

1 *Why Relations between Politicians and Bureaucrats Matter*

Incentives, and Institutions That Shape Them

This book deals with quality of government. In our view, governments of high quality act impartially, are non-corrupt, and use resources efficiently. These might seem to be obvious goals for all governments but, quite the contrary, we observe great variation worldwide. Political leaders, in coalescence with other elite groups, often enrich themselves or in some other way take advantage of their position at the expense of society at large. Corruption, rent-seeking, wasteful spending, and ineffectiveness follow. Conversely, other rulers seem to have the right incentives to provide high quality of government. What explains these differences?

This book shows that elite incentives are shaped by the way political and bureaucratic relations are organized, and that this in turn affects corruption and government effectiveness. Our idea is simple: When groups with known different interests are forced to work together, they monitor each other, which pushes both groups away from self-interest toward the common good. Abuse of power will be more common if everyone at the top has the same interest, because no one will stand in the way of corruption and other self-interests. The problem, of course, is that interests are difficult to observe and are thus not easily organized. We think, however, that the careers of officials provide a useful approximation of their interest, as it is reasonable to assume that most individuals are interested in their own careers. It is therefore vital to maintain a separation between the careers of politicians and the careers of bureaucrats, as they are two significant groups at the top of government.

Specifically, we think that the most important signal of the extent to which the careers of politicians and bureaucrats are separated is sent when recruitments are made. Recruitments *de facto* based on political loyalty signal that bureaucratic careers, regardless of *de jure* regulations, are tied to politicians. In such cases the professional fates of

bureaucrats are integrated with those of their political masters. In contrast, when recruitments are based on the merits of the candidate, it signals that it is professional peers, instead of political masters, that influence bureaucratic careers. Institutions guaranteeing a recruitment system based on merit rather than political considerations are consequently important resources for high quality government.

Even though we build on a large literature in comparative politics, economics, and public administration, the suggestion we give here differs from previous research in two ways. First, in most comparative studies in politics and economics, the administrative side of the state is mostly ignored. Incentives are taken into account, to be sure, but only those of the political elite. The incentives of other officials are neglected and, perhaps even more importantly, so is the interplay between bureaucrats and politicians. In turn, the suggested policy implications are almost always on the political side, for example, on the characteristics of election systems. We think that not considering the administrative side of the state misrepresents the dynamics leading to high-quality government and it might make us draw incorrect policy implications.

Second, public administration scholars have indeed studied the bureaucratic side of the state, but the dominant view there differs from ours. The existing literature emphasizes bureaucratic rules, in opposition to managerial discretion, while we highlight the importance of bureaucratic career incentives. This distinction is relevant because the implications of the prevailing view in public administration and our interpretation are very different. The proposition in mainstream public administration is to protect the bureaucracy from political influence by rules, in what can be called a closed Weberian administration. However, the theory and the empirical analyses presented in this book indicate that rules provide only a false hope. When we compare administrations from all over the world, the existence of meritocratic recruitment is, contrary to what is often believed, not correlated with the prevalence of a highly regulated civil service. And, as we will see in a detailed description of countries belonging to the Napoleonic administrative tradition, high levels of closed Weberianism can coexist with high levels of politicization.

In tune with this latter point, we are also skeptical of those who think that formal monitoring through, for example, the establishment of anti-corruption agencies, is effective in the struggle for good government. The reasons are twofold: In comparison with the internal system

of mutual monitoring between politicians and bureaucrats that we highlight in this book, an external monitoring mechanism is both costly and less effective, as the opportunities for extracting private benefits from public activities are ubiquitous and external controls can always be circumvented.

Before discussing our theory and previous research in more detail, we will try to illustrate our suggestion concretely and see what happens when a separation between the career incentives of politicians and bureaucrats is missing: that is, how a notable integration of careers contributes to more corruption and less government effectiveness. We provide some narratives of the causal dynamic and how difficult it is for a polity to escape a bad equilibrium of integration of politicians-bureaucrats careers, rent-seeking, waste, and ineffectiveness. For this illustration, we have not chosen a developing country, for which one can suspect that bad governance is a notorious problem, but instead describe how the integration of careers between politicians and bureaucrats creates opportunities for corruption and wasteful spending in an advanced capitalist democracy, namely Spain. While we could expect a longtime OECD and EU member such as Spain to have developed the appropriate social, economic, and cultural barriers against systematic government pathologies, this has not been the case. We argue that the reason in the particular examples we discuss in the following pages lies in the prevailing integration between the career paths of elected officials and bureaucrats in most Spanish public organizations.

