

# Why Bureaucracy?

## Political Power and the Emergence of Autonomous Bureaucracies

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### ABSTRACT

Why some bureaucracies are autonomous regarding personnel policies? New Political Economy approaches to public administrations tend to explain bureaucratic autonomy as a result of the political exchange between *citizens (or interest groups) and rulers*. The general prediction is that bureaucratic autonomy increases with the degree of *diffusion of political power* among different agents. Nevertheless, administrative history shows us that many political systems with very restricted interactions between citizens and rulers created highly autonomous bureaucracies. Using developments from organizational theory, this paper focuses on an interaction that one can observe in all polities: the relationship between *rulers and public employees*. The main hypothesis is that polities where *powers are highly concentrated* tend to develop more autonomous bureaucracies as a way to craft credible commitments towards public employees. Only when rulers are exclusively concerned about civil servants' loyalty, systems with high diffusion of political power lead to highly autonomous bureaucracies. Empirical examples from contemporary developing countries and narratives from the historical development of bureaucracies in Europe illustrate these hypotheses.

# **1. The puzzle: Why in some public administrations the principal is not free to choose its agents?**

This paper aims to explain why the organization of some public administrations resembles the organization of private-sector hierarchies -that is, the “principal” (government) is free to choose its “agents” (public employees)- and, on the contrary, why some other public administrations have autonomous civil service systems which limit the capacity of the government for choosing public employees. This paper analyses what Frant sees as the “most striking” difference between private sector principals and many public sector ones: “civil service personnel systems, meaning personnel systems in which some important decisions about hiring, firing, and promotion are routinely made by an external commission that is not under the control of the chief executive” (1993: 990).

Traditionally, Transaction-Cost Economics has focused on comparing markets with hierarchies. Their purpose has been to answer the Coasian question: “Why organize economic activity one way (e.g. procure from the market) rather than another (e.g. produce your own needs: hierarchy)?” (Williamson 1990: 80). Nevertheless, for Williamson (1999), the dichotomy *market* vs. *hierarchy* should be complemented by a third form: *bureaucracy*, which would be characterized by the existence of civil service systems. He considers that bureaucracy is a mechanism of economic exchange like hierarchy or market which is, such as these two, well-suited for some purposes and poorly suited for others. This paper moves the Coasian question from the dichotomy market vs. hierarchy to the dichotomy hierarchy vs. bureaucracy: Why organize activity in bureaucracies (with civil-service laws constraining principals) rather than in hierarchies (where principals are free to hire, fire and promote employees)? If Coase

(1937) asked the question *Why Do Hierarchies Exist*, given the fact that markets - according to neoclassical economy- should work efficiently, the question this paper addresses is *Why Do Bureaucracies Exist* if hierarchies –according to basic incentive theory- should work efficiently.<sup>1</sup>

Public administrations can be classified in a continuum that would go from the ideal-type *hierarchy* (i.e. governments-principals are totally free to hire, fire and promote the public employees-agents who work for them) to the ideal-type *bureaucracy* (i.e. governments-principals are totally limited in staff policy). In order to avoid a concept with so many connotations such as bureaucracy, the second extreme of the continuum will be defined in this paper as Bureaucratic Autonomy. In short, Bureaucratic Autonomy would be what Horn (1995: 101) defines as the “fundamental distinguishing characteristic” of independent civil service systems: that it “ties the hands” of rulers for managing civil servants. In other words, all kind of rulers need administrators; and rulers have two basic ways to organize this: first, to create a *Corps* of self-managed and self-recruiting administrators (that we label Bureaucratic Autonomy) and, second, to employ administrators directly with a chain of responsibility that goes straight to the ruler (that we call Hierarchy). Between these two extremes we have a continuum of levels of discretion for the government.

This paper proposes a simple and parsimonious theory, following an institutional or New Political Economy (NPE) approach, for explaining the location of real-world public administrations within that continuum. Traditionally, the study of bureaucracies has been monopolized by organizational theories that –through emphasizing so much the

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<sup>1</sup> For incentive theory, a principal’s discretion to choose its agents is essential to address two of the most prevailing organizational problems: adverse selection and moral hazard (for a summary of this approach, see Mas-Colell et al. 1995).

inherent complexities of bureaucracies and their cultural underpinnings- resist building testable theoretical propositions (Moe 1997: 455). As a result, studies of bureaucracy tend to be more descriptive than analytical and judgments tend to abound more than positive evaluations. For example, the German autonomous civil service system is frequently explained as a “guarantor of the public good” (Goetz 2000:87) and the French as a result of the “strong state tradition” (Meininger 2000: 189). Cultural explanations also face the problem of how to explain that such widely differing societies as Japan, France or Germany end up possessing similar civil service systems which, in turn, are different from those of the US, UK or Sweden (Silberman 1993: 8).

The paper is organized as follows. Section 2 summarizes the main NPE predictions on the effects of political institutions over the adoption of autonomous bureaucracies. Section 3 develops alternative institutional hypotheses based on insights from organizational economics. The hypotheses are derived from a double problem of trust in the relationships between politicians and public employees. First, there is a problem of *positive control*: politicians, like private-sector executives, must create incentives that inspire public employees to go beyond the required minimum levels of effort. Yet public employees do not trust politicians when the latter are too powerful and, therefore, they can renege on their promises. If concerned with this positive control, the more decisive (i.e. powerful) a ruler is, the more she will have to bureaucratise her administration –since autonomous bureaucracies may offer more credible promises to employees than all-powerful politicians. Second, there is a problem of *negative control*: politicians must prevent public employees from pursuing opposite interests to politicians’. Here, the relationship between politicians’ power and bureaucratisation

becomes the opposite: the less decisive a politician is, and thus the less capable of sanctioning employees he is, the more he will tend to “buy” public employees’ loyalty through bureaucratising the administration. In sum, the emergence of bureaucratic autonomy would be the result of different combinations between rulers’ survival strategies (i.e. to which type of control -positive or negative- rulers give more relative importance) and rulers’ levels of decisiveness. Section 4 offers some empirical illustrations of these hypotheses from contemporary developing countries and from the historical evolution of Modern Western European administrations. Section 5 concludes.

## **2. The NPE view: Diffusion of Powers increases Bureaucratic Autonomy**

NPE approaches to public administration tend to explain bureaucratic autonomy as a by-product of the political exchange between *citizens (or interest groups) and rulers* –being something “inherent in our democratic system as a whole” (Moe 1989: 324).<sup>2</sup> The autonomy of bureaucratic agencies is the result of the interactions between separated powers representing different interests (Epstein and O’Halloran 1999, Huber and Shipan 2001, Lewis 2003). In their review of delegation theories, Bendor, Glazer and Hammond (2001: 245) consider that one of the most established hypotheses within the literature is that the more principals, the more difficult is to control bureaucratic agents. Therefore, one should see more bureaucratic autonomy in those polities with diffusion of political authority among several actors than in those polities with concentration of powers in a single actor. Despite the bulk majority of NPE studies deals with *policy autonomy*, some few authors, such as Terry Moe, have also analyzed *organizational autonomy* –including,

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<sup>2</sup> Since this paper follows the NPE literature, for space reasons, the large amount of works outside the NPE tradition on this issue cannot be reviewed here. For an excellent review of those studies, see Hood and Lodge (2006).

like the focus of this paper, the management of personnel through politically independent civil service systems.

