

Bureaucracy and Principal-Agent Problems

Dr. Andrew Eggers

LSE

1 February 2013

Introduction

Theories of legislative-bureaucratic interactions: who is in charge?

- Niskanen model

- Beyond Niskanen

Evidence on efficiency, distinctive culture, effects of bureaucracy

- Some expectations

- Evidence on efficiency

- Evidence on distinctive culture

- Evidence on bureaucracy and development

Conclusion

Plan

Goal: Understand the (distinctive?) problems of public bureaucracies

Plan

Goal: Understand the (distinctive?) problems of public bureaucracies

Primary lens: Principal-agent relationships

- ▶ between elected politicians and bureaucrats (and implications for size of public budgets)
- ▶ within the public bureaucracy (and implications for efficiency, corruption)

Plan

Goal: Understand the (distinctive?) problems of public bureaucracies

Primary lens: Principal-agent relationships

- ▶ between elected politicians and bureaucrats (and implications for size of public budgets)
- ▶ within the public bureaucracy (and implications for efficiency, corruption)

Applications:

- ▶ Is the public bureaucracy out of control?

Plan

Goal: Understand the (distinctive?) problems of public bureaucracies

Primary lens: Principal-agent relationships

- ▶ between elected politicians and bureaucrats (and implications for size of public budgets)
- ▶ within the public bureaucracy (and implications for efficiency, corruption)

Applications:

- ▶ Is the public bureaucracy out of control?
- ▶ When is privatization a good idea?

Plan

Goal: Understand the (distinctive?) problems of public bureaucracies

Primary lens: Principal-agent relationships

- ▶ between elected politicians and bureaucrats (and implications for size of public budgets)
- ▶ within the public bureaucracy (and implications for efficiency, corruption)

Applications:

- ▶ Is the public bureaucracy out of control?
- ▶ When is privatization a good idea?
- ▶ How do we fix bureaucratic corruption?

Weber: Bureaucracy and modernity

Max Weber (German sociologist, active 1890s-1920) saw rise of bureaucracy in West as a product of expanding “rational-legal authority”.

Weber: Bureaucracy and modernity

Max Weber (German sociologist, active 1890s-1920) saw rise of bureaucracy in West as a product of expanding “rational-legal authority”.

Bureaucracy:

- ▶ Professional, full-time staff with lifelong employment, salaries, pensions, educational requirements, legal protections, etc.

Weber: Bureaucracy and modernity

Max Weber (German sociologist, active 1890s-1920) saw rise of bureaucracy in West as a product of expanding “rational-legal authority”.

Bureaucracy:

- ▶ Professional, full-time staff with lifelong employment, salaries, pensions, educational requirements, legal protections, etc.
- ▶ But also a distinctive mind-set: following rules, acting as trustees – servant and guardians of legal and professional rules, constitutional order.

Weber: Bureaucracy and modernity

Max Weber (German sociologist, active 1890s-1920) saw rise of bureaucracy in West as a product of expanding “rational-legal authority”.

Bureaucracy:

- ▶ Professional, full-time staff with lifelong employment, salaries, pensions, educational requirements, legal protections, etc.
- ▶ But also a distinctive mind-set: following rules, acting as trustees – servant and guardians of legal and professional rules, constitutional order.
- ▶ **Good**: Rule-followers are efficient, impartial, enhance legitimacy of the state (compared to administration by “notables”*)).

Weber: Bureaucracy and modernity

Max Weber (German sociologist, active 1890s-1920) saw rise of bureaucracy in West as a product of expanding “rational-legal authority”.

Bureaucracy:

- ▶ Professional, full-time staff with lifelong employment, salaries, pensions, educational requirements, legal protections, etc.
- ▶ But also a distinctive mind-set: following rules, acting as trustees – servant and guardians of legal and professional rules, constitutional order.
- ▶ **Good**: Rule-followers are efficient, impartial, enhance legitimacy of the state (compared to administration by “notables” *).
- ▶ **Bad**: Culture of rule-following → uncreative, excessively obedient and risk-averse.

Weber: Bureaucracy and modernity

Max Weber (German sociologist, active 1890s-1920) saw rise of bureaucracy in West as a product of expanding “rational-legal authority”.

Bureaucracy:

- ▶ Professional, full-time staff with lifelong employment, salaries, pensions, educational requirements, legal protections, etc.
- ▶ But also a distinctive mind-set: following rules, acting as trustees – servant and guardians of legal and professional rules, constitutional order.
- ▶ **Good**: Rule-followers are efficient, impartial, enhance legitimacy of the state (compared to administration by “notables” *).
- ▶ **Bad**: Culture of rule-following → uncreative, excessively obedient and risk-averse. **Also**: Bureaucracy wants self-preservation, tends to dominate “a poorly informed and hence a powerless parliament” .*

* *Economy and Society*, pg. 973 and pp. 991-992.

Introduction

Theories of legislative-bureaucratic interactions: who is in charge?

- Niskanen model

- Beyond Niskanen

Evidence on efficiency, distinctive culture, effects of bureaucracy

- Some expectations

- Evidence on efficiency

- Evidence on distinctive culture

- Evidence on bureaucracy and development

Conclusion

Niskanen: total bureaucratic dominance

William Niskanen (American economist, mostly not in academia) wrote *Bureaucracy and Representative Government* in 1971 (based in part on own experience working for U.S. Department of Defense).

Two key ideas:

- ▶ Bureaucrats want to maximize their budgets.

Niskanen says they want “salary, perquisites of the office, public reputation, power, patronage” and that these are larger when the budget is larger.

Niskanen: total bureaucratic dominance

William Niskanen (American economist, mostly not in academia) wrote *Bureaucracy and Representative Government* in 1971 (based in part on own experience working for U.S. Department of Defense).

