

Candide, Voltaire }
Political Economy. / Fiscal Exchange

- Voters $U_v = U_v(I - t, G)$

- Politicians $U_p = U_p(\underline{V})$

Taxes - cost votes

G - gain votes

Downs → max votes 1958

Riker → minimum winning coalition
 1960/61?

Fiscal Exchange a Robert Putnam Bowling Alone

- social capital.
- exchange as good.
- increase compliance with rules
- social norm of compliance

Expenditure viewed as favorable
result higher tax compliance

Lab experiments

Survey 1000 undergrads - rank org.
to preferences

Top 2 - Student Fin Aid
Student Health center

Bottom 2 - ROTC
- Pres.-

Lab - 20 subjects
 # tax → on campus org.
 vote - announced vote
 imposed - no vote - good SFA.
 - bad Prez.

Baseline 30%
compliance

Imposed good ≡ voted good
 Find - C lower imposed → good 40%
 → bad 10%

C higher voted - alternatives
 far a part
 SFA - SHC

Compliance SFA - Prez
 highest

South Africa } 120 - 160 subjects
Botswana } 120 - 160 "

- identical labs
- " instructions
- " interface

$$\underline{C_{SA}} < \underline{C_B}$$

Mandela.

Policy - Legislation

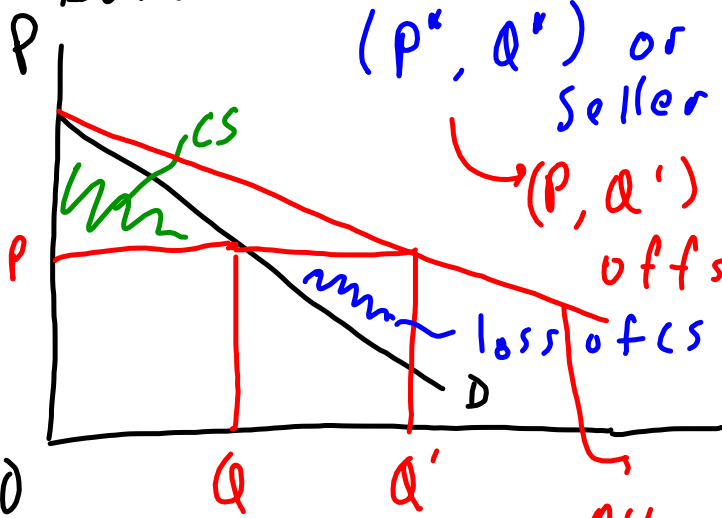
↳ Bureaucracy - incentives

Niskanen - DoD - only supplier

Bureau → all-or-nothing offer

(P^*, Q^*) or $(0, 0)$

seller specify $P+Q$



(P, Q') - limit on Q'
offset original CS

$Q' = 2 \cdot Q$

All or nothing D curve

Politicians → Committee Budget for
DoD

Committee ↔ Bureau

- threat point

Committee - elected → voters
→ provide program

→ zero → tell voters bureaucrats

Max Budget ($P \times Q$) → ^{did it} min. costs

inefficiency → output level
→ cost/unit

Competition. - can't force all or nothing.

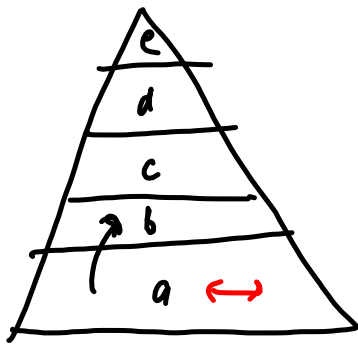
Committee vs Bureau
| vs |

Interior
|

vs n
↓ competing deliver
votes
Competition.

Comp - within bureau.

- hierarchy - compete to move up hierarchy



Breton & Wintrobe

Trust - delayed transactions
workers in a → extra effort - promote a to b

T_v - vertical trust - enhances output

T_H - horizontal trust - impedes output

$\left(\frac{T_v}{T_H}\right) \uparrow$ efficiency of bureau \uparrow

$T_v \uparrow \rightarrow$ more layers - more promotion
 \rightarrow top down communication
 - articulate goals

Parkinson's Law - demand \downarrow
 promote more to Admin (avoid layoffs!)
 ex post reward - improves efficiency - incentive

$T_v \uparrow$
 Adolf Eichmann - taking orders
 - working hard to advance

\hookrightarrow Breton & Wintrobe
 Bureaucracy of Murder Revisited
 Journal of Political Economy - 1982-84