activities which surround this core and are used to insulate it from erosion or attack. But all these propositions are primarily typological rather than substantive.

Rational officials' strategy

Although officials vary widely in their behaviour, exclusively public-interested officials are extremely rare. Agency behaviour is determined most commonly by the actions of multiple officials defending their self-interest, and by a dialectic of supervision and evasion endemic to hierarchical organizations. Bureaucracies need to be constantly supervised by representative bodies if they are to work at all well in fulfilling social rather than sectional individual or organizational goals of their own. Agency behaviour also varies over a regular life-cycle. At any one time some agencies are expanding and others stagnating. New agencies will set up in competition with established bureaus. And complex hierarchical battles between monitoring bureaus and their subordinate agencies are constantly in progress.

THE NEW RIGHT MODEL

Bureaucrats' motivations

Niskanen shares two distinguishing features of new right public choice theory, a concentration on a narrow and economistic conception of what people want, and a strong view of individuals as inherent maximizers. 'An assumption about the objectives of individuals is a necessary element in any theory of social behaviour. . . . Purposive behaviour by individuals is the essence of social behaviour' (Niskanen, 1973, p. 20). His account of what bureaucrats want is a direct analogy of the standard neo-classical assumption that the managers and owners of private firms maximize profits – because their remuneration is often performance-related (a rationality motivation), and because high profit levels safeguard the existing management against possible hostile takeover bids which would otherwise jeopardize their positions (a survival motivation).

Bureaucracies are 'non-profit organizations . . . financed, at least in part, from a periodic appropriation or grant' (Niskanen, 1973, p. 8). So with no profit index, what do bureaucrats maximize? The basic public choice answer (apart from Downs) has been that officials maximize the size of the agency (Tullock, 1976, pp. 26–35). Some writers have suggested that size is assessed primarily in terms of personnel (Noll and Fiorina, 1979). Niskanen argues that the agency's budget, its 'periodic appropriation or grant', is the

central focus for top officials. Bigger budgets increase their well-being in multiple ways:

> Among the several variables that may enter the bureaucrat's motives are: salary, perquisites of the office, public reputation, power, patronage, output of the bureau . . . all [of them] are a positive function of the total budget of the bureau during the bureaucrat's tenure. . . . A bureaucrat's utility need not be strongly dependent on every one of the variables which increase with the budget, but it must be positively and continuously associated with its size. (Niskanen, 1973, pp. 22–3)

Unpacking these 'rationality' claims in more detail, larger budgets help bureaucrats push up salaries and fringe benefits (such as pensions), since increased responsibilities merit higher remuneration. They improve officials' promotion prospects, since budget scale increases normally trigger regrading directly or via increases in staffing and bureaucratization. Officials can more easily divert resources into creating perks (such as larger or more prestigious offices, more beautiful secretaries, additional functionaries or more policy analysts under their direct control). Bureaucrats in larger agencies have enhanced public reputations for influence, and higher status among their peer group. Senior civil servants commonly regard the comparative budget increases across departments as indicating winners and losers in the ecological competition for resources (Aberbach, Putnam and Rockman, 1981), a kind of 'virility index' (appropriate terminology in this case since top officials in most Western countries are still men). Bureaucrats in larger budget agencies also control more patronage and have a greater capacity to influence events and overcome resistance. They can also create organizational slack and resources more easily to meet unusual risks or crises when they occur.

In addition, maximizing budgets is critical for an agency's survival in two ways. The organization's budget is allocated to it by a 'sponsor', a 'single, dominant collective organization' such as a government, minister, chief executive, or a committee of the legislature. Sponsors expect to be presented with proposals for enlarged funding; during the scrutiny process attention will focus overwhelmingly on the marginal increases being sought. If no increase is asked for, the sponsor will be thrown into confusion, and its procedures become inoperative (see below). Completely static budget demands will tend to be decoded as signifying the bureau's stagnation or loss of role.

Second, senior bureaucrats seek budgetary expansion as a lubricant which facilitates making changes in agency operations. In large or growing agencies, difficult or incompetent officials can be moved sideways to sinecure appointments; the costs of reorganization can be more easily absorbed; and wage militancy or staff resistance to changes can be more easily bought off. Maximizing budgets enlarges demand for staff skills, and keeps wages and promotion prospects buoyant. Client groups also value top officials who boost budgets, co-operating more easily with the agency and generating public enthusiasm for its operations – especially where key clients are well-organized interest groups.

