Public Choice (2008) 135: 11–22
DOI 10.1007/s11127-007-9243-0

The Politics of Bureaucracy and the failure of post-war reconstruction

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Received: 8 September 2007 / Accepted: 5 October 2007 / Published online: 1 November 2007
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Abstract Gordon Tullock's *The Politics of Bureaucracy* must be considered one of the most important works on bureaucracy ever written. In this paper, I argue that Tullock's analysis of bureaucracy is as relevant as ever. To support this claim, I focus on U.S.-led reconstruction efforts which attempt to export liberal democracy via military occupation. Bureaucratic organizations play a key role in these reconstruction efforts and as such, Tullock's analysis is directly relevant. It is argued that Tullock's study clarifies not just the limits of bureaucratic activity, but also the importance of spontaneous orders for coordinating activities outside those limits and generating the very institutional context in which liberal democracy can evolve and sustain. The main conclusion is that the nature of public bureaucracy constrains the ability of the United States to exogenously impose liberal democratic institutions in foreign countries for the very reasons Tullock emphasized long ago.

Keywords Bureaucracy · Reconstruction · Spontaneous order

JEL Classification D73 · P16

1 Introduction

In the broadest sense, bureaucracy refers to all non-market forms of organization. Included in this general category are government agencies and the internal organizational structures within many private firms, among others. Given their prevalence, understanding the nature and characteristics of various bureaucratic structures has been the focus of several important studies from across the social sciences.

In his well known *Economy and Society*, Max Weber (1922) employs the tools of sociology to explore the general characteristics of bureaus as well as behavior within bureaucracies. Weber concludes that the increasing prevalence of bureaucratic organizations results from their efficiency in achieving complex activities. Ludwig von Mises (1944) provides one

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of the first economic analyses of bureaucracy. He considers the central differences between bureaucracy within for-profit and non-profit organizations. Mises concludes that government bureaucracies, which are non-profit by their very nature, will be unable to engage in economic calculation and therefore suffer from significant inefficiencies. In addition to illuminating the key differences between for-profit and non-profit bureaucratic organizations, Mises also explores the social, political and psychological consequences of public bureaucracy.

Following this earlier work, Gordon Tullock provides an analysis of bureaucracy in his *The Politics of Bureaucracy* (1965). Employing the economic way of thinking and the associated rational choice framework, Tullock develops a detailed analysis of the nature and limitations of bureaucratic structures. Tullock focuses on public bureaucracies with specific emphasis on personal relations and the means of advancement within these organizations. Alongside the previously mentioned study by von Mises (1944) and the subsequent analysis of bureaucracy by William Niskanen (1971), Tullock's book must be counted as one of the most important works on bureaucracy ever written in political economy.[1]

At the time Tullock wrote his book, the romantic view of bureaucrats and bureaucracy was commonplace. As Charles Rowley notes, when Tullock published *The Politics of Bureaucracy*, "bureaucrats were widely viewed as impartial, even omniscient, servants of the public good..." (Rowley 2005: ix). Within this context, Tullock's analysis of bureaucracy, along with his other work in the area of public choice, introduced skepticism into the standard, romantic view of bureaucracy. The thrust of Tullock's argument is that the incentives and information deficiencies faced by bureaucrats are such that their actions will often produce perverse outcomes. Moreover, Tullock emphasizes that the top-down centralization of the bureaucratic structure results in a problem of coordination, especially when compared to the market mechanism as a means of allocating resources.

In this paper, I argue that Tullock's analysis in *The Politics of Bureaucracy* is as relevant as ever. To support this claim, I focus on the timely topic of U.S.-led reconstruction efforts. These efforts rely on the military occupation of foreign countries with the aim of exporting liberal democracy by generating sustainable change in the trajectory of political, economic and social institutions.[2] The U.S. has been involved in reconstruction efforts for over a century and is currently engaged in two major efforts in Afghanistan and Iraq. Because public bureaucratic structures play a key role in these reconstruction efforts, Tullock's analysis provides important insights.