Two key ideas:

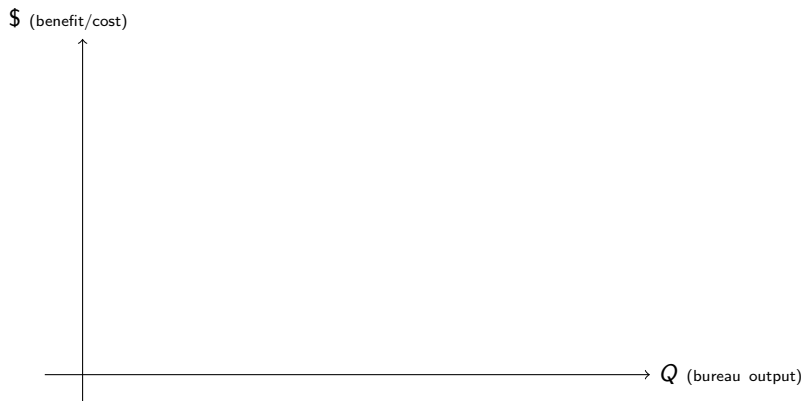
- ▶ Bureaucrats want to maximize their budgets.

Niskanen says they want “salary, perquisites of the office, public reputation, power, patronage” and that these are larger when the budget is larger.

- ▶ The bureaucracy totally dominates the politicians who provide the bureaucracy’s budget.

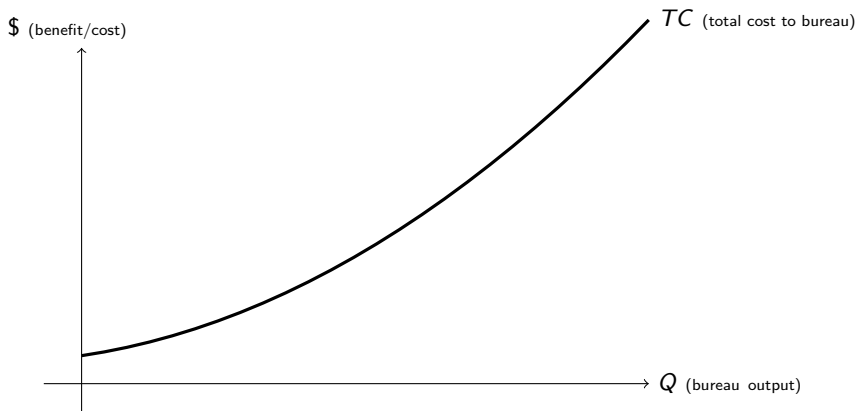
Bureaucrats understand politicians’ willingness-to-pay but politicians do not understand the bureau’s costs → bureaucrats take all of the surplus

Niskanen plots, total cost-benefit view (as in Shepsle)



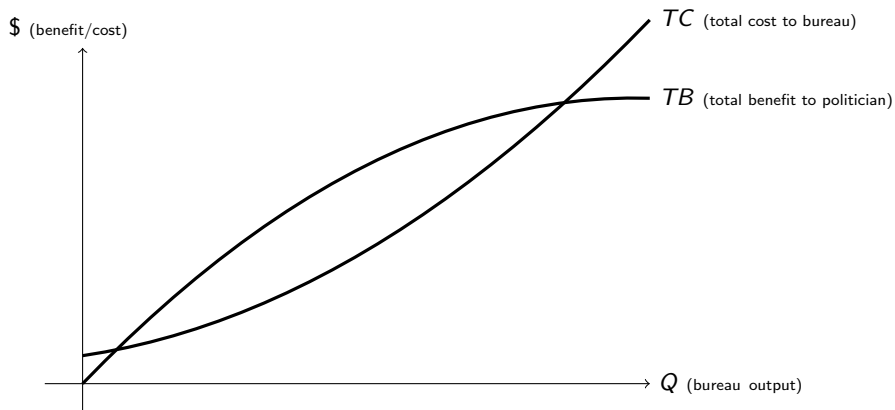
- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

Niskanen plots, total cost-benefit view (as in Shepsle)



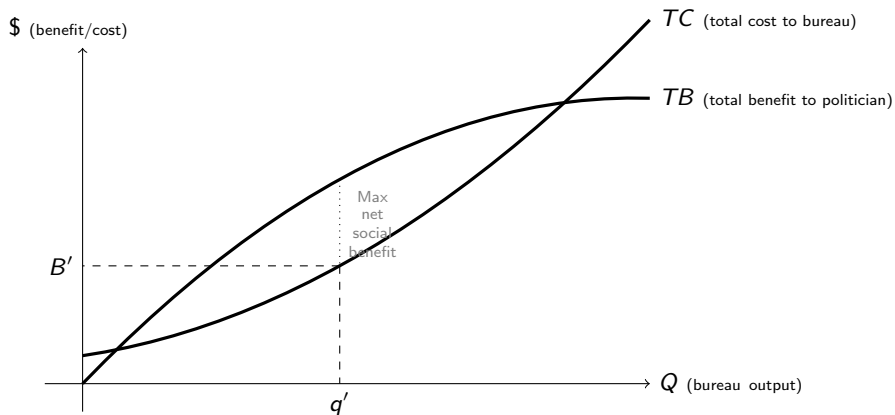
- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

Niskanen plots, total cost-benefit view (as in Shepsle)



