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## The Golden Age of the Economics of Bureaucracy

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# **The Golden Age of the Economics of Bureaucracy**

Chang-Yeh (Michael) Wu

Bachelor of Business Leadership and Commerce (Economics & Philosophy)

Submitted in fulfilment of the requirements for the Master of Business degree



School of Business Fremantle Campus

Feb, 2022

## **Declaration of Authorship**

To the best of my knowledge, this thesis contains no material previously published by another person, except where due acknowledgement has been made.

The content of this thesis is the result of work I have carried out since the commencement of my higher degree by research candidature and does not include a substantial part of work that has been submitted to qualify for the award of any other degree or diploma in any university or other tertiary institution.

Signature:

Print Name: Chang-Yeh (Michael) Wu

Date: 25<sup>th</sup> Feb 2022

## **Abstract**

The economics of bureaucracy (EOB) is a field of research that emerged from the public choice movement in the mid-1960s through to the early 1970s. It entailed applying traditional economic theories and modelling techniques to study decision-making in non-market hierarchies that are often referred to as bureaucracies. The field was pioneered and codified by Gordon Tullock, Anthony Downs, and William Niskanen in what may be called the ‘golden age’ of EOB. Establishing EOB as a bona fide research domain was a challenging intellectual enterprise due to the absence of a pre-existing conceptual framework to readily model bureaucracies within the economics discipline and because the non-market domain was then not usually considered to be a relevant subject for economists to study. Metaphors, analogies, and other rhetorical devices therefore played an especially important role in generating and justifying the nascent economic theories of bureaucracy proposed by the early EOB pioneers. This thesis traces the evolution of EOB during these formative years. A ‘case study’ approach is adopted to reconstruct the unique contributions of the three key EOB pioneers by placing their innovations in historical context, elucidating their key propositions and models, and analysing the rhetoric they employed to advance their theories. The most important contention of the thesis is that the relative success of the different theories presented by the EOB pioneers was, in part, due to the different metaphorical representations of bureaucracy deployed in their works. It is also argued that the overwhelming success of Niskanen’s ‘budget-maximising’ model caused the theoretical insights of the other EOB pioneers to be neglected.

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κύριος Ἰησοῦς Χριστός

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Economics of bureaucracy, public choice, history of economic thought

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# Chapter 1: Introduction

## 1.1 Introduction

This thesis is devoted to tracing the historical evolution of the economics of bureaucracy (EOB hereafter) in the years shortly after its initial founding. EOB entails the use of traditional economic modelling techniques to analyse hierarchical structures that are not subject to market forces and commonly known as bureaucracies. It may be viewed as a research domain within the sub-discipline of economics that is known as public choice theory and in which traditional economic modelling assumptions and techniques are applied to political or (more broadly) collective institutions. Public choice theory as a research program was launched by James Buchanan and Gordon Tullock in the late 1950s and early 1960s at the University of Virginia, especially after the publication of their joint seminal text *The Calculus of Consent* in 1962. The foundations of EOB were established shortly after in the mid-1960s through to the early 1970s in what may be called the ‘golden age’ of EOB. The key texts in this golden age were written by U.S. economists and include Tullock’s *The Politics of Bureaucracy* (1965), Anthony Downs’ *Inside Bureaucracy* (1967), and William Niskanen’s *Bureaucracy and Representative Government* (1971). These EOB pioneers cross-fertilised each other’s ideas in the process of developing their theories and acknowledged each other’s influence in their publications. The intellectual conversation that emerged from these interactions established, by the early 1970s, the vocabulary, accepted assumptions, and puzzles for later EOB economists to explore.

The history of the golden age of EOB is traced within the thesis through three case studies devoted to the key EOB pioneers. In this introductory chapter I present the main purpose, themes, and methods that drive the thesis. Certain complexities associated with the subject matter are deliberately left to one side at this stage of the presentation if these can be better developed, in detail, in the chapters of the thesis that follow. The chapter itself is constituted by five main sections. In section 1.2 a brief account of the emergence of EOB is presented to set the scene and thereby to orient readers in a way that allows them to navigate the rest of the thesis. In section 1.3 the formal aims and key contentions of the thesis are delineated. In section 1.4 the subject matter of the thesis is justified by identifying gaps in the existing secondary literature. In section 1.5 the research methods used in the thesis are reviewed. In section 1.6 the structure of the chapter sequence is presented.

## 1.2 Setting the Scene

This thesis, as mentioned in the introduction to this chapter, is about how a group of economists in the 1960s and 1970s revolutionised our understanding of bureaucracy by applying economic theory and modelling techniques to analyse decision-making in hierarchical organisations that are not subject to market forces (and hereafter called non-market bureaucracies).<sup>1</sup> Before formally articulating the aims, contentions, and methods of the thesis, however, some scene-setting is provided here to help orient the reader to the subject matter. The term ‘bureaucracy’ is widely used in both academic discourse and our daily speech. It tends to conjure up various negative images, such as red-tape, rigid and cumbersome procedures, lack of innovation, unresponsive officials, pointless box-ticking, and so forth. In everyday parlance, people often exclaim the word to express their general frustration with increasingly complex administrative systems that are perceived as overly hierarchical, convoluted, wasteful, dehumanising, and even authoritarian. And yet, despite the lack of enthusiasm for bureaucracy in the popular mind, it is widely accepted as an indispensable component of modern society. Indeed, bureaucracy is pervasive throughout all spheres of society, from government and military bodies to private corporations, charities and NGOs, and universities. These public and private bureaucracies, for better or worse, supply and control an increasingly large proportion of resources, goods, and information in our economy. As Mancur Olson (1991, p. 27) observed, there appears to be a paradox in modern society whereby a continued demand for, and growth of, bureaucracy is accompanied by a general lack of enthusiasm and even hostility toward it.

Bureaucracy as a field of research, as opposed to a term in general parlance, emerged over many centuries, and the associated literature is now voluminous. These scholarly endeavours were initially driven by the importance of bureaucratic administration to empires, kingdoms, principalities and, finally, the modern state. Confucius, Niccolò Machiavelli, Woodrow Wilson, John Stuart Mill, and Max Weber are just a few of the leading minds from history who have made it a subject of study. In more recent times formal and systematic studies of bureaucracy have been produced within the clearly demarcated disciplines of political science, sociology, public administration, and organisational theory.<sup>2</sup> This division of intellectual labour has

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<sup>1</sup> Hierarchies are not directly subject to market forces since resources are allocated within the hierarchy via commands rather than market price signals. The EOB pioneers also implicitly or explicitly excluded indirect market forces by restricting the subject of study to hierarchical organisations that do not sell a good or service in the marketplace or, at most, by considering only those divisions of hierarchical organisations whose contributions to a final market value is difficult to discern (see chapters three through to six of this thesis).

<sup>2</sup> For a history of the concept of bureaucracy see Martin Albrow’s seminal 1970 monograph. Merton et al. (1952) is also worth consulting as it contains several ‘classic’ texts on bureaucracy, including selections from Max Weber,

resulted in a bewildering proliferation of propositions relating to bureaucracy that do not always sit comfortably together. The divergence in the representation of bureaucracy is in part due to the different methodologies employed in each discipline. An equally important reason is, however, arguably a semantic confusion arising from the different meanings given to 'bureaucracy' across the disciplines. Sometimes it is used to refer to a large organisation, while other times it is used to refer to specific features within an organisation. In some writings it is used interchangeably with "civil service" or "public sector", while in other contexts it denotes a specific method of government or the routines of office administration. Some authors use it to mean administrative efficiency, while other authors use it to convey the exact opposite. Martin Albrow (1970, p. 13), in his survey of the usage of bureaucracy in academic literature, contended that the term is defined with sufficient imprecision and variation across the disciplines that "specialists in these neighbouring disciplines tolerate the existence of completely incompatible concepts of bureaucracy without comment". The only common denominator among these scholars from these myriad disciplines, it seems, is their belief that bureaucracy is an important subject matter for academic thought and research.<sup>3</sup>

Modern economists, by contrast, for many years did not employ the received theories and techniques of their discipline to study bureaucracy. Their lack of engagement with this subject matter is something of a paradox given the important role bureaucracies play in allocating scarce resources to competing ends in a modern economy through public sector agencies and large corporations. There seems to be at least two reasons for this neglect. First, mainstream economists paid less attention to the institutional context of human action as their discipline became increasingly formalised after the marginalist revolution from the 1870s onwards. This is because although neoclassical techniques such as marginalist and equilibrium analysis introduced greater analytical tractability to economics, they also incidentally excluded phenomena that do not easily lend themselves to this type of representation. The institutional arrangements that govern economic production and exchange were thereby relegated to the background to such an extent that the economics discipline became "institutionally antiseptic"

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Robert Michels, Herbert Simon, Philip Selznick, and Robert Merton. For a review of modern approaches to bureaucracy in the social and political sciences see Krause and Meier (2003).

<sup>3</sup> Fortunately, the present thesis need not be bogged down in definitional exercises, as important as they are. This is because, as already conveyed in the introduction to this chapter, the objective of this thesis is to explain how bureaucracy was introduced as a field of research within economics and as such the definition adopted at strategic points in the thesis is the one chosen by the economist under examination. In any case, the definition only changes at the margin as the analysis moves from Tullock to Downs to Niskanen, since each invariably adapted Weber's hierarchical conception of bureaucracy and emphasised its non-market characteristic for his modelling purpose.

(Boettke, 2018, p. 944).<sup>4</sup> After all, the mathematical relationship between average and marginal values is invariably true in the case of both a firm's production costs and the enrolment numbers at a university. Institutional features, such as bureaucratic hierarchies, that govern activities which are not always directly subject to market evaluation, and hence marginal calculations, were especially excluded. Second, many economists from the early twentieth century onwards became increasingly convinced that the free market alone fails to allocate resources efficiently due to a range of market imperfections that they duly codified, such as externalities, monopolies, the tragedy of the commons, and inadequate effective demand. They therefore supported government intervention to correct for these market failures. Implicit in this analysis was, strangely, the assumption that governments themselves do not fail. This belief included the idealistic presumption that public officials, including bureaucrats, dispassionately pursue the 'public interest'. The result was that economists, using their pristine mathematical models to analyse market failures and to justify bureaucratic intervention, suffered from a kind of "analytical myopia" that blindsided them from investigating the (potentially mis-)allocative processes within government and non-market bureaucracies (Jackson, 1982, p. vii).

Economists did not systematically analyse the way collective decisions were made, via the state, until the public choice revolution in the late 1950s and early 1960s. The foundations for this revolution were primarily laid by Buchanan and Tullock at the University of Virginia. This yielded their landmark publication, *The Calculus of Consent*, in 1962, which launched the dominant strand within the public choice movement known as the Virginia School. It nonetheless should be emphasised that public choice precursors from Knut Wicksell to Duncan Black have since been identified and contemporaries outside Virginia also made contributions to the early public choice movement.<sup>5</sup> Indeed, some early contributors to public choice worked

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<sup>4</sup> Boettke especially emphasised mathematical formalism as the reason for economists not engaging with institutions. Note, however, that non-mathematical heterodox economists have also strangely failed to analyse bureaucracies in a systematic fashion, even though certain features have been analysed with skill within the older institutionalist tradition, such as 'internal labour markets' and the failure of 'governance structures' within large corporations. One exception is Weber's famous appraisal of bureaucracies (analysed in greater detail in the next chapter), but this requires using the definitions of the historical school of economics in Imperial Germany to present Weber as an economist! On the history and impact of mathematical formalism in economics see Mirowski (1989), Weintraub (2002), and Morgan (2012). The advent of New Institutional Economics at the end of the last century has also admittedly provided a portal through which institutions can enter mainstream economics.

<sup>5</sup> William Mitchell (1988), for instance, identified three schools of public choice theory: the Virginia School led by James Buchanan, Gordon Tullock and their colleagues, the Rochester School spearheaded by William H. Riker, and the Bloomington School led by Elinor Ostrom at Indiana University. Mancur Olson's (1965) 'special interest group' approach at the University of Maryland and the Chicago political economy program launched by George Stigler (1971a) could potentially be added to this list. See also Peacock (1992), Medema (2000, 2005), Mueller (2004), Rowley (2004a), and Congleton (2018) for the historical roots of public choice theory.

in almost semi-isolation, such as Downs, who published *An Economic Theory of Democracy* in 1957. This thesis, however, is not devoted to a general history of public choice, and hence only those elements of public choice that are important to EOB need be dwelt upon here. In this regard, public choice in these early years rested on a few simple assumptions, two of which figured prominently in EOB. The first is *methodological individualism*, which is the idea that any observed social phenomenon is the result of individuals pursuing their perceived self-interests rather than a functional product of another social entity. This means that any observed government or political action is modelled as the result of individuals pursuing their perceived self-interests through a collective decision-making process rather than in the marketplace or in isolation. The second is *behavioural symmetry*, which is the idea that individuals do not cease to pursue their perceived self-interest when they move from the market to non-market domains, such as when they cease to be consumers or producers in the marketplace to act as voters, politicians, or bureaucrats. The *modus operandi* of early public choice economists was, in short, to examine the way the incentives faced by self-interested voters, politicians, and public officials potentially cause political decision-making to do more harm than good.

EOB itself emerged in the mid-1960s through to the early 1970s as a sub-field within public choice theory. The EOB of this period entailed the application of economic techniques, including methodological individualism and the behavioural symmetry hypothesis, to the study of the way agents pursue their self-interests specifically within non-market bureaucracies. The non-market feature meant that state-run bureaucracies were especially targeted for analysis and, indeed, bureaucratic divisions of private corporations were considered only if their contribution to a final market value could not be easily identified. The key EOB texts, as mentioned in the introduction, included Tullock's *The Politics of Bureaucracy* (1965), Downs' *Inside Bureaucracy* (1967), and Niskanen's *Bureaucracy and Representative Government* (1971). The fact that two of these texts were written by scholars who had already made landmark contributions to the core of public choice theory (i.e., Tullock and Downs) clearly signals the way EOB was largely conceived within the still evolving public choice movement. In some ways EOB pioneers simply shifted the primary public choice focus from the economic analysis of electing politicians and designing policies in the collective decision-making process to the economic analysis of the daily activities of individuals in non-market bureaucracies who, among other things, are charged with implementing these policies. The conceptual breakthroughs that were made in EOB in these foundational years were sufficiently innovative and striking relative to the research that ensued that these years also constitute the golden age

of EOB. The body of work that resulted from these research efforts also meant that a separate sub-field could be identified by the early 1970s. This body of work provided the accepted terms, assumptions, and puzzles that preoccupied later economists writing on EOB.

### **1.3 Central Aim, Scope, and Chief Contentions of the Thesis**

The central aim of the thesis is to trace the historical evolution of EOB during its golden age from the mid-1960s through to the early 1970s. This is achieved in three case studies devoted to the leading EOB pioneers, namely, Tullock, Downs, and Niskanen. These case studies reconstruct the unique contributions of each EOB pioneer by placing their innovations in historical context, elucidating the key features of the conceptual frameworks they proposed, and analysing the rhetoric they employed to advance these frameworks. These three foci – context, conceptual framework, and rhetoric – underpin the key contentions that drive the analysis and historical narrative in this thesis. These contentions are as follows.

Firstly, it is contended that the content of EOB, like any field of research, was shaped by the historical context in which it was codified and, further, that the distinctive nature of each EOB pioneer's contribution is more easily identified once this context is reconstructed. It is, for instance, argued that the EOB pioneers drew upon the concepts employed within the wider public choice movement (such as the behavioural symmetry hypothesis), and, like the public choice theorists, were motivated in part by their objection to the rapid growth of government from the New Deal onwards. It is also argued that the conversation which eventually developed between the EOB pioneers, as reflected in cross-citations and acknowledgements of influence, permitted the cross-fertilisation of their ideas. Finally, it is argued that the EOB pioneers developed their ideas in reaction to the prevailing notions of bureaucracy in public administration and allied disciplines, which they dismissed as unrealistic, normative, and lacking in analytical substance. To help establish this context, a brief review of the key scholarly traditions that possibly influenced EOB is presented in chapter two of the thesis and the specific context within which each EOB pioneer developed his ideas is presented in each of the subsequent chapters devoted to the case studies.

Secondly, it is contended within this reconstruction that all three EOB pioneers emphasised several of the same institutional and behavioural features within the conceptual frameworks that they developed to make bureaucracy amenable to economic modelling.<sup>6</sup> Specifically, each

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<sup>6</sup> A 'conceptual framework', in the context of this thesis, is constituted by simplifying assumptions relating to the



EOB pioneer portrayed bureaucrats as rational economic agents who pursue their self-interests within a bureaucratic organisation that does not derive the majority of its revenue by selling products in the marketplace, or within a division of an organisation whose contribution to a final market value is not easily identified; that is, in bureaucracies that are not directly subject to market forces. These ‘non-market’ bureaucracies are therefore potentially subject to what is now called a principal-agent problem in which the bureaucrats pursue their own interests rather than the official objectives of the bureaucracy. It is further contended, however, that the EOB pioneers also chose to emphasise some institutional and behavioural features that differed. On the one hand, Tullock (1965) and Downs (1964, 1967) chose to emphasise features that gave rise to hierarchical-distortion models in which an *internal* principal-agent problem manifests itself when the self-interested bureaucrats distort the information up and down the lines of communication within the bureaucratic hierarchy. On the other hand, Niskanen (1971) chose to emphasise features that gave rise to a budget-maximising model in which an *external* principal-agent problem manifests itself when the self-interested chief bureaucrat seeks an excessive budget from the external sponsor who funds the bureau. Each of these EOB pioneers also offered different explanations for why certain objectives were prioritised in the utility function of the bureaucrat.

Finally, it is argued that the EOB pioneers sought to register their conceptual frameworks with the audience of this period. Specifically, the divide between economics and the other social sciences at the time meant that there were no pre-existing frameworks within which the logic and techniques of economics could be employed to model bureaucracy. The EOB pioneers therefore had to develop their own frameworks both to render bureaucratic behaviour *intelligible* in the vocabulary of economics and to *persuade* economists that their novel economic descriptions of a traditionally non-economic environment were plausible. This entailed deploying metaphors, analogies, and other rhetorical devices to generate and legitimise their pioneering economic analyses of bureaucracy. The extent to which this rhetoric registered with contemporaries, in turn, *partly* determined the analysis that dominated EOB. It is argued, for example, that Niskanen’s budget-maximising model quickly came to dominate EOB due, in part, to the superior rhetoric he employed, and that this success unfortunately caused the

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behaviour of bureaucrats and institutional features of bureaucracy that underpin the EOB models. This appellation is self-consciously employed in relation to the work of the EOB pioneers without necessarily invoking the more specific claims relating to knowledge production and scientific corroboration now associated with (Lakatosian) research programs and (Kuhnian) paradigms. As it happens, and as shown in the thesis itself, each of the EOB pioneers carefully demarcated their conceptual frameworks from the models that emerged from them.

insights of the other EOB pioneers to be neglected.

#### **1.4 Gaps in the Literature and Contributions**

A systematic history of the intellectual development of EOB has yet to be written and there is certainly no existing history distantly devoted to EOB that is guided by the contentions reviewed in the previous section. There are nonetheless several publications that contain narratives and commentaries which are relevant to the task of this thesis. First, the key contributors to this domain have themselves shed light on the evolution of EOB in their commentaries and encyclopaedia entries on both their own and their colleagues' work (e.g., Niskanen, 2001, 2012; Tullock, 1977). Such memoir-cum-commentaries are, however, episodic rather than systematic and do not sufficiently trace the development of EOB in its historical context. Additionally, good but fragmented accounts of the emergence of EOB have appeared in the journal literature (e.g., Castellanos & Cervantes, 2019; Thompson, 2008); in the prefaces and introductions to the re-issues of the works of the key figures (e.g., Rowley, 2005); in the biographies and obituaries that followed the deaths of the key figures (e.g., Pennington, 2014; Shughart & Tollison, 2016; Wagner, 2012); and in the early surveys that were issued from the late 1970s onwards once it was clear that EOB had emerged as a bona fide research field within economics (e.g., Chang et al., 2001; Moe, 1997; Olson, 1991; Orzechowski, 1977; Rowley & Elgin, 1988; Wintrobe, 1997). Note again, however, that these valuable contributions invariably provide episodic accounts of EOB and their expositions of the early texts are thin. This is especially true with respect to Tullock's and Downs' writings on bureaucracy, both of which are often introduced as insightful but preliminary accounts that were quickly superseded by Niskanen's economic model of bureaucracy (e.g., Mueller, 2003, p. 362; Niskanen, 2001).

The most extensive treatment of the history of EOB is perhaps the one presented in Alan Peacock's Raffaele Mattioli lectures titled *Public Choice Analysis in Historical Perspective* (1992), in which he contextualised the now standard EOB model of the budget-maximising bureau within a historical review of the possible reasons for the secular trend of rising public expenditure (Peacock, 1992, pp. 57–62). He also reconstructed the rich conceptions of human motivation and the individual's utility function in the works of classical economists to critique and extend the public choice perspective of bureaucracy (i.e., EOB).<sup>7</sup> Nevertheless, Peacock

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<sup>7</sup> Peacock's historical sensibility is partly the product of his close reading of classical economics and German and Italian public finance literature that he undertook in the process of demarcating public finance as a sub-discipline

did not closely examine the foundational texts of EOB other than Niskanen's 1971 book and thereby neglected the key contributions made by the other pioneers. For instance, although he cited Tullock (1965) in his analysis of the budget-maximising model, he essentially conflated Tullock's and Niskanen's ideas together (Peacock, 1992, p. 63). In any case, Peacock ultimately sought to demonstrate the value of history of economic thought by showing how it can inspire fresh theoretical developments in public choice. His narrative is therefore still of some importance to this thesis, since in some ways this thesis is an attempt to elucidate the history of EOB in the way advanced by Peacock to uncover any fresh or forgotten insights applicable to modern EOB research.

It should also be emphasised that Peter Jackson, in *The Political Economy of Bureaucracy* (1982), is of some value. Although he presented a less historically inclined narrative compared to Peacock, his account constitutes one of the most comprehensive reviews of the variegated approaches to the study of bureaucracy in organisational theory, political science, public administration, and economics. Jackson (1982, p. 2) stated that he wished to "introduce the economist to the issues, debates and controversies of bureaucracy which exist in other disciplines and which will... throw some light upon the questions which economists ask about bureaucracy". Jackson's seminal publication reminds us that economic theories do not arise in an intellectual vacuum but are to some extent influenced by broader discussions in the social sciences. By considering alternative approaches in surrounding disciplines contemporary to EOB, Jackson provided some degree of contextualisation of EOB ideas and presented fresh intellectual resources to broaden the economic analysis of bureaucracy. Like Peacock, however, Jackson (1982, p. 7) did not closely examine the early texts that gave rise to EOB; nor did he "draw out the intellectual antecedents of the economic analysis" contained in such works. He did not, in short, provide a comprehensive history of the early development of EOB that both faithfully reconstructs the theories and models presented by the EOB pioneers and sufficiently accounts for the intellectual antecedents that possibly influenced its formation.

A gap in the literature therefore presents itself. There is scope for a systematic account of the key publications of the EOB pioneers written between the mid-1960s and early 1970s, as well as a review of the earlier scholarly works that formed the intellectual milieu which shaped the

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in the Anglo-Celtic world in the 1950s (Peacock, 2010, p. 549). An early example of his efforts to map this terrain is his co-authored (with R. A. Musgrave) *Classics in the Theory of Public Finance* (Musgrave & Peacock, 1958), which included a translation of K. Wicksell's *A New Principle of Just Taxation* by a young James Buchanan.

way the pioneers developed and communicated their analyses. In consulting these sources, this thesis extends the a-historical surveys, such as the one written by Jackson, by sketching the historical context that gave rise to EOB, while deepening the limited historical accounts, such as the one by Peacock, by analysing the analytical advances within the EOB specifically rather than public choice theory more broadly. Corraling the historical particulars to corroborate the key contentions delineated in the previous section will yield a faithful reconstruction of the theories advanced by Tullock, Downs, and Niskanen, and, further, highlight any insights that may have been neglected in the course of EOB's history.