My main conclusion is that the nature of public bureaucracy constrains the ability of the United States to exogenously impose liberal democratic institutions in foreign countries for the very reasons Tullock emphasized long ago. Applying Tullock's analysis of bureaucracy to U.S.-led reconstruction efforts allows us to better understand the limitations of military occupation as a means of generating sustainable change. It also provides insights into the disparate outcomes of past and current U.S.-led reconstruction efforts. Why were the efforts in post-World War II Japan and West Germany successful, while the more recent efforts in Somalia, Haiti, Afghanistan and Iraq have either failed or face continued struggles?

While many variables influence the outcomes of reconstruction efforts, one common theme is the central role public bureaucratic structures play both in the initial decision to engage in occupation as well as in the day-to-day operations of reconstruction efforts. As such, understanding the nature of bureaucracy is a critical part of comprehending the outcomes of past and current reconstruction efforts, as well as the viability of future efforts. Tullock's analysis of bureaucracy provides us with the tools to do so.

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[1] Among the many other contributions of his book, Niskanen provides an analysis of the behavior of bureaus as it relates to budget and output.

[2] Democracy deals with the method of selecting government officials, while liberal democracy encompasses the goals of government: the protection of individual rights, the rule of law, and so on (Zakaria 2003).

This paper proceeds as follows. In the next section, I briefly review the main themes and lessons from Tullock's analysis in *The Politics of Bureaucracy*. In Sect. 3, I extend Tullock's analysis to U.S.-led reconstruction efforts and highlight some parallels between Tullock's analysis and these efforts. My contention is that Tullock's analysis can aid in understanding the ongoing struggles in Afghanistan and Iraq. In Sect. 4, I consider the limits of bureaucracy and the importance of spontaneous order for institutional change. Although Tullock's analysis of bureaucracy mainly focuses on the dual problems of information and incentives within bureaucratic structures, he clearly recognized that the central planning inherent in bureaucracies also eliminated the spontaneous ordering of activity. Spontaneous orders are critical not just for coordination within preexisting institutions, but also for the initial emergence of liberal democratic political, economic and social institutions. Section 5 concludes.

2 The politics of bureaucracy

Tullock begins his analysis of bureaucracy by making the important distinction between political and economic relationships. Political relationships are those where "the dominant or primary relations are between superior and subordinate" (1965: 14). Economic relations, in contrast, consist of individuals who "deal with one another as freely contracting equals" (1965: 14). Although the superior-subordinate relationship can be observed in a number of settings, including private firms, Tullock contends that government employment is the setting where this relationship is most prevalent. In government bureaucratic settings, the only way for subordinates to advance their careers is to impress their superiors. Absent the profit motive, satiating the wants of superiors is the surest way for promotion and success in government bureaucracies. If a government employee fails to satisfy their superior, their career options are severely constrained because it is typically difficult to transfer to another bureau. It is within this context that Tullock focuses on political relationships and specifically, relationships within public bureaucratic structures.

While fully cognizant of the fact that bureaucracies differ in their specific structures, Tullock starts by focusing on one individual politician as a reference point (1965: 39–41). All other individuals are then classified based on their relationship to that "reference politician." Tullock distinguishes between superiors who can directly influence the position of the reference politician and "spectators" who are sufficiently removed from the reference politician and therefore cannot directly influence his standing (1965: 51–56). The reference politician is most concerned with satisfying his superiors or "sovereigns," the individuals who have the most influence over the success or failure of the reference politician's career (1965: 57–69). While the exact nature of the sovereign-reference politician relationship varies depending on the structure of the bureaucracy, it is the sovereign's preferences that the reference politician seeks to satisfy, and it is his ability to do so by which he is ultimately judged (1965: 70–114).

After considering the superiors above the reference politician in the bureaucratic hierarchy, Tullock turns to a consideration of those in positions below him. Typically, the reference politician simultaneously plays the roles of subordinate to those above him and sovereign to those below him in the bureaucratic hierarchy. There are several key issues that the reference politician, in the role of sovereign over his subordinates, must face.