Corruption and the Story of *Don Vito*

In the early 1990s, a modest travel agent, Francisco Correa, started to build up relationships with high profile politicians of the ascending conservative Popular Party (Partido Popular). A decade later, Mr. Correa had become a powerful businessman who would claim to be the “master” of administrations across Spain (*El País*, 17-06-2013) and was accordingly nicknamed *Don Vito*. Mr. Correa was able to build a network of firms that, while providing services to the Popular Party, such as the organization of political rallies, was awarded substantial contracts from administrations controlled by this party. A turning point in his career was when the Popular Party won the national elections in 1996, and public tender contracts obtained by Don Vito’s numerous companies “multiplied,” including a €2.2 million

contract with the Airports Authority and hundreds of trips by the Prime Minister's Office (both institutions dependent on the Popular Party-controlled national government), a €6.4 million organization of the Pope's visit in 2006 (dependent on Popular Party-controlled regional governments) and countless contracts from municipal administrations where Mr. Correa gained the confidence of local councilors belonging to the Popular Party (*El País*, 18-04-2010).

The system created by Don Vito was complex. First, he and his collaborators in different areas "convinced" politicians with the help of presents such as organizing birthday parties and trips to Eurodisney for their children (*El País*, 30-05-2013a), €2,000 watches (*El País*, 23-06-2013), a fixed 10 percent of every contract gained to the most valuable political brokers (*El País*, 06-08-2013) and some Christmas presents that led a regional president (in a phone call intercepted by the police) to tell Mr. Correa's collaborator: "Merry Christmas, my soul mate... I love you so much..."¹

Second, the large network of companies controlled by Mr. Correa managed to overcharge the authorities with prices up to 100 percent above market. In addition, most contracts were fragmented in order not to reach the €12,000 limit that forces public administrations to organize a public offering that must follow a detailed procedure (*El País*, 30-05-2013b). The General Auditing Office reported that, in the regional government of Madrid alone, no less than 104 contracts – amounting to €3.16m – were divided up into different services so that each was under €12,000.

Last, the money generated by this machinery was moved abroad via several figureheads and ghost companies: €24 million to Monaco and Switzerland, and up to €30 million to the United States and many more in tax havens that declined to collaborate with the investigation of this case (*El País*, 02-06-2011). All in all, the charges against Mr. Correa are so numerous that his judicial case occupied over 50,000 pages (*El País*, 07-04-2010), and the money plundered from the public coffers by Mr. Correa and associates is almost impossible to account for, given the large number of shady deals that had taken place simultaneously in different administrations and by diverse individuals, yet it has been estimated at around €449 million (*EL País*, 06-03-2015).

That businessmen and top officials are tempted to carry out selfish acts with the abundant public resources existing in a developed country is not so surprising. What is more disturbing is how the corrupt

network can get away with siphoning over €400 million, despite the numerous administrative checks and accountability mechanisms that exist in an advanced democracy. The investigations into this case actually reveal numerous instances where the flow of public money to Mr. Correa's firms could have been stopped, and yet it was not. Going into this level of detail is important for uncovering the micro-foundations of our argument. For instance, let's look at two days in July 2006, when several representatives of Don Vito visited no less than eight departments of the Madrid regional government in order to speed up the payment of hundreds of fragmented public contracts that, under the €12,000 threshold, Mr. Correa's firms had gained (*El País* 26-07-2013). Don Vito's employees carefully recorded the conversations they had with the public officials – some appointed, but many tenured civil servants – during those two days. The notes provide insightful information on how officials – who in most cases had not taken part in the corrupt exchange – reacted in the face of requests to pay a large number of bills that are all suspiciously below €12,000.

Some public officials told Mr. Correa's envoys that they would pay the bills, but it is interesting to observe the behavior of the officials who saw that there was something going on and, nevertheless, did not react. As Mr. Correa's representatives complain in their notes, some public employees "...said that they do not want to pay since one can clearly see there has been a fractioning of the sum" (*El País* 26-07-2013). The responses of these reluctant officials are rather diverse; some opted to delay the payment (e.g., arguing that "they had to talk to their bosses" before ordering the payment); others appealed to existing administrative procedures (e.g., directing Mr. Correa's envoys to another department theoretically responsible for payments); others tried to ignore the payment request (e.g., she "does not want to know anything"); and some even showed disconformity (e.g., "he said he was not very comfortable [with the bills] and since then he does not answer the phone"). Remarkably, despite these officials realizing that they were confronting the payments of a dubious legal exchange, none of them decided to sound the alarm, to report to the corresponding audit authority, to the media, to an opposition party, to the public prosecution office, to a judge, to the police, to whomever. They remained silent.

