

BUREAUCRACY & INEQUALITY

BPV_APEC PUBLIC ECONOMICS

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Lecture outline

- Bureaucracy in Weber (normative)
- Bureaucracy in Niskanen (descriptive)
- (In)equality in the world

Where does a bureaucracy come from?

- Vincent de Gourmay (1765)
 - Bureaucracy suggest routinized and constrained behavior, and inefficiency.
 - French *bureau* + Greek *κράτος* (*kratos*)
- Webster's dictionary:
 - „*large group of people who are involved in running a government but who are not elected*“
 - „*system of government or business that has many complicated rules and ways of doing things*“
- Political science:
 - Governance through public offices, that consists of appointed, but not elected officials, hierarchically structured and dependent on legitimate authority



BUREAUCRACY

The decisions it makes, have as much sense as this picture.

What is a bureaucracy?

- way of organization and management of public service
- continuous task fulfilling according to objective rules (no matter what political party governs)
- hierarchic structure
- subordination & superiority
- public offices behave like “non profit organizations”
- financed by a stable structure of subsidies



- The empty hospital - Yes Minister - BBC
 - <http://youtu.be/Eyf97LAjicY>

Max Weber (1864-1920)

- German sociologist, philosopher and political economist
- Well known for the influence on social theory and theory of state
- Gave baseline to modern theory of bureaucracy

Weber – social actions

- *Affectionate action*
 - based on emotions
 - used by **charismatic authority**
- *Traditional action*
 - based on habits
 - **traditional authority**
- *Rational action*
 - clear perception of targets
 - rational-legal authority and structure = **bureaucracy**

Weber's bureaucracy

- Bureaucracy is described as:
 - hierarchic organization
 - with almost military discipline
 - follows precise and detailed inter rules, which also guarantee accurate and regular function

Weber's bureaucracy

- Decision making based on:
 1. Rigid definition of functions and responsibility
 2. Stable rules and procedures
 3. Formal accuracy in details
 4. Top-down delegation of power

Weber's bureaucracy

- Optimal bureaucrat behavior
 - Follow contemporary rules and orders
 - Rules and orders are crucial for efficiency and success of the bureaucracy



Weber's bureaucracy – sum up

- Bureaucracy is hierarchic organization rationally coordinating work of many individuals among large scale of administrative tasks.
- Bureaucracy, according to Weber, is ideal rational management.
- Is based on precise objective rules, which cannot be influenced by a political power.

Check on „ideal rational management“

- *„At any one time some agencies are expanding and others stagnating. New agencies will set up in competition with established bureaus. And complex hierarchical battles between agencies are constantly in progress.“*
- **Get some patients - Yes, Minister - BBC**
- <http://youtu.be/x-5zEb1oS9A>



William A. Niskanen (1933-2011)

- American economist
- One of the creators of Reaganomics
- 1971: *Bureaucracy and Representative Government*

Niskanen's bureaucracy

- Bureaucrat is a rational individual, like everyone else.
- Maximizing his utility
- $f(U) = \{\text{income, reputation, number of subordinates, social status, budget size, benefits and delights}\}$
- For bureaucracy is typical effort for continues growth of influence and size of the bureau

Bureau characteristics - Niskanen

- Officials cannot use the difference between income and spending for themselves – no motivation for cost minimization.
- Income of the bureau is not based on demand and supply.
- The outcome of the bureau is difficult to measure and compare.



Government failures

1. Limited information
 - Consequences of many actions are difficult to foresee
 - Often the government doesn't have information it needs
2. Limited control over private responses to its actions
3. Limited control over the bureaucracy
 - The government issues decisions but it's up to government agencies (bureaucrats) to implement them
 - Have you heard of any examples of sabotage?
4. Limitations imposed by political processes
 - Influence of interest groups