Bureaus as organizations

Niskanen's account says little explicitly about the internal organization of government agencies. It adopts the general economics view of bureaus as command organizations run in a completely top-down manner and contrasting starkly with the operations of markets as decentralized discovery systems. In addition, he follows the theory of the firm tradition of treating corporations and government agencies (however large) as run by a unified management team, in order to focus on their aggregate behaviour *vis-à-vis* other actors.

The external environment

Each bureau usually has a single sponsor, which provides a budget in return for a whole block of outputs. In dealing with them, bureaus have four main advantages. First, sponsorship is normally fragmented between committees of a legislature or political department heads. In any policy area the people exercising the sponsor role have a higher demand than citizens in general for the relevant bureau's outputs. For example, in legislatures the agriculture, defence or energy committees are generally dominated by representatives from constituencies with strong interests in farm subsidies, defence industry contracts, or oil depletion allowances respectively. Similarly, if ministers or political department heads exercise the sponsor role, they often come from a favourable background and have strong incentives to make sure policy implementation in their area is successful. The performance of a political department head will be judged principally by a specialist audience, dominated by vested interests with a stake in expanding agency budgets. Interest group support and political popularity will all increase with higher budgets, whereas budget cuts will attract only opprobrium, declarations of no confidence in the politician responsible, and reduced interest group co-operation.

The fragmentation of the sponsor role also means that each committee or political department head competes with others for public expenditures and other resources. As much as agencies themselves, the political standing of committees, department heads or ministers is judged by their success in committing public resources to their policy areas. Hence, agencies seeking higher budget appropriations from sponsors are pushing at an open door.

Second, the bureau is advantaged because only its personnel know in detail what the costs and benefits of different levels of output are. Each agency offers its sponsor a whole block of outputs in return for a total budget, thereby minimizing the information revealed. In addition, many liberal democracies such as the United Kingdom have powerful traditions of government secrecy which deny huge amounts of non-sensitive information to legislators, the mass media and public opinion. In other countries such as France the legislature has explicit rules whereby ongoing government spending programmes are reapproved without scrutiny, and automatically indexed for inflation. Such practices formalize the existence of an unanalyzed 'base budget' for which bureaus need not provide any detailed justification. Even in the United States where congressional budget scrutiny remains formally vigorous and comprehensive, and where freedom-of-information legislation curtails government secrecy, the sheer scale and complexity of information included in the *Budget Appendix* ensures that sponsor bodies focus attention overwhelmingly on year-on-year changes, new programmes and marginal spending increments.

Third, the agency normally has monopoly control over a given policy area – it does not have to compete with other agencies or firms in terms of its functional responsibilities. Conventional public administration stresses that duplication of functions between agencies is wasteful and should be eliminated; that bureaucratic organizations should be consolidated into a 'rational' pattern covering large, functionally defined programme areas; and that line agencies should combine the roles of developing, funding and implementing policy. In extreme cases, alternative modes of providing services may be prohibited, and citizens compelled to consume the bureau's services whether they want to or not. For example, mandatory schooling requirements in most countries compel parents to enter their children in the local public school system for a decade, unless they can afford private education or can teach a demanding curriculum themselves. All these practices make sponsors acutely dependent upon a single bureau for outputs. Sponsors must by and large fund the whole budget package submitted by the agency: they cannot easily pick and choose within the package, or consider competing bids from alternative providers.

Fourth, in a much stronger version of the previous point Niskanen even apparently envisaged that bureaucracies would enter into negotiations with sponsors on an overt take-it-or-leave-it basis. Here the agency would demand that the sponsor fund the whole budget, or risk having to do without any agency outputs at all if it could not agree the agency's funding requirement (Eavey, 1987). If this bargaining stance were feasible, then the agency's position would be immensely strengthened. However, this version of the monopoly power thesis seems implausible for several reasons. Top bureau officials pursuing such a *force majeure* strategy would risk being replaced, while agency employees' livelihoods would also be jeopardized if the threat of non-supply were ever implemented. Sponsors' fallback positions would only rarely be to receive no services at all. Instead, they could easily fund the agency in line with last year's budget, confident that any service reductions experienced would be decremental only (Romer and Rosenthal, 1978). Even if the sponsor were highly dependent upon an agency for a specific service, rival bureaus or the private sector will normally offer a partially competing alternative. Lastly, congressional committees in the United States are certainly tough-minded enough to resist any attempt at agenda-setting as crude as Niskanen implies, and always have been so (Fenno, 1966).