For Moe (1989: 267), political uncertainty (i.e. legislators do not know if they will remain in incumbency for long) is the driving force behind the preferences of interest groups and legislators over the ideal type of bureaucracy. In order to protect the interest groups which support them, legislators will try to isolate agencies from an executive in hands of another party. On the contrary, “bureaucracy in parliamentary systems appears to be ‘less bureaucratic’ –less encumbered by formal restrictions, more informal and discretionary” (Moe 1990: 248). In parliamentary regimes it is more likely, due to the unchallenged authority of the party in government, that the administration resembles a coherent, top-down hierarchy. Horn (1995) and Williamson (1999) develop similar predictions. By removing party loyalists from the administration, and replacing them for ‘untouchable’ bureaucrats, legislators prevent executives and future legislators (of opposing coalitions) from sabotaging the implementation of their policies.

The main problem of NPE predictions on the impact of political factors over the design of civil service systems is their limited applicability outside the context of Western democracies –that is, how to explain that many bureaucratic reforms have taken place under autocratic regimes (e.g. 19<sup>th</sup> century Japan or 20<sup>th</sup> century Spain). The kind of open negotiation between legislators and their constituencies assumed by NPE authors seems difficult to conceive in dictatorships. Can we reasonably imagine a dictator granting autonomy to his civil servants in order to protect legislation from a future (maybe democratic) incumbent? This paper argues that the analysis of the interactions between *rulers and civil servants* -which one may find in both democratic and

authoritarian settings- may have more explanatory power than the NPE standard study of the exchanges between rulers and their electoral constituencies for understanding the arousal of autonomous bureaucracies.

### **3. An Alternative Theory from Organizational Economics: Two Different Impacts of Diffusion of Powers over Bureaucratic Autonomy**

The theoretical starting point of this paper is the following trade-off pointed out by organizational economists for private firms: a principal with high concentration of powers is a more efficient producer of monitoring services, but it is incapable of credibly committing against opportunistic behaviour (Miller and Falaschetti 2001). If, according to organizational economists, “even the best organized firms confront the effects of this trade-off” (Besanko et al. 2000: 170), this paper contends that this trade-off may also be important for public sector organizations.

Miller (1992) shows the pervasiveness of credible commitment problems within organizations using the following standard game of time inconsistency (figure 1). The employee moves first and has a choice of trusting the employer (working hard) or not trusting the employer (making a minimum effort). If the employee trusts the employer, the latter has the opportunity of honouring trust (giving a proper reward: e.g. paying \$10 per each piece the employee produces, granting a promotion, keeping the job in difficult times) or violating trust (not giving a proper reward: e.g. cutting the piece-rate to \$5 once he realizes how many pieces the employee is able to make, cancelling a scheduled promotion, laying off employees in times of crisis).<sup>3</sup> The employer may have incentives

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<sup>3</sup> The essence of the game is a problem of information asymmetry. Managers can never be sure how employees' marginal cost of effort functions look like, and employees are systematically trying to protect

to violate trust, because he obtains a direct benefit. Anticipating this violation, the employee refuses to trust the employer, which results in an outcome of minimum effort, a Pareto-suboptimal Nash Equilibrium.

[Figure 1 here]

One obvious solution to this problem would be transforming the one-shot game into a repeated one. When there are expectations of frequent future interactions, actors must trade-off the short-run temptation of defection in the first round against the long-run cost in subsequent rounds. Following most organizational scholars on this issue, this paper focuses instead on one-shot games. Firstly, because many employees may effectively perceive most interactions as one-shot games –especially if managers’ violation of trust involves the possibility of dismissal. Secondly, because while repeated interaction between employers and employees might sustain a cooperative outcome, it can sustain other outcomes as well (Falaschetti 2002: 163). Nevertheless, and although the Folk theorem shows that there are no clear predictions as to the outcome of repeated games, future extensions of the games presented here should explore how equilibria change when we allow for repetition.

Focusing on one-shot games, an explored way to mitigate organizational credibility problems is to introduce a system of diffusion of authority or “separation of powers” (Miller and Falaschetti 2001:403). If the owner of a firm (the one who obtains the benefits) is at the same time its manager (the one who fixes the price of \$10 or \$5 per each piece produced), workers may lack incentives to work hard because the owner has more temptations for opportunistic defections (such as adjusting piece-rates downward).

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that informational advantage. But, if the employee trusts the manager and works hard, the latter discovers the employee’s real marginal cost of effort function (Falaschetti 2002: 163).



The historical success of the American corporation –where shareholders are “separated” from the day-to-day managers- could be ultimately explained by the virtues of diffusion of powers within organizations.

Similarly, the interaction between governments and public employees could also be modelled by a two-person game such as the one depicted in figure 2. The most obvious difference from Miller’s trust game is that now the government (i.e. the employer) has the choice of playing the trust game –retaining his powers for hiring, firing, and promoting public employees (higher branch of the game tree)- or not playing it and *tying its hands* -granting Bureaucratic Autonomy (lower branch).

[Figure 2 here]

Bureaucratic Autonomy gives predictability to actors’ payoffs. The assumption is that, instead of confronting relatively unpredictable rewards and incentives from governments, with Bureaucratic Autonomy public employees will deal with predictable rules on rewards and punishments —enforced by autonomous bodies such as administrative corps. There are also incentives with Bureaucratic Autonomy, but they are low-powered. For example, because in principle there are more subordinates than superiors in all organizations, there are almost always several candidates for any available promotion. The idea is that in a bureaucratized organization you must follow a more step-by-step promotion system, from one level to the one right above it.

With Bureaucratic Autonomy, public employees will not be able to obtain the maximum payoff (A), because governments cannot offer them high-powered incentives (e.g. fast promotions); but, at the same time, it also prevents the worst outcome (e.g. opportunistic dismissal). As a result, Bureaucratic Autonomy would induce public

employees to exert what can be defined as a *medium effort*, halfway between the maximum and the minimum effort. At the same time, governments do not enjoy the benefits of a high-powered system of incentives when they decide to grant bureaucratic autonomy (they only obtain a *medium effort*), but they also avoid the worst payoff (minimum effort). Simultaneously, governments face a cost ( $-x$ ) for using Bureaucratic Autonomy: they must pay employees for life, without a say in their management, and losing flexibility to respond to external shocks demanding for changes in the size and composition of the administration.

