

From Weber to Kafka: Political Instability and the Rise of an Inefficient Bureaucracy

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Introduction

- Bureaucracy is essential for functioning of modern market economy:
 - *Weberian*: swift/efficient bureaucracy→open markets, efficient competition, low organizational/transaction costs
 - *Kafkian*: slow/inefficient bureaucracy→barriers to entry, biased competition, high organizational/transaction costs
- Habsburg Monarchy—19th Century: example of Weberian bureaucratic efficiency (Becker et al 2011) but at a point the system collapsed (Kafka)
- Hence important to study not only variation across countries but also what could make a system go from Weber to Kafka

Politics and Bureaucracy

legislation/regulation $\left\{ \begin{array}{ll} \text{politics} & \textit{chooses} \\ \text{bureaucracy} & \textit{implements} \end{array} \right\}$

- faster and informative bureaucracy provides more and more timely information on quality of policymaking
- since policymakers' payoff-relevant horizon is institutionally determined, variation in informational horizon due to bureaucracy distorts political incentives

This Paper

- fully dynamic model of interaction between politics and bureaucracy
- politicians propose reforms to enhance competence reputation
 - public/voters observes effects of reforms only once completed
 - bureaucratic efficiency affects speed of completion
 - two-way connection:
 - **mechanic**: frequent reforms hinder bureaucratic efficiency
 - **strategic**: slower/noisier bureaucracy favors more frequent and lower quality reforms (*corruptissima re publica plurimae leges*)
- focus on transition from a Weberian to a Kafkaian economy as a result to negative shocks to political stability
- test our driving strategic forces and illustrate long-term consequences with data from Italy

Relation to Literature

- “internal” determinants of bureaucratic performance (Prendergast, 2007; Gailmard and Parry, 2012, Bertrand et al., 2015, Nath, 2015*)
- bureaucracy and politics as substitutes (Maskin and Tirole, 2006; Alesina and Tabellini, 2007; 2008)
- politicians career concerns (Persson and Tabellini, 2000; Rogoff and Siebert, 1998)
- bureaucratic delay (Coviello, Ichino and Persico, 2014; 2015)

Model

- discrete time, $t = 1, 2, \dots$ divided in legislatures $\ell = 1, 2, \dots$ of length $\lambda \geq 1$
- each legislature is run by a unit mass of politicians $i\ell$
- each politician $i\ell$ privately knows her competence $\theta_{i\ell}$ and the quality of her project of reforms $\omega_{i\ell}$
 - $\theta_{i\ell} = 1$: *competent*; $\theta_{i\ell} = 0$: *incompetent*
 - $\omega_{i\ell} = 1$: *good*; $\omega_{i\ell} = 0$: *bad*
- $\Pr(\theta_{i\ell} = 1) = \pi$; $\Pr(\omega_{i\ell} = 1) = p\theta_{i\ell}$
 - p is meant to capture *need for reforms*

Model: Reforms

- at beginning of legislature ℓ politician $i\ell$ chooses whether to carry out her project of reforms (*active*): passes 1 reform per period, unless hard evidence that her project is bad
- once passed, each outstanding reform is (stochastically) completed (fruits are visible) at rate

$$\alpha_{\ell} \equiv \alpha(h_{\ell}) = \begin{cases} \bar{\alpha} & \text{if } h_{\ell} \leq \bar{h}^K, \\ \underline{\alpha} & \text{if } h_{\ell} > \bar{h}^K, \end{cases} \text{ for all } \tau \in [\tau_t, \tau_{t+1})$$

- $\alpha(h_{\ell})$: *efficiency of the bureaucracy*
- reform passed at t and completed at t' yields flow of *public capital* at $t'' \geq t'$ equal to $\omega_{i\ell} \delta^{t''-t}$

