclusion of Acemoglu and Verdier (2000) who show that the optimal size of government in the case, when bureaucrats can be corruptible, is greater than in the case, when corruption is not possible in the economy.

As a rule high political accountability is observed in countries with high economic performance. In light of this there is growing evidence that the size and other features of government bureaucracies prove crucial for economic growth [Mauro, 1995; Evans, Rauch, 1999; Rauch, Evans, 2000]. For example, Schiavo-Campo, de

Tomasso, Mukherjee (1997) demonstrate that employment in government administration is greater in richer countries with higher gross domestic product per capita that is a good proxy for the level of political accountability. However, Brym and Gimpelson (2004) show that this is true only for countries with a certain level of democracy. So for countries of Eastern Europe and Former USSR one may observe the negative relationship between the size of the bureaucracy and economic growth. In our paper we control for this effect by considering countries with the degree of democracy no less than 4 according to the Jaggers and Marshall's Polity database.

Summing up, political agency and phenomena of empowerment and delegation have been extensively studied in both organizational and information economics literature. These issues also constitute a growing research subfield in political economy, although it rarely considers power over decisions of politicians and bureaucrats through the prism of both political and organizational economy. Furthermore, there is a scarce literature focusing on the internal multi-tier structure of the government bureaucracy controlling for agency problems expanded along the hierarchy of appointed bureaucrats. For example, Dixit (2006, 2008) mentions that «the need to operate through intermediate layer or layers of administration creates the usual agency problems for the rulers» [Dixit, 2006, p. 4] but «most models of democracy as well as dictatorship, by ignoring this aspect, implicitly assume that the policy chosen at the top level will be implemented efficiently by a Weberian bureaucracy» [Dixit, 2008, p. 2]. We fill in this gap in the literature and extend this view to encompass the constraints with which the top-level decision-makers confront at the stage of policy implementation because we take into account the complex internal structure of the government bureaucracy.

There are important issues that refer to possible further research. That is the type of political regime, which should be taken into account to deepen our finding. Persson and Tabellini (1999) demonstrate that the size of government is lower under presidential regime, which empirically proves to be less accountable than parliamentary regime. However, theoretically the presidential regime is characterized by less rents for politicians. This is so, because one of the main features of presidential regimes is the separation of decision-making power among different elected officials that allows voters to limit the agency problem, but in practice such a formal system of checks and balances can be undermined. Nevertheless, this regime implies lower taxes and a smaller size of government. Compared to presidential regimes, parliamentary regimes have less competition among the voters and are associated with larger governments. Thus, it is quite possible that the incentives of bureaucrats to expand their formal or real authority are really shaped by constraints imposed by the political regime and the existing form of government in a country. Future work should emphasize the system of checks and balances and different constraints on the executive to take decisions and extract rents.

Furthermore, as Persson and Tabellini (2000) argue political accountability should be lower in dictatorships than in democracies. It is another interesting question concerning different political regimes. It is recognized that authoritarian leaders employ repressions to remain in power and elections actually do not discipline political elites. In light of our predictions we should stress a normative point and a positive one. First, autocratic leaders should exercise more effective control the lower is their accountability, as the bureaucrats at each level of the government hierarchy in such countries are more tempted to rubber-stamp most policy decisions. Then a surprising phenomenon can be observed when a dictator indifferent to the public welfare unknowingly loses his authority. This can be one of explanations why all rulers fear so much to be overthrown [Egorov, Sonin, 2006].

Second, we predict that influencing but smaller government bureaucracies are more peculiar to low accountability countries. However, patronage and vote buying activities reside in authoritarian regimes, so that the excessive government employment might become the way of preserving the power (e.g. [Senegal, Acemoglu et al., 2007]). Thus, the future analysis of the size of government should take into consideration whether a country is an autocracy or democracy. We implicitly controlled for this by using a sample of countries with the degree of democracy no less than 4 according to the Jaggers and Marshall's database of political institutions. However, the detailed regard could allow to better understand the nature of expanding governments.

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