Politicians' delegation to autonomous bodies is never totally credible and rulers may overturn it. However, undoing Bureaucratic Autonomy is not cost-free for politicians, and actually one cannot see many *de-bureaucratization* processes.<sup>4</sup> Bureaucratic autonomy thus simply plays the role that Falaschetti (2002:165) gives to hand-tying institutions: mechanisms that cannot totally eliminate principals' moral hazard (i.e. governments will always be able to dismantle an autonomous administrative body), but that increase the costs of acting opportunistically (i.e. governments pay high costs for replacing an entire autonomous corps).

To implement a given policy, the public employee can make a Maximum Effort (trust) or a Minimum Effort (mistrust). Maximum effort represents those efforts and asset-specific investments which may be subject to governments' time-inconsistency problems. Like in Miller's game, minimum effort would be here a level of effort

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<sup>4</sup> Even the most autocratic rulers who delegated personnel management to autonomous bodies, like Louis XIV in France or Franco in Spain, did not overturn these delegations. Nowadays, the entire New Public Management movement is an example of de-bureaucratization but, firstly, it is a recent phenomenon while this paper focuses on the historical emergence of autonomous bureaucracies; and, secondly and more importantly, as the literature has emphasized, NPM also entails important costs for politicians (for an extensive review of NPM see Pollitt and Bouckaert 2004).

sufficient for not being fired. If the public employee chooses minimum effort, the result is an inefficient outcome: both actors would be better off with other result (i.e. maximum effort/honour trust).

The nature of the commitment problem in public organizations must also take into account that the *decisiveness* –using the terminology of Cox and McCubbins (2000)- or the capacity for taking a decision that changes the status quo –such as reneging on a promise- is limited in some polities. This limit is captured by the parameter  $d$  (diffusion of political authority or rulers’ constraints for taking decisions), which would be 0 in the most decisive regime one can imagine (e.g. extreme autocracy, where an unconstrained ruler concentrates all relevant policy decision-making); somewhat higher in one-party parliamentary governments, where, within the limits of the rule of law, “party’s supreme authority allows it to turn around tomorrow and renege on any agreement” (Moe 1990:243); and much higher in multi-party parliamentary systems and presidential regimes, where the party in government needs to agree with coalition partners or other veto players in order to break a promise given to the employee. Despite the proliferation of cross-country indicators capturing the degrees of diffusion of political authority (e.g. number of relevant veto players, number of checks and balances) there is no consensus in the literature on the most adequate ones. Ultimately, following Tsebelis’ (2002) encompassing veto players theory, one must accept that, when embracing cross-country comparisons, this parameter  $d$  may also vary a lot depending on the policy at stake.

Facing a government with low decisiveness, minimum effort gives the public employee a sure payoff of  $B$  while maximum effort represents the highest reward ( $A$ ). When the constraints to decisiveness are high enough [ $d > (A - B)$ ], as the public

employee makes a maximum effort, the government obtains a higher payoff by choosing Hierarchy (B) over Bureaucratic Autonomy ( $B - x$ ). Conversely, with highly decisive governments [ $d < (A - B)$ ], as the public employee makes a minimum effort, the government must balance the payoff C of Hierarchy against the payoff ( $B - x$ ) of Bureaucratic Autonomy. That is, if the costs  $x$  are not high enough [ $x < (B - C)$ ], the government will prefer Bureaucratic Autonomy when it is “too” decisive.

With the Positive Control Game we have dealt with one of the political controls over public employees. Nonetheless, as argued previously, not only do politicians want an efficient personnel, but also a loyal one. Rulers’ survival in office may depend on inducing employees to do *good actions* (e.g. costly implementation efforts), but often times it also depends on preventing employees from doing *bad actions* (e.g. collaborating with the opposition or engaging in conspiracies and uprisings). In other words, one could also talk about the existence of a negative control in public organizations.

The structure of the Negative Control Game (figure 3) is symmetrical to that of the Positive one. The only differences are the courses of action available to actors. Instead of a choice between minimum effort and maximum effort, here public employee decides between Shirk and Comply. Shirk collects all public employees’ actions that run against politicians’ interests -from undertaking a biased implementation (such as favouring some interest groups over others) to directly engaging in subversive actions. On the contrary, Comply means undertaking a loyal policy implementation.

[Figure 3 here]

If the public employee decides to shirk, the preferred option for the government is to Sanction. However, the capacity to detect and sanction a shirking activity is never

absolute and, again, it can also be seen as correlated with the level of decisiveness of a polity (i.e. parameter  $d$ ). As has pointed out by NPE scholars, agents are more capable of shirking when they are facing two or more principals, because they can play off one principal against the other, and, at the same time, the more principals, the longer it takes to undertake a sanctioning decision (Ferejohn and Shipan 1990, Hammond and Knott 1996).

Like in the Positive Control Game, Bureaucratic Autonomy may be the solution available to politicians when they cannot solve the problem at stake on their own. Here, governments will opt for Bureaucratic Autonomy when they face many constraints to sanction public employees properly (i.e. high value of  $d$ ). Similar to historical accounts on the emergence of independent administrations, bureaucratic autonomy may also be understood as a device to achieve public employees' loyalty (Silberman 1993). Put simply, with bureaucratic autonomy (e.g. guaranteed life tenure, predictable promotions, and the like), the government "buys" public employees' loyalty.

Again, Bureaucratic Autonomy gives predictability to the actors' payoffs and prevents the best and the worst outcomes for both players. It is a second-best option that is preferred when the first-best solution involves too many risks for the actors. If we look at the first node of the game tree we can see that when there is a low diffusion of powers [ $d < (B - C)$ ], that is, when the government enjoys high decisiveness, as the public employee will comply, the government always obtains a higher payoff by choosing Hierarchy. When the diffusion of powers is above a certain threshold [ $d > (B - C)$ ], the public employee will have incentives to shirk. If the costs of Bureaucratic Autonomy are not very high [ $x < (B - C)$ ], the politician will choose it. In sum, contrary to what

happened in the Positive Control Game, here we see an inverse relationship between government's decisiveness and Bureaucratic Autonomy.

Which interaction is more important for governments' survival in office: the Negative or the Positive Control Game? That is, to prevent employees from shirking or to induce them to undertake higher levels of effort? Although the relative weight of organizational "efficiency" vis-à-vis "loyalty" varies for each office for each historical period and should be analysed on case-by-case basis, some theoretical developments may help establish some preliminary general distinctions across polities. For Bueno de Mesquita et al (2003), sometimes rulers have incentives to pursue good public policy (e.g. delivering public goods which make most people in a society better off) and sometimes bad public policy (e.g. repressive policies). That is, sometimes bad policy is good politics for rulers and good policy is bad politics. In order to survive in power, if rulers are facing riots or the threat of a civil war, they will tend to emphasize the loyalty of public employees over longer-term considerations like efficiency in policy implementation. On the contrary, if rulers are selected through fair and competitive elections, their survival in office may rely more on an efficient delivery of public policies.