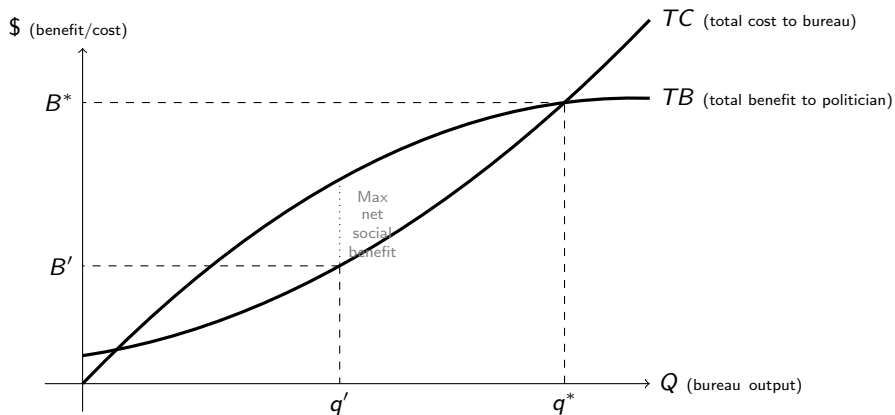
- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

Niskanen plots, total cost-benefit view (as in Shepsle)



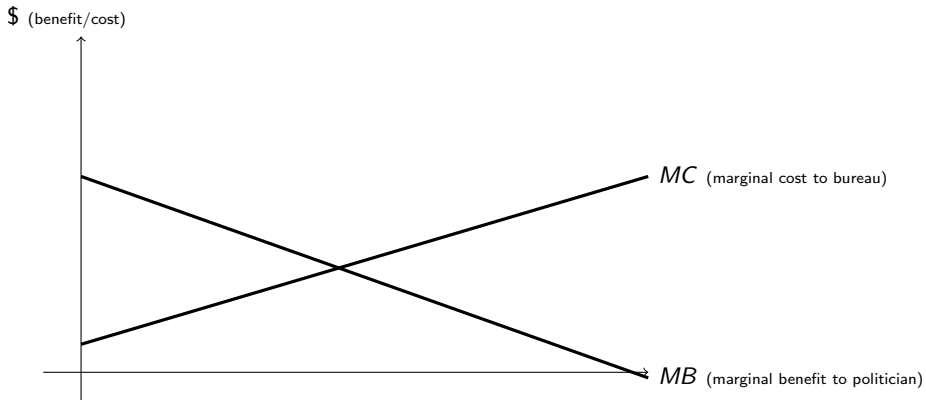
- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

Niskanen plots, total cost-benefit view (as in Shepsle)

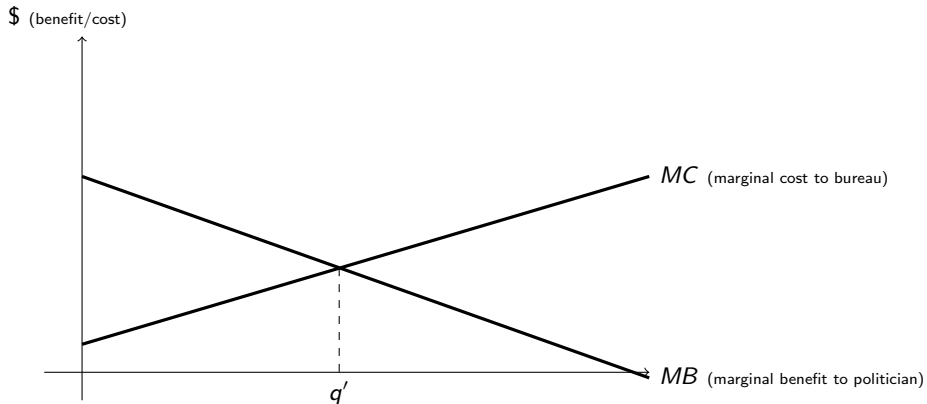


- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

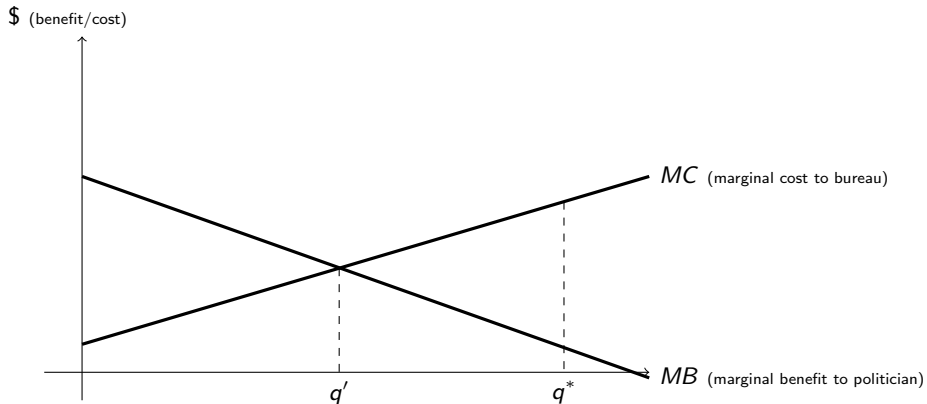
Niskanen plot, marginal cost-benefit view (as in Mueller)



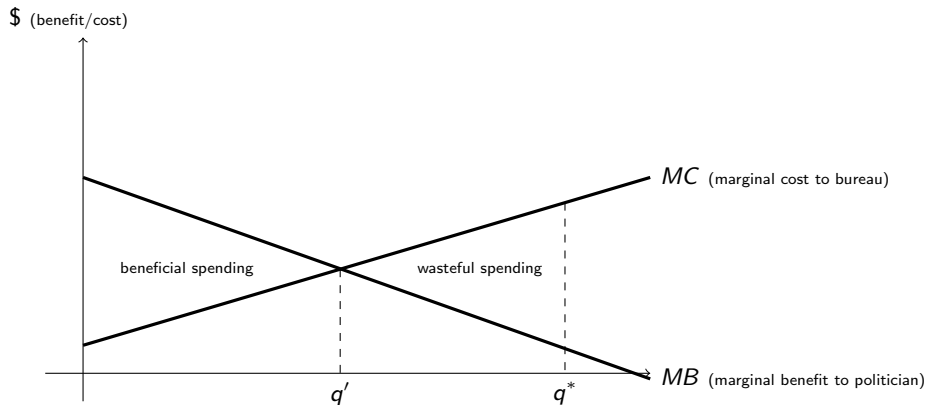
Niskanen plot, marginal cost-benefit view (as in Mueller)