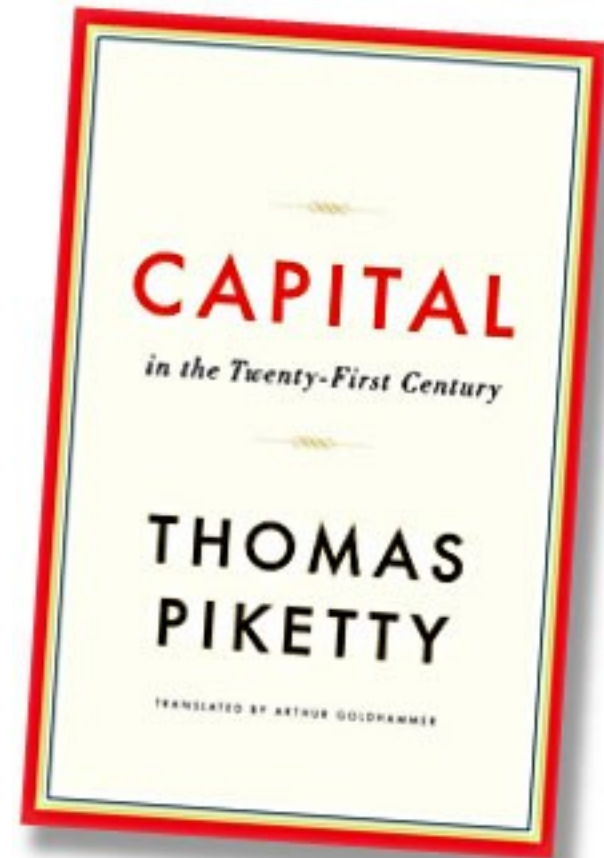


If the right people don't have power - Yes, Prime Minister - BBC

<http://youtu.be/gmOvEwtDycs>

Capital in the 21st Century

- Written by Thomas Piketty
- 700 pages long book filled with statistics
- An unlikely bestseller



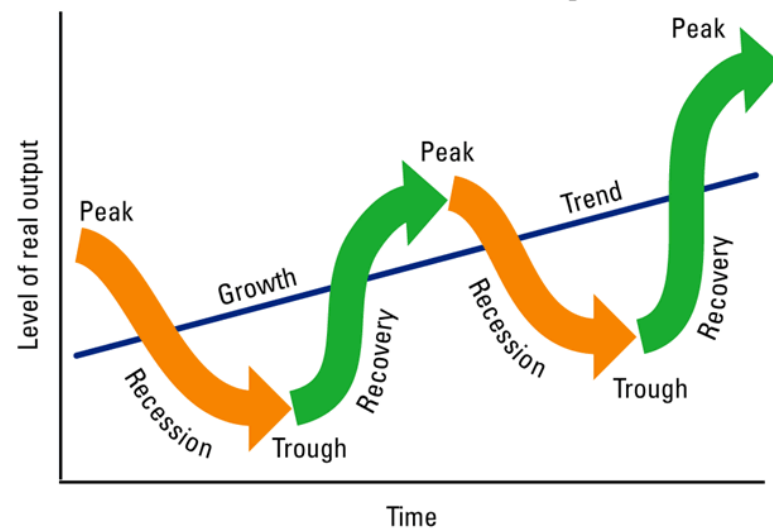
R or G?

r = return on wealth



g = economic growth

The Economic Cycle



What is higher? R , or g ?

- In the period 1914 – 1970, g was substantially higher.
- But in the long term, the period around two world wars seems like an exception.
- Piketty argues for $r > g$

If r is higher than g , what are the implications?