As Bueno de Mesquita et al (2003) show, rulers' survival strategy does not necessarily coincide with the regime type. Using the terminology of this paper, dictators do not always play the Negative Game and democratic rulers the Positive Game. Recent or instable democratic rulers, with a high future discount rate, may prefer to assure public employees' loyalty rather than promoting the implementation of long-term public goods. At the same time, dictators with a relatively low future discount rate may give importance

to the delivery of public goods. Therefore, depending on the survival strategies of rulers (i.e. to which game rulers give more importance), four main hypotheses on the impact of the concentration/diffusion of powers over the level of Bureaucratic Autonomy can be drawn:

[Table 1 here]

#### **4. Empirical illustrations from developing countries and the history of European bureaucracies**

This section is aimed at providing a general map –both at contemporary and at historical level- of the relations between the independent variables (*rulers' decisiveness* and *rulers' survival strategy*) and the dependent one (level of *bureaucratic autonomy*). It offers some correlations and narratives of the mechanisms at play when certain rulers have tied their hands in the management of public employees, but a full contrast of the hypotheses is outside the scope of this paper, due to the lack of reliable comparative data on the characteristics of public bureaucracies.

One of the few existing datasets would be Evans and Rauch's (1999) *Weberianess Scale*, available for 35 developing countries, and which can be considered as a proxy for the degree of bureaucratic autonomy.<sup>5</sup> Figures 4 and 5 plot the number of veto players<sup>6</sup> (proxy for the diffusion of powers in a polity) and the Weberianess scale for two different sets of countries: those which have experienced recent civil conflicts and those which

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<sup>5</sup> The Weberianess Scale is created from a country-experts survey gathered over the period 1993-1996. Most of the items included in the index relate to the degree of bureaucratic autonomy, such as the importance of exams (instead of political appointments) in recruiting civil servants or whether civil servants have secure tenure and are likely to stay in the civil service (instead of being dismissed by politicians).

<sup>6</sup> The number for each country is an average of the number of relevant veto players for the period 1970-1990. For details on the data and the counting procedure for each country, see Beck *et al.* (2001).

have not.<sup>7</sup> Civil wars are an obvious instance in which employees' engagement with challengers may be more threatening for rulers (Silberman 1993). Therefore, it is plausible to assume a relatively major emphasis on the negative control of employees.<sup>8</sup> As hypotheses 3 and 4 predict, Figure 4 shows a positive relation between veto players and bureaucratic autonomy for those countries -despite being slight one.

[Figure 4 here]

More importantly, narratives from qualitative accounts on bureaucracies in developing countries provide flesh-and-bone illustrations of this relationship. Case-studies on the evolution of administrations in dictatorships subject to constant civil conflict and internal rebellions show how the most decisive rulers tend to grant the lowest levels of bureaucratic autonomy. Mobutu Sese Seko's Zaire (1965-1997) epitomises the characteristics of an extremely decisive ruler for whom loyalty concerns became key to survive in power. Numerous studies detail Mobutu's highly discretionary approach to staff policy. Individuals in public office were totally dependent on him for selection and were persistently reminded of the precariousness of tenure (Acemoglu et al. 2004:7-10). Furthermore, by regularly rotating government posts, Mobutu managed to maintain constant uncertainty and vulnerability (Leslie 1987:70). More generally, administrative literature on post-colonial Africa considers that the great politicization we see in many state apparatuses obeys to the survival strategy of rulers –obsessed with the loyalty of public officials (Guy Peters 1995).<sup>9</sup>

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<sup>7</sup> The countries in figure 4 have experienced some civil conflict in the period 1960-1990. Data from Alvarez *et al.*'s (1997) ACLP World Political/Economic Database.

<sup>8</sup>There are many other instances, apart from civil wars, where servants' loyalty can be key for rulers. The impossibility of obtaining data for those circumstances limits the scope of this empirical analysis, and its possible inferences must only be done for the concrete loyalty problems caused by civil wars.

<sup>9</sup>As one former ruler of Ghana admitted in relation to the design of his highly politicized administration, "for disloyal servants are no better than saboteurs" (quoted in Guy Peters 1995:209).



On the contrary, literature documenting administrative reforms by non-decisive rulers subject to continuous threats of rebellion or civil confrontation points out how they, unlike their decisive counterparts, prefer granting bureaucratic autonomy rather than increasing their levels of discretion to assure civil servants' loyalty. Silberman (1993) shows how in contexts of high political uncertainty -such as France, Spain or Japan at the turn of the 20<sup>th</sup> century- weak and limited rulers resorted to "buy" public employees' loyalty with increasing levels of autonomy. For instance, in the aftermath of the Russian revolution, many Spanish public employees actively engaged in the revolutionary riots which endangered the fragile parliamentary democracy. In response to the strikes in the postal service, the Home Minister used his discretionary power in personal staff to replace post workers for more-loyal military officers. However, the government was a coalition of diverse parties (i.e. high diffusion of powers) and the rest of the ministers ended up vetoing his decision. Unable to properly sanction employees, Prime Minister Maura chose a second-best option: granting bureaucratic autonomy through the enactment of the 1918 Civil Service Act. Administrative historians agree that this Act was not aimed at providing the right incentives to implement better public policies, but at calming down public employees under uncertain and proto-revolutionary circumstances (Nieto 1976:315; Parrado 2000:253).

If we look instead at those countries without recent civil wars –that is, countries in which one may assume a relatively higher weight of the positive control- the impact of decisiveness over bureaucratic autonomy seems to be the opposite. As hypotheses 1 and 2 predict, we can see in Figure 5 how polities with more concentration of powers are the ones with more bureaucratic autonomy. The notable expansion of autonomous

bureaucracies under the rule of “developmentalist” dictators -such as Spain’s Franco, Chile’s Pinochet or some East Asian countries- could be an example of how highly unconstrained rulers interested in providing incentives to public employees need bureaucratic autonomy to overcome organizational credibility problems.<sup>10</sup>

[Figure 5 here]

Along those lines, there is an overwhelming consensus among administrative scholars on the important increase in bureaucratic autonomy under the rule of one of the longest serving dictators of the 20<sup>th</sup> century –Spain’s Franco (1936-1975). Especially since the late 1950s onwards, when Franco regime entered his “developmentalist” phase, Spanish administrative bodies became more independent than their European counterparts in democratic systems –including the traditionally highly autonomous French corps (Beltrán 2001:609).<sup>11</sup> As a result, the last two decades of Franco’s rule are considered as one of the closest to the “bureaucratic ideal” in the history of Western Europe (Nieto 1976:574).<sup>12</sup>

The literature also reveals that the mechanisms at play when Franco tied his hands –and his ministers’ - for managing public employees were similar to those pointed out in the positive control game. Franco offered high levels of bureaucratic autonomy very particularly to those public employees -and would-be public employees- who had to undertake costly asset-specific investments in human capital, such as state lawyers and civil engineers. Franco gave more autonomy precisely to those who could suffer the most

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<sup>10</sup> See Preworski and Limongi 1993 for an account of the reasons why some dictators become “developmentalist” and how they need an efficient administration.