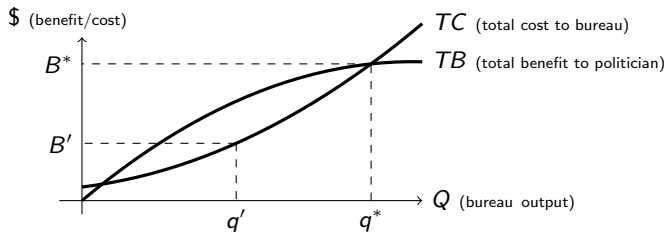
Niskanen plot, marginal cost-benefit view (as in Mueller)



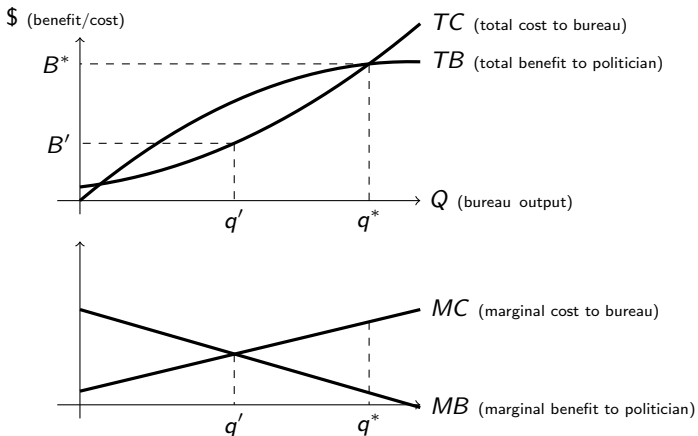
Niskanen plot, marginal cost-benefit view (as in Mueller)



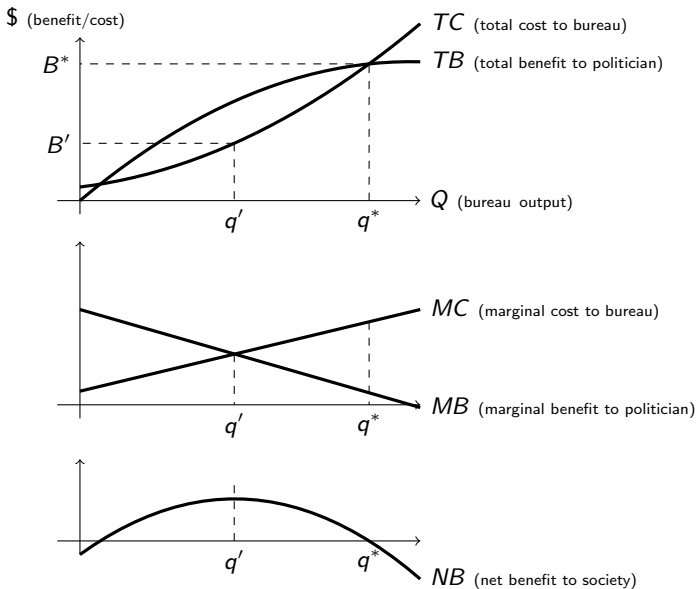
Niskanen plots, all together



Niskanen plots, all together



Niskanen plots, all together

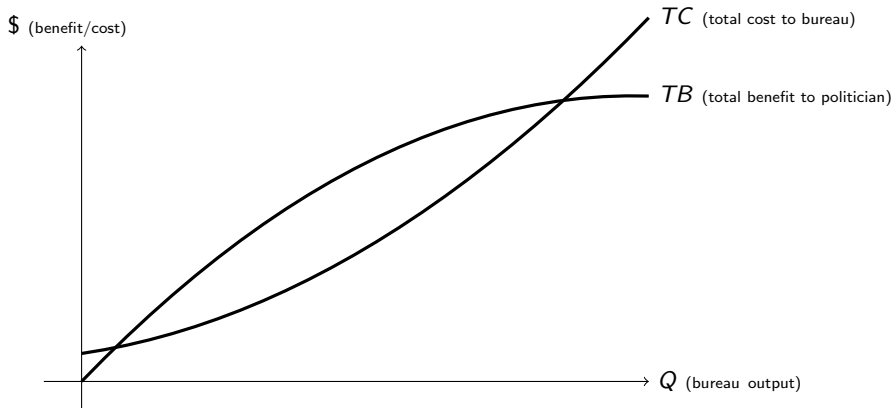


Significance of Niskanen

- ▶ **Policy:** Intellectual ammunition for Reagan, Thatcher, other critics of government excess
- ▶ **Scholarship:** Foundation and target for subsequent scholars

Motivations (1): Maximizing slack?