The transmission of information is a central problem in any bureaucratic structure. In order to highlight these information deficiencies, Tullock employs the "whispering down the lane" game (1965: 148–152). The nature of this game is that as a piece of information is passed from individual to individual, the content of the message becomes increasingly distorted. The magnitude of this distortion, or "noise," is a function of the complexity of the information and the number of people in the transmission chain. As the complexity of the information and the length of the chain increases, so too does the magnitude of the noise introduced into the initial message as it is passed from person to person. The solution to this problem, Tullock suggests, is the decentralization of decision-making to reduce the length of the transmission chain and the complexity of the information.

Tullock's proposed solution to overcome information deficiencies leads directly to the second major issue with bureaucratic structures—the problem of incentive compatibility. While decentralizing decision-making reduces the length of the transmission chain, it also poses the problem of ensuring that the goals of the decentralized decision nodes are aligned with the broader aims and goals of the organization. As such, a complete solution to the problems associated with information deficiencies and incentive compatibility includes decentralizing decision-making while *simultaneously* structuring the bureaucracy so that the actions of the decentralized decision centers align with the broader goals of the organization. For obvious reasons, this is an extremely difficult task in practice.

The third and final issue is the need for enforcement by the sovereign over his subordinates. In short, the sovereign must have some means of reviewing the work of his subordinates to ensure that they are pursuing the broader goals of the organization. In order to overcome this problem of compliance, Tullock suggests a statistical method of random checks on the performance of subordinates (1965: 198–201). The underlying logic is that if subordinates do not know the exact aspects of their work that will be evaluated, they will have a disincentive to shirk.

It is important to note that Tullock is fully aware of the superiority of the market mechanism, as compared to public bureaucratic organization, for the coordination of activities (1965: 172–175). However, he contends that in some cases, such as traditional public goods, government provision is necessary. Despite the inefficiencies associated with public bureaucracy, Tullock contends that the market will fail to effectively provide these public goods and services. Where government does provide goods and services, bureaucracy will be directly involved and the importance of Tullock's analysis becomes evident. The central issue then becomes minimizing the associated inefficiencies of bureaucratic activity.

Recognizing the distinction between public bureaucracy and private mechanisms of coordination is extremely important. A full understanding of Tullock's analysis of the limits of bureaucracy requires the reader to appreciate the role of spontaneous orders in coordinating a vast majority of private market and non-market (e.g., civil society) interactions.[3] Spontaneous ordering coordinates people within a given set of institutions but is also critical for the very emergence of informal complementary norms, rules and belief systems that serve as a foundation for formal political, economic and social institutions and allow them to sustain over time (Coyne 2005, 2006).

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[3] Alexis de Tocqueville (1835/1839) highlighted the importance of non-market interactions in the form of associations. According to Tocqueville, associations stand between the government, or the public sector, and the market, or the private sector. Associations allow individual members of a society to come together to solve common problems without relying on the government. As such, on the one hand civil society protects American society as a whole from the extreme individualism of markets, and on the other hand, from arbitrary rule and the abuse of power by political actors.

Public bureaucracies face major difficulties not just in coordinating interactions within existing institutions, but also in generating sustainable change over the broader economic, political and social meta-institutions of a society. These difficulties become glaringly evident in the case of reconstruction where information deficiencies, incentive compatibility and compliance enforcement are intensified and magnified. Within this context, it is my contention that Tullock's analysis of public bureaucracy is as relevant today as it was when it was first written.

3 Bureaucracy and the failure of reconstruction

Reconstruction efforts involve military occupation with the aim of rebuilding both formal and informal institutions. This includes, but is not limited to, the restoration of physical infrastructure and facilities, minimal social services, and structural reform in the political, economic, social and security sectors. The motivation behind these efforts can be international wars (Japan and Germany), civil war and internal conflict (Somalia, Haiti, Bosnia and Kosovo) or retaliation and imminent threat (Afghanistan and Iraq). The ultimate goal of these efforts is to establish the foundations of liberal democratic, economic and social orders.

The historical record indicates that success in U.S.-led reconstruction endeavors has been elusive. Efforts to quantify the success rate of U.S.-led efforts show more failures than successes (see Boettke and Coyne 2006a; Payne 2006a). Tullock's analysis of bureaucracy provides key insights into why this is the case. Indeed, in examining current U.S.-led reconstruction efforts, one can see many direct parallels between the issues faced by bureaucrats and those raised by Tullock.