<sup>11</sup> Among other differences, for example, the Spanish corps enjoyed self-financing capacities.

<sup>12</sup> For Parrado (2000), the Franco’s state could basically be defined as a bureaucratic state. According to Villoria (1999:103), it could be argued that the Weberian prophecy was fulfilled completely during the last years of Franco’s rule.

an all-powerful ruler's time inconsistency problems. Granting bureaucratic autonomy was the only way to achieve Corps' collaboration for the implementation of Franco's ambitious public infrastructure plans (Nieto 1976:254). As high-ranking civil servants of the time admitted, credibility concerns were playing a key role in Franco's administrative reforms: "corps's appropriation of the administrative organization has been the only possible guarantee against the excessive arbitrariness of political managers"; because, "in their relations with the Government, Corps try to absorb the decisions that affect their members, protecting them from the 'danger' of politicians' discretion" and "guaranteeing more satisfactory working conditions" (De la Oliva and Gutiérrez Reñón 1968:63).

Few inferences may be extracted from this limited number of observations, but a look into the qualitative literature on the historical emergence of bureaucracies in Modern Europe under different political regimes seems to confirm these patterns and also provides insights into the mechanisms underlying rulers' decisions. To begin with, there are arguments to sustain that Early Modern European monarchs (particularly, in Britain, France, Spain, Prussia and Sweden)<sup>13</sup> were increasingly interested in playing the Positive Control Game –at least with certain public employees. For example, in comparison to contemporary post-colonial African "predatory" states, Bates (2001:102) concludes that Early Modern European rulers tended to provide public goods and wealth-enhancing policies (e.g. public infrastructures) because, unlike the former, they did not receive foreign aid, and thus their ability to survive politically and fund their wars depended to a greater extent upon the capacity of their subjects to produce economically, and thus generate the basis for tax revenues.

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<sup>13</sup> That is, the ones for which there are some historical comparative administrative studies available.

Despite sharing similar survival strategies, Modern European countries exhibit different levels of concentration of powers. Scholars classify them in two main groups: *Absolute* Monarchies –like France, Spain or Prussia- and *Limited* Monarchies –such as Britain, Holland or Sweden (Finer 1997). Likewise, Acemoglu et al. (2004:24) develop the variable ‘Constraints on the Executive’, which measures limitations on the arbitrary use of power by the executive. In other words, it compares European Monarchs’ level of decisiveness historically. Table 2 offers the values of this variable (which ranges from 1 to 7) for the five countries from 1500 to 1750. One may observe how while the starting position was similar in 1500 (with highly decisive rulers), there are two divergent paths since then. While in France, Spain and Prussia rulers’ decisiveness either remained very high, both Sweden and (very particularly) Britain increased their constraints on the executive.

[Table 2 here]

According to hypotheses 1 and 2, one should see more bureaucratic autonomy in Absolute Monarchies than in Limited ones. What it is argued here would thus be similar to McLean’s comparison, following North and Weingast (1989), between Modern France and Britain: “French rulers from Louis XIV to XVI could never make a credible promise not to renege on their debts. But the British executive (...) would not be able to renege because parliament (...) could have punished the executive for any default. This was common knowledge, and so Britain faced a lower interest rate on its state debt than France” (2000:668). If one reviews the existing literature on the differences between administrative structures in Modern Europe, it seems that the French –together with the Prussian and Spanish- kings had to pay as well what can be considered as a *higher*

*interest rate* to state employees than their British –or Swedish- counterparts. While the later relied on flexible administrative structures closer to private-sector hierarchies, the former delegated personnel policies to highly autonomous and independent bureaucratic corps.

[Table 3 here]

Regarding Britain, there is a wide consensus in the literature that in its state-building Britain did not develop an autonomous civil service (Cohen 1941, Fischer and Lundgreen 1975). The British executive enjoyed a substantial discretion for selecting, promoting, firing and establishing incentives for state employees. As a result, the non-formalized system of hiring and firing in the Early Modern Britain looked like that of private-sector corporations (Finer 1997). This was a perfect setting for recruitment by patronage, but it did not necessarily mean ineffectiveness. A person in the hierarchy of service who wanted to go ahead or stay at least, was well advised to look for capable assistants (Fischer and Lundgreen 1975:490). Consequently, the Early Modern Britain's administrative system could be defined as a system of "hunting" and protection of talent, which "remained in a much more fluid, adaptable state than on the Continent" (Fischer and Lundgreen 1975:483). Similar to what the Positive Control Game would predict, British governments seemed able to obtain the maximum level of effort from their employees without the need of granting them bureaucratic autonomy. Although there is a lack of conclusive evidence in this point, scholars point out the "paradox" that, despite

having an administration made of “amateurs” –in contrast to the more autonomous French “professionals”- the British state appeared quite efficient.<sup>14</sup>

Equally, the few existing comparative studies which include the historical evolution of the Swedish public administration underline its similarities with the British one. For instance, Guy Peters (1995) remarks that, historically, the Swedish administration has been much more accountable to rulers than their Prussian or French equivalents, because Sweden lacked the independent administrative bodies the latter had developed. For example, like in Britain, and unlike in France or Spain, Swedish civil servants had no proprietary claim to their offices (Ertman 1997).

In relation to the French administration, the scholarship agrees that it was *precisely* in times of the all-powerful Sun-King Louis XIV –that is, when ruler’s decisiveness was especially high- when the main characteristics of the French administrative state –and in particular the autonomy of the *Grand Corps*- took shape (Guy Peters 1995). State employees started to enjoy a high degree of isolation from monarchs’ -and his cabinets’- interferences thanks to their integration in increasingly autonomous administrative bodies. Particularly in finance and law, the classical branches of inner administration, civil servants were grouped into types of *officiers*, ruled by *cours souveraines* which never acquiesced to consider themselves dependent on the king and his *conseil d’état*.

The first autonomous corps within the French army entailed the two main types of specialists required at the time: the *genie*-officer (i.e. military engineer) and the artilleryist (Fischer and Lundgreen 1975:550). These specialists –who had to undertake costly asset-

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<sup>14</sup> Fischer and Lundgreen (1975:490) analyze, among others, the good results obtained by the flexible British and Dutch Navies when compared with the more *bureaucratized* ones of Portugal and Spain, which, nevertheless, had started the 16<sup>th</sup> century with a maritime position of superiority.

specific investments in human capital- were divided in independent self-regulated bodies (e.g. the *corps du genie militaire*, 1697) and selected via autonomous military technical colleges (e.g. the *école du genie*, 1748). That was also the case for the civil administration, where here again France was the pioneer creating autonomous bodies for the most sophisticated technical services -and of crucial importance to the modernizing French state- such as civil engineering and architecture (e.g. *corps des ponts et chaussées*, 1716).

