

TOWARDS AN ECONOMIC APPROACH TO IMPERFECT MERITOCRACY*

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ABSTRACT

In this paper imperfect meritocracy is defined as the appointment in the public sector of unsuitable (in the sense of merit) individuals for political reasons. After discussing the possible causes for the emergence of an imperfect meritocracy framework, the paper then sets the basis for an economic analysis of typical politicians' behaviour in such a framework. After deriving the demand for political appointments, the analysis verifies the intuitive insight that the number of political appointments falls when politicians are competent. Another main result is that the more votes an appointment carries through relatives and friends, the greater the demand for political appointments. Finally, it is shown that the demand for political appointments increases when taxation and the price index increase and that it falls when income increases.

I. INTRODUCTION

When the principles of 'fair equality of opportunity' (Rawls, 1972) and of 'neutral behaviour of the state toward individuals' (Buchanan, 1975, p. 12) prevail in society, then we can speak of a democratic and fair society which to some extent is functioning as a meritocracy. When these principles do not apply effectively, society operates under imperfect meritocracy. Imperfect meritocracy can have many aspects and can arise in a number of sectors of the socioeconomic environment. For the

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purposes of this paper, we define imperfect meritocracy as the appointment in the public sector of unsuitable (in the sense of merit) individuals for political reason.¹ More specifically, certain individuals having political connections might be preferred for a public position over other candidates more fitted to the requirements of the position by virtue of their qualifications, skills, abilities and experience. (The above could also apply to promotion mechanisms in the public sector.) A 'weak' institutional structure and a specific type of politicians' behaviour can be seen as the two main reasons for the emergence of the state of imperfect meritocracy. Apart from the various negative non-economic effects which can arise because of imperfect meritocracy, additional economic inefficiencies could emerge through the selection of inappropriate managers and servants in public firms and organizations.

It is difficult to find explicit evidence of imperfect meritocracy mainly because of the nature of the activity. However, there are clear indications of government corruption (bribing officials) in many countries. Given the interrelationship between corruption and imperfect meritocracy (although not the same concepts), one can safely assume its presence, to various degrees, in a number of countries (Shleifer and Vishny, 1993). Although the issue of corruption has interested economists, not enough attention has been paid to imperfect meritocracy; there are a few exceptions, such as Downs (1957) and more recently Kurer (1993), who provide some initial ideas.

This paper attempts to set the foundations for an economic approach. In particular, this work presents a model of the typical politician's behaviour in an imperfect meritocracy framework and draws some conclusions from the analysis.² Thus, after a discussion of the possible causes of such a system, the paper proceeds to an examination of the factors that might affect the politicians' behaviour. Consequently, a relatively simple politicians' utility function is suggested which is optimized subject to a constraint. Finally, there is a comparative statics analysis which provides some initial insights for the economic analysis of a representative politician's behaviour in a political system characterized by imperfect meritocracy. The paper limits itself to the above issues but this does not in any way imply that other aspects (e.g. social welfare implications) are not also important.

¹One may link this with the positive discrimination literature. Positive discrimination implies that discriminators are favourably disposed to members of their own group (Sloane, 1985).

²There is the possibility that politicians themselves are not always elected on the basis of merit. This paper does not deal with this institutional aspect, although we realize that if we accept that elections do not always produce meritorious politicians, then the lower level people who are appointed by the people at the top will also frequently not be meritorious (we are grateful for this point to an anonymous referee).

Section II examines possible causes for the emergence of a system of imperfect meritocracy. Section III discusses the issue of politicians' behaviour in a standard optimizing framework, and assesses the significance of the comparative statics results. Section IV offers some conclusions.