- Rich get richer.
- Inequality on the level of the 19th century

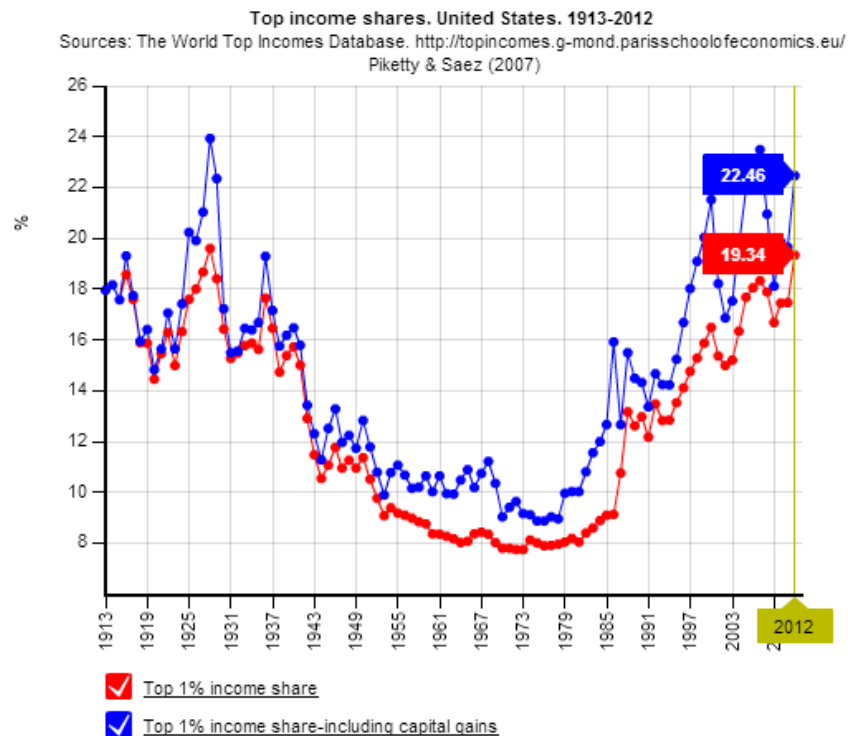
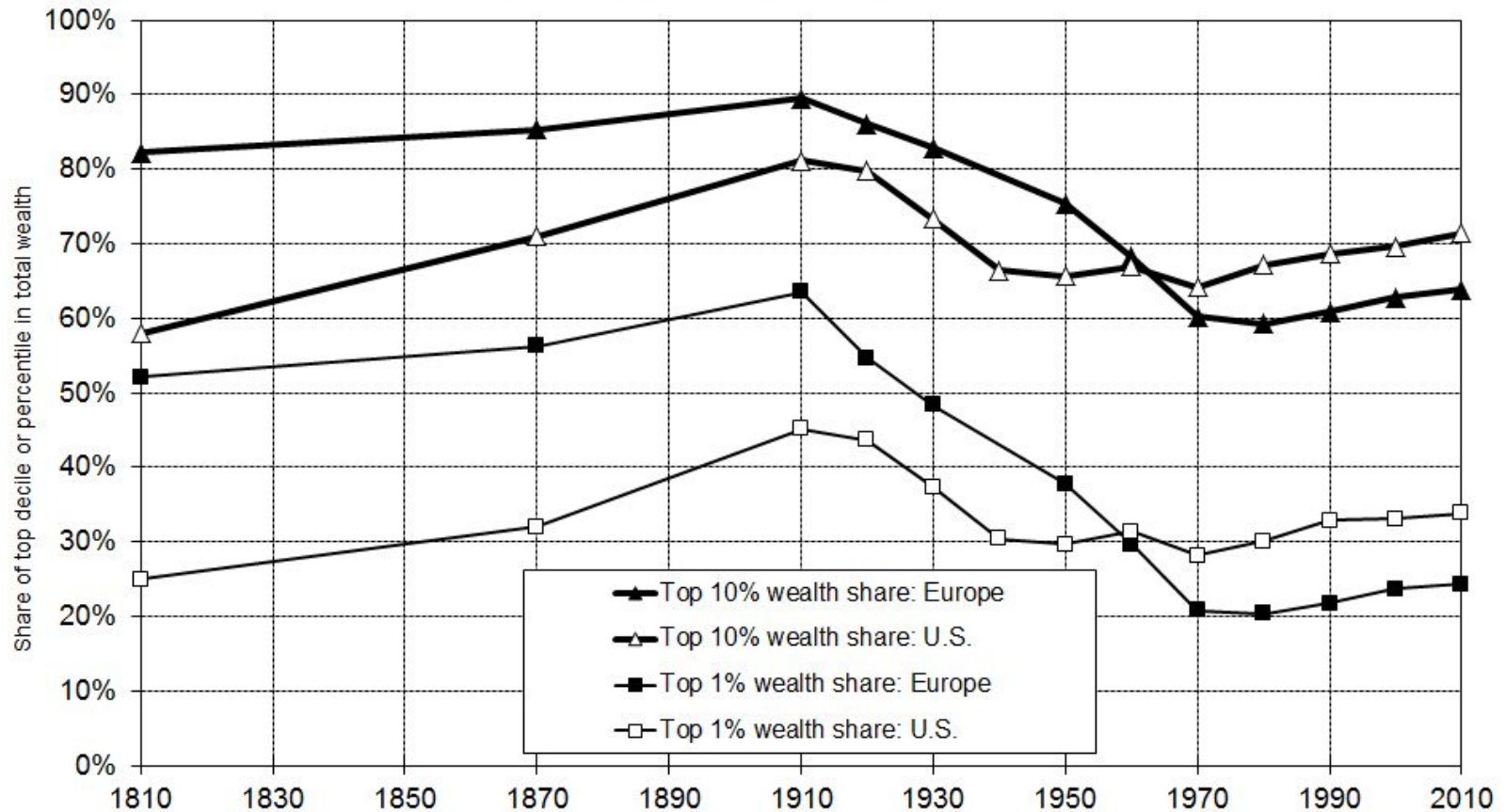