With regards to Prussia, in times of the Great Elector Frederick William (1640-1688), the army was organized through contracts –called *Kapitulation*- between the Elector and Colonels. However, Frederick William, taking advantage of his unconstrained decisiveness, started to modify ad hoc those contracts and veto some colonels’ appointments in the army -what produced discontent among troops. As a result, his successor, Frederick William I, decided to replace the *Kapitulation* contracts for a bureaucratic-like army, giving a regular employment to soldiers as well as high rates of pay (Finer 1997). Soon afterwards, several delegations of staff policy “made the officers’ corps relatively independent of government interference” (Fischer and Lundgreen 1975:524). For instance, once a candidate had passed all examinations, he had to be elected by the officers of the corps he wanted to join.

Regarding civil service, Prussia is considered as the first country in Modern European history to have elaborated and applied a merit system (Fischer and Lundgreen 1975:516). Almost immediately, the rules of recruitment became very strict and were not broken up by arbitrary exceptions from the government (Finer 1932:119; Morstein Marx 1957:174). There was also an increase in the number of regulations which protected

functionaries from being arbitrarily fired by the executive. In the same way, a sentence of the *Reichskammergericht* in 1759 stated, for the first time in Modern Europe, that the removal of a civil servant could not be decided by the executive, but by a well-founded judicial sentence (Nieto 1976:46). In general, it was under the reign of four successive Hohenzollern kings (1640-1786) -one of the European dynasties traditionally known for their capacity to concentrate powers- when Prussia developed its high levels of bureaucratic autonomy.

Similar to Prussia, the Spanish Absolutist monarchy started to lose its capacity to freely remove civil servants during the 17<sup>th</sup> century. In the first place, monarchs designed more complex appointment contracts which offered civil servants guarantees against arbitrary removals (Trayter 1992:38). A functionary could only be dismissed *ex grave and legitima causa* and through an increasingly detailed procedure. In sharp contrast to the British administration, several observers of the time noticed that in Spain an executive-dominated personnel system was being increasingly replaced for a judiciary one. For example, Castillo de Bobadilla (1546-1605) remarked that “no one can be deprived of his office unless it is by a great reason or in the cases issued by laws”<sup>15</sup> and Fernández de Otero stated in 1732 that “officials cannot be removed unless there is a fair cause”.<sup>16</sup>

At the same time, the Spanish administration gradually adopted a structure of independent corps similar to the French and Prussian ones. Again, it was *precisely* during the 18<sup>th</sup>-century ‘enlightened despotism’ of King Charles III –that is, when the traditionally high decisiveness of Bourbon monarchs coexisted with the will to provide

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<sup>15</sup> *Política de Corregidores*, 1775, Ed. Madrid, p.239. Quoted in Nieto (1976:46).

<sup>16</sup> *Tractatus de Officialibus Reipublicae*, 1750, p:62-63. Quoted in Nieto (1976:50).



extensive public goods, and, therefore, when one could expect the Positive Control Game to become more relevant- when the most prestigious corps of engineers were established (e.g. *Real Cuerpo de Ingenieros*, 1774).

In sum, the available evidence indicates that, first, the most unconstrained and powerful rulers in Modern Europe according to standard accounts (e.g. Acemoglu et al. 2004) were precisely the ones who tied the most their hands for managing public employees. Secondly, very similar to what is argued in section 3, the existing evidence also points out that those authoritarian rulers tied their hands in order to increase the overall levels of administrative efficiency –in most of the cases, to provide public goods that would allow rulers to raise more taxes to fund their colonial and war enterprises.

## 5. Conclusions

On the one hand, neither the limited and eclectic analysis of contemporary developing countries nor the narratives from the different administrative paths of Modern European countries fully contrast the theoretical hypotheses depicted in Section 3. On the other hand, the empirical eclecticism –so frequent in comparative administration studies due to the almost total absence of cross-country datasets- has the advantage of corroborating from multiple sources of evidence (Brans 2003:426). And, more importantly, despite being few and extremely heterogeneous, the empirical examples shown here are far from trivial and some of them are both counter-intuitive and at odds with mainstream NPE authors. Bureaucratic autonomy is normally seen by NPE as a consequence of the democratic game –frequently, as an inevitable cost of having separation of powers- and, in general, as the result of interactions between rulers and their

constituencies. Using developments from organizational theory, this paper contends that the relevant exchange for understanding bureaucratic autonomy is the one between rulers and state employees.

The main contribution of this paper is theoretical. Traditionally, Transaction-Cost Economics (TCE) has assumed that “in the beginning, so to speak, there were markets” (Williamson 1981:1547). From there, TCE has basically tried to understand the shift from markets to hierarchies. This paper moves the initial assumption a step forward, assuming that, in the beginning, so to speak, states were organized as hierarchies. And it tries to understand why some polities have remained closer to the hierarchical ideal while others have switched toward the bureaucratic one.

The simple theory drafted here brings together two different ideas on organizational design and applies them to public administrations. First, it has been shown that, when mostly concerned with policy *efficiency*, rulers with high decisiveness will tend to delegate staff policy to autonomous administrative bodies as a way to craft credible commitment towards employees. This finding concurs with the insights by some economists like Granovetter (1985:487) or Williamson (1994:97), who argue that to create credible commitments (through the use of bonds, hostages, information disclosure rules, specialized dispute settlement mechanisms, and the like; in this case, bureaucratic autonomy) is to produce functional substitutes for trust. Second, this paper exposes, in accordance with the insights by some political scientists (Silberman 1993), that, when mostly concerned about public employees’ *loyalty*, rulers with low decisiveness will tend to grant bureaucratic autonomy to civil servants as a way to buy their loyalty.

This paper sheds some light on the question of which political systems produce more ‘bureaucratic’ administrations. The focus is on the emergence, not on the continuity of bureaucratic autonomy, which may depend on different factors. Likewise, this paper does not control for alternative hypotheses which could also have a say in the development of public administrations. It seems reasonable to think that many different factors may have had a say in the arousal of each specific autonomous bureaucracy in each country and at each particular historical period. This paper simply tests the impact of some particular political variables –for which there is some evidence pointing out the mechanisms through which they act- over the type of public administration.