Reconstruction efforts involve overlapping public bureaucratic structures. For instance, the domestic bureaucracy of the country carrying out the effort overlaps with the military bureaucracy as well as many other bureaucracies which influence the effort. Incentives must be aligned both within each bureaucracy as well as across bureaucracies. This is a monumental task because of the sheer size of each bureaucracy. Given this difficulty, one would expect to observe conflicting activities and agendas by bureaucracies which, in theory, are pursuing the same goal.

Along these lines, Tullock emphasized that "organizational patriotism," whereby bureaucrats believe their organization is superior to others, can often cause conflict between bureaucracies (1965: 46–47). As Tullock notes, "… employees in the Department of State tend to feel that many things wrong with the world of today derive from the 'military mind' of the Pentagon. The military, on the other hand, distrusts the 'cookie pushers' and 'striped pants boys' of the Department of State" (1965: 46). The current reconstruction effort in Iraq provides a perfect example of this point.

To understand how organizational patriotism can manifest itself in the context of reconstruction, consider the planning of the current Iraq reconstruction. Those involved in the postwar reconstruction effort indicate that, "A number of U.S. government agencies had a variety of visions of how political authority would be reestablished in Iraq … In the bitter, relentless infighting among U.S. government agencies in advance of the war, none of these preferences clearly prevailed" (Diamond 2005: 28–29, also see Ricks 2006: 78–80). Others involved in the planning of the reconstruction efforts noted that, "relations between the Office of the Secretary of Defense (OSD) and the State Department became increasingly acrimonious. U.S officials vied for control over the Iraq policy" (Phillips 2005: 7). To further support this point, consider the tensions between the Department of Defense and the

State Department. It has been reported that members of the Office of Stability and Peace Operations were excluded from meetings at the Pentagon and had their memos ignored as Donald Rumsfeld and Paul Wolfowitz advanced their own agendas (Packer 2005: 113–120). The clashes between bureaucracies can be seen as a main reason why a clear and widely accepted plan was not in place prior to the war and why many aspects of the reconstruction effort have been ineffective.

As noted in the previous section, information deficiencies are a central issue facing any bureaucratic organization. Within this context, Tullock notes that “in practice, high-level officials frequently demonstrate publicly the most egregious ignorance concerning the area that they allegedly supervise” (1965: 169). This ignorance stems from the inability of high-level officials to obtain and process all the relevant information possessed by subordinates as well as the context specific knowledge of the situation under consideration. Superiors must oversee numerous subordinates and consolidate information from those subordinates while simultaneously ensuring compliance. As the number of subordinates increases, so too does the magnitude of these tasks. Given the size of most bureaucratic organizations, Tullock concludes that effectively processing the relevant information would “require a level of talent for the higher officials hundreds of times as great as for the lower-ranking personnel” (1965: 168). This logic implies that those at higher levels in bureaucratic organizations will often make decisions with only partial information and without understanding the full consequences of those decisions.

One finds examples of the information deficiencies Tullock emphasizes in the current reconstruction effort in Iraq. Consider for instance some of the criticisms of L. Paul Bremer, the head of the Coalition Provisional Authority (CPA) from May 2003 until June 2004. In this role, Bremer reported to the U.S. Secretary of Defense and directed Iraq’s civil administration. A common criticism of Bremer was that he failed to understand the nuances of the situation on the ground in Iraq (see Chandrasekaran 2006: 39 and Ricks 2006: 203–205). However, Bremer’s actions should, to some extent, be attributed to the information deficiencies inherent in the CPA, a large-scale public bureaucracy subject to the very problems discussed by Tullock. In short, given the sheer size of the CPA and the number of subordinates under Bremer, what else should have been expected?