### **1.5 Research Method**

The method of intellectual history adopted for this research project is driven by the central goal of the thesis. As already mentioned, this goal is to gain greater insight into EOB by tracing the development of EOB during the golden age of this research domain from the mid-1960s through to the early 1970s. The key EOB concepts, theories, and models of this period are treated as the product of a conversation that was led by Tullock, Downs, and Niskanen and which was shaped by the intellectual milieu in which it took place. One of the key arguments that runs through the spine of the thesis is that the power of the rhetorical tools deployed by the main protagonists in this conversation registered with the wider economics community in such a way that EOB was embraced as a suitable subject within economics. Given the vision of this historical episode, a contextualist historiography is utilised to guide the ordering of the historical particulars. The contextualist approach to the subject matter is particularly inspired by three exegetical conventions: 1) the contextualist approach pioneered by Donald Winch, Stephan Collini, and John Burrows (often referred to as the Sussex School); 2) the more-linguistically oriented contextualist approach popularised by Quinten Skinner (sometimes known as the Cambridge School); and 3) the rhetoric of economics promoted by Deirdre McCloskey. Elements will be drawn from each of these historiographical-cum-rhetorical traditions in *a selective fashion* and without showing a slavish devotion to any one of them. Consider each in turn.

The historical narrative of this thesis partly imitates the contextual approach promoted within the 'Sussex School'. It especially imitates their practice of "eavesdropping on the conversations of the past" (Winch, 1996, p. 28).<sup>8</sup> That is, rather than hastening to 'interrogate' past texts with

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<sup>8</sup> See also Collini et al. (2000).

modern questions or anachronistically interpreting texts by imposing categories of our own, emphasis is placed on recreating past events and conversations in a way that draws out the questions, assumptions, and mental categories that were important for the historical agents. This is to achieve a sympathetic reading of texts that avoids “the transgression of celebrating or denigrating a text from the past to support or denigrate a larger ideological goal in the present” (Moore, 2010, p. 90). In other words, the historical analysis of EOB presented in this thesis is not designed to support or denigrate either a heterodox or an orthodox framework from the present with the aim of reshaping modern economics to suit the author’s preferences. It should nonetheless be emphasised that I do not slavishly adhere to the letter of the Sussex dictum that all anachronistic terms should be avoided and, indeed, sometimes I deliberately use modern terminology to convey an EOB insight if it better captures what the EOB author sought to convey. Thus, for instance and as already conveyed, I broadly summarise the central EOB claim that bureaucrats opportunistically exploit the ‘information asymmetry’ feature in non-market organisations to pursue their divergent interests under the banner of a ‘principal-agent’ problem, even though the EOB pioneers did not necessarily use this phrase. The key rider to this approach is that the reader is always informed when a modern term is introduced and, further, the intent of the author is not distorted by using this term.

The Sussex approach is complemented with Skinner’s linguistic-contextualist reading of texts. The latter entails recovering the complex intentions of the author when writing for his or her intended audience and interpreting each “utterance” in light of “the whole range of communications which could have been conventionally performed on” any occasion or subject (Skinner, 1969, p. 49). The act of delineating the conventional range of possible communications involves paying attention to the ‘shibboleths’ of the author’s time; namely, the prevailing descriptive and normative vocabulary that was available to the author in their time to describe and legitimise his or her project before the intended audience (Skinner, 1978, pp. xii–xiii). Such a reconstruction is especially important when the author under consideration introduces a new representation of phenomenon, as the EOB pioneers did with respect to bureaucracy. This is because it provides a better appreciation of how pioneering theorists dealt with the conceptual constraints they faced when making their theoretical innovations at the margins of their disciplines. Skinner (2002, p. 182) later argued that “rhetorical redescription” plays an important role in overcoming these constraints. Rhetorical redescription occurs when a person describes an action or situation with an evaluative term that causes the behaviour or phenomenon to be viewed in a new perspective. Skinner (2002, p. 184) illustrated this process

by considering the way virtuous human action is so easily reinterpreted as a vice within the Aristotelian schema by modifying the terms used to describe the action. For example, heroism may be transformed into recklessness and tranquillity may be transformed into idleness. In this thesis I especially draw upon Skinner's concept of rhetorical redescription to explore how the EOB pioneers used metaphors and analogies to portray bureaucratic processes in a dramatically different way. These rhetorical devices in effect imported conventional economic axioms and concepts, such as 'self-interest' and 'efficiency', into a subject that previously had not been described and appraised in economic terms, and thereby justified the application of economic methods and assumptions to a traditionally non-economic area.

This focus on rhetoric also necessitates drawing upon the works within the research domain of the rhetoric of economics. Since Deirdre McCloskey's (1983, 1985) exegetical *tour de force* in unveiling the rhetorical nature of the discourses in economics literature, economists and historians of economics have paid more attention to the rhetorical aspects of the discourse that shape the evolution of economic thought.<sup>9</sup> A salient theme arising from these rhetorical studies is that the art of economic inquiry and discourse – in particular the metaphors and models by which economists symbolically represent social reality – powerfully shapes the way economists interpret and study human action and social phenomena. Paying attention to the economic rhetoric of the EOB pioneers enriches the analysis of this thesis by showing, firstly, how the *constitutive or explanatory* power of metaphors and analogies enabled economists of this period to comprehend a subject formerly outside their research domain (see Boyd, 1993; Lewis, 1996), and secondly, how the *persuasive* power of such devices convinced the intended audiences that the EOB theories had merit and that EOB is a legitimate field of research within economics. These two aspects of economic rhetoric are dwelt upon here to counteract the common misconception that economists' use of rhetoric is merely decorative or even manipulative (even though this cannot be entirely ruled out).

In practical terms, the contextualist-cum-rhetorical historiography employed in this thesis involves (a) reviewing the beliefs concerning bureaucracy that preceded the rise of EOB and possibly shaped its development, (b) reconstructing the immediate biographical context for each of the EOB pioneers during the period of the inquiry so as to 'eavesdrop' on the emerging conversation surrounding EOB, (c) expositing the conceptual frameworks developed by each

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<sup>9</sup> See, for example, Mirowski (1988, 1989), White (1990, 2002), Klamer et al. (1988), Klamer and Leonard (1994), Coşgel (1996), Lewis (2003), and Morgan (2012).

EOB pioneer within the context in which it was presented so as to highlight the similarities and disparities between these frameworks, and (d) examining the methods and rhetoric employed by the EOB pioneers to develop their analytical visions of bureaucracy and persuade their audience that their analytical visions had merit. Finally, and this should be stated with emphasis, the proposed contextualist historiography is not merely an exercise in antiquarianism, since it is aimed at reconstructing theoretical models and insights, particularly models and insights that may have been ‘forgotten’, that can bring fresh considerations to economists interested in studying bureaucracies.<sup>10</sup>

### **1.6 Structure of the Thesis**

The main purpose of this thesis, to repeat, is to trace the early development of EOB by highlighting the unique contributions made by each EOB pioneer in three main case studies. The narrative that results will, hopefully, recover key insights that have possibly been lost in the passage of time since the early 1970s and, indeed, might even be unknown to those in the present who preoccupy themselves with EOB as a bona fide field of research in economics. The chapters are organised as follows.

In chapter 2 I review the way bureaucracy has been depicted in the traditions of classical political economy, classical public administration, and Austrian economics that preceded the rise of EOB in the mid-1960s and early 1970s. Scholars in these traditions potentially shaped the ideas of the EOB pioneers either by anticipating elements of their conceptual frameworks or by presenting a vision of bureaucracy that is later taken as a point of departure for the EOB pioneers to advance their own frameworks. I also briefly note one or two developments in economics that were concurrent to the early development of EOB that potentially influenced EOB and/or drew upon EOB insights. It is shown that some of the early literature surveyed in this chapter anticipated one or two elements of EOB, but more often provided the ‘context of refutation’, or templates to react against, which allowed the EOB pioneers to advance their own models of bureaucracy.

Chapter 3 is devoted to Tullock’s economic analysis of bureaucracy and constitutes the first of three ‘case studies’ in which I analyse the conceptual frameworks, models, methods and rhetoric employed by the EOB pioneers. Tullock’s *The Politics of Bureaucracy* (1965) is presented as the effective urtext of EOB. It was arguably the first public choice foray against

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<sup>10</sup> See Peacock (1992, pp. 17–20, 2010, p. 10) and Brennan et al. (2014).

the quasi-normative, if not idealistic, visions of bureaucracy that then dominated the social sciences. It also contained the first systematic representation of the bureaucrat as a self-interested rational agent and arguably presented the first hierarchical-distortion model of bureaucracy. There is also evidence that this seminal work strongly influenced the other EOB pioneers by prompting them to develop their own economic accounts of bureaucracy.

In chapter 4 I turn to the economic analysis of bureaucracy that Downs advanced in a cut-down form in a RAND monograph in 1964 and in a fully developed form in *Inside Bureaucracy* in 1967. Downs extended Tullock's EOB vision by explicitly postulating the possibility of motivational diversity among self-interested bureaucrats and a dynamic selection mechanism that favour bureaucrats pursuing different sets of objectives at various stages of a bureaucracy's life cycle. Downs' notion of motivational diversity supplied him with the intellectual resources for a richer institutional analysis of bureaucracy, even though Downs himself did not fully exploit these resources to enrich his own version of a hierarchical-distortion model.

In chapter 5 I consider the economic analysis of bureaucracy developed by Niskanen in a range of publications, including *Bureaucracy and Representative Government* (1971). Niskanen's analysis is presented as a fundamental shift in the early history of EOB. Although he borrowed key insights from Tullock and Downs, such as the self-interested bureaucrat, he shifted attention away from the problem of hierarchical coordination within bureaucracies that preoccupied these two authors. Specifically, he shifted the focus of the nascent EOB field from the internal principal-agent problem that drives hierarchical distortion within the bureaucracy to an external principal-agent problem in which bureaucrats opportunistically exploit situations of information asymmetry to induce external sponsors to provide budgets that are larger than optimal. This entailed Niskanen drawing upon his Chicago training in marginalist and equilibrium economics to determine the extent to which non-market bureaucratic production outcomes are inefficient relative to market production outcomes.

Finally, in chapter 6 I provide a stocktake of the key contributions, economic rhetoric, and the neglected insights in the early works of EOB. This entails a more detailed review of the contentions presented in section 1.3 of this introduction, and hence need not be repeated here. The thesis concludes with the central claim that the overwhelming success of Niskanen's budget-maximising model established EOB as a legitimate research field in economics, but that several insights in Tullock's and Downs' works were lost as a result and the recovery of such insights could enrich our understanding of bureaucracies today.



## Chapter 2: Pre-EOB Theories of Bureaucracy

### 2.1 Introduction

The objective in this chapter is to review the early theories of bureaucracy that possibly shaped the EOB vision in its golden age. It therefore does not constitute a full review of the voluminous literature devoted to the topic of bureaucracy. A multi-disciplinary exercise of this kind would amount to a stand-alone doctoral thesis, and, in any event, systematic surveys of this nature have already been attempted in a slew of scholarly texts. Some of these systematic surveys are now admittedly a little dated and they often under-emphasise the importance of EOB, but, as mentioned in chapter one, they are worthy for all this and provide valuable context for the limited objective of this chapter (see especially Albrow, 1970; Jackson, 1982). It is also proposed that the theories of bureaucracy which are reasonable candidates for shaping the EOB vision emerged within three main intellectual traditions: classical political economy, classical public administration, and Austrian economics. Scholars working within these traditions potentially influenced the EOB pioneers either by anticipating a theme of the EOB vision or, more usually, by depicting bureaucracy in a way that EOB pioneers reacted against. Finally, it should be emphasised that some traditions which influenced leading public choice figures are not explored if it is implausible that they influenced the EOB pioneers specifically. Thus, although the Italian public finance tradition influenced Buchanan (Buchanan, 1960; Medema, 2005), and Adolf Wagner and the German historical economists influenced Peacock (Peacock and Wiseman, 1961), there is no evidence that the EOB pioneers were even aware of these movements, and hence they do not feature in the narrative that follows.

This review chapter contains four main sections. In section 2.2 the rudimentary theories relating to bureaucracy developed within the classical school of political economy in the late eighteenth and early nineteenth centuries are considered, with a particular focus on the writings of Adam Smith and John Stuart Mill. In section 2.3 the more developed theories of bureaucracy presented within classical public administration in the late nineteenth and early twentieth centuries are analysed, with a particular focus on the writings of Woodrow Wilson and Max Weber. In section 2.4 the critiques of bureaucracy expounded within the Austrian school of economics during the socialist calculation debate in the twentieth century are reviewed, with a particular focus on the writings of Ludwig von Mises, Friedrich Hayek and Joseph Schumpeter. Finally, in section 2.5 the near contemporaries of the EOB pioneers who considered the nature

of bureaucracy are briefly reviewed before a conclusion is presented.

## 2.2 Bureaucracy Theory in Classical Political Economy: Smith and Mill

Adam Smith did not develop a fully-fledged theory of bureaucratic behaviour. He nonetheless developed various insights concerning political and bureaucratic institutions that were later formalised within the public choice tradition from the 1960s onwards. Ricketts (1978), for instance, has highlighted Smith's comprehension of government failure due to knowledge, political incentive, and rent-seeking problems, even though Smith himself did not use such language (see also Stigler, 1971b; Stimson & Milgate, 2008; West, 1976). Smith (1776/1981, p. 687) used these and other insights to oppose the highly politicised mercantilist economy, which was symptomatic of the age of 'Old Corruption' in eighteenth-century Britain, and to advocate for a market economy organised in accordance with "natural liberty".<sup>1</sup> His arguments in favour of a market economy were, moreover, underpinned by a *comparative institutional* claim rather than an *absolute* claim. This is often overlooked by modern economists. That is, Smith was engaged in comparing alternative institutional arrangements, particularly the alternative sets of constraints and incentives they impose on individuals, to determine the relative success of public and private institutions in harnessing the self-interest of individuals to advance the well-being of society (Aligică et al., 2019; Buchanan, 1989; West, 1976). Smith's (1776/1981, p. 641) twin formulation of human motivation and the different institutional context "in which [individuals] are placed" also involved a more complex characterisation of human motivation than is commonly recognised. This included presuming that individuals pursue more objectives than just "wealth maximisation through time" (Peacock, 1992, p. 69).<sup>2</sup> This, in turn, enabled Smith to envisage self-interested individuals switching from pursuing one objective (say, wealth) to another (say, status or ease) in different institutional contexts, which in some instances means that individual interests remain unreconciled and what are now called principal-agent problems arise. Such attention to institutional arrangements became rare in mainstream economics following the marginalist or neoclassical revolution in the 1870s (Rosenberg, 1960) but resurfaced when the EOB pioneers modelled the behaviour of agents in non-market and hierarchical environments.

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<sup>1</sup> 'Old Corruption', a term coined in the 1830s, referred to the systematic corruption and political cronyism in Britain's public institutions which eventually prompted intense pressure to sanitise the government of its sinecurism and favouritism. See Rubinstein (1983), Harling (1995), and Hill (2006).

<sup>2</sup> For an examination of the elaborate conception of human nature by Smith and the classical economists see Rosenberg (1960), Peacock (1992), and Morgan (2006, 2012).

Smith's method of comparative institutional analysis is neatly illustrated by several case studies in Book V of *The Wealth of Nations*. His critique of the remuneration of university teachers via endowments, for instance, demonstrates the principal-agent problem in public institutions that are insulated from market pressures. Comparing the remuneration schemes in universities across Britain, Smith (1776/1981, pp. 760–761) noted that fully salaried professors who were “prohibited from receiving any honorary or fee from [their] pupils” generally pursued ease and leisure over providing quality teaching, a tendency best exemplified in the way the idle Oxford dons of his era had “given up altogether even the pretence of teaching”. English independent schools, on the other hand, were not plagued by sinecurism to the same extent in Smith's (1776/1981, p. 765) view because the “reward of the schoolmaster in most cases depends principally... upon the fees or honoraries of his scholars”.<sup>3</sup> Smith recognised a similar principal-agent problem in the newfangled corporations of his time, especially those that had been established with the state's assistance, such as the East India Company, which had been granted exclusive privileges by law (Anderson & Tollison, 1982; Donoghue, 2020; Spengler, 1975, pp. 409–410). Smith (1776/1981, p. 737) noted that the lack of competitive pressure associated with such privileges combined with a division of ownership and managerial control meant that the directors of such corporations exhibited “no particular interest in the prosperity of the general trade of the company” and hence failed to promote efficiency within their companies. From these and several other examples given in *The Wealth of Nations*, Smith (1776/1981, p. 719) concluded that “[p]ublic services are never better performed than when their reward comes only in consequence of their being performed, and is proportioned to the diligence employed in performing them”. Thus, in the absence of institutional features to coordinate conflicting self-interests, Smith hypothesised what the EOB pioneers would later affirm: that bureaucrats pursue their own objectives at the expense of the public interest. There are, for all this, few specific references to Smith in the EOB narratives, and hence cross-fertilisation between these two visions is likely to be indirect.

The classical political economists of the early nineteenth century, such as David Ricardo, James Mill, and John Stuart Mill, followed Smith in privileging the market economy over the state-run economy. John Stuart Mill is here selected from these economists for special comment because he synthesised the different strands of the classical framework (Mill, 1848/1909) and, perhaps more importantly, because he provided a succinct theory of

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<sup>3</sup> For a more extensive discussion on the economics of education in Adam Smith and the classical economists see Blaug (1975).

bureaucracy in seminal works, such as *On Liberty* (1859/1977) and *Considerations on Representative Government* (1861/1977). Mill was educated by his father James Mill and family friend Jeremy Bentham, both of whom were part of the Philosophical Radical and Utilitarian movements that sought political reforms to reduce the power and privileges that the Aristocrats derived from the ‘Old Corruption’.<sup>4</sup> Mill (1861/1977, pp. 390, 392) developed the Utilitarian philosophy to a more sophisticated pitch as he grew older and, ultimately, set forth two criteria for good government: “the degree in which it tends to increase the sum of good qualities in the governed, collectively and individually”, and “the degree of perfection with which they organize the moral, intellectual, and active worth already existing, so as to operate with the greatest effect on public affairs”. According to Mill, this meant good government combines civic participation and competence by cultivating intelligence and virtue among the citizenry so that good works can be performed for them and by means of them (Warner, 2001). He therefore favoured a system of representative government in which citizens are called on to render “personal discharge of some public function, local or general” (Mill, 1861/1977, p. 404) and to select the most competent among them to perform the higher duties of government. It was in this context that Mill contended an elite civil service which recruits and promotes staff on merit (i.e., a professional bureaucracy) could provide the specialised knowledge required to implement the policies proposed by elected representatives.

Mill, indeed, believed that a professional British civil service was both compatible with and beneficial to democracy. He declared that the “essence and meaning of bureaucracy” is the placement of government affairs “in the hands of governors by profession” (Mill, 1861/1977, p. 438). The establishment of such an elite body is highly desirable because it “accumulates experience, acquires well-trying and well-considered traditional maxims, and makes provision for appropriate practical knowledge in those who have the actual conduct of affairs” (Mill, 1861/1977, p. 439). Mill nonetheless recognised that governments dominated by bureaucracies could also die of rigid routine and the type of “trained mediocrity” which turns even the most talented and creative civil servants into mere cogs in the administrative machine. Moreover, Mill (1859/1977, p. 307) warned of the danger of a growing bureaucracy monopolising all the distinguished talents of the nation and thereby stifling the public’s ability to criticise or reform the activities of the bureaucratic public administration to keep it vigorous. He also feared for

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<sup>4</sup> On Mill’s biography and intellectual formation see Ryan (1989) and Alexander Brady’s introduction to *Essays on Politics and Society* (Brady, 1977). For an account of the overlapping Philosophical Radical, Utilitarian, and Classical Political Economy movements see Leslie Stephen’s *The English Utilitarians* (1900/2011).

the political freedoms of citizens if they became exclusively dependent on a dominant bureaucracy for direction and warned of how the able and ambitious could exploit it for their personal advancement. Mill (1859/1977, p. 308) therefore concluded that it is in the interest of liberty and good public governance to ensure that a countervailing force of intelligent and alert citizens exists outside the bureaucracy to keep it under constant “watchful criticism”.

Mill, in short, had a more sanguine vision of bureaucracy than Smith and many of the classical political economists. The divergence between Smith and Mill’s conception of bureaucracy partly lies in the differences of the analytical questions they posed to themselves. Smith predominantly focused on comparing the incentive structures of various institutions to determine the degree to which they harmonised individual self-interest for the collective good and concluded in favour of a market economy with a limited government chiefly (but not only) devoted to protecting property rights and enforcing private contracts. Mill largely shared Smith’s vision (even if he developed some socialist tendencies later in life), but also sought to provide a theory of how government and public administration could promote individual liberty and human flourishing. Mill therefore preoccupied himself with the design of democratic institutions that maximise civic participation and select the most able individuals to assist in the administration of governmental affairs. He recognised the danger that an unfettered bureaucracy could undermine a liberal society but had faith that the right balance could be achieved. The waning of the ‘Old Corruption’ in the nineteenth century, the British Civil Service reforms of in the 1850s, and Mill’s own noble service as a bureaucrat in the East India Company no doubt further induced him to believe that a merit-based professional bureaucracy was possible. The EOB theorists were aware of Mill’s arguments in favour of bureaucracy if only because it became the received view of the role of bureaucracy within a liberal democracy. Mill’s qualifications and warnings were, however, often forgotten, especially as they were quickly overshadowed by a radical optimism amongst public administration theorists about the capabilities of bureaucracy. It is to these accounts that I now turn.

### **2.3 Classical Public Administration Theory of Bureaucracy: Wilson and Weber**

Woodrow Wilson’s ‘The Study of Administration’ (1887) and Max Weber’s famous treatment of bureaucracy in *Economy and Society* (1922/2019) are often regarded as central texts of early public administration. They are reviewed in brief here, however, less because of their foundational status in the discipline of public administration and more because of two related reasons. First, they represent nicely the completion of the shift in the general intellectual mood

that, as already mentioned, was first tentatively articulated by Mill. Specifically, these publications signal the shift in sentiment from the pessimistic accounts of government bureaucracy by classical political economists in the first half of the nineteenth century to the optimistic views of the capabilities of government machinery in the New Liberal or Progressive era of the late nineteenth and early twentieth centuries. This shift in sentiment entailed representing the bureaucratic public administration as a centralised, hierarchical organisation of professionally trained public officials who dispassionately and efficiently administers public policy for the common good. Second, these two narratives are important for the larger narrative arc of this thesis because, as will be shown in the chapters that follow, the EOB pioneers took Weber's definition of bureaucracy as the received definition to be adjusted for their own ends and, further, they treated Weber and Wilson as the authorities of an orthodoxy they wished to reject. In relation to the latter point, they argued that the secondary literature devoted to bureaucracy was essentially a "normative mishmash of Max Weber's sociology and Woodrow Wilson's vision of public administration" (Niskanen, 2012, p. 97; see also Shughart & Tollison, 2016, p. 238). The writings of Wilson and Weber are therefore reviewed here to ensure that the EOB chapters which follow are comprehended with ease.<sup>5</sup>

The beginning of the study of public administration is often traced to Wilson's famous 1887 essay, 'The Study of Administration'. Wilson was writing in the Progressive era in the United States, when radical reforms were proposed to ensure that the spoils system in government was replaced with a professional civil service capable of managing the challenges of rapid industrialisation and urbanisation (Fry & Raadschelders, 2014, p. 23).<sup>6</sup> Wilson (1887, p. 209) echoed the general Progressive sentiment that public administration should be "removed from the hurry and strife of politics" and be based on technical principles that ensured the efficient execution of public policy. He therefore promoted the idea of a science of administration and hence launched a systematic study of general principles that would perfect the government machinery. He envisioned a bureaucratic structure overseen by a corps of public officials

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<sup>5</sup> As will be shown further below in this section, the EOB representations of the public administration literature are unfortunately more difficult to weigh in the balance than usual because they are based on now contested readings of the original texts, especially in the case of Weber. It is also certainly not claimed that this section presents a comprehensive review of twentieth century public administration literature. For an excellent survey of this literature, see Fry and Raadschelders' *Mastering Public Administration* (2014; see also Ostrom, 1974).

<sup>6</sup> In Wilson's (1887, p. 201) words, "The poisonous atmosphere of city government, the crooked secrets of state administration, the confusion, sinecurism, and corruption ever and again discovered in the bureaux at Washington forbid us to believe that any clear conceptions of what constitutes good administration are as yet very widely current in the United States".

