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978-1-107-00875-5 - Above Politics: Bureaucratic Discretion and Credible Commitment

Gary J. Miller and Andrew B. Whitford

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## Above Politics

### *Bureaucratic Discretion and Credible Commitment*

Economic development requires secure contract enforcement and stable property rights. Normal majority-rule politics, such as bargaining over distributive and monetary policies, generates instability and frequently undermines economic development. *Above Politics* argues that bureaucracies can contribute to stability and economic development, but only if they are insulated from unstable politics. A separation-of-powers stalemate creates the conditions for bureaucratic autonomy. But what keeps delegated bureaucrats from being more abusive as they become more autonomous? One answer is the negotiation of long-term, cooperative relationships that – when successful – typically bind subordinates to provide more effort in exchange for autonomy. Even more compelling is professionalism, which embeds its professional practitioners in professional norms and culture, and incidentally mitigates corruption. Financial examples are provided throughout the book, which ends with an analysis of the role played by professionalized bureaucracies during the Great Recession.

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# Above Politics

## *Bureaucratic Discretion and Credible Commitment*

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## Preface

*From the redistributive societies of ancient Egyptian dynasties through the slavery system of the Greek and Roman world to the medieval manor, there was persistent tension between the ownership structure which maximized the rents to the ruler (and his group) and an efficient system that reduced the transaction costs and encouraged economic growth. This fundamental dichotomy is the root cause of the failure of societies to experience sustained economic growth.*

(North, 1981, 25)

The state, like Janus, has two faces: one benign and one malevolent. The creation of the state facilitates the provision of public goods that would otherwise be absent, but it also allows a degree of hierarchical exploitation that would have been impossible before the existence of the state. Trying to design a set of governmental institutions that will encourage the benign aspects of the state while limiting its capacity for exploitation has been a persistent puzzle throughout history.

The state was the first form of social organization, of ten thousand people and more, for the purpose of supplying public goods. The action of the citizens under the coordination of the state generated benefits that would otherwise never have existed. The defining good for the emergent state was food storage. When food could be stored to tide people over in difficult times, social organization could exist on a scale otherwise impossible. However, any state that is strong enough to protect a large store of food and to direct the productive activities of the many also has the capacity to direct the benefits toward (or impose costs on) the few. Individuals did not come to build large irrigation systems or serve in the army by a happy coincidence of individual self-interest and the needs of the state.

It is not hard to understand why humans were reluctant recruits to the new state. It is not because they had no interest in the alluring goods and benefits

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made possible by the creation of states. Rather, it was the quite obvious realization that most citizens of the state were not going to be significant beneficiaries of the new regime. The creation of the state did not follow the invention of a perfect incentive system that made everyone better off than they had been in the pre-state systems. The state came to be when stored food and other resources were distributed in the form of patronage to a bureaucracy. Thus, for most citizens, the state means imposed “crop quotas, taxation, labor conscription, and other coercive and asymmetrical forms of redistribution” (Marvin Harris, 1989, 385).

The bureaucracy played a critical role in the new state. The size and sophistication of the bureaucracy no doubt grew with the size and sophistication of the projects attempted, such as dams, roads, and navies. For the most part, the benefits of these public goods went first to the elites who controlled the machinery of the state.

Douglass North claimed that the rent-seeking behavior of the elites was at odds with the requirements of greater efficiency. Grants of monopolies to reward key members of the elite, the sale of judicial decisions, the targeting of wealthy citizens for “loans” to the king – all of these are examples of North’s notion of inefficient regimes at odds with more welfare-enhancing regimes.

Modern times have brought complex governance problems for the state: the subprime mortgage crisis, credit default swaps and derivatives, and quantitative easing are examples. These problems have helped us better understand the role of the state – and in particular the role of expertise, located in independent agencies, wielded by professionals with labels like “economist” and “lawyer.” These problems have also helped us better understand what those organizations can do that cannot be done by the primary institutions of modern advanced industrial democracies: legislatures, executives, and courts.

Of course, academics have long debated the power and promise of independent regulators. Foundational books such as Marver Bernstein’s *Regulating Business by Independent Commission* (Bernstein, 1955) have thrown light on dilemmas that such organizations experienced over their lifetimes – of how they would need to be diligent to maintain their independence from both politicians and the industries they regulated. The lexicon of study of these organizations soon centered on “capture by industry” and “iron triangles,” and this lexicon shaped how we saw these organizations as part of the developing societies Douglass North sought to understand. For a state that was strong enough to direct the benefits to the few was certainly one worth lobbying.

In a classic statement of our knowledge about these organizations, historian Thomas McCraw clarified the long-running debate about the difference between “pursuing the public interest” and “being captured by industry” by pointing out the problem for scholars of regulation: “Regulation in America has been a multi-functional pursuit, a circumstance that has offered scholars a choice, when they generalize about the regulatory process as a whole, between extreme caution on the one hand, and extreme likelihood of error on the other” (McCraw, 1975, 180).



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Our hope in this book is to add to this lexicon by focusing on North's contribution to understanding the long-run development of states and markets. For personal and professional reasons, we believe that the bureaucracy remains an understudied and misunderstood player in this game. We see its role as helping navigate fundamental dilemmas in the operation of modern states and markets. Like McCraw, we see the world of these agencies as a "shadowy zone" worthy of study in academic political science and public administration. We hope that our observations help move the study of that zone forward, knowing that our perceptions are necessarily fraught with error, though tempered by caution.

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## Acknowledgments

Bureaucracies can contribute to stability and economic development, but only if they are insulated from unstable democratic politics. Our greatest intellectual debt is to Douglass North, who demonstrated how economic development depends on a stable political regime of property rights and contract enforcement. The contribution this book makes is to look at bureaucracy through a lens of Northean commitment rather than political accountability. Bureaucracies, especially when known for their professional expertise and stability, make credible commitment possible.

We owe a large debt to Jeffrey Frieden and Kenneth Shepsle of Harvard. They spent the final weeks of a graduate seminar discussing the manuscript and generating a list of criticisms that were the basis for the final revisions. Just as important to us, Jeff and Ken were generous in their encouragement during those final weeks.

In addition, we thank Robert Dreesen, our editor at Cambridge, for shepherding the manuscript through the publication process. All of this started, however, with Scott Parris during his time as editor-in-charge of the Political Economy of Institutions and Decisions Series, and we are grateful for the vision he showed in encouraging the writing of this book.

Over the years, other scholars have made a lasting contribution to the conception and implementation of the manuscript. First and foremost was Terry Moe; Terry enriched his own ideas about bureaucracy by studying schools, unions, and the National Labor Relations Board. His understanding of these organizations gave him the footing to generate powerful theoretical advances – advances that will last for generations.

Since about 1980, a group of scholars have constituted a pool from which productive teams continue to generate new ideas. The path-breaking research of Tom Hammond and Jack Knott comes to mind; their research on bureaucracy and stability was central at key moments in the development of the book. More

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recently, Tony Bertelli and like-minded scholars of public administration have pushed the boundaries of our knowledge of agencies operating in politics.

Gary Miller thanks the members of the Washington University Political Science Department for contributing to a productive and invigorating transition from the business school. He thanks Geoffrey Brennan of the Australian National University for giving him time in 1996 to explore the emerging literature on moral hazard and budget balancing that ended up in this book. Andy Whitford was both a workhorse and an inspiration for our laboratory experiments on principal-agency theory. And thanks to Katy and Ethan for asking several clarifying and challenging questions – and for letting a perfectly good babysitter go out the door to work on the book.

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