To provide a more specific example, consider Bremer’s “de-Baathification” process whereby he fired and banned thousands of Baathists from government and military positions. This policy not only failed to appreciate the incentives these individuals faced under the Hussein regime, but also resulted in the loss of local knowledge regarding the operation of the country while strengthening the insurgency and anti-American sentiment within the country (see Ricks 2006: 158–166). Bremer and other Washington D.C. policymakers failed to consider the Iraqi context or consult those on the ground when making the de-Baathification decision. Bremer and U.S. policymakers faced the problem of dispersed information noted by Tullock, with no effective means of consolidation. When one understands the difficulty bureaucrats face in obtaining and processing relevant information, this outcome and others like it should not come as a surprise.

An unintended consequence of the de-Baathification decision was that it forced the U.S. military into the precarious position of determining how to deal with the fired Baathists. Some military officials such as Major General David Petraeus, defied Bremer’s orders and created employment programs to incorporate the Baathists into the broader reconstruction effort instead of alienating them. The initial decisions and the military’s response created tensions between the CPA and the military. The CPA viewed actions such as Petraeus’ as undermining its authority and directives (see Chandrasekaran 2006). Members of the military, on the other hand, were angered by Bremer’s decision because they incurred a large part of the costs associated with de-Baathification on a daily basis in their efforts to secure and reconstruct Iraq (see Ricks 2006: 209–212). This was one aspect of a growing discord between the military and the CPA—two organizations that were supposedly working together toward the common goal of reconstructing Iraq.

In addition to the issues of information deficiencies and incentive compatibility both within and across bureaucracies, a related problem involves the ability of bureaucracies to effectively coordinate the most basic tasks. To illustrate this point, Tullock provides an example of spare parts for military vehicles. Tullock questions why the U.S. Army has historically struggled to coordinate spare parts for the largely standardized fleet of military vehicles while private U.S. consumers have little trouble obtaining spare parts for their vehicles, which tend to vary in design and type. The answer, Tullock emphasizes, lies in the superiority of the market mechanism for coordinating activities and the lack of an equivalent mechanism in public bureaucratic structures. Again, one can find parallel examples to Tullock's point in more recent reconstruction efforts.

In what could be an example directly from *The Politics of Bureaucracy*, a recent study documented the progress of a $73 million program to construct Afghani schools and clinics (Stephens and Ottaway 2005). The study indicated that the program suffered from a lack of coordination and poor planning due in part to the desire to have something completed before the 2004 Afghan presidential elections. Afghanistan's physical environment presented further difficulties, as roof designs used by contractors were not sufficient to support snowfall during the winter season, resulting in many collapsing.

The report also notes that the United States Agency for International Development (USAID), which headed the project, was unable to identify the actual location of many of their projects within the broader program. Further confusion stemmed from the lack of coordination and communication between USAID and U.S. officials outside that organization. Initially, the aim of the reconstruction program was to construct or refurbish 420 schools and clinics by the end of 2004, but this number was eventually increased to 1,000 by officials outside USAID who were motivated by the perceived need to show progress in the reconstruction effort at home.

This example serves to illuminate the point made by Tullock regarding the ability of public bureaucracies to effectively coordinate the most basic of tasks. Within private markets in the U.S., one rarely observes a problem of private individuals coordinating the construction of physical buildings of various sizes and complexity. Rarely do these buildings collapse and one would be hard pressed to find a case where a developer did not know the exact location and status of their projects. But in the context of public bureaucracy, the issue of effectively constructing basic standardized buildings becomes a task of great difficulty.

Of course, the lack of coordination associated with the initiative discussed above will not make or break the broader reconstruction of Afghanistan and the $73 million allocated to this project is a minor part of the overall reconstruction budget. However, this basic example provides important insights that can be generalized. The difficulties associated with reconstructing basic physical infrastructure, such as clinics and schools, indicate that the barriers to constructing vastly more complex institutions—political, judicial, economic and social—will be concomitantly greater. In short, if the design and building of standardized schools and clinics poses problems, why should one expect that constructing an extended sustainable liberal democratic order to be any easier? Tullock's analysis of bureaucracy goes a long way in explaining not only why these problems exist, but also the difficulty of finding effective solutions.