“prepared by a special schooling and drilled, after appointment, into a perfected organization, with appropriate hierarchy and characteristic discipline” (Wilson, 1887, p. 216). These professionally qualified officials would be trained to dispatch public policy for the common good in a ‘businesslike’ and non-partisan manner. They would also be entrusted with great power and discretion because, Wilson (1887, pp. 213–14) argued, the centralisation of power ensures that the public can identify when officials abuse their power and discretion and, further, the higher esteem in which officials are held discourages opportunistic behaviour. In fact, Wilson contended that the decentralisation of power, though vital to a liberal democracy at the constitutional and legislative level, leads to great confusion and corruption at the level of public administration. As noted by Vincent Ostrom (1974, p. 27), Wilson apparently “could conceive a theory of democratic government but *not* a theory of *democratic administration*”. Wilson, in short, sought to replace the spoils system with a bureaucratic model of public administration that is scientific, meritocratic, non-partisan, and efficient.

Weber’s conception of bureaucracy in *Economy and Society* reinforced Wilson’s vision of a professional and hierarchical bureaucracy as a subject of study in the field of public administration. Indeed, although Weber was a prolific scholar whose interests and intellectual reach go way beyond the field of public administration, his ideas relating to bureaucracy made a particularly lasting impact in this field. Unfortunately, however, the various interpretations and translations of Weber’s writings presented in the field of public administration (and later public finance and economics more generally) are now contested by Weberian scholars. They especially question Talcott Parsons’ imperfect translation (with A. M. Henderson) of Weber’s *Economy and Society* (see Byrkjeflot, 2018; Cohen et al., 1975; Tribe, 2007). The EOB pioneers themselves relied on two English translations of Weber’s text: *From Max Weber: Essays in Sociology* (Weber, 1946/2009) by Hans Gerth and C. Wright Mills and the one by Henderson and Parsons (Weber, 1947). It is therefore possible that the EOB pioneers compounded a misrepresentation of Weber by providing flawed readings of a Weberian text in the process of criticising an equally flawed reading offered by the public administration theorists. These common mis-readings included the contentions that Weber believed bureaucracies are always desirable (perhaps by mis-interpreting the nature of a Weberian ideal type) or ought to be efficient (leading to the earlier mentioned refrain that Weber’s frame was normative in nature).<sup>7</sup> It is, however, beyond the scope of this thesis to discuss the posthumous

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<sup>7</sup> See, for example, Anthony Downs’ reading of Weber in section 4.3.

history and translation of Weber's text, and hence the EOB pioneers' interpretation and usage of Weber's text is taken as given in the chapters that follow. A modest attempt of a faithful summary of Weber's notion of bureaucracy will nonetheless be provided here.<sup>8</sup>

A prominent theme in Weber's scholarly work is the rationalisation of modern civilisation. He famously identified three ideal or 'pure' types of legitimate rule in society based on charisma, tradition, and legal rationality (Weber, 1922/2019, pp. 341–343).<sup>9</sup> The rational-legal form in particular entails organising human activity according to impersonal rules and universal principles derived from rational reasoning (see Collins, 1986, pp. 61–79; Kalberg, 1980). Weber contended that bureaucracy is the salient manifestation of the legal, economic, and technical rationality in the modern world. He distilled the essence of this modern form of organisation into an ideal type which possesses the following characteristics (Weber, 1922/2019, pp. 343–348). The organisation is based on a legal order that is stipulated in written documents. It is divided into offices that are arranged hierarchically to allow a clear division of labour under a monocratic centre of authority. The officials themselves are appointed to their administrative posts based on their competencies and specialised qualifications rather than personal ties and prestige or via a democratic vote (i.e., it is a meritocracy rather than an aristocracy or democracy). The officials are full-time salaried employees who cannot personally appropriate their positions or the organisation's resources. They are subject to a unified system of control and supervision and hence relate to each other on an impersonal and hierarchical basis as subordinates and superiors. In short, Weber's ideal type of bureaucracy is a form of technical administration in which everything is done according to the rules, everyone has an appointed position according to their skills and competency, and there is a centralised chain of command.

Weber further contended that the bureaucratic structure is, in principle, applicable to every area of society, and added that profit-making enterprises, charitable organisations, and government institutions are all increasingly bureaucratised over time (Weber, 1922/2019, p. 350). He believed that bureaucratisation is inevitable because bureaucracy is technically superior to

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<sup>8</sup> The summary is based on two translations of Weber's writings on bureaucracy: Keith Tribe's recent translation of *Economy and Society* (Weber, 1922/2019) and Gerth and Mills' 1946 translation of selective works by Weber (Weber, 1946/2009). For the posthumous history of *Economy and Society* see Hanke (2009) and Tribe (2015).

<sup>9</sup> Weber's ideal type is best understood as an abstract construct relating to the behaviour of agents and the outcomes of this behaviour (such as the concepts of *homo economicus*, democracy, bureaucracy etc.) that allows the different concrete episodes involving such behaviour to be compared. See Weber (1949, pp. 90–92), Machlup (1978, Chapters 8 and 9), and Morgan (2012, Chapter 4).



other forms of organisation. In his words: “Precision, speed, unambiguity, knowledge of the files, continuity, discretion, unity, strict subordination, reduction of friction and of material and personal costs – these are raised to the optimum point in the strictly bureaucratic administration, and especially in its monocratic form” (Weber, 1946/2009, p. 214). At no time did Weber examine the degree to which bureaucratic organisations could be inefficient in the way proposed by the EOB pioneers (Albrow, 1970, p. 46). He also did not frame the degree of efficiency or inefficiency of bureaucratic organisations as a hypothesis to be tested.<sup>10</sup> Like Mill, however, Weber emphasised the negative consequences of the bureaucratisation of society. There is, for example, a tendency for bureaucracy to transform its members into bureaucratic personalities who completely subordinate themselves to a perfected bureaucratic machine: “The individual bureaucrat cannot squirm out of the apparatus in which he is harnessed... the professional bureaucrat is chained to his activity by his entire material and ideal existence. In the great majority of cases, he is only a single cog in an ever-moving mechanism which prescribes to him an essentially fixed route of march” (Weber, 1946/2009, p. 228).

The propositions advanced by Wilson and Weber reviewed in this section were integrated into the field of public administration and, by the mid-twentieth century, arguably gave rise to a shallow optimism regarding the capabilities of bureaucracy (see Ostrom, 1974, Chapter 2). This optimism carried over to the fields of public finance and welfare economics to such a degree that many practitioners in these areas felt it acceptable in their model building to assume that public officials are competent, efficient, and impartial (Thompson, 2008). Practitioners in these fields certainly did not model bureaucrats overseeing the rapidly rising welfare state of this time as self-interested agents, even though, admittedly, a limited number did accompany their policy advice with the warning that bureaucrats may act in a self-interested fashion.<sup>11</sup> This explains why the EOB pioneers often presented Wilson and Weber as articulating a vision that they proposed to reject. They also often took Weber’s widely cited definition of bureaucracy as the starting point of their analysis because it was the received definition in most disciplines and, as we will see in in chapter four of this thesis, on one or two occasions because they sought

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<sup>10</sup> Weber’s ideal type of bureaucracy is often portrayed as containing hypotheses for organisational efficiency which are tested via empirical studies (Gajduschek, 2003; Weiss, 1983). But this is to misunderstand Weber’s notion of ideal type (see footnote 9). As Byrkjeflot (2018) and others have shown, Weber’s bureaucracy ideal type is primarily a definitional construct, rather than a normative guide for organisational design.

<sup>11</sup> It is noteworthy that even the main representatives of early welfare economics, such as Henry Sidgwick, Alfred Marshall, and A. C. Pigou, were aware of the incentive and knowledge problems in government and did not naively believe that market failures automatically warrant government intervention (see Backhouse & Medema, 2012).

to demonstrate that some of Weber's defining characteristics of a bureaucracy are not necessarily present once bureaucrats are presumed to pursue their own interests. It is also interesting as an end note (if not a little paradoxical) that Tullock drew upon Weber's hermeneutical method of understanding (*Verstehen*) to explore the failings of bureaucracy. This last point is developed further in chapter three of this thesis.

### **2.4 The Austrian Critique of Bureaucracy in the Socialist Calculation Debate: Mises, Hayek and Schumpeter**

The third cast of characters that is relevant to the development of EOB includes the Austrian economists, particularly Ludwig von Mises, Friedrich Hayek, and Joseph Schumpeter. This should not be surprising given that there are broad areas of agreement between Austrian economics and public choice theory (of which EOB was obviously a part). Both groups of economists embraced methodological individualism and a rational choice explanation of social phenomena rather than the holistic accounts that were then often employed in the social sciences (Boettke & López, 2002; Boettke & Leeson, 2004).<sup>12</sup> Economists from the respective groups also proffered various theories of 'government failure' that cast doubt on the state's capacity to solve perceived socio-economic problems. Indeed, the rapid growth of the welfare state during the twentieth century especially induced a "sense of kinship" between the Austrian and public choice theorists in their efforts to constrain the Leviathan (Ikeda, 2003, p. 63). There is, for all this, limited cross-fertilisation between the Austrian and public choice traditions. There are at least two reasons for this. First, the two groups of economists diverged in their analytical approach to studying the government. The public choice theorists were not averse to applying the static, equilibrium, and utility-maximisation models of neoclassical economics to the political domain, whereas the Austrians analysed markets and politics as dynamic processes in which purposeful agents faced with constant change and radical uncertainty exploit the gains present in disequilibrium states (Kirzner, 1997; Ikeda, 2003). Second, the Austrians and public choice theorists focused on different sources of government failure. The public choice theorists invariably traced government failure back to the narrow self-interest of political agents, whereas the Austrians, due to their engagement in the socialist calculation debate (Vaughn, 1980; Caldwell, 1997), tended to attribute government failure to the inability of central planners to replicate the knowledge conveyed via the market price system. The Austrians nonetheless anticipated several public choice themes broadly and EOB insights specifically in

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<sup>12</sup> Holcombe (2015, p. 492) argued, however, that this is a trivial similarity between the two traditions given that methodological individualism is "common throughout economics and not unique to the Austrian school".

their analyses of bureaucracies. Consider, in turn, Mises, Hayek and Schumpeter in relation to these themes.

Mises' *Bureaucracy* (1944) may be considered the first explicit and systematic economic treatment of bureaucracy before the advent of public choice. The book can be seen as an extension of his earlier contributions to the socialist calculation debate (Mises, 1920/2012, 1922/1951; Peacock, 2007) by investigating "the peculiar characteristics of bureaucratic management as distinguished from commercial management" (Mises, 1944, p. 45). Unlike Wilson and Weber who maintained that commercial and public administration are one and the same, Mises claimed that they entailed fundamentally different managerial methods. Commercial management emerged out of modern accounting practices that enable resources to be allocated to competing ends according to market prices and the profit motive. This makes the "public supreme" because profit (or loss) signals to a firm that it is producing something more valuable (or less valuable) to consumers than the resources it is using (Mises, 1944, p. 88). Furthermore, the contribution of each managerial division within a firm can be measured by the common metric of monetary profit, such that managers at every level of the firm are induced to serve the changing needs of the consumer. By contrast, public administration (or government bureaucracy) is a "management of affairs which cannot be checked by economic calculation" (Mises, 1944, p. 48) because public services are neither priced nor exchanged in the market. As a result, public bureaus rely on hierarchical rules and the discretion of bureaucrats to allocate resources, and hence they are likely to reflect the preferences of the bureaucrats rather than the wider community. Mises also believed that the management of private enterprises *can* become bureaucratized because of state intervention.<sup>13</sup> Specifically, state intervention distorts market prices and curtails the profit motive for firms to innovate and produce what consumers value. The labour market is thereby also distorted as personnel are hired based on the non-monetary utility of public bureaucrats and the employee's ability to "smooth away difficulties with the [government] authorities" (Mises, 1944, p. 70).<sup>14</sup>

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<sup>13</sup> Mises did not dismiss all forms of government intervention, arguing that beneficial intervention, such as the protection of property rights and enforcement of contracts, facilitates social cooperation and voluntary exchange (see Carnis, 2009, pp. 64–65). He nonetheless believed "the value of good government" is "not liable to an expression in figures" to the same extent as goods valued in market prices (Mises, 1944, p. 48).

<sup>14</sup> Mises therefore implicitly contested Weber's notion of bureaucratic relationships as strictly formal and impersonal. Whereas market relationships are predicated on impersonal judgements concerning market prices and goods being exchanged, the superior-subordinate relationships in bureaucratic organisations depend on the superior's personal and arbitrary "judgement of his [subordinate's] personality, not of his work" (Mises, 1944, p. 53).

## Chapter 2: Pre-EOB Theories of Bureaucracy

Bureaucratic order thereby transforms “social relationships from contractual bonds to hegemonic ones” (Carnis, 2009, p. 62). As briefly mentioned in the introductory comments of chapter one, and as will be shown at length in the chapters that follow, the EOB pioneers also emphasised the implications of the non-market feature of government bureaucracy.

Mises’ warnings relating to the dangers of bureaucratic planning are echoed by Hayek in *The Road to Serfdom* (1944/2007), which was published in the same year as *Bureaucracy*. This book was written in response to the growing sympathy toward socialism in Britain at the time. Hayek particularly sought to dismantle a widely held view that the rise of fascist regimes in Germany and elsewhere was “a natural outgrowth of capitalism, and that only by adopting socialism could the remaining western democracies avoid a similar fate” (Caldwell, 1997, p. 1867). To the contrary, Hayek argued that socialist planning, far from constraining totalitarianism, engenders a path toward a totalitarian regime. Alan Peacock, in his book *Public Choice Analysis in Historical Perspective* (1992, pp. 59–60), deemed Hayek’s thesis to be non-public choice because it entails an “ideas-driven” account of politics while neglecting the key public choice insight that individuals are driven by private incentives and not purely by ideas in the political realm. Specifically, he accused Hayek of assuming that democratic governments turn into authoritarian states as people are passively ‘captured’ by socialist ideas and policy proposals. Peacock, however, misunderstood the purpose and thesis of Hayek’s book. As Boettke (1995, p. 8) pointed out, Hayek’s central argument is not that socialist ideas directly lead to totalitarianism, but that the new demands placed on democratic institutions from even a *partial* implementation of socialist ideas or policies *induce endogenous changes in the preferences of public officials* who then gradually transform democratic institutions “into instruments of totalitarian rule”. This is because government officials seek to expand the scope of their planning over time once their initial intervention in the market inevitably fails due to the economic calculation problem. This then generates an adverse selection process that favours government officials who have a comparative advantage in “ruthless” and “unscrupulous” behaviour, since “the readiness to do bad things becomes a path to promotion and power” (Hayek, 1944/2007, p. 169; see also Boettke, 1995, p. 12). As will be shown in the next chapter, Tullock adopted a similar adverse selection process for bureaucratic organisations, but without citing Hayek. Indeed, Hayek’s name is rarely mentioned in the EOB literature, even though this insight is of some importance.

Schumpeter presented another relevant, though idiosyncratic, Austrian analysis of bureaucracy

in *Capitalism, Socialism and Democracy* (1942/2014).<sup>15</sup> Schumpeter famously argued that (non-Marxist) internal contradictions in capitalism eventually give rise to socialism and, controversially, that socialist planning was possible *precisely through a perfected bureaucratic administration*. Specifically, Schumpeter (1934/1949, p. 66) portrayed economic development as carrying out “new combinations” by employing resources in different ways or producing new things. Entrepreneurs are the drivers of this development in a capitalist society since they “revolutionize the pattern of production” by introducing new production methods or products (Schumpeter, 1942/2014, p. 132). Schumpeter believed, however, that the very success of this capitalist process generates several forces that undermine it, with the bureaucratisation of economic life being one such force.<sup>16</sup> He argued that large corporations in capitalist societies establish bureaucratic structures both to exploit economies of scale and to reduce innovation to mechanical routine by establishing teams of specialists to deliver technological innovation in a predictable fashion. The entrepreneur is thereby rendered obsolete and the socialist state, which cannot operate without a “huge and all-embracing bureaucratic apparatus”, has a ready-made bureaucratic structure to inherit (Schumpeter, 1942/2014, p. 206; see also Thompson, 2008, p. 356). He further contended that this development would not be the catastrophe predicted by his Austrian colleagues because there is “nothing wrong with the pure logic of socialism” (Schumpeter, 1942/2014, p. 172). That is, he conceded the points raised by Barone, Lange, and other opponents of the Austrians in the calculation debate that a planning bureau can devise systems to allocate resources efficiently and, further, can remove the uncertainties and alleged wasteful duplication inherent in capitalism (Schumpeter, 1942/2014, pp. 172–173, 185–186). He added that “social recognition and prestige” could also be employed to motivate bureaucrats to dutifully discharge their service according to the public interest (Schumpeter, 1942/2014, p. 207).<sup>17</sup> Overall, Schumpeter’s sanguine vision of a socialist society underpinned by an efficient bureaucratic apparatus resonates with the bureaucratic ideal advanced by Wilson and Weber. It was, however, not cited by the EOB pioneers either as something to attack or

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<sup>15</sup> Schumpeter, of course, does not sit squarely in the Austrian tradition even though he shared the same Vienna milieu with Mises and Hayek. He diverged over time from this tradition and developed his own theories that led to different conclusions. For the relationship between Schumpeter and Austrian economics see Kisch (1979), Simpson (1983), Boehm (1990), März (1991), and Vanberg (2015). His credentials as a public choice precursor more generally have been explored by Mitchell (1984a, 1984b).

<sup>16</sup> For Schumpeter’s account of this transition to socialism see also Blokland (2006), Swedberg and Schumpeter (1992), and Swedberg (2002).

<sup>17</sup> In a rather puzzling episode, Schumpeter (1946) wrote a favourable review of *The Road to Serfdom*, in which he complimented Hayek for his perceptive analysis of the limitations of bureaucracies and the way bureaucratic planning may give rise to tyranny. He nonetheless maintained his belief in the viability of socialism and that bureaucracy would be vital to its efficient allocation of resources.

draw upon.

This brief survey demonstrates that the Austrians anticipated one or two insights later emphasised by the EOB pioneers in the public choice tradition, even if the former were rarely cited by the latter. Each of the EOB pioneers, for example, emphasised the negative consequences of rule-bound and hierarchical bureaucracies that did not sell a product or service in the market (as dwelt on by Mises), while Tullock and Downs emphasised the way selection processes in such organisations generate perverse bureaucratic actors (as suggested by Hayek). Ultimately, however, the goals of the Austrian and public choice economists diverged sufficiently that cross-fertilisation (and cross-citations) between the two sets of scholars was limited. Even though the Austrians and the public choice economists (and EOB economists more specifically) both criticised the romantic conception of the state by questioning “the twin assumptions of benevolence and omniscience on the part of political economy decision-makers”, the Austrians primarily challenged the “omniscience” assumption within the socialist calculation debate while the public choice economists (and EOB economists more specifically) primarily questioned the “benevolence” assumption by arguing that political actors are driven by their self-interest (Boettke & López, 2002, p. 112).<sup>18</sup> The divergence between these economists on matters of method was equally problematic, and, as we will see, even more vexingly complex. The Austrians tended to adopt process-driven and non-mathematical accounts of government bureaucracy that turned on knowledge failures, selection mechanisms, and endogenous preferences, while the public choice economists employed neoclassical equilibrium modelling and mathematical formalism when it served their needs. Indeed, given the hegemony of neoclassical economics in the second half of the twentieth century, one contention of this thesis is that the EOB economists potentially reduced the persuasiveness of their narratives by the extent to which they adopted Austrian-style methods (even when not citing them). It will later be shown that the non-mathematical and process-driven models of bureaucracy advanced by Tullock and Downs were overshadowed by the Chicago-style equilibrium model of bureaucracy proposed by Niskanen, with the latter becoming the standard model immediately after the publication of his seminal book in 1971.

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<sup>18</sup> The tendency to relax one of the twin assumptions with regards to political agents but not the other presents a methodological tension between the two traditions, though not an irreconcilable one, as evidenced by recent scholarly attempts to combine Austrian and public choice insights (e.g., Aligică et al., 2019; Buchanan & Vanberg, 2002; Foldvary, 2002; Holcombe, 2002).

## 2.5 Some Near-Contemporaries to EOB and Conclusion

As a postscript, and before proceeding to the conclusion, it should be acknowledged that the EOB pioneers were also likely influenced by two near-contemporary developments in economics. Both these developments entailed using economic reasoning in a domain traditionally occupied by administrative and organisational theory. The first of these was the decision-making school led by Herbert Simon at the Carnegie Institute of Technology (and hence sometimes called the Carnegie School) in the 1950s and early 1960s. Simon (1947, 1955) sought to apply economic techniques and empiricist methods to model individual decision-making within organisations. He contended that the traditional concept of *homo economicus* is flawed because people are rationally bounded in the sense that they have limited time and mental capacity to determine the choices available to them and the consequences of each alternative. Individuals therefore rely on heuristics or ‘rules of thumb’ and seek to satisfice rather than maximise outcomes. Simon’s colleagues at Carnegie, Richard Cyert and James March (1963), subsequently drew upon his analytical vision to develop what came to be known as the ‘behavioural theory’ of the firm, which entailed modelling the agents within the firm as pursuing conflicting goals with imperfect information rather than collectively maximising profits with perfect information. The second near-contemporary development was constituted by an array of economists who contributed to the new ‘managerial theories’ of the firm in the late 1950s and early 1960s. This entailed modelling corporate managers as agents who exploit the division between ownership and control to pursue objectives other than profit-maximisation. William Baumol (1959) proposed sales revenue maximisation, Oliver Williamson (1967a) considered a range of managerial objectives (salary, perquisites, leisure, staff expenditure etc.) and, Robin Marris (1964) focused on growth maximisation (see also Alchian, 1965; Machlup, 1967).<sup>19</sup>

Overall, these two developments exemplified the way economists from the 1950s onwards sought to analyse the incentive and information problems that induce managers to pursue objectives other than the stated objective of the firm (i.e., to maximise profits). Given that the EOB pioneers sought to model individuals along similar lines in non-market and hierarchical organisations, it is not surprising that they cited the publications from these near-contemporary

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<sup>19</sup> Although Williamson himself was trained within the Carnegie tradition and there is some overlap between the frameworks used by Carnegie and within the New Theory of the Firm, these two movements were quite different, if only because those who contributed to the theory of the firm were more likely to use equilibrium techniques to model managerial behaviour.

traditions. These citations, however, were mainly limited to introductory comments in the EOB narratives and were probably designed by the EOB pioneers to acknowledge that there was contemporary research relating to decision making within organisations more broadly. It is also manifestly the case (especially once the case studies have been completed) that if any near-contemporary movement had a major role in shaping EOB, it was the movement within which it was conceived, namely the public choice movement. This explains why the behavioural and managerial theories of the firm are considered as a postscript to this chapter only. Still, the degree to which there was cross-fertilisation is considered in further detail in the case studies in the chapters that follow.<sup>20</sup>

To conclude, several themes emerge from this brief review of the way bureaucracy was treated in classical political economy, classical public administration, and Austrian economics. First, it is shown that, through time, theorists oscillated between pessimism and optimism with respect to the contribution of bureaucracy to social welfare and that these swings in sentiment reflected the broader intellectual mood concerning the role of the state in society. Thus, taking the three main traditions considered in this chapter in chronological order, most of the early classical political economists in the age of 'Old Corruption' claimed that bureaucracies misallocate resources; the classical public administration theorists in the Progressive or New Liberal era claimed that bureaucracies run along rational lines could serve the public; and the Austrians (and indeed the EOB pioneers) in the age of the rising welfare-cum-socialist state emphasised the economic failings of bureaucracy. Second, the theorists under review differed in relation to the way they analysed the relationship between the agent and bureaucratic structure. Some assumed that self-regarding individuals exploit the incentives provided by the institutional structure of bureaucracy to pursue their own objectives, while others assumed that the structure could be designed to induce individuals to serve the goals of the bureaucracy. Third, some presented bureaucracy as a *solution to a problem in society* (say, by the way bureaucracy selects the most competent and dispassionate bureaucrats to implement public policies with utmost efficiency), while others presented it as a *cause of a problem* (say, by the way it subjugates a society previously governed by voluntary cooperation and exchange under a hegemonic rule). None of these theorists, however, developed a fully-fledged economic theory of bureaucracy in the fashion presented by the EOB pioneers.

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<sup>20</sup> In fact, as will be shown in the next chapter, it is evident that the fertilisation possibly proceeded in both directions, with Williamson (1967b) drawing upon the Tullock-Downs hierarchical-distortion model to explain the limits that are placed on firm size.