The one instance where agency employees might adopt strategies resembling the all-or-nothing position is in withdrawing their labour during industrial disputes, which can often push up agency budgets noticeably. However, there are multiple reasons why this effect is of little help to Niskanen. It conflicts directly with his insistence on modelling only top bureaucrats' behaviour. And the crudeness, inflexibility and all-out character of the strike weapon is widely recognized as a key limitation on trade union influence, both in public choice work (Crouch, 1982) and outside.

Turning to the sponsor bodies' powers, Niskanen does acknowledge three different kinds of limits which legislatures or ministers can impose on agencies. First, agencies which promise certain outputs in return for a budget must deliver services consistent with their programmes. Of course, bureaus can extensively manipulate sponsors' perceptions of their performance. But long-term or conspicuous gaps between promised and achieved outputs make the sponsor discount the bureau's future pledges. A second general constraint is that sponsors can generally stop bureaus from reducing the *total* social welfare. Bureau activities which produce only net costs for society will trigger strong complaints from interest groups and voters, who pressure the sponsor to cut back the scale of the agency's operations. Hence legislators and ministers can at least ensure that agency operations are *neutral* in welfare terms.

The third constraint which sponsors can maintain is that each individual unit of output must have some value to society – although, of course, the costs of providing these outputs may well exceed their social benefit. For example, if a police agency recruits and deploys so many personnel that additional units begin to cause avoidable riots in sensitive city areas, then the extra units of police begin to erode the social welfare. The sponsor will conclude that marginal police outputs are counter-productive and refuse their funding increments. But the sponsor could do little about personnel who fill out their schedules with trivial duties, so long as they make some positive contribution to the social welfare in part of their time, and so long as the police force as a whole costs no more than it delivers in benefits.

Rational officials' strategies

The interaction between budget-maximizing bureaucrats with monopoly power and fragmented sponsors characteristically produces a radical oversupply of agency outputs (Figure 6.1). The horizontal axis of the graph measures the level of the bureau's output, and the vertical axis the marginal costs and marginal social benefits of each unit of output. For the sake of convenience I have drawn the marginal cost (MC) curve and the marginal benefit (MB) curve as straight lines, but the analysis remains the same with other patterns. The MC curve rises with increased outputs, perhaps because of increased factor prices with rising demand (but it makes no difference to the analysis if the MC curve is perfectly flat). The MB curve falls as output increases, reflecting the general presumption in economic analysis of diminishing marginal utilities. Early units of output are intensely valuable to society, much more so than their costs, but as the MB curve falls this differential is progressively eliminated and at point E the marginal costs and marginal value of output are equal. If the agency produced at this point, which is also the welfare optimum and the point at which a profit-maximizing firm would stop, then a net benefit to society would result equivalent to the area GEH. The bureau's total budget at point E is given by the area HEQ0, whereas the gross benefits accruing to society would be GEQ0, creating the consumers' surplus area shown.

However, rational officials take advantage of the sponsor's weak position to push output up beyond point E. Indeed, they only stop expanding output when constrained to do so by the sponsor, which in Figure 6.1 occurs at

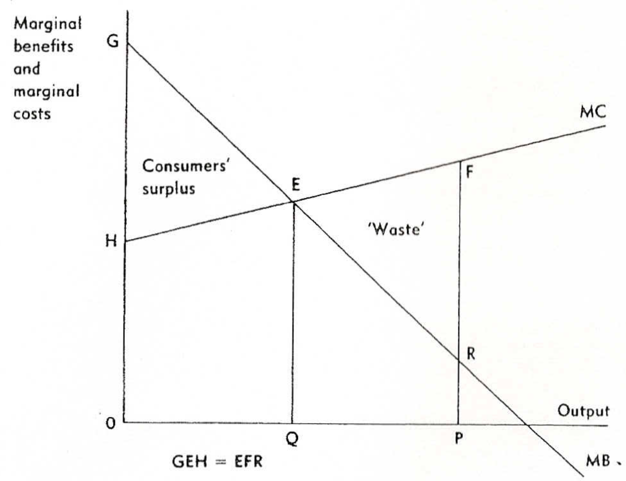

Figure 6.1 **Niskanen's model of why bureaucracies oversupply outputs**

point F. Here the bureau has created an area of 'waste' (given by the area EFR) which exactly offsets the consumer surplus created by early units of output (area GEH). 'Waste' is used in the technical sense of avoidable costs, outputs whose value to society is less than the marginal costs of producing them. This does not imply that the bureau is slack, inefficient or necessarily has organizational 'fat' built into it. Waste arises simply because the bureau is delivering far more outputs than society at large or the sponsor body require, even if the bureau is being relatively efficient (= cost-effective) in doing so. At point F the total benefits from the bureau's activity are given by GRP0 and its total costs by HFP0. When these two areas are exactly equal (as here) the bureau neither increases nor decreases the social welfare. Pushing up outputs beyond point F begins to actively reduce the social welfare and can be resisted by even the most pusillanimous or poorly informed sponsor, so that point F represents the equilibrium output for budget-maximizing bureaucrats. Thus Niskanen predicts that with weak sponsor control agencies deliver up to twice as much output as a profit-maximizing firm, and twice the level which would be optimal in social welfare terms.