II. POLITICIANS' BEHAVIOUR AND THE POSSIBILITY OF IMPERFECT MERITOCRACY

Imperfect meritocracy could emerge in the public sector of an economy when there are a large number of careerist politicians and when there exists some institutional weakness. In particular, political economists have divided politicians into two broad categories: pure careerist and paternalist. The pure careerist maximizes the number of votes given to himself to his/her political party while the pure paternalist maximizes the level of a set of values (Riker and Ordeshook, 1968; Van den Doel, 1979). The institutional weakness refers to the case when the government has the power (by its own right) to choose top managers and senior officials in any public company, organization and department. The failure to publicly announce posts, the lack of specification of reward schedules and conditions, as well as the limited influence of professional public servants on appointments, can be possible ways of achieving this (see also Daniels, 1991). Under such conditions, the political parties, and particularly the one in government, may develop their political behaviour in ways which are contrary to meritocracy in public sector appointments. In particular, a party's supporters might be preferred for an occupational place in the public sector to more skilled and productive individuals. Furthermore, the reward mechanism in the public sector might not be determined by the principle of productivity only, but also by the principle of obedience and usefulness towards the party (Kurer, 1993).

We follow the standard assumption that political parties attempt to assemble a policy package which maximizes the probability of winning the election (Coe and Wilbert, 1985). Having in mind the above, and in the case where a political party in the government has in effect a monopoly control over the state machine, it is likely that this party will attempt to use it as a power base for its re-election. This could be accomplished through the selection and promotion of 'our people' (i.e. party's supporters) in the state machine, under an imperfect meritocracy system. As Kurer states: '... government employment is provided as a means of remunerating clients for their political support' (Kurer, 1993, p. 267). However, this does not necessarily imply that the prevailing system of employers' and managers' selection in the public sector would be solely based on non-meritocracy. It is quite likely that this kind of selection may co-exist with a significant element of meritocracy. In other

words, the negative effects of imperfect meritocracy can arise even in cases where the numbers of managers and labourers in the public sector chosen under imperfect meritocracy are not very large (Karayiannis, 1995). Few persons chosen through imperfect meritocracy in strategic places in the hierarchy of the public sector are capable in causing a decrease in the efficiency of the public firms and organizations (see also Shleifer and Vishny, 1993). In a broader framework, this is reinforced by Akerlof and Yellen's point that even small deviations from the standard neoclassical agent have first-order consequences (Akerlof and Yellen, 1985). In general, imperfect meritocracy could emerge because of the institutional weaknesses in the functions of the state-machine including the political parties, and because of the existence of a significant number of careerist politicians.

Having discussed the general setting, we turn our attention to the individual politicians. According to some public choice theorists, politicians behave as individuals who make choices on an individual utility basis (see, e.g., Van den Doel, 1979). Let us suppose that the utility function of a representative politician is as follows: $U = f(R, T)$, where R is the authority exercised upon others as a consequence of their political power (one might include financial benefits in this variable), and T is the time that the politician is a member of parliament. The two factors of the function positively determine the rate of utility, that is: $\partial U / \partial R > 0$; and $\partial U / \partial T > 0$.

It is assumed that a number of voters are voting for their favourite politician because of his or her abilities and political beliefs. Another section of voters is casting their votes because their economic interests are better served by the specific politician or political party. This could also be explained as a reaction to uncertainty: voters might try to minimize the uncertainty regarding the actions of the politicians by asking for a direct benefit such as a job in public firms or organizations (Downs, 1957, pp. 79–80). In other words, a proportion of the politician's supporters includes those who directly and/or indirectly have been served by the politician ('loyal' voters). One can maintain that in some democracies the proportion of 'loyal' voters might be quite significant in the sense that it can influence the election prospects of candidates (for a general discussion of voters' behaviour, see Van den Doel (1979)). Therefore, the terms that a politician is a member of Parliament (i.e. the factor T) partly depends on his/her political friends and supporters or loyal voters.

Thus a significant number of the total votes received by a politician depends on the power that he or she has in the government, which in its turn is translated into the number of services that are offered to the loyal supporters. These services consist of various subsidies, regulations, and (mostly) of the employment positions (L) offered in the public sector

(Stigler, 1975).³ The most loyal voters of the politician are likely to be the ones who eventually receive a good service by the politician. An example of such a service is their appointment to positions in the public sector when other more qualified candidates have also applied (the loyalty of the 'loyal voters' after their appointment is assured given the risk of losing their post if the politician is not re-elected). Therefore, as the number of incompetent persons the politicians have helped become employed in the public sector increases, his or her re-election chances also increase. (For a real world example such as the Phillipines, see Rose-Ackerman (1978, pp. 19, 38).) To put it differently, let L be the number of incompetent persons selected and employed in the public sector. Their political loyalty (number of votes) to the party and to the politicians who have helped appoint them will be proportional to aL ; with a value greater than unity since loyal voters are likely to secure votes from their family, social circle, etc. (Kurer, 1993). The non-meritocratic employment of loyal voters might be facilitated by the institutional structure, which ensures that the influence of the professional bureaucrats on decision-making in state (civil service) employment policy is not very crucial (for a justification see Kurer (1993)).⁴