## Chapter 3: Gordon Tullock

### 3.1 Introduction

Gordon Tullock delineated the key features of EOB when he published *The Politics of Bureaucracy* in 1965. He may be considered the founder of EOB if citation acknowledgements of his priority are used as a criterion for this title. His priority in this domain is further supported by the fact that his book remained in manuscript form for over a decade before it was published.<sup>1</sup> Tullock's basic premise is that bureaucrats are self-interested agents who pursue objectives that diverge from the stated objectives of the bureaucracy and, ultimately, do not serve the interests of society. This is because bureaucrats operate within non-market and hierarchical environments, and hence they seek to maximise their status, power, and salary by ascending a hierarchy rather than wealth by exchanging goods and services evaluated in the marketplace. This, in turn, means that bureaucrats enter what Tullock called 'political' relationships between subordinates and superiors within a hierarchy rather than 'economic' relationships between equal contracting agents in the marketplace. These semi-feudal relationships give rise to a principal-agent problem within what Tullock called a hierarchical-distortion model, since bureaucrats within the hierarchy have an incentive to advance their careers by transmitting false or distorted information both up and down the chain of command if it portrays them in a good light. This problem is magnified by an adverse selection problem in which unscrupulous agents are more likely to populate the bureaucracy because, in the absence of market signals, they are more likely to succeed in ascending the hierarchy by distorting information and directives. The Wilsonian-Weberian vision of professional bureaucrats diligently pursuing the public interest is therefore rejected.

In this chapter I analyse Tullock's account of EOB. It is the first of three case studies devoted to examining the conceptual frameworks, models, and rhetoric of the EOB pioneers and, like the following two case studies, will be constituted by five main sections. In section 3.2 I present a brief biography of Tullock's life prior to the publication of *The Politics of Bureaucracy* to give some context to the immediate forces that shaped its nature. In section 3.3 I outline Tullock's EOB conceptual framework in two parts: his conception of the bureaucrat as a

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<sup>1</sup> It is liberally cited in Niskanen (1971, pp. 8–9, 25, 27, 117, 131, 170, 201) and Downs (1967, pp. 28, 44, 79, 116, 119, 121, 133–135, 140, 146, 154, 163–164). Downs (1964, p. 10) also cited it as a manuscript in his early RAND paper on bureaucracy. As mentioned in the previous chapter, Mises' *Bureaucracy* (1944) is not usually presented as part of this EOB tradition, and hence as a candidate to be a foundation EOB text.

rational economic agent and the institutional environment that shapes the way this bureaucrat pursues objectives. In section 3.4 I delineate the hierarchical-distortion model that is derived from Tullock's larger conceptual framework. In section 3.5 I review the method and rhetoric deployed by Tullock to advance his EOB framework and especially focus on the way he employed military and feudal analogies to persuade the reader that bureaucrats are restricted to 'political' relationships within a hierarchy. In section 3.6 I trace the extent to which Tullock's hierarchical-distortion model was successful in the intellectual marketplace and offer a summary of my findings.

### **3.2 Biographical Context for Tullock's EOB**

Gordon Tullock (1922–2014) was born in Rockford, Illinois and studied law at the University of Chicago.<sup>2</sup> His formal economics training consisted of a single subject taught by Henry C. Simons, which he did not complete due to the entry of the U.S. into the Second World War. He was drafted into the U.S. 9th Armored Division in 1941 (Rowley & Houser, 2012, p. 5). This division was initially deployed in England as a decoy and then redeployed to France for the final assault on Nazi Germany. Upon returning from his military service in 1945, Tullock completed a law degree at Chicago, had a short-lived legal career, and then worked as a diplomat for the United States Foreign Service from 1947 to 1956. His time in the Foreign Service, which included a period of service in China during which the Communist Party took power, awakened his interest in economics and academic research (Tullock, 2012). Tullock's diplomatic career was not entirely successful. He did not ascend the hierarchy; his reports on the Far East were repeatedly ignored by his supervisors; and he attributed his disappointments to the way "vote-driven politicians formulated policy without consulting the professionals" (Rowley & Houser, 2012, p. 10). It is likely that these early and frustrating experiences within bureaucracies coloured Tullock's subsequent analytical vision and approach to government bureaucracy (and politics generally). They certainly explain the excessive number of military and diplomatic anecdotes he later deployed to illustrate the way bureaucrats pursue their self-interest, rather than the public interest, when operating within non-market and hierarchical environments (e.g., Tullock, 1965, pp. 40–43).

Tullock was prompted to draw upon his career experiences to write an economic treatment of

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<sup>2</sup> Various accounts of Tullock's professional biography and intellectual contributions have been published, most notably Brady and Tollison (1991), Rowley (1991, 2004b, 2012), Rowley and Houser (2012), Mueller (2012, 2016), Shughart and Tollison (2016), and Wagner (2018). See also remembrances of Tullock by Clark and Lee (2015), Congleton (2015), Tideman (2015), and Yandle (2015) in the March 2015 issue of *Public Choice*.

bureaucracy after reading Mises' *Human Action* (1949/1998) three times when he was studying Chinese at Yale University (Levy & Peart, 2017, pp. 22–23). He was especially inspired to deploy Mises' method of praxeology to model agents (such as bureaucrats) as purposeful and self-interested agents who strive to achieve different objectives (such as ascending a hierarchy or maximising wealth) in different institutional frameworks. This signals a rare methodological link between Austrian economics and public choice, which, as mentioned in the previous chapter, seldom cross-fertilised due to the different approaches to government failure within the two traditions. This Austrian influence, which is explored further in the next section, was later highlighted by Tullock in an essay dedicated to Mises on his ninetieth birthday. Tullock there paid tribute to Mises for broadening his vision of economics to include the analysis of non-market environments: "Mises was among the first to point out that economics can be expanded to deal with many areas outside of its traditional scope. In my own case, my work in expanding economics into new areas was, in a real sense, begun by my reading of *Human Action*" (Tullock, 1971, p. 375).

Tullock gave the resulting manuscript on bureaucracy to James Buchanan when they first met at a conference in Philadelphia in 1957 (Rowley & Houser, 2012, p. 12). It sparked an immediate, if not famous, working relationship between them. Tullock was offered a one-year post-doctorate fellowship to join Buchanan at the Thomas Jefferson Center for Studies in Political Economy at the University of Virginia in 1958. Not long after this one-year stint Tullock began a joint project with Buchanan to write what would become *The Calculus of Consent* (1962), which was one of the seminal works that launched the Virginia School of public choice as an intellectual movement.<sup>3</sup> Tullock became a tenured Associate Professor at the University of Virginia just as this seminal book was issued. He thereafter helped Buchanan to institutionalise public choice at the Jefferson Center. This involved participating in the establishment of a journal called *Papers on Non-Market Decision-Making*, which was eventually renamed *Public Choice*, and subsequently acting as its founding editor from 1966 to 1990 (Buchanan, 2003, p. 5; Rowley, 2004b). These endeavours reinforced Tullock's commitment to the behavioural symmetry hypothesis that was then dominant within Virginian public choice (i.e., that self-interest should be assumed in non-market environments if it is assumed in market environments), and to explain the causes and inefficiencies of the rapidly expanding welfare state (including its bureaucracy).

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<sup>3</sup> For the history of Virginia School see Breit (1987), Medema (2011), and Levy and Peart (2020).

The herculean efforts to bring *The Calculus of Consent* to print and to institutionalise public choice at Virginia also partly explains why the initial manuscript on bureaucracy remained unpublished for several years. It was, however, widely circulated and even cited in its unpublished form, including by Anthony Downs (1964). The long gestation of Tullock's manuscript was finally brought to issue in 1965, when it was published as *The Politics of Bureaucracy* (hereafter *TPB*), and then only after undergoing substantial stylistic and editorial changes by Buchanan. These changes included pruning the excessive number of anecdotal accounts of Tullock's own bureaucratic experiences to make way for more analytical exposition.<sup>4</sup> Buchanan (1987, p. 11) later declared that *TPB* was a ground breaking text which "turned the whole post-Weberian quasi-normative approach to bureaucracy on its head".<sup>5</sup> Starting from the mundane hypothesis that bureaucrats, like other people, respond to incentives, the bureaucrat was recast by Tullock *from* a noble and efficient public servant in the idealised Wilsonian-Weberian fashion *to* an economic agent who pursues his or her own interests within the bureaucratic hierarchy.

### 3.3 Conceptual Framework of Tullock's EOB

Tullock's conceptualisation of the bureaucratic agent and the institutional environment in which he or she operates constitutes the EOB conceptual framework from which he derived a model of bureaucratic inefficiency. Tullock himself developed his positive analysis of bureaucracy by first characterising the individual bureaucrat as a rational agent and then delineating the institutional environment that shapes both the agent's objectives and the means of obtaining these objectives. Consider these concepts under the following two sub-headings.

#### *Behavioural Assumptions of Bureaucrats*

Tullock began his analysis by proposing that bureaucrats are self-interested individuals who respond to incentives in the same way individuals do in the marketplace (Tullock, 1965, p. 32). This suggestion, though apparently mundane, was the catalyst for the revolutionary incursion of rational choice modelling into the domain of bureaucracy, which hitherto was dominated by

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<sup>4</sup> While impressed by Tullock's analysis of bureaucracy, Buchanan (1987, p. 11) opined that "Then, as now, Tullock's work was marked by his refusal to write (everything is dictated) as well as by his apparent inability to separate analytical exposition from personal anecdote".

<sup>5</sup> Unlike Downs (1967) and Niskanen (1971), Tullock did not explicitly challenge Weber's account of bureaucracy, nor the landmark publications of the wider public administration literature, such as Wilson (1887), in which bureaucrats are presented as professionals who selflessly pursue organisational objectives. At least one early reviewer censured Tullock for not engaging with the existing literature (Kaufman, 1966). Tullock's rejection of the Wilsonian-Weberian orthodoxy is nonetheless obvious from the arguments presented in his text.

the more idealised and normative representations of public officials advanced in sociology and public administration theory (Niskanen, 2012, p. 97). Although the use of rational choice theory to model political or non-market behaviour is often criticised as unrealistic and even immoral (see Kelman, 1987; Pressman, 2004), Tullock pointed out that much of administrative theory was in fact based on an equally, if not more, reductionistic understanding of man as a mindless automaton that passively carries out the objectives of the government machinery. In his words:

Many people seem to think that man is a small machine. If given a task he will simply go ahead and perform it in a completely mechanical manner. By contrast, I think that every man is an individual with his own private ends and ambitions. He will only carry out assigned tasks if this proves to be the best way of attaining his own ends, and he will make every effort to change the tasks so as to make them more in keeping with these objectives. A machine will carry out instructions given to it. A man is not so confined. (Tullock, 1965, p. 32)

Tullock's use of rational choice in the domain of bureaucracy also meant that the bureaucrat, as an individual, is treated as the basic unit of analysis; that is, methodological individualism is assumed. This enabled him and subsequent EOB theorists "to put flesh and blood on the bureaucratic man, to equip him with his own power to make decisions," and thereby to provide a positive analysis of how bureaucracies *actually* behaved (Buchanan, 1965, p. 4).

It is important to note, however, that Tullock's close reading of Mises' *Human Action* induced him to adopt a conception of rational choice or *homo economicus* that significantly diverges from the usual neoclassical conception of this entity. Unlike the neoclassical economist, Tullock did not presume that individuals have perfect knowledge and maximise utility in an instant by choosing a bundle of goods from a preference field that obeys the law of transitivity. He instead followed Mises by presenting humans as striving purposefully, though imperfectly, toward various ends and basing their choices on "different 'information' about the real world" in a way that "expects to disturb" them the least and in which errors can be made (Tullock, 1965, pp. 27–29). Furthermore, contrary to what several commentators suggest, Tullock, at least in his early years, did not necessarily assume that the rational behaviour of *homo economicus* is narrowly self-seeking or materialistic.<sup>6</sup> He instead contended that rational behaviour simply implies that "individuals will always choose more of what they want rather than less, and less of what they do not want rather than more" (McKenzie & Tullock, 1975/2012, p. 9). From this perspective, individuals do not only pursue "creature comforts or

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<sup>6</sup> See, for instance, Buchanan (1987), Breit (1987, p. 650), and Brady and Tollison (1991, p. 144).

large bank accounts” (Tullock, 1965, p. 30), but also heterogenous values and goals ranging from the selfish to the altruistic. The precise goals individuals pursue and the rational means they use to attain them are shaped by the institutional environment in which they are placed. This is, in part, because the institutional environment includes a selection mechanism that favours individuals who pursue certain objectives and use certain means to attain them (Tullock, 1965, pp. 16–18). The non-market and hierarchical environment of a bureaucracy, for example, contains an *adverse* selection mechanism that favours bureaucrats who advance their career in the hierarchy by opportunistically satisfying their superior’s non-monetary utility, an issue that is returned to immediately below. Thus, Tullock diverged from the neoclassical conception of rational choice in which a Robbinsian maximiser pursues known goals with clearly identified means within a close-ended optimisation set. He instead adopted an open-ended conception of rational choice in which individuals determine the ends they want to pursue and discover the best possible means to attain them given the constraints in their immediate environment.<sup>7</sup>

The selection mechanism within Tullock’s model of rational behaviour is sufficiently novel and important for comprehending his account of bureaucratic behaviour that it needs to be explored further. Tullock (1965, p. 26) contended that a hierarchy within a bureaucratic organisation which is not held to account by profit and loss statements tends to be dominated by self-regarding agents who are “intelligent, ambitious, and somewhat unscrupulous”. This is because, in the absence of a profit-loss metric to align the interests of individuals, a bureaucratic organisation has an adverse selection mechanism (even though he did not use these precise words) that favours ambitious individuals who are especially skilled at appealing to the non-monetary utility of their supervisors, which often involves flattery, and opportunistically communicating only information that is to their advantage. As such, rational behaviour in such organisations entails making the expedient decisions that lead to one’s own advancement within the hierarchy rather than the ‘moral’ or principled decisions that further the objectives of the organisation (Tullock, 1965, pp. 22–26). In other words, unscrupulous individuals, or the narrowly self-seeking *homo economicus*, have a comparative advantage in the Darwinian scramble for promotion because they strive to meet the merit selection criteria of a bureaucracy in a way that is less constrained by moral codes (Tullock, 1965, p. 31).<sup>8</sup> Tullock added,

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<sup>7</sup> He later repeated these sentiments by claiming that human rationality simply means that people “are able to determine within limits what they want and will strive to fulfill as many of their wants as possible” (McKenzie & Tullock, 1975/2012, p. 8; see also Mises, 1949/1998, p. 13). For an extensive discussion of the Austrian influence on Tullock’s interpretation and use of rational choice see Boettke and Candela (2018).

<sup>8</sup> Tullock (1965, pp. 29–30) accepted that agents can also succeed if they rationalise their self-interested behaviour

however, that the magnitude of this comparative advantage is determined by the degree of organisational “efficiency”, which he defined in a Smithian manner as the extent to which the incentive structure aligns self-interested behaviour with ‘moral’ behaviour (which, again, he presumed is equivalent to fulfilling the objective of the organisation).<sup>9</sup> He argued that for-profit firms are relatively more “efficient” in aligning private and organisational objectives within their hierarchies because profit-loss accounting makes it easier to measure an individual’s contribution to these objectives (Tullock, 1965, p. 21). Such metrics are, however, not readily available to bureaus in non-market environments. Tullock thereby took a key Weberian trait of bureaucracy, merit selection, and flipped its implication on its head; that is, a non-market selection mechanism, to borrow Tim Besley’s (2006) language, populates bureaucracies with ‘unprincipled’ rather than ‘principled’ agents.<sup>10</sup>

*Bureaucracy as Hierarchical Coordination between Superiors and Inferiors*

It should be apparent by this point that the agents described immediately above operate within a specific institutional environment – namely, a non-market bureaucracy – which shapes the way rational individuals behave. Tullock (1965, p. 125) essentially conceived bureaucracy as a hierarchical organisation that exists “for the purpose of performing some *coordinated* task”. He was therefore preoccupied with modelling the internal coordination of activities within bureaucratic organisations. Specifically, central to Tullock’s economic analysis of bureaucratic conduct is the superior-subordinate relationship between individuals within the administrative hierarchy. Tullock proposed that, from the perspective of any given bureaucrat, everyone in his or her organisation can be generally divided into those of higher rank (superiors or sovereigns), equal rank (peers), or lower rank (inferiors). Tullock illustrated this division in

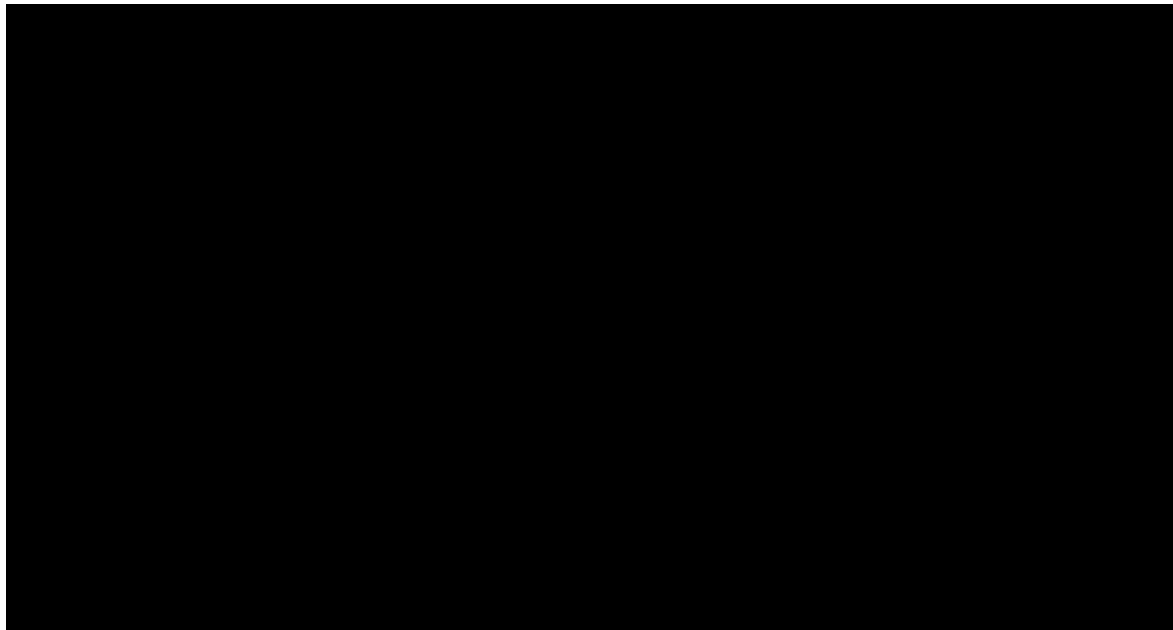
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as serving the greater good but added that they therefore act “*as if*” they have selfish motives. This argument is quite different from the common “as if” argument in favour of the narrow *homo economicus* assumption; namely, that it is a productive modelling device when agents have self-regarding motives to a degree (see Brennan & Buchanan, 1988). Indeed, Tullock’s allowance for motivational heterogeneity and institutional selection process once again suggests that his reputation for imperialistically interpreting social phenomena through the narrow lens of *homo economicus* is slightly more complex than usually suggested (see footnote 6 above).

<sup>9</sup> Recall that Adam Smith examined the relative success of various institutional arrangements in harnessing the self-interest of individuals to advance the well-being of the broader society as part of his comparative institutional analysis (see section 2.2).

<sup>10</sup> Thus, organisations in market arenas are more likely to achieve their objectives, and hence, paradoxically, are more likely to be “moral” than organisations in non-market arenas. Another implication is that organisations are guided by moral behaviour because they are efficient rather than the reverse. Niskanen (2012, p. 99) focused on this aspect of Tullock’s framework, arguing that whereas public administration theorists promoted moral behaviour via personnel training to generate organisational efficiency, Tullock promoted organisational efficiency to generate moral behaviour. Finally, the narrowness with which Tullock used the term moral in this context is easily caught by imagining SS soldiers following a code to efficiently pursue the objectives of their organisation.

Figure 1 immediately below. The top quadrant represents the individuals who act as the bureaucrat's superiors or sovereigns in the hierarchy, and the bottom quadrant represents inferiors who are the bureaucrat's subordinates. The two quadrants on the left and right side represent the bureaucrat's peers. Those within the hierarchy who are so far removed from the bureaucrat to affect his or her personal advancement are considered spectators and are positioned outside the circle. The most important people in the bureaucrat's environment are the sovereigns who either reward or sanction the bureaucrat for his or her performance (Tullock, 1965, p. 51).



*Figure 1. Tullock's (1965, p. 35) representation of power relations in a bureaucracy*

Tullock (1965, p. 11) used this diagram to illustrate his important distinction between an “economic” situation in which individuals largely interact with each other as contracting equals who freely undertake mutually beneficial exchanges, and a “political” situation in which a subordinate defers to a superior in a highly personalised manner. He posited that the angle formed by the intersecting lines in Figure 1 represents the range of alternative choices or the degree of economic freedom enjoyed by the individual. The lines are therefore vertical in pure “economic” situations such as in perfectly competitive markets because everyone interacts with each other as equal peers. On the other hand, the lines tend towards horizontal levels in more “political” situations such as in the military or a feudal society because people largely relate to each other on a hierarchical basis (Tullock, 1965, pp. 35–36).



Tullock contended that public sector bureaus are largely comprised of feudal-like ‘political’ relationships. This is because government employees, once entrenched in their bureaucratic careers, tend to lack alternative employment opportunities outside the public sector that yield a return equal to their current income (Tullock, 1965, p. 12). This, in turn, means that the cost of withdrawing from government employment is usually sufficiently high that bureaucrats rely on the goodwill of superiors for their personal advancement within the hierarchy.<sup>11</sup> The redeployment costs of exiting the bureaucracy, in other words, effectively makes the government a monopsonist employer of the bureaucrat. Bureaucrats are therefore generally predisposed to “finding out what their superiors want” and please them as best they can, even if it means reporting distorted information to their superiors to secure favourable terms for their own welfare (Tullock, 1965, p. 12). According to Buchanan (1965, p. 6), Tullock’s distinction between ‘economic’ and ‘political’ relationships also provides a plausible explanation of the origins of economic rent and a tentative theory of the relationship between those who pay and receive economic rent. In this context, it is interesting to note that Oliver Williamson (1979, 1981, 1985), within what became known as Transaction Cost Economics, famously (and independently) codified situations involving redeployment costs as bilateral monopoly environments in which agents lose assets specific to a joint act if they break the (incomplete) contract binding that act, and thereby have an incentive to behave opportunistically to appropriate the rents arising from this ‘asset specificity’. The striking of a contract therefore entails a ‘fundamental transformation’ from an *ex ante* competitive environment (akin to the ‘economic’ situation) to an *ex post* bilateral monopoly environment (which, *once* suitable governance structures are in place, is akin to the ‘political’ situation).<sup>12</sup> Niskanen (2012, p. 98) nonetheless emphasised the richness of Tullock’s less formal approach in a back-handed way, stating that “for someone who has never married”, he had “a very subtle understanding of bilateral monopolies”.

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<sup>11</sup> Tullock readily accepted that these ‘economic’ and ‘political’ relationships are not mutually exclusive and exist in degrees in both market and non-market institutions. There is, in other words, a spectrum in which ‘political relationships’ are more prominent when agents have fewer alternatives. Tullock, however, presumed that bureaucrats predominantly reside in a domain of ‘political’ relationships and proceeded to model them as opportunistic climbers. Catallactics therefore plays no role in the ‘political’ relationships of Tullock’s early EOB research program. This is paradoxical, to say the least, given his early Austrian colours and preoccupation with exchange in political markets in his other writings. The ‘political’ relationships within a bureaucratic hierarchy were not self-consciously re-codified as exchange relationships until Breton and Wintrobe (1982).

<sup>12</sup> It should be emphasised that Williamson’s Transaction Cost Economics is manifestly a separate, but near-contemporary, tradition to EOB (see Earl & Potts, 2011; Williamson, 2010). One of the more interesting differences between the two traditions is that Williamson *eventually* saw bureaucratic hierarchies as the means to reduce opportunistic behaviour, while Tullock saw them as the cause of such behaviour.