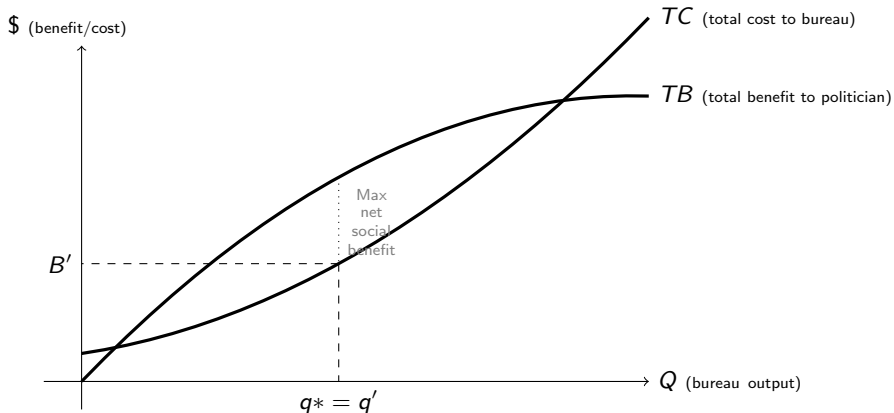
Niskanen assumes bureau uses its budget to produce output. What if it can earn “profits”?



- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* : the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

Motivations (1): Maximizing slack?

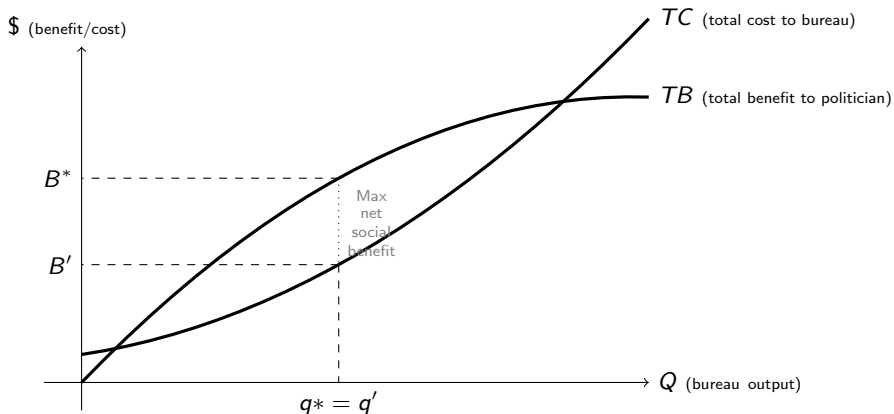
Niskanen assumes bureau uses its budget to produce output. What if it can earn "profits"?



- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* : the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

Motivations (1): Maximizing slack?

Niskanen assumes bureau uses its budget to produce output. What if it can earn "profits"?



- ▶ q^* : the amount of government output proposed by the bureaucrat
- ▶ q' : the socially optimal amount of government output
- ▶ B^* : the budget proposed by the bureaucrat
- ▶ B' : the budget that is best for society

Motivations (2): “Bureau-shaping”?

Patrick Dunleavy (father of LSE MPA)
influential critic of Niskanen.



Main points:

- ▶ Senior bureaucrats do not maximize the budget; they have a preferred “shape” of the bureau that puts them in an elite, collegial, central location \implies “bureau-shaping”, not budget-maximizing
- ▶ Helps explain the form of state growth (Dunleavy, 1985: proliferation of agencies, movement to sub-national level, etc., leaving bureaucracy more fractured and central parts more “elite”) and the embrace of “new right” reforms (senior bureaucrats support “New Public Management” because they can outsource the boring stuff to Newcastle while they stay in London)

Government-bureaucracy interactions (1)

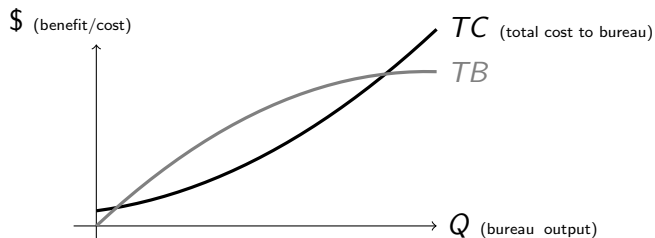
Miller and Moe (1983)

- ▶ Does the bureaucracy really have *all* the advantages?

Government-bureaucracy interactions (1)

Miller and Moe (1983)

- Does the bureaucracy really have *all* the advantages? Isn't the bureaucracy unsure of the TB curve?

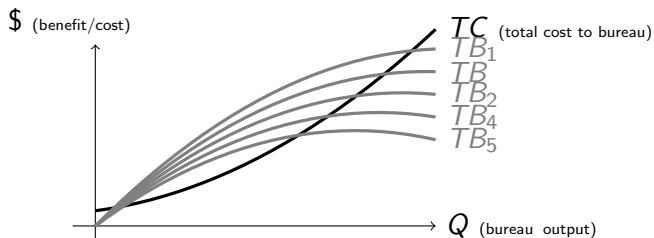


- Can't the politician reject the bureaucracy's proposal? **Broader point:** do not confuse the equilibrium of the game with the game form itself.

Government-bureaucracy interactions (1)

Miller and Moe (1983)

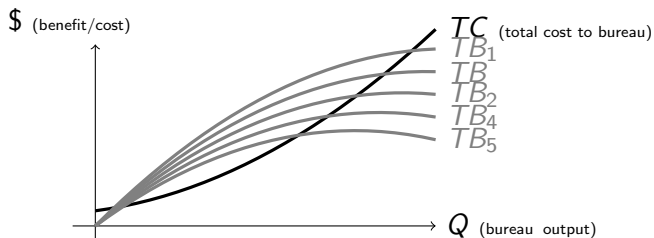
- Does the bureaucracy really have *all* the advantages? Isn't the bureaucracy unsure of the TB curve?



Government-bureaucracy interactions (1)

Miller and Moe (1983)

- ▶ Does the bureaucracy really have *all* the advantages? Isn't the bureaucracy unsure of the TB curve?