Model: Payoffs and Reputation

- we consider a *career concerns* and a *reelection* model
- voters/public observe politicians' actions and fruits of reforms
- let ρ_{il} be the reputation of politician il is competent at end of her first mandate:

$$u_{il}(\theta_{il}, \omega_{il}) = \phi \rho_{il}$$

- focus on career concern model—results are similar

Political Equilibrium

- 1 competent politicians are active if and only if their project of reforms is good;
- 2 incompetent politicians are active with probability $\sigma(\alpha_\ell) \in [0, p)$, increasing in need for reforms p , decreasing in duration of legislature λ , average quality of politicians π , and bureaucratic efficiency α_ℓ

Multiple steady states

Weberian Economy: only good reforms are started and
bureaucracy is Weberian ($\alpha_t = \bar{\alpha}$)

Kafkian Economy: some bad reforms are started and bureaucracy
is Kafkian ($\alpha_t = \underline{\alpha}$)

- we characterize conditions for existence of a Weberian steady state and work under the assumption that they are satisfied

Kafkian steady state

- Kafkian steady state exists when
 - need for reforms is high
 - legislatures are short
 - there are few competent politicians
 - Kafkian bureaucracy is highly inefficient

Three paths to Kafka

- 1 temporary decrease in *length of legislatures* (political instability) (short term: more **bad** reforms)
 - 2 temporary increase in *need for reforms* (economic crisis) (short term: more **good and bad** reforms)
 - 3 short-lived *technocratic governments* (short term: more **good** reforms)
- long term: more outstanding reforms next legislature → slower bureaucracy → more **bad** reforms (vicious cycle)

A Gresham's law of bureaucracy and ways out Kafka

- if we endogenize supply of competent politicians: a fall in the efficiency of bureaucracy leads to a fall in relative supply of competent politicians
- banning reforms or dropping old reforms—needs unlikely coordination among stakeholders and reduces good reforms
- reform of bureaucracy—risks of useless reforms because of reputational logic; difficult to reform bureaucracy when very powerful

Italian case 1990–present

- the “First Republic”: *K-factor* = stable majorities, Christian Democracy dominant force
- collapse of Soviet Union → collapse of Christian Democracy
- the “Second Republic” = unstable majorities, frequent elections, no dominant force

Micro evidence on key mechanism

- panel data of Italian MPs over 7 legislatures (1987-2008)
- **Test:** in short legislatures, incompetent politicians propose more bills (diff in diff)
- 3 legislatures end prematurely: exactly 2 years—predictable by majority margin in higher chamber
- incompetence measured by (not usually public) out of politics Mincerian residuals/fixed effects—check: incompetents' bills less likely to pass (25-75% of average)

Short Legislatures and LQ politicians (avg: 6.7 bills)

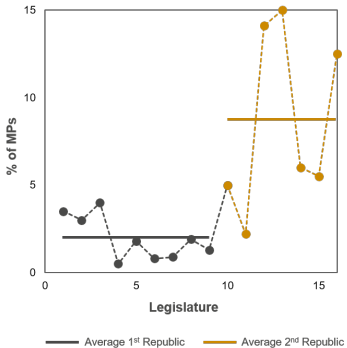
	Quality measure	
	Fixed effect	Mean residual
Low quality politician	-0.63 (0.266)	0.00 (0.995)
Complete legislature × low quality politician	-1.21** (0.036)	-1.10** (0.044)
Observations	4,903	4,903
R-squared	0.104	0.103

OLS estimates of the number of bills presented by MPs on MP quality, measured by gross market return to human capital. All regressions control for MPs demographic characteristics (age, gender, marital status, number of kids, level of education, dummies for region of birth), dummies for chamber of parliament, life senator, previous parliament experience, appointment in party at nation and local level, member of European parliament, president or secretary of a committee, member of a committee, deputy-president or minister in government, political affiliation (left or right), and a full set of legislature dummies. Robust standard errors; p-values are shown in parenthesis: *** significant $\leq 1\%$; ** significant $< 5\%$; * significant $\leq 10\%$.