In that sense, it has provided evidence which, to say the least, questions one of the main statements by NPE approaches to public administrations: that the more divided the government is, the more autonomous and insulated its civil servants will be (Moe 1990, Moe and Caldwell 1994, Horn 1995, Lewis 2003). A recurrent argument within this literature has been to blame the American system of separation of powers for what they see as an excessive degree of bureaucratic autonomy. The normative statement which would follow from their insight is thus very clear: a system with more concentration of powers solves the problems of bureaucratic autonomy. In words of Lewis, “it reinforces our belief in a strong and independent executive who brings about both a unique perspective and formidable powers to negotiation over the design of the administrative state” (2003:18). On the contrary, the normative statement of this paper would be almost exactly the opposite (for many or most polities):<sup>17</sup> *formidable powers* may end up

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<sup>17</sup> For all those polities, like the US, in which one may reasonably assume that rulers are interested in the provision of public policies to survive in power.

producing formidable problems of credibility. And to resolve them, more bureaucratic autonomy will be required.

In sum, it is a common place in the Political Economy literature to point out the existence of the following trade-off: the more you protect the people (i.e. through diffusing political authority among several principals or veto players), the more you *disable* the government to act because governments become less decisive (Przeworski 1996, Tsebelis 2002). As it has been shown here, the decisiveness of a government may be essential to control public employees (to prevent them from shirking), yet government's decisiveness may not be an asset but a liability for enabling the administration to work due to the inherent problem of trust within all organizations. As a matter of fact, when rulers are interested in providing public policies, one may arrive to opposite conclusions to those prevailing among many political economists: the more you protect people from government, the more you *enable* the government to act, because less decisive governments are more credible regarding public bureaucrats, and costly bureaucratic autonomy arrangements are not so necessary.

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**Table 1. Hypotheses from the Positive and Negative Control Games**

|                                                                                                                                                                                    | Concentration of Powers:<br>Government with High<br>Decisiveness | Diffusion of Powers:<br>Government with Low<br>Decisiveness |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------|
| Survival strategy of rulers<br>primarily depends on public<br>employee's Loyalty<br>(Government and civil<br>servants play the <i>Negative<br/>Control Game</i> )                  | LOW BUREAUCRATIC<br>AUTONOMY<br>(Hypothesis 4)                   | HIGH BUREAUCRATIC<br>AUTONOMY<br>(Hypothesis 3)             |
| Survival strategy of rulers<br>primarily depends on the<br>efficient provision of public<br>goods<br>(Government and civil<br>servants play the <i>Positive<br/>Control Game</i> ) | HIGH BUREAUCRATIC<br>AUTONOMY<br>(Hypothesis 1)                  | LOW BUREAUCRATIC<br>AUTONOMY<br>(Hypothesis 2)              |

**Table 2. 'Constraints on the Executive' in Early Modern European countries**

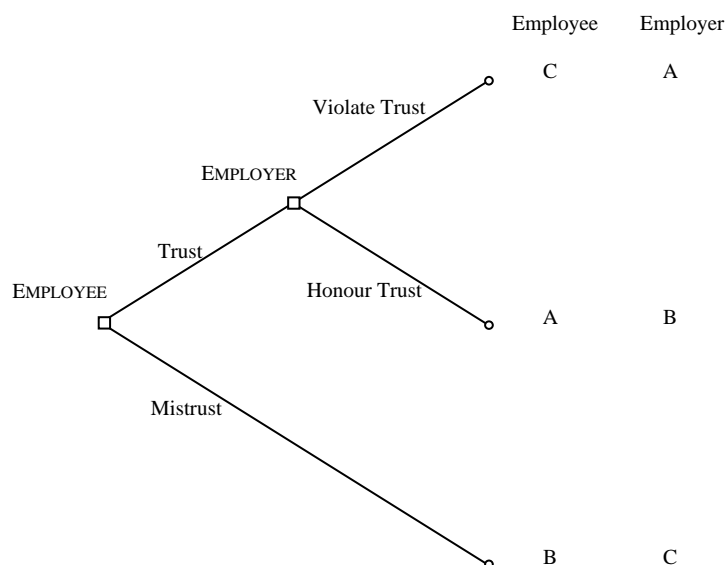
|             | France | Prussia | Spain | England | Sweden |
|-------------|--------|---------|-------|---------|--------|
| <b>1500</b> | 2      | 1       | 1     | 2       | 2      |
| <b>1600</b> | 1      | 1       | 1     | 3       | 2      |
| <b>1700</b> | 1      | 1       | 1     | 5       | 3      |
| <b>1750</b> | 1      | 1       | 1     | 6       | 3      |

Source: Acemoglu et al. (2004)

**Table 3. Early Modern European countries according to their type of administration and political decisiveness**

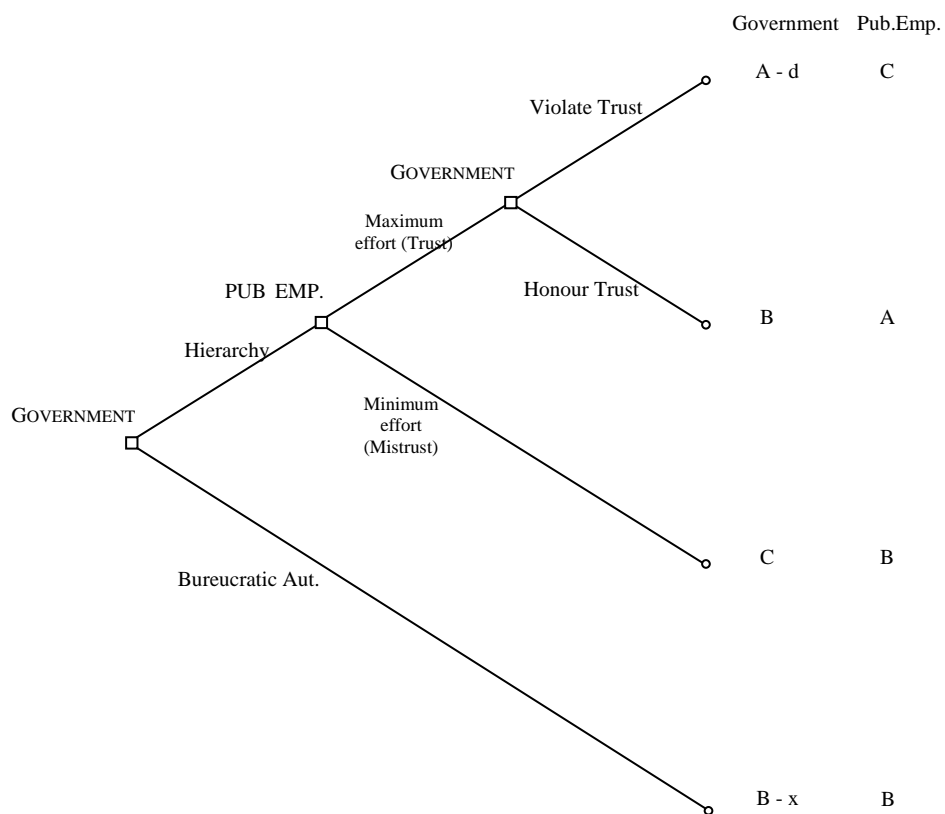
|                                                                                                      | <i>Bureaucratic Autonomy</i><br>(administration based on Corps) | <i>Hierarchy</i><br>(administration not based on Corps; closer to private sector firms) |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <i>Absolute Monarchies</i> (Finer 1997)<br><2 Constraints on the Executive<br>(Acemoglu et al. 2004) | France<br>Prussia<br>Spain                                      |                                                                                         |
| <i>Limited Monarchies</i> (Finer 1997)<br>>2 Constraints on the Executive<br>(Acemoglu et al. 2004)  |                                                                 | Britain<br>Sweden                                                                       |