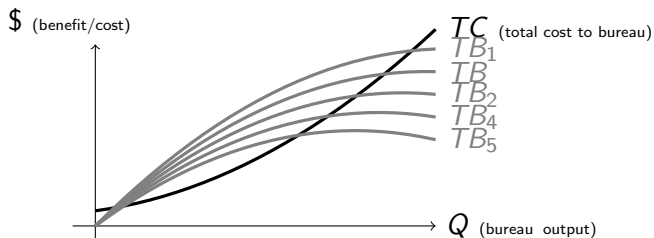


- ▶ Can't the politician reject the bureaucracy's proposal?

Government-bureaucracy interactions (1)

Miller and Moe (1983)

- Does the bureaucracy really have *all* the advantages? Isn't the bureaucracy unsure of the TB curve?



- Can't the politician reject the bureaucracy's proposal? **Broader point:** do not confuse the equilibrium of the game with the game form itself.

Government-bureaucracy interactions (2)

Mat McCubbins, Roger Noll, Barry Weingast
(McNollGast): the principal is savvier than you
think!



Government-bureaucracy interactions (2)

Mat McCubbins, Roger Noll, Barry Weingast
(McNollGast): the principal is savvier than you think!



Key mechanisms the legislature can use to limit its principal-agent problem (more broadly than just budgets):

- ▶ Be strategic about when to delegate and how much discretion to give
- ▶ Assert political control over appointments, funding, etc.
- ▶ Scrutinize ministers and ministry activities
- ▶ Write laws restricting agency's activities and making them more transparent
- ▶ Empower citizens, NGOs etc. to report problems, sue agencies

Introduction

Theories of legislative-bureaucratic interactions: who is in charge?

Niskanen model

Beyond Niskanen

Evidence on efficiency, distinctive culture, effects of bureaucracy

Some expectations

Evidence on efficiency

Evidence on distinctive culture

Evidence on bureaucracy and development

Conclusion

Distinctive features of bureaucratic environment (compared to market)

- ▶ Public agencies generally do not sell their outputs in markets \implies less information about performance, less incentive to be efficient, to “compete”. (Do political markets provide acceptable substitute?)

Distinctive features of bureaucratic environment (compared to market)

- ▶ Public agencies generally do not sell their outputs in markets \implies less information about performance, less incentive to be efficient, to “compete”. (Do political markets provide acceptable substitute?)
- ▶ Public agencies operate under expectations of fairness, accountability, and equality \implies vague, complex, conflicting goals

Distinctive features of bureaucratic environment (compared to market)

- ▶ Public agencies generally do not sell their outputs in markets \implies less information about performance, less incentive to be efficient, to “compete”. (Do political markets provide acceptable substitute?)
- ▶ Public agencies operate under expectations of fairness, accountability, and equality \implies vague, complex, conflicting goals
- ▶ Difficulty of measuring performance, and constraints on labor relationships \implies very difficult to pay individuals for performance (or fire them for non-performance)

Distinctive features of bureaucratic environment (compared to market)

- ▶ Public agencies generally do not sell their outputs in markets \implies less information about performance, less incentive to be efficient, to “compete”. (Do political markets provide acceptable substitute?)
- ▶ Public agencies operate under expectations of fairness, accountability, and equality \implies vague, complex, conflicting goals
- ▶ Difficulty of measuring performance, and constraints on labor relationships \implies very difficult to pay individuals for performance (or fire them for non-performance)

Studies testing hypotheses about differences between public and private organizations are reviewed in Boyne (2002).

Bureaucratic environment is difficult for principals

These differences suggest a harder job for principals!

- ▶ Agents' performance harder to observe, measure
- ▶ Harder to reward good performance
- ▶ Harder to punish bad performance

⇒ suggests poor performance in public bureaucracies (inefficiency and corruption).

Are public organizations less efficient? (1)

- ▶ Hodge (2000) shows cost savings generally in contracting out of refuse collection and building maintenance
- ▶ Rainey and Chun (2005): “the weight of the evidence appears clearly in favor of the conclusion that private forms of organization tend to have lower costs and greater economic efficiencies, without general losses in service quality.” But: “continued appearance of mixed findings . . . pitfalls and troublesome contingencies.” (89)
- ▶ Bel and Warner (2008) review studies from many countries comparing public and private provision of water and solid waste services:
 - ▶ No cost savings in water delivery
 - ▶ No systematic savings in waste

Are public organizations less efficient? (2)

What do these public-vs-private studies tell us about?

- ▶ Not really about effect of competition, as these are not competitive markets

Are public organizations less efficient? (2)

What do these public-vs-private studies tell us about?

- ▶ Not really about effect of competition, as these are not competitive markets
- ▶ Not really effect of regulation, because the contractors and private firms in these areas are heavily regulated

Are public organizations less efficient? (2)

What do these public-vs-private studies tell us about?

- ▶ Not really about effect of competition, as these are not competitive markets
- ▶ Not really effect of regulation, because the contractors and private firms in these areas are heavily regulated
- ▶ Maybe about effect of different management practices (e.g. ease of firing)

Are public organizations less efficient? (2)

What do these public-vs-private studies tell us about?