The previous examples of the difficulties public bureaucracies face in reconstruction efforts highlight the continuing relevance of Tullock's *The Politics of Bureaucracy*. As these examples illustrate, one can find direct parallels between the nature and limitations of public bureaucracy discussed by Tullock and the actual occurrences in current reconstruction efforts. It is important to note that the issues associated with bureaucracy in the context of reconstruction extend beyond the current U.S.-led efforts in Afghanistan and Iraq. Indeed, these same issues were prevalent in past reconstruction efforts, albeit in different manifestations, and will undoubtedly influence future efforts as well.

4 The limits of bureaucracy and the importance of spontaneous order

Tullock's analysis of bureaucracy mainly focuses on the problems of information and incentives within public bureaucratic structures. However, Tullock was clearly aware that the decision-making process within public bureaucracies relied on central planning and thus was inferior to the spontaneous ordering of activity which emerged from the decentralized decision-making structure of the market (1965: 134–136).[4] As such, a careful reading of Tullock's study of bureaucracy leads readers to recognize the importance of spontaneous order for not only coordinating activities outside the limits of bureaucratic organization, but also for generating the very institutional context in which liberal democracy can evolve and sustain.

To state this point differently, the existence of liberal democracy and the associated bureaucracy requires certain complementary institutions which serve as a foundation for the sustainability of formal institutions. These complementary institutions include not just certain values, habits and beliefs, but also organizational forms and skills which allow both private and political institutions to emerge in the first place (see Coyne 2005). Absent this foundation, formal institutions will fail to operate or sustain in the desired manner. Discussing the effectiveness of formal constitutions, F.A. Hayek recognized the importance of informal complementary institutions "which in more fortunate countries have made constitutions work which did not explicitly state all that they presupposed, or which did not even exist in written form" (1979: 107–108). Hayek's point is that when aligned, formal and informal institutions will operate effectively, but any disjuncture between the two will result in dysfunction.[5]

This is a critical realization in the context of reconstruction because these efforts necessitate fundamental change in formal political, economic and social institutions. Tullock's analysis enables an understanding of the limits of public bureaucratic structures both in generating change in the design of formal institutions and also in the generation of the informal, complementary rules, norms, beliefs and organizational forms necessary for the ultimate effectiveness and sustainability of formal institutions. The design and implementation of this informal foundation is beyond the organizational limits of public bureaucracy.

Just as public bureaucracy cannot effectively plan the allocation of spare parts for military vehicles or the construction of schools and clinics in Afghanistan, neither can it centrally plan the complex array of complementary institutions necessary for formal liberal democratic political, economic and social institutions. In this regard, public bureaucracies suffer from not just the information and incentive issues highlighted by Tullock, but also from a fundamental knowledge problem of how to create the extended order of complementary norms, rules, belief systems and organizational forms required for the functioning of liberal democracy.

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[4] Tullock developed this distinction in more detail in a later book, *Economic Hierarchies, Organization and the Structure of Production* (1992). This book compares hierarchical organizations within various institutional contexts. Relying on the transaction cost literature, Tullock analyzes why privately organized hierarchies, such as corporations, are superior to government bureaucracies. The former are constrained by the disciplinary mechanisms of labor markets and capital markets (mergers, acquisitions, buyouts, etc.) while the latter are not. The lack of effective disciplinary mechanisms in the context of government bureaucracy allows inefficiencies to persist over the long-run.

[5] On the role of belief systems in social and economic change, see North (2005).

To further illustrate this point, consider the post-World War II reconstructions of West Germany and Japan. These reconstruction efforts are often cited to support the claim that the United States can establish liberal democratic institutions abroad where they are either dysfunctional or altogether absent. Reconsidering these efforts in the context just presented provides important insights regarding the limits of public bureaucratic activity in reconstruction efforts.

Just as bureaucracy played a central role in the more recent reconstruction efforts in Afghanistan and Iraq, public bureaucratic structures were also a major part of the efforts in West Germany and Japan. For instance, it has been noted that, "... the story of German policy formation [during the reconstruction effort] ... is an amazing tale of clashing personalities and bureaucratic structures, which together delayed and obscured policy goals to an extraordinary degree" (Peterson 1977: 19). This observation sounds very familiar to the planning and ongoing reconstruction effort in Iraq discussed in the previous section.