As a matter of fact, silent acquiescence was the working assumption of Mr. Correa's employees. It was common knowledge to them that,

since the political masters of the administration were in the corrupt exchange, no one in the rest of the administrative machinery of government – whether in or out of the particular corrupt exchange – would invest any significant effort in impeding it. Knowing the real rules of the game, Mr. Correa assumed that the great majority of the bureaucratic apparatus was responsive to its political bosses and that there was consequently nothing to worry about.

The case of Ana Garrido, a former municipal employee who dared to unveil Mr. Correa’s corrupt network, indicates that this assumption was well-grounded. In her own words, she became a whistleblower “because I have no children” (*El País* 14-02-2016), which was vital since she was expecting a serious disruption in her professional career as a result of revealing the corruption network. In April 2016, before the Spanish Parliament, she summarized the “seven years of Calvary” (*Voz Populi* 09-04-2016) that was the result of starting to speak the truth. First, she was offered a bright professional future if she played along, but, when she refused, she was subject to constant mobbing. One day, when she complained about her working conditions, her superior confessed that he had orders to “make your life impossible” (*Voz Populi* 09-04-2016). She was not only forced to leave her job but had to leave Spain because of the constant psychological pressure she was put under. She spent two years unemployed in Costa Rica and, after returning to Spain, she was unable to resume a career in the public sector, since the mobbing became even more intense. Finally, advised by a medical doctor, she gave up, and today she makes a living selling handmade bracelets.

Effectiveness and the Story of Airports to Nowhere

Carlos Fabra was the president of the provincial government of Castellón, Valencia, when he pushed through what international observers referred to as “a symbol of wasteful spending” in Spain in the 2000s: a \$183 million “airport to nowhere” in his hometown. The airport’s record was outstanding during its first two years in operation: It had not managed to have a single scheduled flight (*The New York Times* 18-07-2012). But Mr. Fabra is not the only example of the strikingly inefficient ways of spending public money in twenty-first-century Spain. There are other airports that embody the country’s “lavish spending on white elephant building projects” (*BBC News* 26-07-2012).

For example, Ciudad Real’s international airport has attracted only 100,000 passengers from its opening in 2008 until its closure for lack of activity in 2012, despite having one of the longest runways in Europe and capacity to host 5 million passengers. One year later, the airport was up for auction – and the shocking difference between the starting price (€100 million) and its building cost (€1 billion) can also be seen as indicative of its inefficiency (*The Guardian* 07-08-2013). These examples are part of a larger pattern of airport oversupply. Spain has forty-three international airports, twice as many as Germany, which has almost double the population of Spain.

The same kind of overspending is common in other infrastructure projects in Spain. Not only airports but also trains and highways go nowhere. For instance, Spain has the world’s second largest high-speed rail network, after China, ranging over 2,000 kilometers. Yet several economists (Bel 2010) have noted that there is a poor economic rationale behind most public investment decisions in high-speed trains. To start with, the Spanish network also has an extremely low passenger rate (20 percent of that of the French). Further, the location of some high-speed train stations defies economic thought. An inhabitant of Tardienta, a village of 1,000 in the far east corner of Spain, with a high-speed line that only uses 6 percent of its capacity, while admiring the high-speed train, admits that “. . .to be honest, no one comes here and the people of the village use it very little” (*Público* 27-02-2011). Similarly, the huge investments in highways – Spain built over 5,000 kilometers of motorway in the decade to 2009 (*The New York Times* 18-07-2012) – have also led to a debt of €3,600 million that is seen by observers as the result of an “absurd global design” (*El País* 23-09-2013).

Why were these “white elephants that dragged Spain into the red” (*BBC News* 26-07-2012) not stopped? Digging into the micro-decisions that led to these cases of wasteful spending one finds that, again, a politicized administration seems to be at the root of the problem. The ability of politicians to appoint large numbers of officials has contributed to this proliferation of white elephants all over Spain’s territory in two crucial ways. First, political appointments to relevant administrative positions allowed elected officials to disregard technocratic considerations and give priority to short-term goals.

We can see an example of this mechanism in Galicia, in the north-western corner of Spain. There we have Santiago de Compostela’s grandiose City of Culture, with a museum, an opera theater and a

library originally devised to host one million books (*El País* 12-11-2011). The longlasting regional president, Manuel Fraga, wanted to leave a legacy as monumental as Santiago de Compostela's world famous cathedral (*Público* 12-01-2011). Nonetheless, years afterwards, the City of Culture remains incomplete after having cost almost four times more than what had initially been planned. One of the members of the jury deciding on the project, the American professor Wilfried Wang, offers an intriguing answer to how this was possible, related to the *de facto* politicization of a policy decision-making that, on paper, was expert based. Professor Wang had been unequivocal on the fact that the real construction costs would skyrocket: "...you only had to compare the plans to realize that it was too big" (*El País* 08-01-2011). And, yet, the project was approved. The reason was crystal clear; among most members of the jury, including several political appointees, there was, literally, a "fear of" the president of the regional government if the most magnificent project was not approved (*El País* 08-01-2011).