### 3.4 Tullock's Model of Hierarchical-Distortion in Bureaucratic Process

Tullock derived an operational model of bureaucratic inefficiency from the conceptual framework that was delineated in the previous section. This model, which became known as the hierarchical-distortion (HD) model, is almost a matter of logical deduction once Tullock postulated his ideal type of the 'career bureaucrat' and the chief characteristics of a bureaucratic institution. As the name suggests, Tullock's HD model relates to the hierarchical nature of bureaucracy. The intended role of a bureaucratic hierarchy is to coordinate the actions of self-interested individuals to achieve the bureau's objectives in an efficient manner. One of the main challenges confronting the head of a bureau is therefore to overcome what is now called the principal-agent problem. That is, the head of a bureau must coordinate the actions of subordinates so that they reach decisions which he or she would have reached if he or she "possessed as much information about the particular situation requiring decision as they do" (Tullock, 1965, p. 141). Such coordination naturally involves both the communication of orders *down* the bureaucratic hierarchy and the reporting of information *up* the hierarchy. The subordinates, however, are self-interested agents who, once entrenched in the political relationships that dominate non-market bureaucracies, seek to advance their careers by opportunistically distorting the information they communicate both down and up the bureaucratic hierarchy. Consider each type of communication in turn.

Senior bureaucrats must clearly communicate their orders *down* the hierarchy to their subordinates, as well as supervise their actions, to accomplish their desired objectives. However, as their original instruction travels down the hierarchy, a certain percentage of the instruction is inevitably lost or distorted as bureaucrats at each node in the hierarchy, given their cognitive and time constraints, selectively interpret and pass on to their subordinates the information they deem the most important. Tullock (1965, p. 137) likened such human error in the mis-transcribing of information to a game of 'whispering down the lane', which is also known as 'Chinese whispers' or the 'telephone' game. Moreover, bureaucrats exercise their discretion according to their own objectives and hence selectively execute parts of the order that increase their likelihood of promotion. This incentive-induced distortion is especially exacerbated in a non-market bureaucratic organisation since (a) the contribution of each division to the bureau's objectives cannot be measured via monetary profit-loss accounting and (b) institutional bias against moral rectitude makes it more likely that unscrupulous agents hold positions within the hierarchy via the earlier mentioned Darwinian natural selection process. As a result, Tullock hypothesised that a significant portion of activities in a bureaucratic

hierarchy do not align with the objectives of the bureau due to the inherent knowledge constraints in managing information flows and the way self-interested bureaucrats opportunistically distort information and selectively obey orders.

Hierarchical distortion is also expected to occur when facts are being reported *up* the hierarchy. This is because subordinates always have more knowledge relating to a particular problem than their superiors, and hence, with little chance of being discovered, they have an incentive to report only information that allows them to curry favour with their superiors, especially as this is their chief means of advancement in the hierarchy. This means that the intelligent and ambitious subordinate tends to report facts that are most congruent with his superior's beliefs while leaving out contradictory facts that would result in the superior's disutility and hence undermine his or her chance of promotion (Tullock, 1965, p. 69). Such misinformation is, as already mentioned, almost entirely unchecked in non-market bureaucracies because of the lack of market discipline and the institutional bias against moral rectitude in such bureaucracies. Tullock (1965, p. 70) thus concluded that real bureaucracies tend to be poorly organised and diverge from the ideally efficient organisation because "factual information tends to flow from the top down instead of from the bottom up".

Given the problem of hierarchical distortion, Tullock contended that non-market bureaucracies tend to fail in their hierarchical coordination of internal activities. Furthermore, they suffer declining marginal efficiency in relation to their size and hence experience significant constraints on their performance as they expand. That is, due to the progressive loss of top-down control and bottom-up information, bureaucratic output increases at a slower rate than labour input as a function of the number of layers of supervision required in the hierarchy (Niskanen, 2012, p. 99). Large government bureaucracies that do not sell goods or services in the marketplace are therefore unlikely to accomplish their assigned tasks because superiors cannot ensure that subordinates act in a manner consistent with the organisation's stipulated goals (Tullock, 1965, pp. 142–144). Large private firms, by contrast, are comparatively more efficient in their allocation of inputs to produce goods and services as market prices and profit-loss accounting align individual self-interest and enable economic calculation to meet the complex and changing needs of society (Tullock, 1965, pp. 161–164). Thus, whereas the rational self-interest of individuals in markets (i.e., *homo economicus*) often leads to unintended public virtues, the rational self-interest of individuals in political bureaucracies (i.e., *homo politicus*) leads to public vices. Adam Smith's 'paradox of virtue' is thereby turned on

its head.

### 3.5 Tullock's Economic Method and Rhetoric

Tullock (1965, pp. 14–15) deployed Weber's method of understanding (*Verstehen*) to persuade the reader that his EOB conceptual framework (and attendant HD model) was plausible. It is, of course, ironic that he drew upon Weber's own methodology to recast the bureaucrat *from* the Wilsonian-Weberian ideal of a noble professional *to* an economic agent, though Tullock himself makes no reference to this. Weber's method of understanding involves the theorist sympathetically placing him or herself in the position of the human actor being analysed (i.e., the bureaucrat) and introspectively imagining how he or she would behave under similar circumstances (i.e., in a bureaucratic organisation); that is, it entails appealing to the reader's "intuition and experience" (Tullock, 1965, p. 15).<sup>13</sup> This, in turn, amounts to deploying historical anecdotes, metaphors, analogies, thought experiments, generalising from a few vivid particulars, and other rhetorical devices to convince the reader that agents act like 'economic men' within non-market and hierarchical systems. Such a methodology had become unorthodox in North American economics by the 1960s due to the increasing acceptance of the contention that mathematical modelling and inferential statistic techniques should take priority in the act of economic persuasion. The two methodological approaches are, however, not logically incompatible, since (as Downs and Niskanen also stressed) the hypotheses that emerge from persuading readers to see the particulars in this new light may be formalised and empirically corroborated (in a more conventional fashion) in due course. As Buchanan (1965, p. 5) presciently remarked in his foreword to *TPB*, even though Tullock's theory of bureaucracy is "less fully developed than is the analogous 'theory of markets'", his work will be "an important helpmate to whoever chooses to elaborate it".

The act of drawing upon the Weberian method of understanding by appealing to the readers' "intuition and experience" gave Tullock far greater license to deploy rich rhetoric compared to his orthodox contemporaries.<sup>14</sup> Tullock's act of 'rhetorical redescription' and associated

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<sup>13</sup> Mark Blaug (1992, p. 43) helpfully explained that "[t]he German term *Verstehen* denotes understanding from within by means of intuition and empathy, as opposed to knowledge from without by means of observation and calculation; in other words, first-person knowledge that is intelligible to us as fellow human beings, instead of third-person knowledge that may not correspond to anything that can be grasped in human terms".

<sup>14</sup> Wagner (1987) provided a comprehensive account of Tullock's methodology over his entire career and attributed the rich rhetoric in Tullock's larger body of work to the "avowedly rhetorical" nature of the legal discipline in which he was initially trained. There is, however, no reason why the rhetorical turn in *TPB* specifically may not also be attributed to the method of understanding.

rhetorical strategies may therefore be reconstructed without too much exegetical effort. Two analogies especially loom large in the text: the military and the feudal.

Firstly, Tullock (1965) presented countless military anecdotes and literary references that turn on bureaucratic behaviour, and thereby drew analogies between war-time military hierarchies and peacetime civilian hierarchies (see pp. 41, 43, 51, 75, 118, 131, 137 for examples). These references were designed to appeal to the memories of the middle-aged ex-servicemen from the citizen armies of World War Two and the Cold War of the innumerable cases in which they, once bound in service for the duration, observed some of their less than noble comrades manipulate the military hierarchy to advance their own interests. This analogy has a twofold effect: the re-deployment or exit costs that bind modern bureaucrats to the political relationship distantly resembles the exorbitant costs of desertion from the armed services (i.e., court martial and possible execution) *and* the manoeuvrings of civil bureaucrats resembles the way subordinates in the armed services surreptitiously fight the monolithic, bloated and hopelessly inefficient Total War hierarchies to achieve their own ends. The reader is therefore induced to accept the two key drivers in Tullock's system by considering an extreme case of a political relationship, even though, as Tullock (1965, p. 13) himself admitted, they are often only strong tendencies in civilian bureaucracies.

Secondly, Tullock (1965, pp. 102–105) repeatedly illustrated the world of the modern bureaucrat by referring to the servile behaviour of courtiers and other subordinates in a feudal court. This is easily the most important analogy in the text. Its rhetorical power is again twofold: the way the various servile ranks (from vassal to chamberlain) were bound in service to the feudal lord captures the way bureaucrats could not easily seek alternative employments *and* the way unscrupulous sycophants of courtier life manoeuvred for self-advantage resembles the way bureaucrats manipulate the subordinate-superior power relationship to ascend a hierarchy. Tullock's (1965, pp. 78, 113–115) use of terms such as “sovereigns”, “lords”, “courtiers”, “barons”, and “equerries” was also likely to register with his readers. The venal nature of a feudal court was, for one, the ‘furniture of the mind’ of educated readers due to the dominance of Shakespearean plays in the then curriculum, while university instructors (i.e., Tullock's primary audience) witnessed such behaviour first-hand in their own hierarchies.<sup>15</sup>

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<sup>15</sup> Tullock drew upon numerous contemporary novels to appeal to the ‘intuition and experience’ of his readers, but strangely did not appeal to the campus novels of his day that capture the experiences of his primary readership (i.e., university instructors), such as C. P. Snow's *The Masters* (1951) and Mary McCarthy's *The Groves of Academe* (1952). Also note that the magnified register of this courtly analogy for those familiar with Shakespeare is caught in Trevor Nunn's 1996 film adaption of *The Twelfth Night* where a feedback loop is created with the

Buchanan (1965, p. 5) himself sought to explain Tullock's vision by using a slave-economy analogy, but admitted that serfdom "may be a more descriptive term, especially since Tullock finds many practical examples for his analysis in feudal systems". The feudal analogy also figures in the Cartesian diagrams, such as in Figure 1 above, that Tullock used to illustrate his vision.

### 3.6 Tullock's Influence and Conclusion

Tullock identified a principal-agent problem that is internal to a non-market bureaucratic organisation and caused by the divergence of interests between bureaucrats at each level of the hierarchy. The rhetoric that accompanied his analysis was both impressively rich and reasonably effective. It constituted a form of linguistic reframing that appealed to the intuition and experience of readers in the 1960s to see bureaucracy in a different light. The reader who did not have any direct bureaucratic experience was encouraged, via military and feudal analogies, to perceive bureaucrats as self-interested agents who are effectively bonded to working within a bureaucratic hierarchy and thereby resort to exploiting political relationships to ascend this hierarchy by sending false communications both downwards and upwards. The reader who had some type of experience of bureaucracies in the past, whether it be limited service in the military or a lifetime of service to a university, was encouraged to recall the way political relationships were exploited by the more unscrupulous of their former comrades for personal advancement. Tullock also persuaded his colleagues that his insights had merit. Downs (1964, 1967) and Niskanen (1971) immediately drew upon Tullock's conception of the bureaucrat as a self-interested 'economic man' and Downs extended Tullock's HD model in several different directions. Indeed, given his early influence on these figures, it is reasonable to argue that he was the founder of EOB or at least the first mover.

The EOB visions advanced by Downs and Niskanen are the subject of analysis in the next two chapters and hence they need not detain us here. It is, however, worthwhile at this point to explore a 1965 *JPE* article by Monsen and Downs in which Tullock's HD model (then still residing in an unpublished manuscript) was applied to corporate bureaucracies. This detour is justified both because it led to the further formalisation of the HD model and because it demonstrates Tullock's immediate impact on his contemporaries. Monsen and Downs (1965)

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recruitment of Nigel Hawthorne as the sycophantic and self-regarding courtier, Malvolio, to channel Hawthorne's representation of Sir Humphrey in *Yes Minister* and *Yes Prime Minister* in the 1980s. It is also telling that this adaption is set in the Austro-Hungarian empire, which was renowned for its professional bureaucracy. I would like to thank the Shakespearean scholar, Chris Wortham, for this reference.

contended that corporate managers may fail to maximise profits *not only* because of a principal-agent problem caused by the divergence of interests between shareholders and senior management (which I will call the ‘external’ principal-agent problem), *but also* because of a principal-agent problem caused by the divergence of interests and associated HD process within the corporate hierarchy (which I have been calling the ‘internal’ principal-agent problem). They thereby contributed to the post-war challenge to the neoclassical theory of the firm that was described in chapter two of this thesis. Recall that this challenge entailed proposing sales (Baumol, 1959), growth (Marris, 1964), managerial expenses (Williamson, 1967a) or some other maximand as alternatives to the default goal of profit-maximisation.<sup>16</sup> Monsen and Downs’ 1965 narrative, along with the publication of Tullock’s manuscript in the same year, then prompted Williamson (1967b) to mathematise the HD model (which he called a “control-loss” model) to capture the constraints on the size of a firm resulting from the distortion of information and instructions in longer chains of command. Note, however, that he attributed this distortion to bounded-rational agents mis-transcribing information and instructions in serial reproduction processes (in the fashion of ‘Chinese whispers’) rather than to employees deliberately distorting information to serve their self-interest (1967b, p. 127). Williamson further argued that the distortion increases with the size of the firm due to the extension of the hierarchy and that this model resolves a long-lasting debate over the existence of diseconomies of scale in firms (see Kaldor, 1934; Penrose, 1959/2009; Ross, 1952–3), as it explains why managerial inefficiencies cannot be eliminated through time via a discovery process. An optimum degree of hierarchy is also derived from Williamson’s model. This approach was further developed by Williamson (1970, p. 110) in *Corporate Control and Business Behavior*, where he adapted his initial position by including both deliberate and non-deliberate sources of distortions.

The HD model, for all its immediate impact, was strangely marginalised within the EOB literature in a matter of years. Tullock’s *TPB* was thereafter mainly cited only in passing in surveys of EOB publications for initiating the economic analysis of bureaucracy.<sup>17</sup> The quick

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<sup>16</sup> As mentioned in section 2.5, the research program devoted to conceptualising corporate managers as agents who pursue non-profit objectives in many ways mirrors the EOB program devoted to conceptualising bureaucrats as agents who pursue their self-interest, and thereby signals the possibility of early cross-fertilisation between the two programs. Tullock himself, however, at no point cited this parallel program and believed that distortions are less pronounced in corporations that sell a market good and assess divisions using profit-loss accounting.

<sup>17</sup> See, for example, Orzechowski (1977), Rowley and Elgin (1988), Mueller (2003, p. 362). Tullock’s EOB was, however, extended by Breton and Wintrobe (1982). More recently Tullock’s insights were applied by Christopher Coyne (2008, 2013) to analyse post-war reconstruction efforts and state-led humanitarian actions.

marginalisation of the HD model may be attributed to the rise in popularity of Niskanen's (1971) 'budget-maximising' model. Niskanen eschewed analysis of activities within the bureaucracy by shifting attention *from* the 'internal' principal-agent problem caused by the divergent interests held by managers within the hierarchy *to* the 'external' principal-agent problem caused by the divergence of interests between bureau sponsor and bureau chief. The reasons for the eventual ascendancy of Niskanen's EOB vision cannot be fully considered until the case study devoted to this vision has been completed. However, from the analysis presented so far, it can be speculated that the unorthodox Austrian hue of Tullock's EOB vision is partly to blame. Tullock's account, reflecting his close reading of Mises in the gestation period of his 1965 book, is process-driven and bereft of the equilibrium economics and mathematical formalism that define neoclassical economics. He also seems to be at times occupied with both the *incentive* pathologies of bureaucracies that preoccupied the public choice theorists and the *knowledge and coordination* problems that preoccupied the Austrians in the calculation debate (e.g., Tullock, 1965, pp. 161–164). It is, in short, plausible that Tullock's Austrian stance dampened the persuasiveness of his 1965 tome because of its dissonance with the dominant neoclassical vision. Niskanen (2012, p. 98) later highlighted the lack of neoclassical formalism in Tullock's 1965 narrative by dismissively likening his key diagrams (per Figure 1 above) to "television station test patterns". A related puzzle, which is not considered in this thesis for want of space, is why Williamson's formalisation of the HD model to derive the optimum firm size also later faded from view, even though it resolved a long-standing controversy in economics and immediately preceded his shift to Transaction Cost Economics. Williamson (2010) himself strangely did not mention his contribution to this area of research in his Nobel lecture.<sup>18</sup>

Tullock also did not develop the HD model further. He made a lesser-known contribution to EOB in a 1974 paper titled 'Dynamic Hypothesis on Bureaucracy', which was itself an extension of his 1972 review of Niskanen's 1971 book.<sup>19</sup> Tullock there drew upon the median-voter theory to present a 'dynamic hypothesis' that explains the growth cycle of government bureaucracy based on two premises. First, the demand for a bureau's service is the sum of the demand by bureaucrats and non-bureaucrat citizens, with the former exhibiting a higher

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<sup>18</sup> Note, however, that a plausible explanation for Williamson's own disengagement from (or possibly redirection of) this research program is that he turned to bureaucratic hierarchy as a solution to, rather than a cause of, allocative inefficiencies once he embraced Transaction Cost Economics in the 1970s.

<sup>19</sup> The paper was an extension of his review of Niskanen's 1971 book on bureaucracy (Tullock, 1972). See also Niskanen (2012, p. 100) for his comments on Tullock's dynamic hypothesis.



demand because their income is linked to the provision of these services. Second, bureaucrats face a choice of exploiting an increase in demand for their bureau's service by either increasing their own wages or hiring more bureaucrats (which thereby further raises the joint demand). Tullock used these two premises to hypothesise that bureaucrats continue to push for bureaucratic expansion until they have accumulated sufficient political power (viz., voting base) to directly increase wages. At that point the bureaucrats cease to employ more bureaucrats and solely exploit their political power to raise their pay. Workforce attrition will therefore begin to occur, which over time reduces the aggregate demand for the bureau's service and hence the political power of the bureaucrats. This sets off a dynamic cycle of bureaucratic growth and attrition as bureaucrats switch between the two rent-seeking strategies. Tullock thereafter left EOB to make numerous other substantial contributions elsewhere in economics.

## Chapter 4: Anthony Downs

### 4.1 Introduction

Anthony Downs first presented his EOB vision in a nascent form in a RAND monograph in 1964 before publishing it in a fully realised, and much elongated, narrative entitled *Inside Bureaucracy* in 1967. His EOB framework in many respects resembles the one presented by Tullock in 1965 described in the previous chapter. Downs presumed, like Tullock, that bureaucrats potentially possess heterogeneous motives and operate within non-market and hierarchical organisations. Unlike Tullock, however, he posited that bureaucratic organisations do not always favour self-regarding individuals via a fixed adverse selection mechanism. Instead, Downs argued that different types of people with different motivations are favoured via a dynamic selection mechanism that evolves throughout the life cycle of a bureau. He further argued that the types of people chosen via the changing selection mechanism affects the organisation's structure and overall performance. Downs drew upon these behavioural and institutional specifications of bureaucratic organisations to formulate two important economic models that contained operational or testable relationships: the bureau life-cycle-selection (LCS) model and his version of the hierarchical-distortion (HD) model, which he called the information-directive distortion model. The implication of Downs' EOB vision is that the potential for bureaucratic failure (like government failure more broadly) is higher than his contemporaries presumed.

In this chapter I analyse the nature of Downs' approach to EOB, the method he employed to model bureaucracy, and the rhetoric he used to persuade readers that his EOB was plausible. In section 4.2 I present a brief biography of Downs' life and academic career prior to his contribution to EOB to give some context to the ideas presented in his account. In section 4.3 I outline Downs' EOB conceptual framework in two parts: his conception of 'bounded rational' bureaucrats with diverse motivational dispositions and his representation of the non-market and hierarchical environment that selects and shapes these bureaucrats. In section 4.4 I delineate the bureau LCS model and a version of the HD model that emerged from Downs' conceptual framework. In section 4.5 I review the method and rhetoric employed by Downs to develop his EOB analysis, and especially focus on the way he used caricatures to emphasise motivational diversity and organic analogies to emphasise changes within the bureaucracy. In section 4.6 I trace the impact of Downs' EOB vision and offer a brief conclusion.

## 4.2 Biographical Context for Downs' EOB

Anthony Downs (1930–2021) was a pioneering figure in public choice theory who is now best known for applying economic logic to model the rational choice of voters and political parties. He was born in 1930 in Evanston, Illinois, graduated with a BA from Carleton College, and completed an MA and a PhD at Stanford University.<sup>1</sup> Downs was prompted to turn to public choice issues by Kenneth Arrow, who acted as his doctoral supervisor, and after reading the proto-public-choice analysis contained in Joseph Schumpeter's (1942/2014) *Capitalism Socialism and Democracy* (Downs, 1993). His doctoral dissertation, which was published as *An Economic Theory of Democracy (ETD)* in 1957, is now widely regarded as one of the founding texts of the public choice movement, if not a classic in economics.<sup>2</sup> It was in this work that Downs famously demonstrated that self-interest could not explain voter behaviour (now known as the voter paradox) and further codified the median-voter theorem (Grofman, 2008, pp. 92–93). These early contributions to the public choice canon demonstrate that he was comfortable thinking about non-market actors as self-interested agents independently of the Virginia public choice movement and before he turned his attention to EOB.

After completing his PhD, Downs served in the Navy as an intelligence officer for three years; joined his father's consulting company, Chicago's Real Estate Research Corporation (RERC), in 1959; and taught at the University of Chicago from 1959 to 1962. His consulting work for RERC occupied an increasing amount of his time as the years passed and his involvement in this entity partly explains why he took an interest in urban economics for much of his career. He nonetheless continued to undertake original and applied research in a range of disciplines while serving various government committees and thinktanks. Indeed, Mike Munger (2022, p. 2) contended that the breadth of Downs' contributions is sufficiently impressive that it "defied easy categorization". This, paradoxically, may explain why he was not even more recognised and why his recent passing attracted relatively little attention compared to the other EOB pioneers.

Downs' primary research interest did not shift to the theory of bureaucracy until he worked on projects sponsored by RAND from 1963 to 1965. He published several papers on this subject (Downs, 1964, 1965, 1966; Monsen & Downs, 1965) before finalising his theory in *Inside*

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<sup>1</sup> For Downs' professional biography see Grofman (2008) and Pennington (2014). For his obituaries see Hagerty (2021), Schudel (2021), Somin (2021), Roberts (2021), and Munger (2022).

<sup>2</sup> *ETD* was identified by Grofman (2004, p. 31) as one of the "Public Choice Pentateuch".

*Bureaucracy* (1967). One of the objectives at RAND was to make the Defense Department more efficient and accountable, and its role in shaping Downs' research seems indisputable given that he explicitly thanked the United States Air Force and RAND "for supporting" his research on EOB under "Air Force Project RAND" (Downs, 1967, p. xii). Amadae has even claimed that 'rational-choice' politics (read public choice) was shaped by RAND in her 2003 book *Rationalizing Capitalist Democracy: The Cold War Origins of Rational Choice Liberalism*. Although Tollison (2004) has convincingly argued that Amadae's thesis is overstated, there is little doubt that RAND's brief to rein in the excesses of the defence establishment during the 1960s played a role in the development of EOB, if not public choice more broadly (see also Medema, 2000, pp. 292–293). Tollison (2004, p. 242) is certainly wrong to state (almost bizarrely) that Downs and Niskanen had no "serious Rand [sic] connections or interests (if any)".

It also should be emphasised that Downs developed his EOB vision after diligently engaging with the existing scholarship on bureaucracies (from Weber to Mises); mastering the 'theory of the firm' literature of the 1950s and 1960s (see sections 2.5 and 3.6 of this thesis); and drawing upon the testimonies relating to bureaucracies offered by more experienced contemporaries.<sup>3</sup> He was, however, especially influenced by Tullock's work on the subject and, indeed, was one of the first to recognise the value of Tullock's entrepreneurial contribution to the economic analysis of bureaucracy. He specifically acknowledged that he was inspired by Tullock's *TPB* manuscript in his first EOB publication, which was a RAND working paper (Downs, 1964, p. 10n7), and stated in his 1967 book that: "My greatest debts are to Gordon Tullock, whose ideas inspired my approach and are utilized extensively throughout the analysis" (Downs, 1967, p. vii). Downs presented Tullock's hierarchical-distortion model, but within a framework that radically extended Tullock's EOB vision by allowing for 'motivational heterogeneity' when modelling self-interested bureaucrats. This is elaborated upon in the sections that follow.