- ▶ Not really about effect of competition, as these are not competitive markets
- ▶ Not really effect of regulation, because the contractors and private firms in these areas are heavily regulated
- ▶ Maybe about effect of different management practices (e.g. ease of firing)
- ▶ Maybe about effect of profit motive for managers/owners

Are public organizations less efficient? (3)

Evidence from studies of wage differentials between the public and private sectors:

- ▶ Given security of public sector work, one might expect lower wages than in the private sector

Are public organizations less efficient? (3)

Evidence from studies of wage differentials between the public and private sectors:

- ▶ Given security of public sector work, one might expect lower wages than in the private sector
- ▶ To the contrary, many studies find *higher* public sector wages (controlling for individual characteristics)
 - ▶ Gregory and Borland (1999), review of research
 - ▶ Panizza (2001), for Latin America

Are public organizations less efficient? (3)

Evidence from studies of wage differentials between the public and private sectors:

- ▶ Given security of public sector work, one might expect lower wages than in the private sector
- ▶ To the contrary, many studies find *higher* public sector wages (controlling for individual characteristics)
 - ▶ Gregory and Borland (1999), review of research
 - ▶ Panizza (2001), for Latin America

Possible explanations:

Are public organizations less efficient? (3)

Evidence from studies of wage differentials between the public and private sectors:

- ▶ Given security of public sector work, one might expect lower wages than in the private sector
- ▶ To the contrary, many studies find *higher* public sector wages (controlling for individual characteristics)
 - ▶ Gregory and Borland (1999), review of research
 - ▶ Panizza (2001), for Latin America

Possible explanations:

- ▶ Political principals unable to keep down wages

Are public organizations less efficient? (3)

Evidence from studies of wage differentials between the public and private sectors:

- ▶ Given security of public sector work, one might expect lower wages than in the private sector
- ▶ To the contrary, many studies find *higher* public sector wages (controlling for individual characteristics)
 - ▶ Gregory and Borland (1999), review of research
 - ▶ Panizza (2001), for Latin America

Possible explanations:

- ▶ Political principals unable to keep down wages
- ▶ (Related:) Prevalence of public sector unions

Are public organizations less efficient? (3)

Evidence from studies of wage differentials between the public and private sectors:

- ▶ Given security of public sector work, one might expect lower wages than in the private sector
- ▶ To the contrary, many studies find *higher* public sector wages (controlling for individual characteristics)
 - ▶ Gregory and Borland (1999), review of research
 - ▶ Panizza (2001), for Latin America

Possible explanations:

- ▶ Political principals unable to keep down wages
- ▶ (Related:) Prevalence of public sector unions
- ▶ Given difficulty firing or paying for performance, higher “efficiency wage” necessary?

Back to Weber (1): Culture of the bureaucracy

Evidence that public sector employees are more risk-averse:

- ▶ Based on US survey, Bellante and Link (1981) show more risk averse people (based use of seat belts, extent of health insurance, smoking and drinking) more likely to be employed in the public sector

Back to Weber (1): Culture of the bureaucracy

Evidence that public sector employees are more risk-averse:

- ▶ Based on US survey, Bellante and Link (1981) show more risk averse people (based use of seat belts, extent of health insurance, smoking and drinking) more likely to be employed in the public sector
- ▶ Similar findings for Netherlands, Italy, Germany using various survey questions (see Buurman et al (2012) for cites)

Back to Weber (1): Culture of the bureaucracy

Evidence that public sector employees are more risk-averse:

- ▶ Based on US survey, Bellante and Link (1981) show more risk averse people (based use of seat belts, extent of health insurance, smoking and drinking) more likely to be employed in the public sector
- ▶ Similar findings for Netherlands, Italy, Germany using various survey questions (see Buurman et al (2012) for cites)
- ▶ In test of risk tolerance for financial planning purposes, U.S. public sector employees score lower (Roszkowski and Grable, 2009)

Back to Weber (1): Culture of the bureaucracy

Evidence that public sector employees are more risk-averse:

- ▶ Based on US survey, Bellante and Link (1981) show more risk averse people (based use of seat belts, extent of health insurance, smoking and drinking) more likely to be employed in the public sector
- ▶ Similar findings for Netherlands, Italy, Germany using various survey questions (see Buurman et al (2012) for cites)
- ▶ In test of risk tolerance for financial planning purposes, U.S. public sector employees score lower (Roszkowski and Grable, 2009)
- ▶ In 2000 Dutch survey, respondents given a 25 guilder reward; can choose to receive it as a) gift certificate or b) a lottery ticket, or c) donate it to a charity. Buurman et al (2012) show that public sector employees more likely to accept gift certificate, less likely to accept lottery ticket.

Back to Weber (1): Culture of the bureaucracy

Evidence that public sector employees are more risk-averse:

- ▶ Based on US survey, Bellante and Link (1981) show more risk averse people (based use of seat belts, extent of health insurance, smoking and drinking) more likely to be employed in the public sector
- ▶ Similar findings for Netherlands, Italy, Germany using various survey questions (see Buurman et al (2012) for cites)
- ▶ In test of risk tolerance for financial planning purposes, U.S. public sector employees score lower (Roszkowski and Grable, 2009)
- ▶ In 2000 Dutch survey, respondents given a 25 guilder reward; can choose to receive it as a) gift certificate or b) a lottery ticket, or c) donate it to a charity. Buurman et al (2012) show that public sector employees more likely to accept gift certificate, less likely to accept lottery ticket.

Interesting evidence of risk aversion (expected given sorting in labor market) but no evidence that it is *excessive*. (Don't buy lottery tickets.)

Implications of risk-aversion

- ▶ Risk-aversion is **bad** if it keeps public sector employees from trying new things.

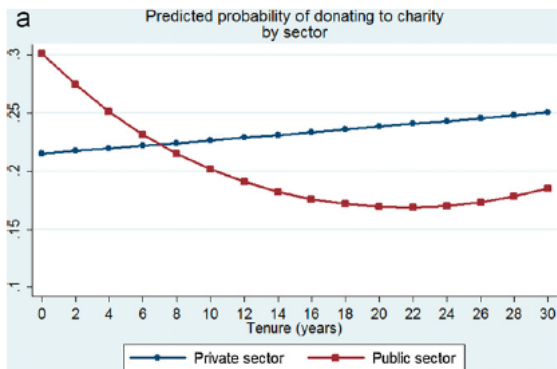
Implications of risk-aversion

- ▶ Risk-aversion is **bad** if it keeps public sector employees from trying new things.
- ▶ Risk-aversion is **good** if it makes the limited punishments available in the public sector more effective at incentivizing employees.