While the war efforts in both West Germany and Japan served as exogenous shocks to the respective systems, the larger reconstruction efforts were effective only because the institutional context was already in place for liberal democracy. Complementary institutions as well as formal institutions had emerged well before the U.S. occupied these countries. For example, both countries were industrialized with the requisite knowledge of relevant production, organizational and management techniques (see Fukuyama 1995: 165–167, 209–219 and Gordon 2003). Instead of having to design formal and informal institutions from scratch, the preexisting context provided the necessary foundation of complementary informal institutions (Bellin 2004–2005; Coyne 2005). This stands in stark contrast to the current efforts in Afghanistan and Iraq, where occupiers are attempting to plan and impose an extended order from above in the absence of a preexisting foundation that supports national liberal democratic institutions.

As the earlier quote highlights, one can argue that the inefficiencies associated with bureaucracy actually slowed the reconstruction of West Germany. Bureaucratic activity had stifling effects on the economy and the emergence of a sustainable political order following the war. Price controls and reparations were a drag on economic recovery and the bureaucratic process of registration slowed the formation of political parties (see Payne 2006b). Along these lines, it has been argued that "the [U.S.] occupation worked when and where it allowed Germans to govern themselves" (Peterson 1977: 10). In other words, the reconstruction effort was successful not because of the imposition of democracy by foreign occupiers, but despite the presence of bureaucracies which slowed the recovery process.

Similar to occupiers in West Germany, occupiers in Japan relied on existing institutions to influence change instead of imposing change from above. And like that of West Germany, the institutional context in Japan had emerged well before the U.S. arrived to occupy the country in 1945. The occupiers fully realized this, as evidenced by the way they carried out the reconstruction effort. Instead of utilizing a military government to implement policies and directives, occupiers used existing government institutions and relied, to a large extent, on indigenous actors in the reconstruction of Japan (Dower 1999: 212). In many cases, these individuals possessed local knowledge of the language, culture and history of the country. As such, they were able to implement changes in a manner that was considered legitimate by most Japanese citizens.

One key illustration of the occupiers' awareness of the importance of existing institutions is the role that Emperor Hirohito played in the reconstruction of Japan. Prior to the U.S. occupation, there was debate among policymakers regarding what should be done with the emperor. In a series of reports to policymakers in the U.S., General MacArthur noted the importance of the institution of the emperor for the maintenance of social order and cohesion. Despite popular support in the U.S. for removing and punishing the emperor, MacArthur ultimately decided to incorporate Hirohito into the reconstruction process (Gordon 2003: 234).

Although Hirohito lost his power under the new constitution, he remained in a position of symbolic power in the new Japan. A key part of this role was serving as the mouthpiece for communicating the directives and orders of the occupying forces to the Japanese populace. Given his historical position and his consequent credibility in Japanese society, Hirohito was effectively able to convince many Japanese citizens, who may have otherwise been reluctant, to adopt the reconstructed order desired by the occupiers (Dower 1999: 330–339).

The incorporation of indigenous actors into the reconstruction process was not limited to Hirohito. Japanese diplomat and Prime Minister Yoshida Shigeru, politician and journalist Ishibashi Tanzan, and politician Ashida Hitoshi were three other leading indigenous figures who played central roles in the broader reconstruction of Japan (Dower 1980). In general, many of the preexisting Japanese political, economic and social institutions "passed through" from the prewar to postwar period (Dower 1980: 306). Although the reconstruction clearly influenced these institutions, their core composition, both formal and informal, remained intact. As in West Germany, occupiers did not impose democracy but relied on the preexisting foundations which allowed formal democratic institutions to emerge.

To further emphasize this point, consider the analogy of post-World War II Japan and West Germany as firms whose plants had been destroyed by fire (Zingales 2003). The fundamental skills, knowledge and organizational forms of the firms' employees that had evolved prior to the fire will carry over to the reconstructed plants, allowing the firms to eventually achieve their prior levels of productivity. While the resources invested in rebuilding the plant are indeed important, it is the preexisting endowment of skills and knowledge that allow the firms to be productive after reconstruction. Absent these complementary institutions (i.e., the skills and knowledge of how to organize production activities), the plants would be nothing but underutilized or empty buildings because individuals would lack the knowledge to use the plant effectively.