This model can sometimes appear very abstract, and as I note below (page 210) it has not been widely applied in empirical work. Hence it is useful to look at an empirical example of the over-supply behaviour Niskanen hypothesizes. In 1984 the Metropolitan Police in London arrested around 25,000 people, charged them with being 'drunk and disorderly', held them in jail for a brief period and processed them through the local courts for minor offences. The following year the police's sponsor body, a central department in Whitehall, decided to 'decriminalize' drunkenness, urging police forces to use 'cautions' instead of arrests and court proceedings to combat the problem (Home Office, 1985). The effect of this policy change was that individual police constables could no longer boost their monthly arrest records by pulling in and charging people with drunkenness offences. By 1987 the number of arrests under this heading had fallen to around 7,000, only a fraction of the total three years before. This drastic cutback strongly suggests that previous police behaviour radically over-supplied arrests for drunkenness, far beyond socially optimal levels.

In some situations where costs are very low or societal demand for the bureau's output is abnormally high, bureaucrats may not be able fully to exploit consumer's surplus (Figure 6.2). Here the MB curve cuts the horizontal axis at an output level less than that needed fully to offset the consumers surplus area GEH. The bureau is only able to push output up to point K, creating an area of waste equivalent to EJK, before further output increments become negative in welfare terms, that is, they have no positive value at all to society or the sponsor. This kind of situations can arise where new bureaus are set up in a period of high public demand for their outputs; or where agency outputs are valued as peculiarly salient (as Goodin (1982b,

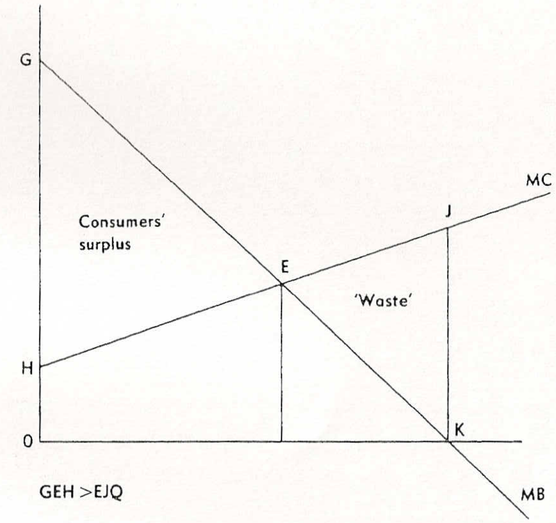

Figure 6.2 **'High demand' conditions preventing full oversupply**

Chapter 11) suggests is especially true of 'national defence' arguments); or where an agency's historic costs have been radically reduced through technological change (such as computerization) and the sponsor has not yet absorbed the implications of the innovation. When oversupply behaviour is thus unusually constrained, budget-maximizing bureaucrats have strong incentives to create spending increments by becoming less efficient.

A final implication of the Niskanen model is worth noting, since it is so apparently counter-intuitive (McGuire, 1981). Suppose that a bureau's costs fall radically over time: how should it behave? Niskanen's answer is that the bureau will significantly expand its outputs (Figure 6.3). For a profit-maximizing firm the cost reduction would directly trigger some increased output, from E to E_1 in Figure 6.3. But for the bureau the cost reduction moves its equilibrium point from F to F_1 where an enlarged area of waste offsets the increased consumers' surplus, allowing the bureau's output to rise radically. The price elasticity of demand for bureaus will thus be up to twice that for competitive industries.

Niskanen's overall conclusions strongly affirm new right attitudes: 'All bureaus are too large. For given demand and cost conditions both the budget and the output of the bureau may be up to twice that of a competitive industry facing the same conditions' (Niskanen, 1973, p. 33). There is none of the variability in motivations or bureaus' strategies found in Downs's account. Essentially, all bureaucrats everywhere seek to maximize their budgets by radically oversupplying outputs.