

Why does the Parliamentary Regime Perform Better: Bureaucratic Power versus Veto Players

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Abstract

The political economy literature underlines that in presidential regimes politicians are more accountable to citizens because of the greater executive constraints and “checks and balances” system. Thus, presidential regimes are supposed to have a more efficient institutional structure as compared to parliamentary regimes. However, empirical studies testify the contrary effect that parliamentary regimes perform better; in particular, in terms of the quality of government and economic development and growth. This paper contributes to finding an explanation of such a puzzle by studying the scope of bureaucratic power in political decision-making process in view of information deficiency of politicians. By bureaucratic power we mean rubber-stamping or conscious approval by politicians of their bureaucrats’ policy propositions without effective control. We demonstrate that the parliamentary regime has institutional constraints to limit the power of bureaucrats while the institutional structure of presidential regimes tends to promote informal agreements between politicians and bureaucrats.

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1 Introduction

One of crucial issues of the political science and economics literature is the comparative merits of presidential and parliamentary systems of governance in democracies. Many prominent scholars argue that presidential regimes are more accountable because of the greater institutional constraints on the executive and “checks and balances” system (see e.g. Persson et al., 1997; Przeworski et al., 1999). Indeed, along with election disciplining mechanism separation of powers between executive and legislative bodies helps preventing the abuse of power. “The system of checks and balances creates a conflict of interests between the executive and the legislature, yet requiring both bodies to agree on public policy. In this way, the two bodies discipline each other at the voters’ advantage“ (Persson et al., 1997).

However, the empirical studies present the contrary evidence that actually parliamentary regimes based on the fusion of powers perform better. They are not only considered as more stable regimes but also they demonstrate higher levels of economic development (Cheibub and Limongi, 2002). This paper contributes in finding an explanation of such a puzzle by studying the power of bureaucrats under information deficiency of politicians. By bureaucratic power we mean rubber-stamping or conscious approval by politicians of their bureaucrats’ policy propositions without effective control when politicians could or could not verify the payoffs of policy projects *ex ante*. We demonstrate that the institutional structure of the parliamentary regime allows to limit the power of bureaucrats while the institutional structure of presidential regimes tends to promote informal agreements between politicians and bureaucrats.

The expertise advantage of the bureaucratic agency is a corner stone in political models of delegation. Typically, the agency has or can acquire for some costs perfect knowledge of the connection between policy choices and policy outcomes, the legislature is uninformed on this count. Thus, despite that in democracies political superiors are elected for regulation and governance, the bureaucrats getting organized to take a collective action in politics (e.g. through public sector unions) can exert political power over their own superiors. Bureaucrats can influence on election outcomes and participate in choosing the policy course (Moe, 2006). Furthermore, very often political superiors in seeking loyalty tend to favor bureaucratic interests: promote job security, enhance autonomy, protect established programs. The normal way of thinking about bureaucrats, however, assumes that they have no political power at all. But bureaucrats are not only experts who have the information leverage over their political superiors but also successful lobbyists exploiting the privileges of the institutional structure of democratic systems (Bennedsen and Feldmann, 2004). Moreover, there are known extreme cases when politicians informally act as the agents of the top bureaucrats and the latter exert real control over policy decisions. These aspects of delegation in political control models have been never seriously considered. As Moe (2006) stresses this important part of the delegation story is missed, and theorists tend to underestimate what bureaucrats can do to get their way.

Following, Persson and Tabellini (2000, 2007) we exemplify how economists may pur-

sue an approach of comparative politics. In political science one can find some studies on the performance comparison of presidential and parliamentary regimes but even now there are a lot of debates, and many results prove to be contradictory and vague. Further, there is a large gap in examining the structure and efficiency of the bureaucracy under different institutional structures of government. Although information asymmetry and the political control problems are well recognized in both political economy and political science literature, almost no work has been done in analyzing the importance of bureaucratic power for the performance of political regimes.