The preexisting formal and informal institutions in West Germany and Japan carried over to the occupation and postwar periods. To return to the plant analogy, the reconstructions of West Germany and Japan were a matter of rebuilding the plants. This is not to suggest that the occupying forces did not shift the trajectories of West Germany and Japan. Rather, it is to recognize that occupiers worked within a preexisting institutional framework that served as a foundation for reconstructed liberal democracies. This existing foundation allowed occupiers to make changes on the margins of existing institutions instead of creating formal and informal institutions anew. When bureaucrats attempted to expand the scope of their activities, they actually slowed the reconstruction process due to the limits of bureaucracy emphasized by Tullock.

To generalize, reconstruction efforts are less likely to succeed in countries lacking complementary institutions to serve as a foundation for formally reconstructed liberal democracy. These complementary institutions are largely a result of an emergent, bottom-up ordering as compared to top-down imposition. Efforts by public bureaucratic organizations to design and implement these institutions will suffer from the inefficiencies discussed by Tullock as well as a fundamental knowledge problem. This realization helps explain the disparate outcomes in past and current reconstruction efforts.

When analyzing the outcomes of reconstruction efforts, focus is often placed on the importance of controllable variables—troop levels, planning, the timing of elections, monetary and humanitarian aid, exit strategies, etc. (see Dobbins et al. 2003). Tullock's analysis of bureaucracy indicates that, while these variables are indeed important, their effectiveness is constrained by the organizational limits of bureaucratic activity. For instance, the amount of monetary aid invested in a reconstruction effort will not matter unless the aid can be successfully allocated and used to contribute to the broader goals of the effort. The returns on investments in infrastructure will be limited by the complementary skills and organizational forms which will constrain the use of physical infrastructure. Likewise, holding elections will not generate the desired ends unless other complementary institutions, such as the rule of law and checks and balances, are already in place.

5 Conclusion

Applying Tullock's analysis of bureaucracy to reconstruction efforts yields a critical policy conclusion: the United States should not attempt to exogenously impose liberal democratic institutions abroad. Efforts to do so will be constrained by the deficiencies inherent in public bureaucracies, which must play a central role in any reconstruction effort. As Tullock emphasized, bureaucratic structures face information deficiencies as well as issues associated with incentive incompatibility, enforcement and compliance. Equally important is that public bureaucracies suffer from a fundamental knowledge problem regarding the allocation of resources and the establishment of complementary institutions that allow formal institutions to sustain.

In the context of reconstruction, Tullock's analysis of bureaucracy forces us to shift emphasis. For the very reasons Tullock would have predicted long ago, we should not be surprised when reconstruction efforts fail. The magnitude of these efforts appears to be well beyond what Tullock called the "limitations on organizational tasks" (1965: 168–175). That is, the sheer scope of reconstruction efforts requires a level of coordination well beyond what public bureaucracies can achieve. When this is recognized, the interesting question becomes: why we should we ever expect reconstruction efforts to succeed?

A closer look at the cases of success—post-World War II West Germany and Japan—illustrates that the existence of complementary institutions prior to the occupation enabled success. In both cases, the existence of a foundation of complementary institutions allowed occupiers to work on the margins instead of building these complementary rules, norms, belief systems and organizational forms from scratch. This meant that occupiers did not suffer from the knowledge problem of how to construct the institutional prerequisites of liberal democracy.

Tullock's *The Politics of Bureaucracy* is relevant today not only for the analysis of the limits of public bureaucracy, but also because it leads one to consider the institutional context in which bureaucracies operate and how that context can emerge where it does not already exist. It is safe to assume that the issues associated with reconstruction will remain major policy concerns in the near future. Tullock's analysis of public bureaucracy is critical for developing a realistic understanding of what bureaucracies can achieve in reconstruction efforts, and whether they should be undertaken at all.

Acknowledgements The author thanks Peter Boettke, Peter Leeson and the editors for useful comments and suggestions. I also gratefully acknowledge the financial assistance of the Fund for Spontaneous Order Studies, whose generous support made this research possible.

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