Figure 10.6. Wealth inequality: Europe and the U.S., 1810-2010

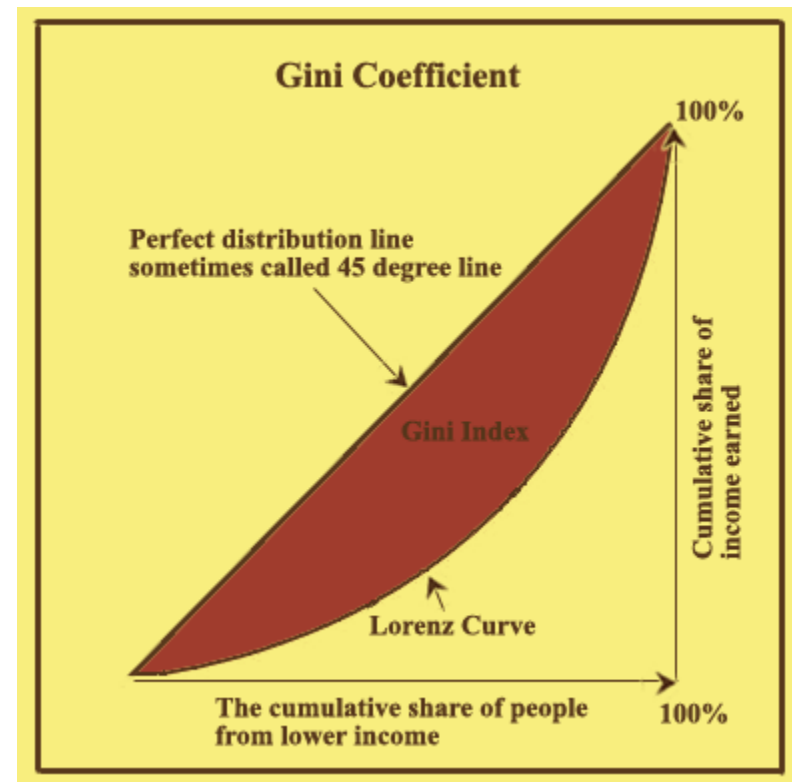


Until the mid 20th century, wealth inequality was higher in Europe than in the United States.

Sources and series: see piketty.pse.ens.fr/capital21c.

Lorenz Curve

- Graphical illustration of cumulative distribution of household revenues.
 - Cumulative distribution of wealth and income
 - Cumulative share of people from lowest income to highest



THANK YOU FOR YOUR
ATTENTION.