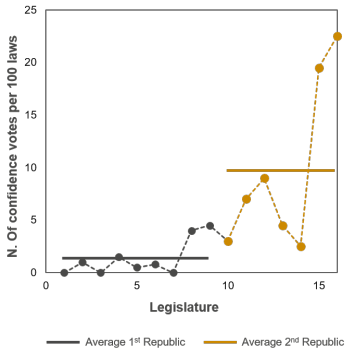
Robustness

- robust to different thresholds, no outliers, ≥ 1 bill.
- the effect is there even if we look only at bills that became laws (by 1/3 of sample mean)
- low quality politicians are less likely to be reelected in complete legislatures (7 – 11 percentage points)

Macro evidence: Unstable majorities

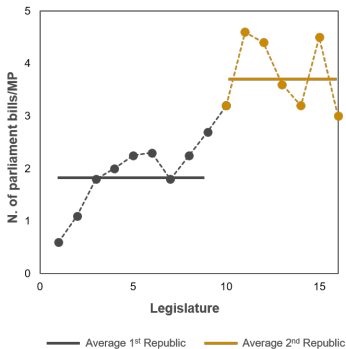


(a) %MPs switching party

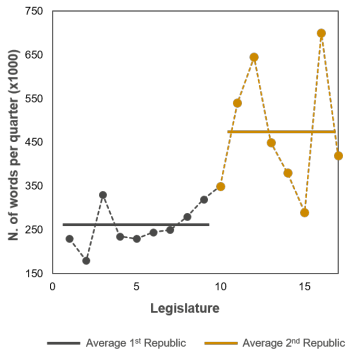


(b) N. of confidence laws

Macro evidence: Legislative activism

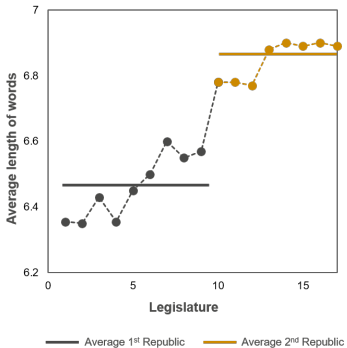


(c) N. of bills

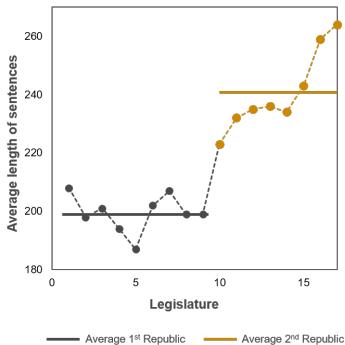


(d) N. of words per quarter

Macro evidence: Quality and complexity I

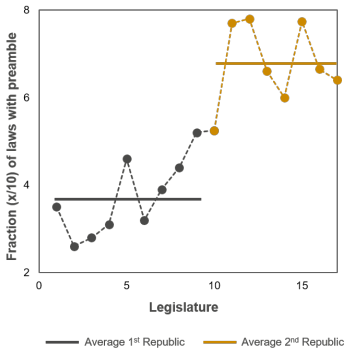


(e) word length

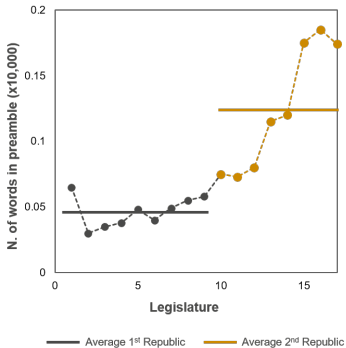


(f) sentence length

Macro evidence: Quality and complexity II



(g) share with preambles



(h) preamble length

Macro evidence: Quality and complexity III

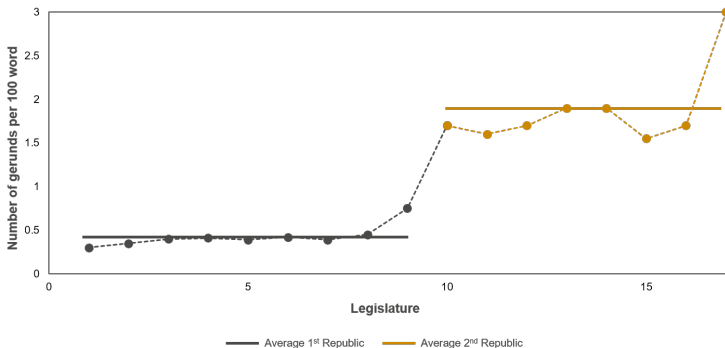