### **4.3 Conceptual Framework of Downs' EOB**

As mentioned in the introduction, and like Tullock, Downs developed a conceptual framework in which bureaucrats are just as self-interested as agents in the private commercial sphere. Unlike Tullock, however, Downs presumed that these self-interested bureaucrats are motivated

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<sup>3</sup> For example, Downs (1967, p. vii) stated that William Jones' "experience and insights regarding large organizations enabled me to test many of my hypotheses and who contributed several key concepts".

to pursue different goals – some of which are not self-regarding – and those with a certain subset of motives tend to dominate at different times via environmentally dependent selection processes. This framework is based on two sets of principles: (1) behavioural assumptions that generate heterogeneous agents with different motivations and (2) institutional features that underpin the selection of certain types of agents under certain environments and determine the way bureaucrats with different motives are coordinated to serve an organisational objective. Each is considered in turn under two sub-headings.

### *Behavioural Assumptions of Bureaucrats*

Downs (1964, p. 4, 1967, pp. 84–85) postulated two behavioural axioms: firstly, bureaucrats seek to attain their goals as efficiently as possible given their limited capacities and knowledge constraints, and, secondly, bureaucrats generally have a complex set of goals, but different types of bureaucratic personalities prioritise different subsets of these goals. With respect to the second axiom, Downs identified the general goals of bureaucrats as including five self-regarding motives (power, income, prestige, security, and convenience) and four broader motives (loyalty to one's workgroup, organisation, or nation; pride in one's own work; desire to serve the public interest; and commitment to a specific ideology or mission). He then generated five ideal-type bureaucrats, each driven by a particular preference for a different subset of goals, such that *motivational heterogeneity* may be said to exist; that is, although agents potentially pursue an array of objectives, some agents pursue different subsets of these objectives.<sup>4</sup> Two of these ideal-type bureaucrats are purely self-regarding officials: "climbers" are solely concerned with climbing the career ladder to maximise power, money, and prestige, and "conservers" seek to retain the security and personal comforts they enjoy in their present position. Three others are "mixed-motive" officials who are also driven by broader social motives: "zealots" are loyal to a narrow set of policies or ideals, "advocates" identify their personal welfare with their bureau and are oriented to advance its mission and objectives, and "statesmen" pursue the general welfare of society as they see it. The latter closely resemble the altruistic civil servants often assumed in public administration literature. Downs further proposed that a bureau's nature is dependent on which of these ideal types dominate the

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<sup>4</sup> Brennan (2009, p. 135) and Brennan and Hamlin (1995, p. 42) referred to this type of modelling technique as "motivational heterogeneity" (but not in relation to Downs), while Simmons (1999, p. 269) called it "motivational diversity" specifically in relation to Downs' EOB. This heterogeneity strategy again suggests that Downs was influenced by the 'theory of the firm' literature in the late 1950s and early 1960s in which motives other than the pursuit of profits are presumed and to which he himself contributed (Monsen & Downs, 1965). See, for example, the matrix of motives and associated references cited in Williamson (1967a, Chapter 3).

organisation. This is itself dependent on the selection mechanism, which is discussed at the end of this section when Downs' institutional assumptions are scrutinised.

Downs (1967, p. 3), like Tullock, also assumed that bureaucrats do not operate in the 'perfectly informed' world of neoclassical theory and, instead, emphasised the "ineradicable uncertainty" that they face due to knowledge and time constraints. Downs explicitly drew on Herbert Simon's (1955, 1957; March & Simon, 1958) bounded rationality and satisficing theory to outline a behavioural theory of learning and adaptation whereby bureaucrats search for and adopt behavioural patterns that would improve their utility in light of their existing knowledge and environment, and, further, prompt them to shift their behavioural disposition whenever their environment changes (Downs, 1967, pp. 168–170). The implication of such a conception of human rationality is twofold. Firstly, bureaucrats are presented as satisficing decision-makers with limited capacities and time to make decisions and hence must selectively communicate information and orders that they deem the most important in relation to their non-monetary utility. Such constraints and satisficing behaviour, in turn, contribute to the information distortions that are captured in Tullock's hierarchical-distortion model (see section 3.4) and in the hierarchical-distortion model developed by Downs himself (see section 4.4). Secondly, bureaucrats are modelled as alert human actors who adapt to changes in their surrounding environment, such that they *either* adjust their behaviour in a way that includes changes to the sub-set of objectives they pursue to maximise their expected utility *or* exit the bureau to find another bureaucratic environment that is most compatible with their individual preferences.<sup>5</sup>

#### *Bureaucracy as Hierarchical Coordination and Selection*

Downs extended Tullock's account of the institutional characteristics of bureaucracy in several directions. He defined a bureaucratic organisation as one that possesses four attributes: 1) it is sufficiently large that the highest-ranking officers personally know less than half of the staff in the bureau, 2) the staff are predominantly paid full-time workers, 3) personnel selection is based on "merit" as assessed by a supervisor, and 4) more than half of its output is not evaluated by the market (Downs, 1964, pp. 2–3, 1967, pp. 24–25). In other words, a bureau is a large, non-market administrative organisation composed largely of full-time staff whose career

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<sup>5</sup> Note that Downs appears to have accepted that utility-maximising behaviour in neoclassical economics and satisficing behaviour in Herbert Simon's decision-making theory are reconcilable, and hence continued to use the vocabulary of the former.

advancement depends on a supervisor's assessment. Downs claimed that several other Weberian traits – such as hierarchical organisation, impersonality of operation, extensive use of rules, and strict employment of specialists – can be logically derived from the four primary attributes (Downs, 1967, p. 25). He added, however, that bureaucracies also contain forces that “inhibit” the full development of some of these secondary characteristics. He argued, for instance, that bureaucrats spontaneously develop informal rules and relationships within the formal bureaucratic structures described by Weber, both to pursue their private ends and the objectives of the organisation (Downs, 1967, p. 63). The spontaneous emergence of such informal structures can have mixed effects on the overall behaviour and efficiency of an organisation. This is because informal procedures and relationships can both enhance efficiency by rendering each bureaucrat's behaviour more predictable and reduce efficiency by allowing bureaucrats to exploit personal associations to pursue self-interested ends (Downs, 1967, pp. 68–73). Downs, in short, identified something akin to an internal contradiction within the Weberian bureaucracy: the formal and impersonal elements of a bureaucracy, originally designed for organisational efficiency, have the unintended consequence of generating informal and personal elements which may in turn undermine the formal design and purpose of the bureaucracy. Downs therefore advanced a theory of bureaucracy with greater realism and predictive power by supplementing the formal Weberian model of bureaucracy with a positive analysis of the personal interactions and exchanges within the bureaucratic hierarchy.

Downs also stressed that the hierarchical nature of bureaucracy, even if a secondary characteristic, is an especially important institutional feature since all large, non-market organisations must possess such structures to coordinate activities. Although Downs' account of hierarchy as a coordinating device is derived from Tullock's and resembles it in many ways, he placed greater emphasis on the way hierarchical structures arise to coordinate the actions of heterogeneous agents in different environments. Specifically, a “Law of Hierarchy” is proposed according to which the “coordination of large-scale activities without markets requires a hierarchical authority structure” (Downs, 1967, p. 52). In other words, in the absence of profit-loss signals to appraise human action, a hierarchy is required to resolve internal conflicts arising from agents possessing different motives and perceptions of reality, as well as to ensure the effective communication of relevant information and directives. Downs suggested that the optimum number of hierarchical tiers depends on the degree of conflict expected. Tall hierarchies (i.e., narrow spans of control and many levels) are required when the organisation is subject to more internal conflicts, such as when the bureau has a complex and ambiguously

defined set of goals or is populated with officials with heterogeneous members. Conversely, flat hierarchies (i.e., wide spans of control and few levels) are required when the organisation is subject to fewer internal conflicts, such as when the bureau has a small number of clearly-defined goals or is populated with officials with largely homogenous members. In any case, Downs envisioned the bureaucratic organisation as a single multi-level authority structure which he depicted in a diagram as shown below.

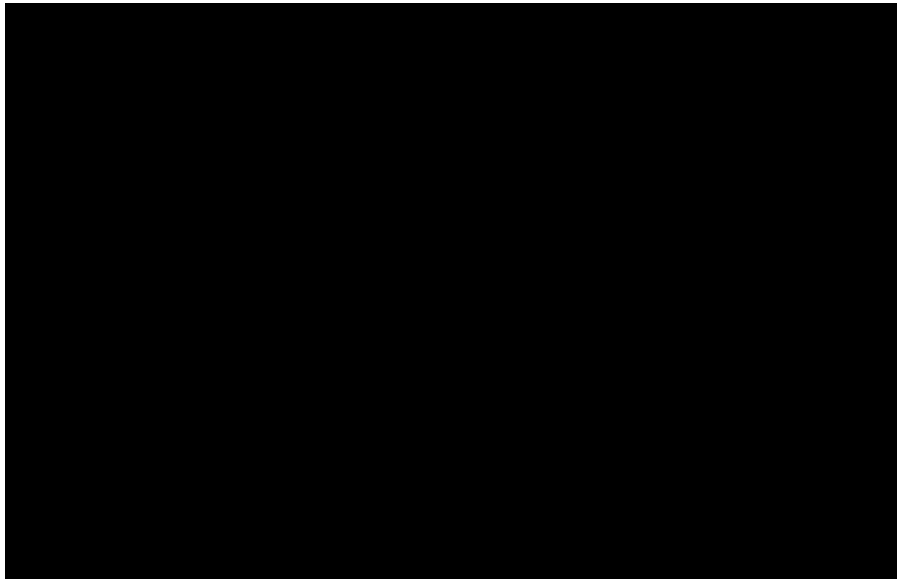


Figure 2. Downs' (1967, p. 117) uniform hierarchy model of bureaucracy

The other institutional feature that is central to Downs' framework is the dynamic selection mechanism embedded in the bureaucratic organisation that permits agents with certain dispositions to dominate a bureaucracy at different times. Like Tullock, and as already mentioned, Downs presumed that bureaucrats have heterogeneous motives and that bureaucratic institutions screen for bureaucrats with certain motives and capacities. Unlike Tullock, however, he posited that bureaucratic organisations do not necessarily narrowly select self-regarding individuals. Instead, he surmised that the selection process dynamically adjusts according to the stage of 'life cycle' that the bureau is in, such that different motivations tend to dominate at different stages. An expanding bureau, for example, draws in zealots and provides opportunities for climbers, while an organisation that ceases to grow is better suited to conservers. Thus, whereas Tullock granted that agents have different motives but posited a fixed selection process that yields *motivational homogeneity* (i.e., a self-seeking quest to ascend a hierarchy), Downs presented a changing selection process that generates *motivational heterogeneity*. The integration of heterogenous agents and the screening effects of institutions makes Downs' modelling of bureaucracy unique in the public choice tradition, which tends to



focus on the *incentive* properties rather than the *selection* properties of institutions.<sup>6</sup> He thus offered a nascent analysis of the selection process of institutions that until recently received little attention in public choice and political economy more broadly (Besley, 2006; Brennan & Hamlin, 2002).

#### 4.4 Downs' Models of Bureaucracy

Downs derived models of bureaucratic activity with operational relationships from the conceptual framework delineated in the previous section. As in the case of Tullock's approach, these models are almost a matter of logical deduction once Downs posited the behavioural and institutional properties of bureaucracies. The two most significant models that Downs deduced from his conceptual framework are the bureau life-cycle-selection (LCS) model and the information-directive distortion model. Each is considered in turn.

The central hypothesis of the LCS model is that bureaus, like humans, are subject to a life cycle. Accordingly, Downs postulated that a bureau's selection mechanism evolves to select for different 'ideal' bureaucrats in different stages of the bureau's existence, which in turn influences the overall behaviour of the bureau. First, new bureaus are created when followers institutionalise the beliefs and practices of a charismatic leader; or when a new bureau is split off from an existing bureau; or when a group of people undertake entrepreneurial actions to support a policy or program (Downs, 1967, p. 5). These infant organisations tend to be dominated by zealots and advocates who are committed to their organisation's objectives. Second, once bureaus experience growth after passing their "initial survival threshold" (in terms of size and age), they attract climbers who vie for opportunities to fast-track their careers. The recruitment of the more ambitious and innovative climbers then accelerates the capacity for bureaus to expand in their size and scope. This, in turn, offers more opportunities and thereby reinforces the selection of the ambitious climbers. Third, bureaus eventually face diseconomies of scale due to growing administrative costs and internal machinations that divert effort "away from action into administration" (Downs, 1967, p. 12), as well as allocative constraints due to competition for resources and policy 'territory' from other bureaus. Norms and formal rules are also employed to codify regular activities in mature bureaus, which, though designed to improve productivity, cause organisational inertia. "Goal displacement", for example, arises when officials begin to preserve and conform to rules as ends in themselves

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<sup>6</sup> I would like to thank Geoff Brennan for this important insight in his feedback to my research proposal. For a public choice modelling of motivational heterogeneity and institutional selection see Brennan and Hamlin (1995).

(Downs, 1967, pp. 18–19). Such an environment favours conservers who wish to maintain the status quo and induces climbers with transferrable skills to move to other bureaus. Some agents also transform themselves into conservers once promotion opportunities are exhausted. Downs (1967, p. 99) labelled this dispositional change the “Law of Increasing Conservatism [sic]”, that is, there is in every bureau “an inherent pressure upon the vast majority of officials to become conservers in the long run”. The overall significance of Downs’ LCS model is that the nature of a bureaucratic organisation varies depending on whether the selection mechanism favours bureaucrat ‘types’ with motivations that align with or diverge from the stated goals of the organisation.

Downs’ information-directive distortion model is manifestly derived from Tullock’s hierarchical-distortion model. As in the case of Tullock’s model, distortions occur in upward communication of information because there are time and mental constraints on the number of facts a subordinate can feasibly pass on to a superior and, further, subordinates are motivated to emphasise or suppress information according to their self-interest. Distortions also occur in the execution of directives downwards because superiors at each level in the hierarchy convey orders according to their own interests (Downs, 1967, pp. 116–119). Curiously enough, although bureaucrats vary widely in their motivational dispositions in Downs’ model, they are all culpable for *intentionally* distorting information and directives within the hierarchy. Even ‘principled’ agents such as the zealots and advocates are presumed to participate in this distortionary process. This is because they have an incentive to convey favourable information that could advance their agency’s mission or their own ‘altruistic’ ideological agenda and minimise unfavourable information that could jeopardise this mission or agenda. Thus, Downs introduced the notion of ‘altruistic distortion’ – to sit alongside Tullock’s more self-regarding distortionary behaviour – as another contributing factor to inefficiency in non-market hierarchies (Simmons, 1999). It seems odd, however, that Downs did not discuss whether the magnitude of hierarchical distortion may vary according to the type of bureaucratic personality that dominates a bureau at a given stage of its life cycle. After all, some bureaucratic personalities (say, zealots) in principle often have a vested interest in the formal goals of their bureau compared to other types (say, conservers) and hence it seems reasonable to think that they are more likely to pursue the objectives of the organisation and thereby minimise distortions within the administrative hierarchy. Indeed, the feedback loop between bureaucratic growth and bureaucratic personality in the LCS model suggests that Downs presumed that agents generate different levels of hierarchical distortion within their organisation (and thereby

affect the organisation's marginal output and growth) according to their dispositional character. In other words, by allowing for motivational heterogeneity Downs had the intellectual resources for a richer institutional analysis of bureaucratic organisations, yet he failed to exploit those resources by prematurely collapsing all motivational dispositions into a uniform behaviour— that of mere information and directive distortion.

#### **4.5 Downs' Economic Method and Rhetoric**

Downs adopted a more conventional positivist methodology to justify his conceptual framework compared to Tullock's Weberian method of understanding. He deduced models from this framework that contain operational relationships and hence testable propositions. Downs (1967, p. 83) also deployed a division-of-labour argument to justify his decision to leave this testing for others to complete. The precision with which he typically derived these testable propositions induced Richard Wagner (1968, p. 85) to describe his analytical exposition as "verbal mathematics". Unfortunately, his ambitions grew between his initial and justly famous 1964 RAND working paper and his 1967 book of the same title in such a way that the number of hypotheses, laws, and testable propositions he proposed swelled to nearly 100, often via needless sub-divisions (see the itemised list in Downs, 1967, pp. 261–280). Key themes are lost in this maze and, indeed, it is apparent that some of these propositions are not even syllogistically derived from the basic "axioms" presented at the start of his book as outlined in section 4.3 above (Crecine, 1969, p. 183). Downs' methodological intent is nonetheless demonstrated by his quest to demarcate so many testable propositions. This ultra-positivism did not, however, preclude him from using striking analogies as rhetorical devices to persuade the reader of the wisdom of his frame. This is dramatically seen in the way the different motives of the ideal-type bureaucrats are thrown into sharp relief through the labels chosen for these types, while always presenting them as rational and self-interested.

First consider the goal of exaggerating difference. Downs' ideal-type bureaucrats are caricatures or idealised representations that exaggerate certain dispositions bureaucrats possibly possess and are designed (or indeed drawn) to generate in the reader's imagination the possibility that bureaucrats with different heterogenous mixtures of motivations exist within a bureaucracy. 'Zealot' invokes the image of a person who, though in principle not entirely selfish, fanatically pursues narrow ideological goals in a manner that most would regard as abnormal or unacceptable. 'Climber', which is the closest resemblance to Tullock's bureaucrat, conjures up the image of an ambitious and opportunistic sycophant who musters all available

resources to scale the bureaucratic ladder. ‘Conservator’ creates an image of a stereotypical bureaucrat who seeks to delay action, obfuscate, and prevent any change that would upset his or her routine. ‘Statesman’ presents a vision of the ideal politician who competently discerns and virtuously pursues the public interest. Downs himself granted that this typography of idealised types is unconventional and to some extent arbitrary.<sup>7</sup> He nonetheless justified his bureaucratic caricatures on instrumentalist grounds. That is, though his ideal types arbitrarily simplify human actors to the point of exaggeration, their final worth is judged by the extent they generate successful predictions: “the particular forms of simplification and arbitrariness developed here enable us to make forecasts about the behaviour of officials and bureaus that will hopefully prove more accurate than forecasts made with alternative forms” (Downs, 1967, p. 4).

The ‘caricatures’ that populate Downs’ bureaucracy also induce the reader to sympathise with the different bureaucratic agents portrayed in his analysis and accept that certain motives (such as serving the public interest or an agency’s mission) can fall under the rubric of rational self-interest. Consider, for example, the zealot. Although the term is now used as a pejorative label for individuals who are fanatical and uncompromising in the pursuit of their ideological agendas, it also conveys to readers a peculiar kind of selflessness in their devotion to some external ‘sacred’ cause that has become their single overriding purpose. This has theological roots. The word ‘zeal’ was regularly used in first-century Palestinian Judaism in relation to various kinds of Jews who were “zealous for God and the Torah and some of whom carried that ‘zeal’ to the lengths of violence” (Wright, 1992/2013, p. 180; cf. Horsley, 1986; Smith, 1971). The Jewish tradition of ‘zeal’ – which dates from the Maccabean revolt through to the memories of Phineas and Elijah in the Old Testament scriptures – entailed an active propagation of the Jewish ancestral way of life according to the Torah and resolutely defending it against external threats and internal corruption. During Israel’s occupation by Rome, many Jewish movements claimed to be acting out of their ‘zeal’ for God, especially in their resistance against the Roman suppression of their national life and identity. Though the historical and theological context of the term is now lost, ‘zealot’ still depicts someone who is resolute and uncompromising in pursuing an objective broader than his or her *narrow* self-interest, albeit in

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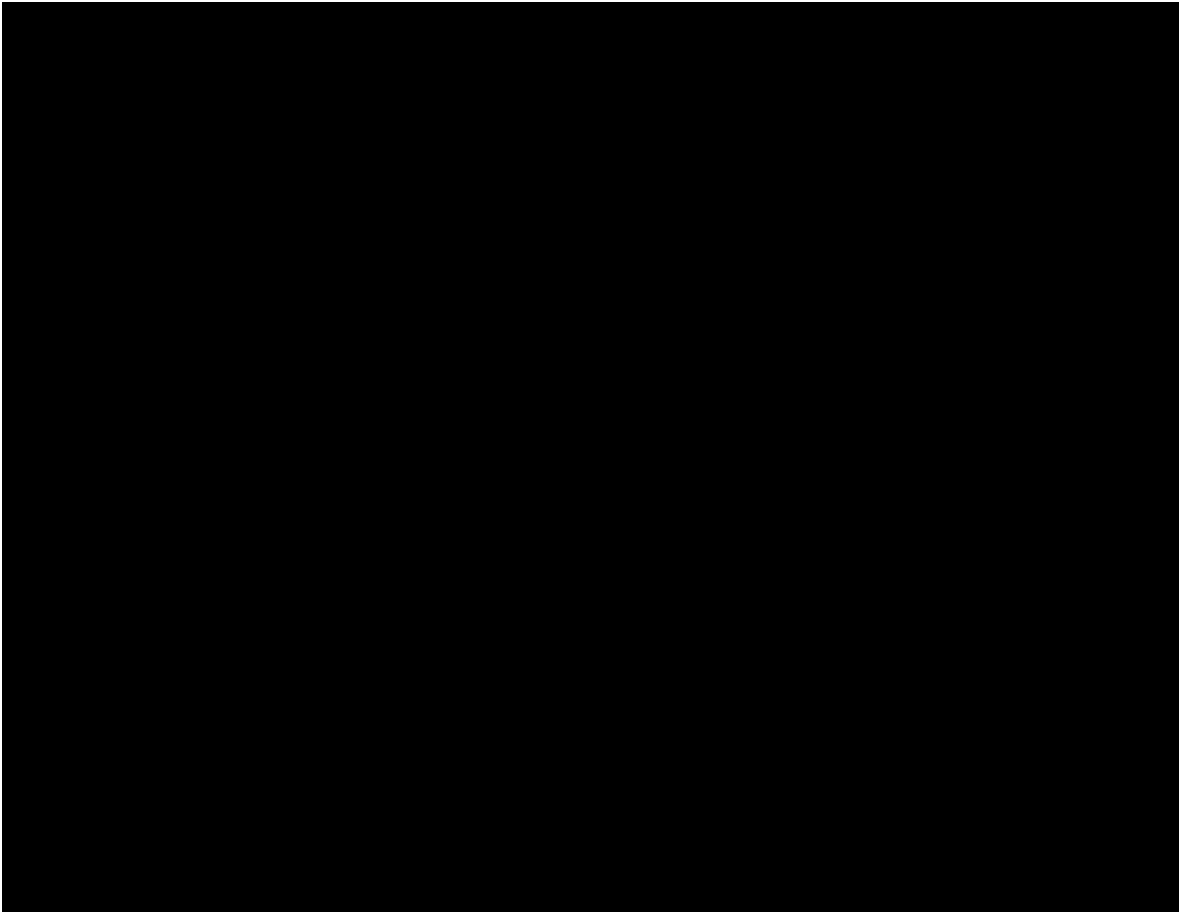
<sup>7</sup> It also breaks with the behavioural symmetry maxim, which was then central to public choice theory. It is perhaps for this reason that Downs (1967, p. 91) at times downplayed the heterodox significance of this aspect of his theory: “[a]lthough we make use of our typology of officials in all parts of our theory, a majority of our conclusions and propositions — including many of the most significant — are independent of these types”.

a manner others may find extreme or fanatical. Downs drew upon this connotation to depict some bureaucrats as ‘zealots’ and thereby conceived a type of rational agent who maximises the objectives of a bureau (at least in its early founding) which, according to conventional public choice logic, fall outside the utility function of self-interested individuals (Simmons, 1999). Such a ‘rhetorical redescription’ in effect encourages the economist to perceive other-regarding motives as part of a bureaucrat’s rational self-interest. The same perception would not have been achieved if Downs had instead employed terms such as “Agent with Motive X” or “devoted to” or “enthusiastic about” an organisation’s mission. Similar readings, drawing on other analogies, could be given for his other ‘mixed-motive’ bureaucrats such as the advocate or the statesman.

It also should be emphasised that Downs drew upon additional analogies when deducing these models from his larger conceptual framework. The organic analogy that is central to his LCS model is especially striking. The bureau is depicted as an adaptive whole that, like an organic creature, behaves differently according to the “stage” of life: birth, youth, maturity, and old age. The changing bureaucratic environment also naturally selects (in a Darwinian fashion) bureaucratic types who then shape the bureau’s nature. Furthermore, towards the end of his book, Downs (1967, p. 213) contended that animal territorial behaviour is “strikingly relevant to the behavior of bureaus” that compete for resources in the same policy space, and thereby drew an analogy between “animal territoriality” and inter-bureau competition (see Figure 3 below).<sup>8</sup> Organic analogies of this sort have repeatedly failed to resonate with professionally trained economists who, rightly or wrongly, are still beholden to the mathematical physics analogies that were introduced during the Marginalist surge of the mid-Victorian era to justify neoclassical equilibrium economics and mathematical formalism. This failure is writ large in Alfred Marshall’s unsuccessful (and some suggest half-hearted) attempt to superimpose organic analogies onto the mechanistic features of neoclassical economics (Hodgson, 1993, 2013). Downs’ organic analogies do not, as a result, figure prominently in the EOB literature.