**Figure 1.– The Commitment Problem in firms**



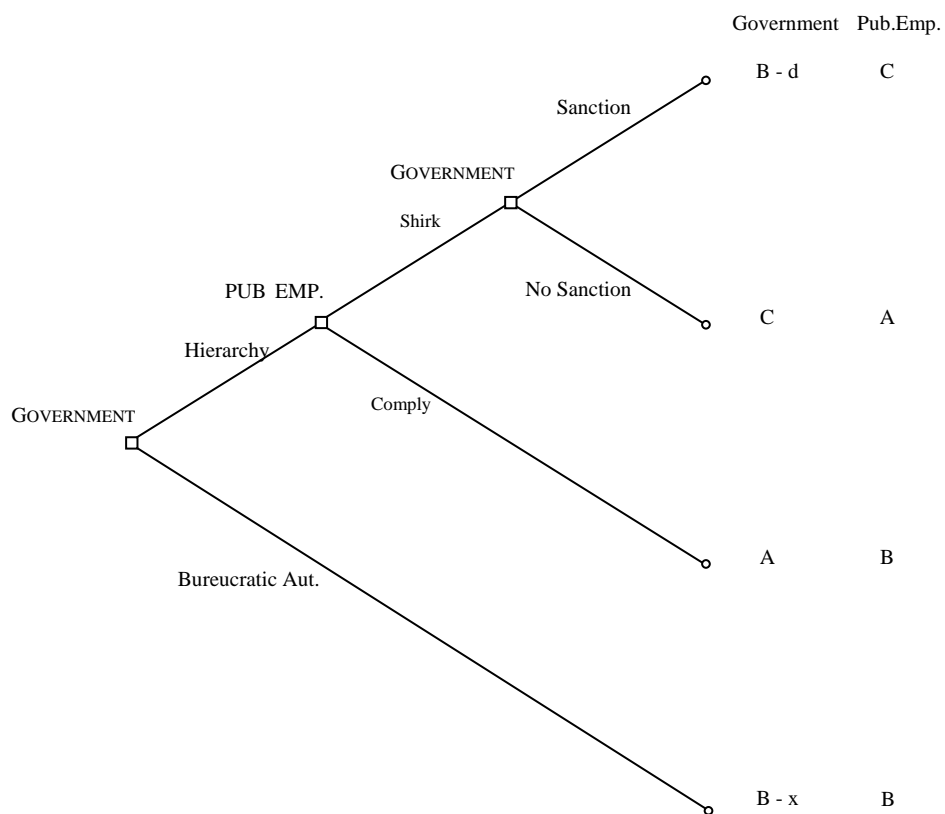
Employer's outcome ranking  $A > B > C$ . Employee's outcome ranking  $A > B > C$ . Figure adapted from Miller (1992).

**Figure 2.– The Positive Control Game**



Public Employee's outcome ranking  $A > B > C$ . Governments' outcome ranking  $A > B > C$ .

**Figure 3.– The Negative Control Game**



Public Employee's outcome ranking  $A > B > C$ . Governments' outcome ranking  $A > B > C$ .

Figure 4

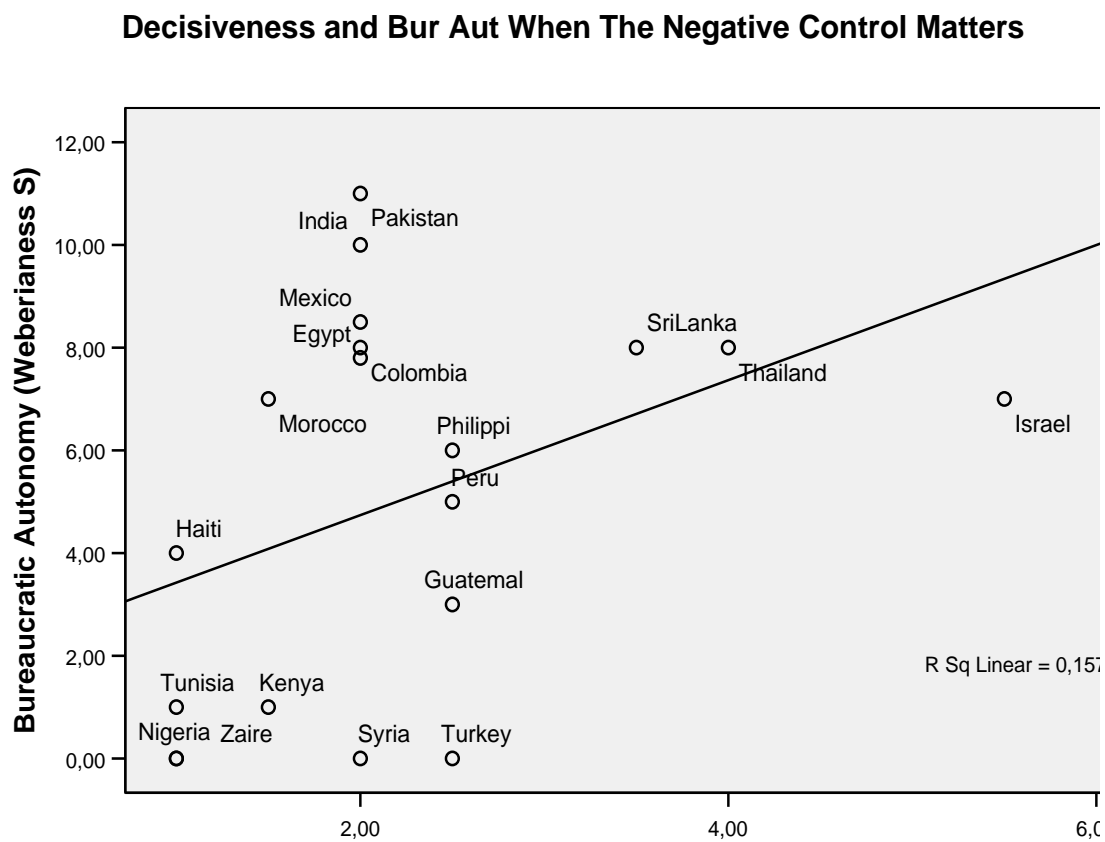


Figure 5