A second mechanism would be the following. The clientelistic links between political patrons with the ability to distribute a large portfolio of public sector jobs and their electoral constituencies helped to secure the re-election of the former – almost regardless of their government performance. Mr. Fabra himself acknowledged this, summarizing how he had been able to survive in office for so long despite all the mounting and diverse accusations against him, and was very explicit: "For as the one who wins the elections appoints countless people. And all these people mean safe votes. It gives you so much power in a municipality or in a province. I cannot recall how many individuals I have appointed in 12 years, I don't know" (Sánchez-Cuenca 2009).

The Incentives, Stupid!

What made this extensive corruption and the strikingly inefficient use of public money possible? As we have noted, many people in Spain's public administrations must have known, or at least suspected, that something was wrong. Why did they go along? Why did they keep quiet? Getting to know the incentives of bureaucrats is essential to understanding not only these failures of good government in the Spanish case but also many other similar situations of abuse of public office for private or partisan gain. When there is one single channel of

accountability, as was the case in the episodes in Spain related above, no one in a given public organization asks tough questions because they are, for good reason, afraid of being punished. They simply have no incentive to stand up for the common good. Loyalty to the party, your *de facto* employer, quite naturally takes priority over other considerations. It is not only the loyalty of today that determines how public employees act; perhaps even more important is what they think about their situation in the long run. In a system where the career paths of politicians and bureaucrats are integrated, it is common knowledge that how you stand in the eyes of the party is what will define the rest of your career. The actors in the Spanish cases seemed very aware of this.

Generally speaking, integration of politicians' and bureaucrats' careers in public institutions is essential for rent-seeking activities, such as the ones described above, because corrupt deals, favorable treatment of narrow economic interests and other extractive activities are all collective enterprises in modern government. They require the involvement of several public officials, both politicians and bureaucrats, who directly or indirectly, by action or omission of watchdog duties, fail to deter corruption and inefficiencies.

Think of all the interaction on different administrative levels and in different points in time and space that is needed to make rent-extraction from the public coffers possible: for example, when the plan is initially devised between public officials and private actors; when a friendly public tender is written down; when the competing applications are processed and the final winner decided; when money is effectively transferred; and, very importantly, when the losers, or some third parties, start asking uncomfortable questions that must be circumvented. If the careers of all individuals involved in these interactions are directly or indirectly integrated, and they all to a certain extent depend on the electoral fortunes of the ruling party, it is implausible to expect a defection that could ruin the business. On the contrary, when the career interests of public officials are more heterogeneous such that some individuals depend on electoral results and others are completely free of those concerns, then collective action quickly becomes a coordination problem. There is no reason to cover up an illegal activity of your political superior (or your administrative subordinate) when your career prospects are separated and you are confident that your career prospects are independent of the ruling party's electoral performance.

The rest of this book is an attempt, first, to theorize about how and why people with different incentives could and probably should be involved in all major public decisions and, second, empirically investigate some implications of this theory in a large number of countries.

Outline of the Book

In the next chapter, we develop the theoretical idea and its implications. We first situate the argument in relation to previous literature in economics, political science, and public administration and then point out the contributions of our proposal. In short, we argue that a separation of careers between politicians and bureaucrats creates a milieu with low corruption and high effectiveness, which is also favorable for efficiency-enhancing reforms in the public sector. The chapter also discusses the most significant competing explanation. It is relatively common to suggest that bureaucrats should be protected from political influence through what is sometimes referred to as a closed Weberian system. We question this view and argue that a closed Weberian structure and meritocratic recruitment do not necessarily go hand in hand.

We empirically test the closed Weberian hypothesis in Chapter 3 in a cross-country comparison. As it is a competing theory, we try to give it as good a chance as possible and therefore take five steps. First, we map bureaucracies in about 100 countries around the world in two-dimensional space and show that closed Weberianism and meritocratic recruitment are not the same. Second, we look at bivariate correlations between indicators of a closed Weberian bureaucracy and three dependent variables, which we consider to be good indicators of the implications of our theoretical expectations. Third, we include a minimum of controls in the regressions. The controls are specific to each type of dependent variable, as we follow the most influential theories in each field, but they are generally from the cultural, economic, and regime areas. Fourth, we conduct a series of robustness checks in order to exclude the possibility that closed Weberianism only works if several institutions are in place at the same time or in more or less developed parts of the world. The broad comparisons analyzed in this chapter demonstrate that in none of the specifications does the closed Weberian hypothesis have empirical support. Fifth, and finally, we describe the European countries belonging to the Napoleonic administrative tradition