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<sup>8</sup> The U.S. navy and air force, for example, compete to deliver similar missile systems. Downs (1967, p. 216) proposed a ‘Law of Interorganizational Conflict’, whereby “[e]very large organization is in partial conflict with every other social agent it deals with”.



#### **4.6 Downs' Influence and Conclusion**

Downs both drew upon and deviated from Tullock's EOB vision. He followed Tullock by focusing on a principal-agent problem that is caused by a divergence of interests between bureaucrats at each level of the hierarchy and which is internal to a non-market bureaucracy. He deviated from Tullock, however, by co-joining this internal principal-agent problem with motivational heterogeneity rather than motivational homogeneity; that is, the self-interested bureaucrats pursue different objectives over the life cycle of the bureaucracy because the selection mechanism that favours certain bureaucratic types evolves with the changing bureaucratic environment. The deployment of motivational heterogeneity in this way is Downs' most unique and important contribution to EOB – even if he did not fully flesh out its implications for the internal principal-agent problem. The rhetoric that accompanied his analysis, moreover, vividly illustrates this important insight. It induced readers to see the bureaucrats as heterogeneous agents who pursue a range of objectives, under the monikers such as 'zealots' to 'conservers', rather than uniform agents who pursue the same self-regarding objectives. Unfortunately, for all this, his EOB approach did not gain traction in the research agendas of most of his colleagues in the years that followed. As mentioned in the previous chapter, he successfully promoted a version of Tullock's HD model (i.e., the internal principal-

agent problem) in Mosen and Downs (1965) and this, in turn, prompted Williamson (1967b) to formalise it mathematically to account for diseconomies of scale within commercial organisations (rather than non-market bureaucracies). But this model and its Williamson-extension dropped from view in economics by the early 1970s. There is also no evidence that his larger EOB vision led to a sustained research programme in EOB or elsewhere in the economics discipline and there is overwhelming evidence that it was displaced by Niskanen's EOB vision when the latter was articulated in the early 1970s.

As in the case of Tullock's framework, it is likely that Downs' important insights relating to selection processes and motivational heterogeneity were overshadowed by Niskanen's model because, at least in part, he did not represent them in an acceptable analytical form and suitable Cartesian space. These ideas are, again, explored at greater length once Niskanen's EOB vision is reviewed in the next chapter, but certain conclusions can be tentatively drawn here. Downs' models are process-driven and presented in narrative form rather than governed by equilibrium economics and presented in mathematical form. In some ways Downs' account reads more like an economic sociology of bureaucracy, in the style of Schumpeter, rather than orthodox economic theory. Recall also that Williamson (1967b) himself explicitly censured Mosen and Downs (1965) in a high handed (if not dismissive) manner for failing to use a formal mathematical model to capture the HD process. Downs' tree diagram (to represent hierarchies) and territory diagram (to represent bureaucratic competition) are, moreover, as unsophisticated as Tullock's 'television test pattern' diagrams. The organic analogies Downs employed, which had failed to take hold in orthodox economics since Marshall's day, also did not help. This interpretation is supported by the way Downs' framework is more acceptable in disciplines less beholden to equilibrium analysis and mathematical formalism, such as public administration and political science (Dunleavy, 1991; Simmons, 1999). Impressive analogies involving zealots and climbers could not, in short, compensate for these departures from the norm.

It is also possible that Downs' EOB vision failed to gain traction because his excessive ambition to present a grand and all-encompassing theory of bureaucracy caused him to slightly botch its execution. The 1964 RAND paper in which he initially delineated the key features of his EOB framework resembles the tight 'verbal mathematics' commonly used in economics and, indeed, it mimicked the tight stylistic approach employed in his earlier, and highly regarded, *An Economic Theory of Democracy* (1957); namely, deducing conclusions from abstract premises in a syllogistic fashion. Unfortunately, however, his subsequent ambition to

explain every aspect of bureaucratic behaviour gave rise to a bloated (but nonetheless valuable) 1967 tome with endless propositions and hypotheses that did not always syllogistically follow from their premises. One reviewer stated that it reads like a “[catalogue] of the folklore of government bureaucracy” and does not constitute a general theory (Crecine, 1969, p. 182). Another commentator opined that although “[s]tudents and literary sociologists will love the book’s candid, worldly-wise discussions”, researchers “will throw up their hands in dismay at the thought of trying to devise empirical tests of its ‘propositions’; and theorists will shake their heads in disbelief that such a hodgepodge of thoughts and speculations, however seminal, could ever have been viewed as a ‘theory’” (Murray, 1968, pp. 829–830). This is, of course, a reference to the earlier mentioned charge that the operational relationships in Downs’ models are not always syllogistically derived from his axioms. Some of his concepts also appear almost arbitrarily as a convenient way to explain a given phenomenon, only to disappear in the rest of the book when it has served its purpose. Modern readers are therefore advised to consult the 1964 paper, a classic of its type, rather than the 1967 book (for all its good qualities).



## Chapter 5: William Niskanen

### 5.1 Introduction

Niskanen first presented his EOB vision in a 1967 address to the American Economic Association and then in an extended narrative entitled *Bureaucracy and Representative Government* in 1971 (see also Niskanen, 1968, 1975, 1978, 1983). He took the nascent EOB conversation in a different direction in these publications by drawing upon the neoclassical theory of the firm to model bureaucrats as budget-maximisers. He thereby expanded the purview of neoclassical economics to include the marginal and equilibrium analysis of non-market bureaus. This, in turn, enabled him to analyse the comparative efficiency of the output supplied by non-market bureaus and market organisations within the neoclassical paradigm. Niskanen's EOB approach also entailed a shift in focus from an internal principal-agent problem caused by the divergent interests of the managers within the bureau (which occupied Tullock and Downs) to an external principal-agent problem caused by the divergent interests of the bureau chief and the sponsor who funds the bureau. Niskanen's EOB publications in the later 1960s and early 1970s attracted such widespread recognition and criticism in economics and neighbouring disciplines that his budget-maximising model became the standard EOB theory that had to be accepted or critiqued. Although Niskanen's seminal contribution represents a significant breakthrough that ultimately legitimised EOB as a bona fide field of economic inquiry, the immediate grafting of Niskanen's model onto standard economic theory led to the marginalisation of the insights advanced by the other EOB pioneers.

In this chapter I analyse the nature of Niskanen's EOB framework, the method he employed to model bureaucracy, and the economic rhetoric he used to persuade readers that it was a plausible account of bureaucratic institutions. This analysis is undertaken in five main sections. In section 5.2 I present a brief biography of Niskanen's life prior to the publication of *Bureaucracy and Representative Government* to give some context to the immediate forces that shaped his account of bureaucracy. In section 5.3 I outline Niskanen's EOB conceptual framework in two parts: his conception of the bureau's budget as the self-interested chief bureaucrat's maximand and the institutional constraints that govern the bilateral exchange (in which the budget is exchanged for bureau output) between the bureau's chief and the bureau's sponsor. In section 5.4 I delineate the budget-maximising model and empirical implications that arise from Niskanen's conceptual framework. In section 5.5 I examine the rhetoric and

method deployed by Niskanen to advance his EOB analysis and especially focus on the analogy he draws between a bureau and the neoclassical firm. In section 5.6 I trace the immediate impact of Niskanen's budget-maximising model before offering a general conclusion.

## 5.2 Biographical Context for Niskanen's EOB

William Niskanen (1933–2011) was born in Bend, Oregon; completed a BA from Harvard University in 1954; and gained an MA in economics from the University of Chicago in 1957.<sup>1</sup> His exposure to Chicago-style economics, which was primarily through Milton Friedman and Arnold Harberger, had a formative impact on the way he later modelled public choice problems. He once quipped that he “had the best of both worlds – a Harvard degree and a Chicago education”.<sup>2</sup> Niskanen completed his doctoral dissertation on the economics of alcoholic beverage sales under the supervision of Harberger in 1962 and then spent the early part of his career working on planning and policy problems for the military. From 1957 to the early 1970s he worked for a range of bureaucratic agencies, including the RAND Corporation, the U.S. Department of Defense, the Institute for Defense Analysis (IDA), and the Office of Management and Budget (OMB). It was while working for these organisations that he made a major contribution to public choice by formalising EOB along mainstream economic lines.

Niskanen sought to deploy his Chicago training to improve the workings of the US government bureaucracy after joining the RAND Corporation in the late 1950s and the Department of Defense under the leadership of the Secretary of Defense Robert McNamara in the early 1960s. These organisations heavily recruited economists over this period to develop techniques, such as systems analysis and what came to be known as the Program Planning Budgeting System (PPBS), to analyse defence policy problems and facilitate cost-effective budgeting in the military.<sup>3</sup> Niskanen was initially enthusiastic about the whole enterprise, recalling that it was “an exciting period at RAND” because the tools of economics were used to develop policy solutions for public officials to improve the efficiency of the public sector (Niskanen, 1971, p. vi). High expectations collided with reality, however, and his confidence in this “information-

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<sup>1</sup> For Niskanen's intellectual contributions see Wagner (2012). See also remembrances of Niskanen by Healy (2011), Segal (2011), Shapiro (2011), Dudley (2012), Hederman (2012), Henderson (2012), Jordan (2012), Poole (2012), and Zycher (2012).

<sup>2</sup> The Cato Institute, “William A. Niskanen, A Life Well Lived,” YouTube Video, 1:35, April 13, 2012, <https://www.youtube.com/watch?v=YXoBCB4WtcY>.

<sup>3</sup> On the history and controversies associated with the use of systems analysis during McNamara's tenure as the Secretary of Defense see Wildavsky (1966), Schlesinger (1968), Rosen (1984), and Enthoven and Smith (1971).

analysis-directive” paradigm for public sector management eventually evaporated. He became acutely aware that the analytical techniques developed by RAND were insufficient to reduce the wastage within what President Eisenhower called the ‘military-industrial’ complex, particularly because these techniques ignored the personal incentives of public officials. He recalled that 1964 was the specific year in which his “professional unease” crystallised into the idea that “there is nothing inherent in the nature of bureaus and our political institutions that leads public officials to know, seek out, or act in the public interest” (Niskanen, 1971, p. vi). Niskanen continued to ruminate on this idea after moving to the IDA in 1964 and witnessing the excesses that accompanied the escalation of the Vietnam war in the second half of the 1960s. The mismanagement of the latter gave rise to a damning EOB account of the self-interested senior figures in charge of this war, which included the claim that: “Maybe the field manuals for U.S. commanders are based on Parkinson rather than Clausewitz” (Niskanen, 1971, p. 76).

The key catalyst for Niskanen to finally codify his economic theory of bureaucracy was his interaction with Tullock who was recruited to do research at the IDA for a summer in 1966 (Niskanen, 1971, p. vi). Although their joint tenure at the IDA was brief, it was highly productive. Niskanen credited Tullock for providing him with several key assumptions and further admitted that they had simultaneously developed the key premise that transformed Niskanen’s EOB model into something that resembled the theory of the firm; namely, that “bureaus act as if they are maximizing their budget” (Niskanen, 2012, p. 101). Indeed, for Niskanen this was the magical key that transformed the multiple objectives of a self-interested bureaucrat into one maximand, which, in turn, allowed the deployment of conventional marginalist techniques used in the neoclassical theory of the firm to model bureaucracies. Given Tullock’s role in prompting Downs’ ideas (see section 4.2), this key piece of advice to Niskanen reinforces the impression that Tullock represents something of a muse-cum-magus in the emerging EOB conversation. Indeed, Niskanen (1971, p. vi) stated that “Tullock is always provocative and stimulating. I and many others owe him a great debt for stimulating our own thinking. At that stage it was difficult to sort out my ideas from those of Tullock”. With Tullock’s encouragement, Niskanen first presented his idea of the budget-maximising bureau in an address in 1967, which was published in 1968 in the *American Economic Review* and eventually turned into his seminal book, *Bureaucracy and Representative Government* (1971). Niskanen’s EOB vision, however, both diverges from the visions advanced by his predecessors in important ways (even if he liberally cited Tullock and Downs) and ultimately overshadowed their contributions. This divergence and overshadowing are explored further in

the sections that follow.

### 5.3 Conceptual Framework of Niskanen's EOB

Niskanen believed that the most important contribution that economics could make to the study of bureaucracy is to provide a positive theory of the supply of public goods and services by bureaus that is akin to the established (neoclassical) theory of the supply of private goods and services by commercial firms (Niskanen, 1971, pp. 7–9; cf. Buchanan, 1965, pp. 3–4). He thus focused on equilibrium and comparative statics questions such as: “For given demand and cost conditions, how much output is produced at what total cost? How do these output and cost levels change with changing conditions?” (Niskanen, 1971, p. 8). His ultimate objective was to demonstrate that, for equivalent conditions, public bureaus radically oversupply goods and services such that the allocation of resources by bureaus is Pareto inefficient. The pursuit of this objective prompted Niskanen to shift his EOB research focus (and ultimately the entire EOB conversation) *from* the hierarchical distortionary processes that transpire within the bureau *to* the equilibrium outcome of a bargaining process between a bureau and its external sponsoring body. The conceptual framework Niskanen advanced to achieve this research end rests on propositions relating to a bureaucrat's self-interested behaviour and the institutional characteristics of bureaucracy that constrain this behaviour. Each is considered in turn.

#### *Behavioural Assumptions of Bureaucrats*

Niskanen's account of what motivates bureaucrats is underpinned by a direct analogy between what motivates a manager in a non-market bureau and the neoclassical assumption of what motivates a manager in a profit-maximising firm. This analogy cannot be missed by even the careless reader since he considered it in chapter four of his book under the heading: “The Theory of the Firm, as an Analogy” (Niskanen, 1971, p. 36). Central to the neoclassical theory of the firm is the assumption that managers maximise utility by choosing an output that maximises profit, and that marginalist and equilibrium modelling techniques may be used to determine this volume of output. Accordingly, central to Niskanen's theory of the bureau is the assumption that senior bureaucrats maximise utility by choosing an output that *maximises the budget* allocated to them by the bureau's sponsor, and that marginalist and equilibrium modelling techniques may be used to determine this volume of output (Niskanen, 1971, pp. 36–37).

Niskanen could plausibly settle on budget-maximisation as *the* single maximand for a bureau

through the simple, but ingenious, argument that the numerous objectives commonly pursued by a self-interested bureaucrat (and hence which enter this bureaucrat's utility function as maximands or variables to maximise) are achieved in direct proportion to the size of the budget:

Among the several variables that may enter the bureaucrat's utility function are the following: salary, perquisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes, and ease of managing the bureau. All of these variables except the last two, I contend, are a positive monotonic function of the total budget of the bureau during the bureaucrat's tenure in office... It is not necessary that a bureaucrat's utility be strongly dependent on every one of the variables which increase with the budget, but only that it is positively and continuously associated with the level of the budget. (Niskanen, 1971, p. 38)

In other words, the multiple objectives pursued by a self-interested bureaucrat can be achieved by maximising the bureau's budget.<sup>4</sup> Niskanen also claimed that variables – such as the ease of making changes and the ease of managing the bureau – that are initially inversely related to a growing bureau budget can still be positively linked to budget size. This is because managers can use the larger budgets to hire additional junior bureaucrats to turn over their personal burdens of managing the bureau. In addition, Niskanen contended that maximising budgets is vital to the survival of the bureau, and hence the bureaucrat's tenure, since the sponsors expect the bureaucrat to aggressively propose more activities and higher budgets in each budget review process (Niskanen, 1971, p. 40; see also Wildavsky, 1964, pp. 160–165). This is because the sponsors, given their lack of time and comprehensive knowledge of the bureau, evaluate the bureau's activities *at the margins* by focusing on the proposed *increments* of the bureau's activities and signal their own priorities by selectively approving different portions of the new budget proposal. A static budget demand is therefore likely to throw the sponsor's marginal valuation of the bureau's activities into confusion and possibly cause the sponsor to lose confidence in the proposition that the bureau is the best means to promote his or her own agenda. As a result, Niskanen (1971, p. 42) concluded that the central motivation of bureaucrats is to “maximize the total budget of their bureau during their tenure, subject to the constraint that the budget must be equal to or greater than the minimum total costs of supplying the output expected by the bureau's sponsor”. Niskanen thereby derived motivational homogeneity *in effect* by presuming that budget-maximisation is an instrument which achieves all the bureaucrat's heterogeneous objectives.

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<sup>4</sup> Rowley (1994) contended that public choice scholars generally accept that the utility functions of political agents are multidimensional, even if they invariably presume that expected wealth is often important in any given function.

*Bureaucracy as Budget Constraints on Individual Utility-Maximisation*

Niskanen's exclusive focus on budget maximisation radically shifted the institutional environment that is relevant for modelling purposes *from* the internal hierarchy of the bureau that governs and coordinates the interactions of bureaucrats (which interested Tullock and Downs) *to* the features that govern the exchange between the chief bureaucrat seeking a budget and the external sponsor providing the budget. That is, Niskanen shifted attention from the internal functioning of a bureau that is important for the 'internal' principal-agent problem that preoccupied Tullock and Downs to the institutional features that are important to an 'external' principal-agent problem. Such a shift is reflected in Niskanen's (1971, p. 15) definition of a bureaucracy as a non-profit organisation that derives a major share of its revenue from a periodic appropriation or grant awarded by a sponsoring organisation rather than the sale of output in a commercial market and, further, an organisation in which owners and employees do not appropriate any share of the net revenue as personal income. This definition includes most government agencies in western democracies as well as many non-profit organisations, regardless of their size or managerial structure.<sup>5</sup> Such a shift also means that the use of a hierarchy to coordinate the actions of self-interested bureaucrats (and the identification of the associated distortions) is relegated to a 'black box' in the same way that the internal processes of private firms are treated as a 'black box' in neoclassical price theory.

The exchange that determines the bureau's equilibrium budget and output is initially conceived by Niskanen as a bilateral-monopoly exchange between the chief bureaucrat (as the single producer) and the sponsor (as the single consumer or client). Niskanen, however, quickly proceeded to argue that the bargaining power resides entirely with the chief bureaucrat. This is due, in part, to the problem of information asymmetry in which the sponsor has limited knowledge of the bureau's operational costs and, in part, to the assumed absence of competition from alternative suppliers (Niskanen, 1971, pp. 25, 29–30).<sup>6</sup> The bureau chief is therefore able to present the budget proposal in an 'all-or-nothing' fashion such that the promised output of

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<sup>5</sup> While Niskanen's definition formally excludes all private businesses, he acknowledged that the behaviour of some components of profit-seeking firms, particularly large corporations, may resemble the characteristics of a bureau. His response to this ambiguity was to propose, in a fashion similar to the proposals advanced by Tullock and Downs: "the more difficult it is to identify a component's contribution to corporate profits, the more likely that the component will behave like a bureau" (Niskanen, 1971, p. 16).

<sup>6</sup> Niskanen's account of the chief bureaucrats' bargaining power in relation to the sponsor became the subject of much criticism in the secondary literature, with some arguing that it was overstated (see section 5.6 below). Note, however, that Niskanen himself relaxed the passive sponsor assumption in the later chapters of his book (Chapters 13–16) and extended his model to consider the effects of bureaucratic competition and a more informed sponsor.

the chief bureaucrat's choosing is exchanged for the lump-sum budget. In other words, the bureau chief effectively enjoys the same kind of bargaining power as a profit-seeking monopoly that perfectly price discriminates (Niskanen, 1971, p. 25). Niskanen, on these grounds, predicted that the self-interested chief bureaucrat will opportunistically exploit the information asymmetry and monopolistic bargaining power to propose an output that is incorrectly presented as maximising the net benefits of the sponsor (as a proxy for the public interest), but in reality maximises the bureau's budget (and hence the chief bureaucrat's utility) subject to a cost constraint. That is, the economic analysis of bureaucracy is reduced to a constrained optimisation problem in which the chief bureaucrat maximises his or her utility by maximising the bureau's budget subject to the constraint that total costs do not exceed this budget.

The institutional configuration of bureaucracy in Niskanen's account essentially emphasises the constraints faced by the chief bureaucrat in non-market organisations that are financed by a largely passive external body or sponsor. In contrast to Tullock's and Downs' emphasis on hierarchical coordination within non-market hierarchies, Niskanen's conception of the institutional features of bureaucracy is somewhat more reductionistic—his model assumes that bureaus are solely run by a single chief bureaucrat (or, at most, a board of senior bureaucrats), and hence they are devoid of internal collective action problems and hierarchical distortions. Furthermore, the screening devices that yield either motivational homogeneity (as in Tullock's portrayal of bureaucrats as a set of uniform 'economic men') or motivational heterogeneity (as in Downs' portrayal of bureaucrats as a set of diverse personality types) are disregarded in Niskanen's analysis.<sup>7</sup> Motivational homogeneity is derived *in effect* for Niskanen's modelling purpose because even though he accepted that bureaucrats pursue a range of objectives, he also presumed that the objectives within a bureaucrat's utility function can be folded into a single objective: to maximise budgets. Thus, whereas Tullock and Downs attempted to account for the selection mechanism and endogenous effects of bureaucratic institutions on the preferences of rational agents, Niskanen's budget-maximising model exclusively views bureaucratic institutions as exogenous constraints on homogenous utility-maximisers. Nonetheless, Niskanen's 'shallower' institutional configuration afforded him greater analytical tractability to model bureaucratic behaviour with respect to output decisions and thereby to compare the

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<sup>7</sup> For institutional selection of bureaucrats with different motivations in Tullock's and Downs' theories of bureaucracy see sections 3.3 and 4.3 respectively.

resulting output levels with those realised in profit-maximising firms.<sup>8</sup> It is to this model that I now turn.

#### 5.4 Niskanen's Budget-Maximising Model

Niskanen's conceptual framework, underpinned by the key analogy of the theory of the firm, gives rise to his famous model of the budget-maximising bureau with operational, and hence testable, relationships. The bureau's budget-maximising output is presented as an equilibrium outcome arising from bargaining between the bureau's sponsor and the chief bureaucrat. It is thereby, in part, determined by the sponsor's perceived benefit from the bureau's output (measured by the sponsor's willingness to outlay budget and represented by a parabolic budget-output function) and the minimum total cost of inputs (represented by a monotonically increasing cost-output function). Niskanen presented these functions thus:

$$B = aQ - bQ^2, \quad 0 \leq Q < \frac{a}{2b} \quad (4.1)$$

$$TC = cQ + dQ^2, \quad 0 \leq Q \quad (4.2)$$

The sponsor knows his or her own budget-cum-benefit schedule (4.1) but is oblivious to the cost structure faced by the bureau (4.2) due to the information asymmetry discussed in the previous section. The sponsor therefore cannot determine whether the bureau's output is Pareto efficient, that is, if marginal social benefit equals marginal social cost ( $B'(Q) = TC'(Q)$ ). The lump-sum nature of the bargaining between the bureau and the sponsor (which is discussed in the previous section) means that the chief bureaucrat can effectively present his or her proposal to the sponsor in a 'take-it-or-leave-it' fashion. This allows the opportunistic chief bureaucrat to choose an output that maximises the bureau's budget, subject to the constraint that this budget covers the total cost of production ( $B \geq TC$ ). Niskanen (1971, p. 47) presented this outcome in two different scenarios using marginal relationships, as shown in Figure 4 below.

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<sup>8</sup> This in part explains the rhetorical success of his 1971 book in the economics profession. See section 5.5 below.