More precisely, how we can convey the power of bureaucrats? It might be revealed through mechanisms of rubber-stamping and informal delegation of legislative proposals by politicians. We consider the model of different forms of delegation in the relationship between the politicians and their bureaucratic agent. We are interested in the process of public policymaking in which political representatives who are mainly uninformed about the repercussions of policy choices appoint bureaucrats to gather information necessary to make informed decisions. We do not focus on the transfer of formal decision-making power to bureaucrats but instead we draw attention to cases when the bureaucrats possess enough information to manipulate policy outcomes in their interests.

Indeed, in some cases, the agent is given formal authority to decide on policy (e.g. central banks), and in other cases, the agent merely makes recommendations or give advice on policy (e.g. investigatory commission). These are models on communication versus delegation with uninformed principals and informed agents (Dessein, 2002; Ludema and Olofgard, 2008). But we focus on the other cases when politicians refrain from credible delegation but transfer their authority to take policy decisions in an informal way. We follow the literature and distinguish between simple rubber-stamping of the agent's proposition (Aghion and Tirole (1997)) and informal delegation (Baker et al. (1999)) where the latter implies that "the boss can "promise" to ratify all the agent's proposed projects regardless of whether a given project yields high or low benefits to the boss". Following to Baker et al. (1999) we contrast informal delegation with informal authority, when it is the bureaucratic agent who is tempted to renege. Our analysis is also related to the concept of partial or transferable control by Aghion et al. (2002, 2004) where the principal can transfer control to the agent but cannot commit herself to do it.

Moreover, we consider forward-looking actors and given this politicians' decision about granting more or less power to bureaucrats differs sharply. Although the president or the major coalition may soon be out of office, replaced by another person or coalition, informal agreements that could arise between politicians and bureaucrats are based on expected future returns and are considered as the way of building trust and inducing cooperation in future. Therefore, we stress two key determinants for evolving relational contracting agreements between elected and appointed officials: the probability of staying in office and the capability to punish or fire bureaucrats.

In the model policy choices are made by the three incumbent legislators in legislative bargaining. There are two alternatives: to preserve a status quo or implement a new policy. In the latter case they should ratify some policy projects from a huge number

of projects so that a final policy course is shaped by outcomes of the approved projects. However, the politicians need the bureaucracy for expertise knowledge about different legislative projects and policy outcomes. Although the politicians could acquire information about projects too, it is much more expensive for them. The main intuition of the model is to demonstrate how the information asymmetry between politicians and bureaucrats under various bargaining political environments defines the scope of bureaucratic discretion and the way politicians delegate more or less informal decision-making power to their bureaucratic agents.

Following Tirole (2009) we distinguish between collegial authority and veto collegiality. The first one requires that both parties agree to depart from the status quo in order for an alternative policy to be implemented. It thus imposes a strong status quo bias. We refer this case to the fusion of powers of the parliamentary regime. The other regime implies veto collegiality under which one party has the right to impose the status quo if she does not like the other party's choice. Thus, we assume that in the parliamentary regime three politicians have collegial authority between themselves, while in the presidential regime the authority between two politicians is allocated collegially and the third politician (president) has the right to veto.

The basic insight for the main theoretical results is following. In the parliamentary regime political decisions are formally made collectively; and this reduces the discretion of bureaucrats because all politicians are better to come to an agreement between themselves rather than put some informal authority down to the bureaucracy. While in the presidential regime the first two politicians might be discouraged by the presidential veto, and thus, they are more inclined to collude with bureaucrats on some policy projects. Two veto players in the system can reinforce this effect by increasing conflict between politicians. Thus, the system with more veto players creates more potential for the powerful bureaucracy.

It follows that in the parliamentary regime informal agreement between politicians and bureaucrats is not feasible, while in presidential regime it could be achieved under some conditions, namely the higher perception probability of reelection and lower cost of punishing the bureaucracy. Moreover, the presidential regime is characterized by lower economic welfare from adopted policy projects than the parliamentary regime in both cases with and without informal agreement between politicians and bureaucrats. This sheds light on the problem of seemingly good performance of presidential regimes. Hence, this paper reconsiders the institutional features of political regimes by referring to agency problems between politicians and their bureaucratic agents in different institutional bargaining environments.

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