Sidenote: beware burnout

From Buurman et al (2012): public sector employees more likely to donate to charity early in their career; *less likely* later in their career!

M. Buurman et al. / *Journal of Economic Behavior & Organization* 83 (2012) 279–291



(Possibly because they feel that they are doing a lot for others already.)

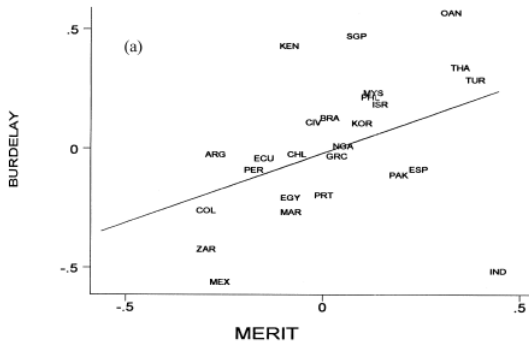
Back to Weber (2): Bureaucratic practices and government performance

Evans and Rauch (2000) find in sample of 35 developing countries that countries with more Weberian bureaucracies (examination- or degree-based hiring, stable career progression, insulation from politics) have better government outcomes.

e.g. merit-based hiring (x-axis) and bureaucratic efficiency (y-axis):

66

J.E. Rauch, P.B. Evans / Journal of Public Economics 75 (2000) 49–71



Back to Weber (3): Bureaucracy practices and economic growth

Evans and Rauch (1999) find in sample of 35 developing countries that countries with more Weberian bureaucracies have stronger growth.

"Weberianness" (x-axis) and economic growth (conditional on initial GDP & education) (y-axis)

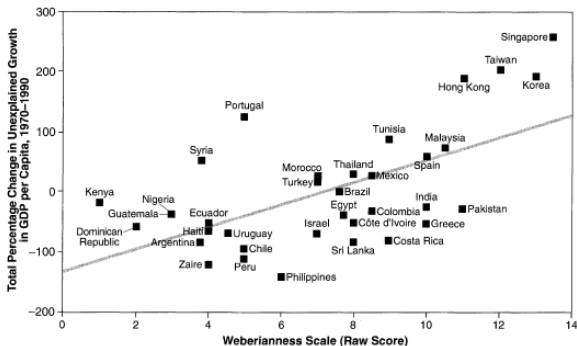


Figure 1. Scattergram Showing Relationship between Weberianness Scale Score and Unexplained Growth in GDP per Capita, 1970 to 1990

Note: Unexplained growth is that growth not explained by level of GDP in 1965 and years of school in 1965.

Introduction

Theories of legislative-bureaucratic interactions: who is in charge?

- Niskanen model

- Beyond Niskanen

Evidence on efficiency, distinctive culture, effects of bureaucracy

- Some expectations

- Evidence on efficiency

- Evidence on distinctive culture

- Evidence on bureaucracy and development

Conclusion

Making sense of all of this: theory

Politician-bureaucracy interaction:

- ▶ Niskanen: an extreme (but influential) view of politician-bureaucracy interaction. Politician is an ignorant, helpless principal.
- ▶ Miller and Moe: politician and bureaucracy on equal footing, due to mutual information asymmetries
- ▶ McNollGast: politician creates the bureaucracy and devises ways to control it, some of which are subtle (because they are effective!)

Making sense of all of this: theory

Politician-bureaucracy interaction:

- ▶ Niskanen: an extreme (but influential) view of politician-bureaucracy interaction. Politician is an ignorant, helpless principal.
- ▶ Miller and Moe: politician and bureaucracy on equal footing, due to mutual information asymmetries
- ▶ McNollGast: politician creates the bureaucracy and devises ways to control it, some of which are subtle (because they are effective!)

Interactions within the bureaucracy: distinctive features (constraints on pay, hiring & firing; absence of market discipline; complexity of tasks) suggest exacerbated principal-agent problems in public (as opposed to private) organizations.

Making sense of all of this: empirics

Summary:

- ▶ If principal-agent problems are so bad (both between politician and bureaucracy and within bureaucracy), then public sector should be bloated and inefficient.

Making sense of all of this: empirics

Summary:

- ▶ If principal-agent problems are so bad (both between politician and bureaucracy and within bureaucracy), then public sector should be bloated and inefficient.
 - ▶ Consistent evidence of a public sector wage premium.
 - ▶ Some evidence that private organizations operate more efficiently.

Making sense of all of this: empirics

Summary:

- ▶ If principal-agent problems are so bad (both between politician and bureaucracy and within bureaucracy), then public sector should be bloated and inefficient.
 - ▶ Consistent evidence of a public sector wage premium.
 - ▶ Some evidence that private organizations operate more efficiently.
- ▶ Public sector employees are more risk-averse, which might help to resolve principal-agent problems.

Making sense of all of this: empirics

Summary:

- ▶ If principal-agent problems are so bad (both between politician and bureaucracy and within bureaucracy), then public sector should be bloated and inefficient.
 - ▶ Consistent evidence of a public sector wage premium.
 - ▶ Some evidence that private organizations operate more efficiently.
- ▶ Public sector employees are more risk-averse, which might help to resolve principal-agent problems.
- ▶ Bureaucratic practices (secure employment, insulation, hiring based on degrees and exams) are associated with better government performance and higher growth in developing countries, 1970-1990.

Making sense of all of this: empirics (2)

Basically, Weber was right.

- ▶ Bureaucracy involves distinctive mindset (e.g. risk-aversion) and practices (e.g. stable careers)
- ▶ Rule-bound government by risk-averse bureaucrats may be improved upon in some respects, but the alternative in developing countries is probably worse.



Next time

Next time: money in politics.