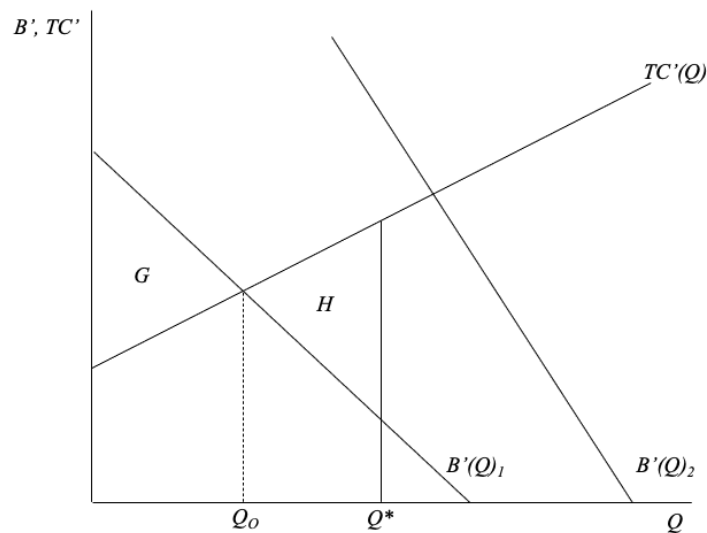


Figure 4. Equilibrium output of Niskanen's (1971, p. 47) budget-maximising bureau

The first scenario is referred to as the “budget-constrained” scenario and occurs when the marginal benefit,  $B'(Q)_1$ , is low and elastic relative to the marginal cost. The optimal output that maximises the sponsor's net benefit (triangle  $G$ ) is  $Q_0$ . However, given the incentives and knowledge problems presumed, the chief bureaucrat requests a larger budget consistent with the output at  $Q^*$ , such that the positive net benefit between zero and  $Q_0$  equals the negative net benefit between  $Q_0$  and  $Q^*$  (i.e., triangle  $G =$  triangle  $H$ ). This output maximises the budget without exceeding total minimum costs and hence it is an equilibrium outcome that is allocative inefficient but operationally efficient. In Niskanen's (1971, p. 47) language, there is no ‘fat’ in the bureau. The second scenario is referred to as the “demand-constrained” scenario and occurs when the marginal benefit,  $B'(Q)_2$ , is high and inelastic relative to marginal cost. In this scenario, the sponsor's marginal benefit falls to zero before the total budget just covers total minimum cost. The chief bureaucrat therefore requests a budget to produce an output that satiates the sponsor and exceeds the minimum total cost of that output. There is thus ‘fat’ to exploit, and bureaucrats generate ‘X-inefficiency’ (via perks and other indirect rewards) to exhaust the budget. The resulting equilibrium output is therefore both allocative and operationally inefficient. In essence, the bureaucrats in Niskanen's model exploit their bureau's monopoly power and the information asymmetry to raise output to the point where the social surplus from the provision of public service is completely absorbed in financing the bureau's production costs and the bureaucrats' non-monetary utilities.

Niskanen's model leads to the significant hypothesis that bureaus are generally too large. That is, both the budget and output of a bureau are larger than optimal given the collective demand

for their services as represented by the sponsoring body (Niskanen, 1971, p. 50).<sup>9</sup> To put it even more precisely, at the equilibrium budget and output, the marginal value of the bureau's service to the sponsor (and the constituents that it represents) is lower than the marginal cost. This is seen in both the 'budget-constrained' and the 'demand-constrained' scenarios considered by Niskanen (analysed immediately above), since in either scenario the bureau overproduces its output to yield a Pareto inefficient outcome. In fact, Niskanen (1971, pp. 59–65) demonstrated that under some static conditions a bureau's output would be twice the competitive output. Niskanen's hypothesis, if true, would entail the important policy implication that there will always be efficiency gains for substituting bureaucratic supply with competitive market supply (Conybeare, 1984, p. 485).

### 5.5 Niskanen's Economic Method and Rhetoric

Niskanen's Chicago training in neoclassical economics induced him to believe that good economic models should be simple, parsimonious, and yield hypotheses that can be empirically corroborated. Thus, like Downs, he adopted a more conventional positivist methodology to justify his conceptual framework compared to Tullock's Weberian method of understanding.<sup>10</sup> He nonetheless adopted strategies associated with the latter to a greater extent than would be expected in the work of a neoclassical economist at this time. He does this by advancing "personal observations" and "casual evidence" to support his hypotheses, while also leaving the critical empirical tests for others to complete (Niskanen, 1971, p. 8). In an approach Niskanen (1971, p. 8) called "subjective empiricism" he asked the reader to introspectively consider the following questions: "Is this behavioral hypothesis consistent with my personal observation and understanding? Does this theory help organize my observations about related phenomena?". Anecdotal accounts of bureaucratic behaviour are therefore employed, including several relating to the mismanagement of the Vietnam war and the US military generally (e.g., Niskanen, 1971, pp. 76, 111). As already suggested, however, Niskanen's key rhetorical strategy is his metaphorical re-description of bureaucracy as a peculiar variant of a neoclassical firm that is amenable to the standard equilibrium analysis of neoclassical economics. The way this analogy served as the catalyst for the formalisation of Niskanen's model specifically and EOB generally cannot be understated. Consider two ways it captures

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<sup>9</sup> Interestingly, whereas scholars in sociology and public administration usually claim that an organisation's bureaucratic traits are the result of its large size, the analysis of EOB implies just the opposite—the largeness of bureaucracy is in fact derived from its bureaucratic form of governance and production.

<sup>10</sup> On Tullock's and Downs' method and rhetoric see sections 3.5 and 4.5, respectively.

the imagination of formally trained economists.

The analogy of the firm enables trained economists to view the unfamiliar domain (bureaucracy) in terms of a more familiar domain (the *neoclassical* firm). This, in turn, allows the economist's knowledge about the neoclassical firm to serve as an analogical model to generate a *structure of understanding* to comprehend the unfamiliar terrain of bureaucracy (see Bicchieri, 1988, p. 107; Cohen, 1993; Lewis, 1996, p. 493). Niskanen's simplifying assumption that bureaus maximise budgets is central to making this analogical leap. This is because familiar neoclassical assumptions, concepts, and techniques employed in the modelling of market organisations – such as marginalism, twice differentiable utility and cost functions, constrained optimisation, stable preferences, equilibrium analysis, Pareto efficiency, and so on – can be readily carried over to the modelling of bureaus once the bureau's budget-maximising objective is seen as analogous to the firm's profit-maximising objective.<sup>11</sup> Niskanen (1971, p. 9) himself conveyed the way formal techniques of neoclassical economics naturally follow once a single maximand is assumed when he stated that his theory “involves the use of some simple mathematics, primarily because I do not know of any other way effectively to analyze and express what are, basically, maximization problems”. Readers who have been successfully drilled in undergraduate neoclassical economics are, in short, more amenable to Niskanen's vision of bureaucracy because it resembles a legitimate conceptual framework that they already understand and accept as worthy.

Niskanen's analogy between the activities within the bureau and those within the neoclassical firm is, by extension, embedded in a larger analogy between mid-Victorian mathematical physics (especially mechanics and energy physics) and the neoclassical framework broadly conceptualised. This larger analogy was identified by several historians of economic thought, such as Philip Mirowski (1984, 1989) and Michael White (2004). They argued that the mid-Victorian neoclassical pioneers drew upon the concepts, models, and techniques then used in mathematical physics to translate political economy into a closed and self-equilibrating system of mathematical equations. They further argued that this analogy helped entrench neoclassical economics as the dominant economic paradigm because mathematical physics was then the

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<sup>11</sup> Niskanen (1971, p. 42) also briefly considered models in which firm managers seek to maximise something other than profits (such as revenue or ease) subject to constraints and suggests that these too create a ‘form’ of model that is relevant to the bureau. This suggests that Niskanen was also possibly inspired by the debates mentioned in the previous chapters from the late 1950s and early 1960s relating to the theory of the firm (see section 2.5).

ascendant natural science and hence it was taken as exemplifying what social science was meant to look like (see also Hoover, 1991; De Marchi, 1993).<sup>12</sup> Neoclassical economics subsequently evolved in the twentieth century, via a quest to achieve mathematical formalism, into a research program with a core defined by axioms of maximising behaviour, stable preferences, and market equilibrium (Becker, 1976, p. 5; Boettke, 1996). This broader analogy is now largely taken for granted (at least outside history of economics circles) and hence it is what McCloskey (1983, p. 503) called a dead metaphor; that is, it is a metaphor or analogy entrenched in a scientific discipline for so long that it is now rarely recognised as such, and hence the rhetorical force of its original imagery is lost. It is certainly likely that Niskanen and his readers with economic training were oblivious to it. It is nonetheless another possible reason why economists are so ready to see bureaucratic organisations through Niskanen's lens – albeit a less important reason compared to the primary analogy of the theory of the firm – since many still associate the image of economics with what this lens presents.

## 5.6 Niskanen's Influence and Conclusion

Niskanen's EOB vision diverges dramatically from the visions advanced by Tullock and Downs. It entailed a shift in focus from an internal principal-agent problem that causes distortions in the coordination of self-interested bureaucrats within an organisation's hierarchy to an external principal-agent problem that allows a self-interested chief bureaucrat to exploit a passive sponsor by oversupplying the bureau's output. It also entailed replacing the strategy of using selection mechanisms to determine the dominant bureaucratic motivation with the strategy of folding the multiple objectives of the bureaucrat into a single maximand, which, in turn, effectively yields motivational homogeneity. Finally, it entailed a dramatic shift in the nature of the model building from a non-mathematical and process-driven approach to a mathematical and equilibrium-economics approach. Niskanen's budget-maximising model was the key product of this vision. It was readily accepted by many readers not only because it seemed to provide a plausible explanation for at least part of the growth in the bureaucratic provision of government services since the Second World War, but also because it involved drawing an analogy between the theory of the firm and the operation of a bureaucracy. The

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<sup>12</sup> It was possibly entrenched by the rhetoric of physics envy (i.e., if it is good enough for physics, it is good enough for economics), or the rhetoric of exclusion (i.e., the employment of complex techniques excludes criticisms from ill-trained amateurs), or it yielded plausible models, or all of these. Authors such as Mirowski and White also suggested that the analogy is spurious and hence neoclassical economics has poor foundations. I take no position in relation to these claims. My position is, once again, that analogies employed in EOB yielded useful models by presenting particulars in a different light, but some models unfortunately overshadowed others.

rhetorical impact of the latter analogy was especially powerful amongst those drilled in neoclassical economics because, at least in part, this is what they had been trained to accept as the most suitable way to model the production of goods and services.

Niskanen's budget-maximising bureau subsequently dominated both the EOB conversation and, to a lesser extent, the related secondary literature in political science and public administration. The evidence for this is overwhelming. According to Google Scholar (as of January 2022), Niskanen's 1971 monograph has been cited 11,500 times, which clearly dwarfs the 2,492 citations of Tullock's 1965 monograph and 7,630 citations of Downs' 1967 monograph. Most of these citations appear in articles devoted to criticising Niskanen's model or extending it in such a way to make it more plausible. The nature of these criticisms need not detain us long partly because they were published outside the timeframe set for this thesis topic; partly because they have already been the subject of comprehensive surveys;<sup>13</sup> and mostly because, for the purpose of this thesis, they are important less because of the nature of their criticisms or extensions and more because they signal the way Niskanen's model suddenly dominated the EOB conversation. But to give a brief overview, Niskanen's critiques usually turn on the implausibility of a completely passive sponsor (Bendor, et al. 1987; McCubbins & Schwartz, 1984; Miller & Moe, 1983; Thompson, 1973; Weingast & Moran, 1983); the possibility that the bureau faces competition from other bureaus in delivering output rather than acting as a monopoly (Conybeare, 1984); the likelihood that some non-monetary utilities of the chief bureaucrat are negatively related to a larger budget (Dunleavy, 1985; Johnson & Libecap, 1989; Peacock, 1978); the need to consider maximands other than the bureau's budget (Breton & Wintrobe, 1975; Gonzalez & Mehay, 1985; Migué et al., 1974; Peters, 1978/2001; Wyckoff, 1990a, 1990b); the implausibility that bureaucrats are so narrowly self-regarding that they do not consider the public interest (Kogan, 1973; Margolis, 1975); and the failure to model the bureau within a more general equilibrium system involving legislatures, voters, and special interest groups (Chang et al., 2001; Moe, 1997; Peacock, 1992).

The voluminous and extensive debate surrounding Niskanen's budget-maximising model clearly signals the dominance of his model as the state-of-the-art intellectual product that had to be accepted or critiqued.<sup>14</sup> It became the root branch for the subsequent path-dependent

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<sup>13</sup> See Orzechowski (1977), Bendor (1988), Rowley and Elgin (1988), Moe (1997), Wintrobe (1997), and Niskanen (2001).

<sup>14</sup> For a later appraisal of Niskanen's model see *The Budget-Maximizing Bureaucrat: Appraisals and Evidence* edited by Blais and Dion (1991).

evolution of EOB in the 1970s and 1980s. On the other hand, the models presented by Tullock and Downs that highlighted internal bureaucratic processes, such as selection mechanisms and hierarchical coordination, were cut off as future branches of research in EOB. Indeed, Tullock and Downs are usually cited in the introductions to EOB narratives only to convey that they provided preliminary economic analyses of bureaucratic organisations that were eventually superseded by Niskanen (Mueller, 2003, p. 362; Rowley & Elgin, 1988, p. 267). It is also Niskanen's model, rather than Tullock's or Downs' models, that is cited in microeconomics and public finance textbooks (e.g., Browning & Browning, 1994; Gwartney et al., 2011; Musgrave & Musgrave, 1989; Rosen & Gayer, 2010; Ulbrich, 2011). The image of a bureau as a neoclassical firm clearly played a role in generating this dominance. Tullock (1992, p. 1) himself later admitted that his model was made "partially obsolete" by Niskanen's model, though he lamented that several of his theoretical insights have not been integrated into the EOB literature.<sup>15</sup> In any case, the success of the Niskanian approach led to the legitimisation of EOB as a bona fide field of economic inquiry, even though it also led to the marginalisation of important insights in Tullock's and Downs' account.

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<sup>15</sup> There were, however, isolated efforts in the 1970s and 1980s, such as Breton and Wintrobe (1982), to make the internal hierarchy central to the analysis (see footnote 11 in section 3.3 above).

## **Chapter 6: Discussion and Conclusion**

In the preceding chapters I traced the historical evolution of EOB in the years shortly after its initial founding, which constituted its golden age, from the mid-1960s through to the early 1970s. The three main contentions advanced in the introductory chapter to this thesis served to guide the historical narrative and the attendant analysis of the key EOB texts. First, it was contended that the focus and analytical content of EOB in its golden age was shaped by its intellectual milieu or context. This milieu-cum-context included the existing conversations relating to bureaucracy within earlier scholarly traditions and the conversation that eventually emerged between EOB pioneers themselves. Second, it was contended that each of the key EOB pioneers in the golden age deployed traditional economic techniques to develop conceptual frameworks in which bureaucrats are depicted as self-interested agents who pursue their objectives within non-market bureaucracies, but that these frameworks also diverged in important ways whenever each pioneer emphasised different institutional and behavioural features that characterise bureaucracies. It was, for example, proposed that the conceptual frameworks advanced by Tullock and Downs focused attention on an internal principal-agent problem that underpinned their hierarchical-distortion models, while the conceptual framework advanced by Niskanen focused attention on an external principal-agent problem that underpinned his budget-maximising model. Third, it was contended that Niskanen's budget-maximising model dominated EOB by the early 1970s due, in part, to the superior rhetoric he employed, and that this success caused the insights of the other EOB pioneers to be neglected.

The evidence from published sources that was employed in the preceding chapters to map the evolution of EOB largely corroborated these contentions. These findings could be enriched in future research by drawing on the unpublished manuscripts of the EOB pioneers held in U.S. archives (which have yet to be accessed due to the Covid travel restrictions) and the testimonies of their near contemporaries in the EOB field who are still alive. Additional data of this sort may also require adjustments to the key contentions at the margins. This line of research would certainly need to be pursued if this exercise was a doctoral rather than a masters project. Still, given the published texts at hand, the key contentions advanced in the preceding traditional historical narrative have been largely corroborated. The evidence for the three main contentions are now considered in turn.

***Contention One: Context Matters***

The evidence marshalled demonstrates that the focus and analytical content of EOB was shaped by the scholarly conversations that preceded it. The brief review in chapter two of the depictions of bureaucracy within various intellectual traditions reveals a dialectical sequence of ideas that formed the initial historical context in which the EOB advanced their visions. First, it was shown that Adam Smith employed the method of comparative institutional analysis to show that more welfare is generated in society when individuals pursue their self-interests in free markets rather than in bureaucratic organisations that face little competitive pressure and enjoy exclusive political rents. Smith's comparative institutional approach and proto-EOB insights were marginalised when economics took a neoclassical turn, but his key insights re-emerged in the wake of the public choice revolution (Aligică et al., 2019, p. 37) and were reflected in the works of the EOB pioneers (though often without citing Smith).<sup>1</sup> Second, it was shown that although Mill shared many of Smith's beliefs, he believed that a merit-based bureaucracy was an important component in any democracy designed to allow individuals to flourish. This belief was compounded in the Progressive era when the conceptions of bureaucracy advanced by Wilson and Weber were used to promote the idea of an efficient and benign administrative state. Many economists, especially in public finance and welfare economics, accepted this normative, even romantic, vision. The EOB pioneers, by contrast, took this vision as their point of departure to advance their own accounts based on the assumption that bureaucrats are self-interested. Finally, it was shown that the Austrian economists identified several negative unintended consequences of bureaucratic planning during the socialist calculation debate in the 1920s and 1930s, but their focus on the bureaucrat's inability to allocate resources efficiently due to knowledge constraints (rather than the bureaucrat's self-interest) limited their influence within the public choice movement generally. Several Austrian elements nonetheless featured in the early works of EOB. For instance, the non-market feature of bureaucracy emphasised by the Austrians was central to the early EOB frameworks, and, as emphasised in chapter three, Tullock acknowledged that reading Mises inspired his process-driven analysis of the coordination problem within non-market bureaucratic hierarchies.

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<sup>1</sup> Downs (1967, p. 2), for instance, cited Smith only once to indicate that he was following the "tradition of economic thought" in modelling bureaucrats as motivated by their own self-interests like all other individuals in society.



The evidence presented in three case studies devoted to the key EOB pioneers also suggested that their immediate environments and the conversation that developed between them shaped the early evolution of EOB. For example, evidence of the involvement of Tullock and Downs in the founding of public choice signalled the way that EOB was initially conceived within this sub-discipline. Like the public choice economists, the EOB pioneers were also clearly concerned with the rapid growth of the state, especially the growth of those components with which they had personal experience via RAND and their public service experiences. This concern included, in the case of Downs and Niskanen, an increasing anxiety over the waste within the military industrial complex (especially in relation to the excesses of the Vietnam War venture). The cross-referencing and acknowledgments that were identified in the early EOB texts also signalled that a conversation eventually emerged between EOB pioneers themselves and that this conversation, in turn, shaped the subsequent development of the EOB frameworks. Finally, and linked to the third contention considered further below, evidence was presented to show that the EOB pioneers deployed rhetorical strategies to render their conceptual frameworks plausible to *the target audience* of this period (usually economists trained in the neoclassical price theory). There was, in fact, evidence to suggest that several immediate historical and intellectual forces shaped the path-dependent trajectory of EOB.

### ***Contention Two: The Reconstruction of the EOB Conceptual Frameworks***

The essayist G. K. Chesterton (1909, p. 204) remarked that “the whole object of travel is not to set foot on foreign land; it is at last to set foot on one’s own country as a foreign land”. The reconstruction of the early forays by the EOB pioneers in the largely unexamined terrain of bureaucracy certainly provides a fresh appreciation of the features that are potentially neglected in the modern EOB ‘homeland’, if not the modern economics ‘homeland’ more broadly. Specifically, the textual evidence presented to recover the EOB conceptual frameworks demonstrated that the driving principle common to the visions of the early EOB theorists (namely, Tullock, Downs, and Niskanen) is that bureaucrats are rational economic agents who pursue their self-interest in a non-market environment and in such a way that they do not serve the stated objectives of their organisation, and, by extension, the public interest. In other words, they rejected the then prevailing normative, even romantic, notion of the impartial and efficient bureaucrat and, without using these words themselves, emphasised the principal-agent problem *writ large* in a bureaucracy. The early EOB theorists also either explicitly (in the case of Tullock) or implicitly (in the case of Downs and Niskanen) employed Weber’s method of

understanding to render their propositions plausible. They co-joined this approach with more positivist methods via a division-of-labour strategy in which empirical tests could be undertaken by others in the future. A Weberian style of reasoning was thereby ironically used to challenge the prevailing Wilsonian-Weberian ideal of bureaucracy. Their ultimate objective was to present ‘bureaucracy without romance’ in the same way that the wider public choice movement sought to present ‘politics without romance’.

It was also shown that even though each EOB pioneer deployed the economic axiom of rational self-interest to analyse bureaucratic behaviour, there were significant, striking, and instructive variations in their EOB visions. Tullock focused on the coordination of activities within a bureaucracy. He accepted that agents pursue a range of objectives in their quest to maximise utility, but, due to an adverse selection mechanism that exists in non-market or political environments, contended that bureaucrats are more likely to pursue the self-regarding objective of ascending a hierarchy. It is on this basis that he concluded that bureaucrats send false signals through the hierarchy to serve their interests rather than the objectives of the organisation. Thus, Tullock’s vision entails *motivational homogeneity* and an *internal principal-agent problem*. Downs, like Tullock, focused on the coordination of activities within a bureaucracy. He also accepted that agents pursue a range of objectives in their quest to maximise utility, but, due to a *dynamic* selection mechanism that alters over the life cycle of the bureau, proposed that different types of bureaucrats dominate the bureau at different stages of its life cycle. He added, however, that even though not all of these bureaucratic types pursue self-regarding objectives, the majority are still inclined to send false signals through the hierarchy to serve their interests (altruistic or otherwise) rather than the objectives of the organisation. Thus, Downs’ vision entails *motivational heterogeneity* and an *internal principal-agent problem*. Niskanen focused on the exchange between the chief bureaucrat and the sponsor. He too accepted that agents pursue a range of objectives in their quest to maximise utility, but, because these objectives may be reconfigured as instruments to achieve a single objective, contended that chief bureaucrats may be modelled as budget-maximisers. It is on this basis that he proposed that bureaus supply output beyond the social optimal. Thus, Niskanen’s vision entails *motivational homogeneity in effect* and an *external principal-agent problem*.

### ***Contention Three: The Importance of Rhetoric and Niskanen’s Ascendancy***

Evidence was also presented to demonstrate that the three EOB pioneers used different analogies to render their propositions plausible. It was shown that Niskanen’s ‘neoclassical

firm' analogy was by far the most effective of these. This analogy conveyed that Niskanen's budget-maximising model is congruent with what was then (and now) accepted as economic science. That is, those readers who had been drilled in undergraduate economics required little imagination and cognitive effort to recognise the budget-maximising model as economic theory (and plausible theory at that) because the equilibrium and marginalist analysis, comparative statics, mathematical formalism, and other neoclassical techniques used in its construction had become naturalised in the discipline by the 1960s. The non-mathematical and process-driven accounts presented by Tullock and Downs, by contrast, did not resonate with economics trained readers. These accounts were, for example censured for their lack of formalism (Niskanen, 2012; Williamson, 1967b) and advancing models that are not part of the public choice tradition (Mueller, 2003, p. 362). The contrast between the visions presented by Niskanen and his two predecessors was especially captured in the case study chapters by focusing attention on the degree of sophistication of the diagrams they each deployed in Cartesian space, with Tullock's 'television test patterns' (as Niskanen dismissively puts it) and Downs' tree and territorial diagrams appearing feeble to the economist compared to the Niskanen's neoclassical diagram showing optima via marginal curves.

Finally, it was shown that although Niskanen's budget-maximising framework was a significant breakthrough in the history of EOB and shed valuable light on certain bureaucratic pathologies if certain conditions are present, the way it dominated subsequent EOB research marginalised the useful insights and questions advanced by Tullock and Downs. Specifically, the initial research efforts to investigate the internal "politics of bureaucracy" (Tullock, 1965, p. 10) that involve a "realistic grasp of the actual relationships between bureau environments and bureau behavior" (Downs, 1967, p. 41) were displaced by Niskanen's goal of designing a neoclassical-style model to show how self-interested chief bureaucrats maximise their utility by supplying equilibrium levels of output that are socially inefficient. In other words, Niskanen shifted the *explanandum* of EOB from the internal behaviour of bureaus – particularly the *coordination* problem and the *selection* effects of bureaucratic institutional structure – to the way chief bureaucrats negotiate with external parties to supply different levels of equilibrium output under different conditions. The external principal-agent problem thereby displaced the internal principal-agent problem, and the early insights concerning the life cycle of the bureau, motivational heterogeneity, selection processes, and hierarchical distortion were rendered irrelevant.

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