

The Political Power of Bureaucracy

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Abstract

Can citizens indirectly control bureaucracies? The paper studies governance of governments by using three-tier hierarchical model; voters, politicians and bureaucrats. In the hierarchy, politicians as the agent of voters would be constrained by the electoral accountability and bureaucrats as the agent of politicians controlled by the size of budget. Incompleteness of contract inside the government gives bureaucrats discretion to choose the production level of public goods. Since voters evaluate the incumbents on the basis of the public goods produced by bureaucrats as well as the size of budget determined by the incumbents, incompleteness of contract would give bureaucrats political power. Then, bureaucrats would have an incentive to reelect the preferred incumbent and/or to fire the unpreferred by manipulating information on public goods production. If voters and bureaucrats have different preferences (referred to as preference reversal), politicians need to increase the size of budget to prevent bureaucrats from information manipulation at the expense of voters' welfare, which leads to the oversize of the government. If, instead, they have the same preferences (preference similarity), bureaucrats would send to voters a credible signal on the type of incumbents. In this case, bureaucrats' political power would enhance the selection mechanism of election. Further, the paper shows that a system of political appointees can mitigate bureaucrats' political power. Although the political appointee system makes it possible that the politician implements the first best policy at the case of preference reversal, it would lead to persistence of the inefficient government at the case of preference similarity.

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