Figure: N. of gerunds per word

Macro evidence: Quality and complexity IV

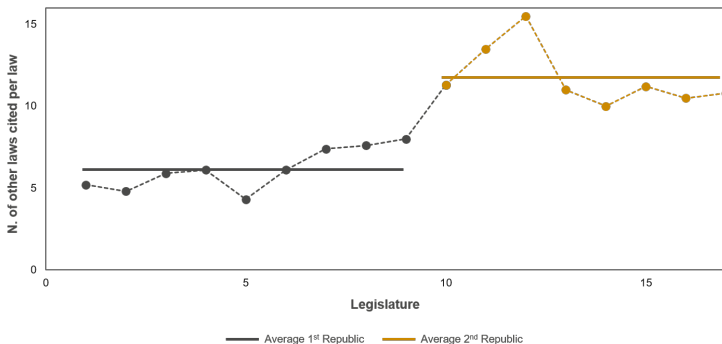
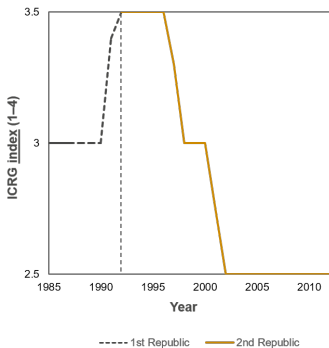
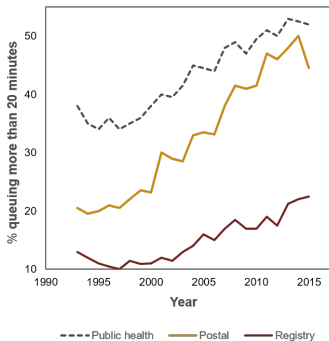


Figure: N. of other laws cited per law

Macro evidence: Bureaucracy I



(a) ICRG bureaucratic quality index



(b) public offices performances

Macro evidence: Bureaucracy II

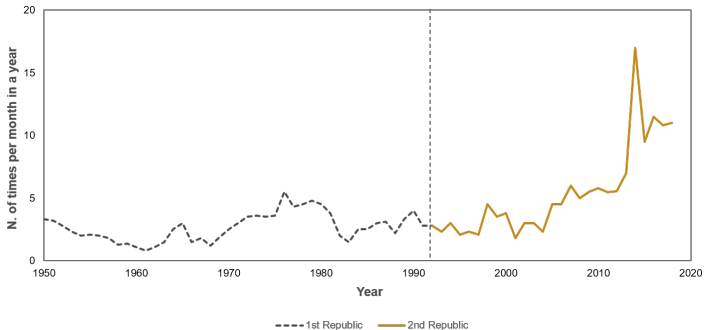
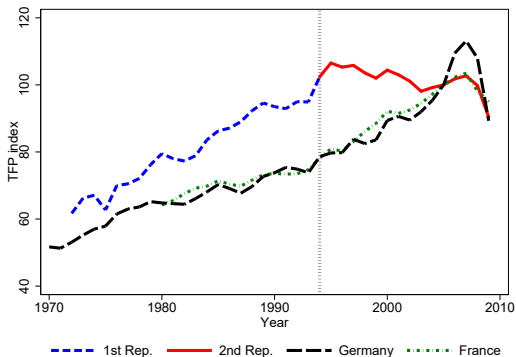


Figure: “bureaucracy” in the media (CdS front pages)

Macro evidence: Long term welfare effects



Other explanations

- Maastricht Treaty
- fall of the Wall
- globalization

BUT no similar pattern for Germany

Conclusions

- we see politics and bureaucracy as complements
 - jammed bureaucracy increases politicians incentive to generate useless reforms
 - accumulation of reforms slows down bureaucracy
- mutual feedback explains transitions from Weberian to Kafkian economy
- it can be triggered in multiple ways by short bursts of political instability