Another factor which influences the terms spent in parliament is the politician's competence and general abilities. The meaning of these terms can include: the politician's political reputation and status in the party, his/her previous experience in politics, his/her knowledge regarding important issues, his/her public image, the capacity of choosing successful strategies and policies, and the promotion of general welfare. The political appeal of these characteristics refers mainly to the first category of voters, and not to the category of 'loyal voters'.⁵ In terms of modelling, we can conceive of a vector \mathbf{e} which is a vector of characteristics comprising variables such as qualifications and abilities, which positively affect the time in parliament. Finally, we can add the economic performance of the politician's party as another factor affecting the terms spent in parliament. One possible approximation of this performance is real disposable income.

In sum, the political party in power has re-election as its first target; for a discussion and examples, see for instance Van den Doel (1979) and

³ Although we recognize the importance of the analysis of regulatory policy and the consequences of group pressures, we do not examine this aspect in this paper; see Buchanan *et al.* (1980) and Becker (1985).

⁴ This does not imply that the bureaucracy has no effect on the size of the government budget, as a number of theorists have pointed out. For a discussion of bureaucracy and its economic consequences, see Niskanen (1971) and Tullock and McKenzie (1985).

⁵ This is mainly because if ability entails being better at delivering services to loyal voters, then an able person might also command a higher price in the private labour market. Thus the need to obtain rewards through the capture of political office is reduced and therefore the need to hang on to office through the use of patronage is decreased (we are grateful for this point to an anonymous referee).

Alesina (1987). In an imperfect meritocracy framework and in order to maximize its re-election chances, the party will attempt to increase the number of loyal voters by offering occupational places in the public sector. This can be achieved by exploiting the weak institutional and administrative rules concerning public employment. Accordingly, the politicians of the ruling party will implement this strategy. The above points might offer an additional explanation for the striving of politicians to increase their social and economic power and authority by expanding the role of the state (Stigler, 1975).

III. ANALYSIS IN A SIMPLE OPTIMIZING FRAMEWORK

III.1. *Utility, constraint and equilibrium*

With the above in mind, let us assume that the average politician has a utility function given as

$$U = (R, T) \quad (1)$$

where T is time in parliament and R is rewards of office (power). Our previous discussion suggests that the time in parliament depends on the number of people appointed by the politician multiplied by a parameter a , and also on an exogenous variable e that has to do with the qualifications and the ability of the individual politician. Furthermore, it also depends on the general economic performance of his/her political party, symbolized as H . A reasonably good way of capturing this is by relating economic performance to disposable income:

$$H = h((Y - t)/I); h'((Y - t)/I) > 0$$

where Y is nominal income, t is tax payments and I is the price index. Thus:

$$T = aL + e + h((Y - t)/I). \quad (2)$$

For the sake of simplicity and without loss of generality, let us assume that the utility function is of a Cobb–Douglas type:

$$U = R^s T^{(1-s)}. \quad (1')$$

Combining (1') with (2) we get:

$$U = R^s [aL + e + h((Y - t)/I)]^{(1-s)}. \quad (3)$$

It is reasonable to assume that the politician has a cost constraint which expresses the tradeoff between rewards of office (e.g. self-enrichment) and patronage hires (see also Rose-Ackerman, 1978, p. 38). It is also not unrealistic to argue that there is some political 'price' to be paid for 'rewards of office'. This can best be expressed in an implicit or hedonic pricing framework as P_1 (e.g. Rosen, 1974; Drakopoulos, 1994). In the

case of patronage hires we can express the price as the average wage (w) of the individuals appointed politically. Thus the constraint can be written as follows:

$$C = P_1R + wL; \quad P_1, w > 0 \tag{4}$$

The constraint implies that any dollar in the budget may either be used to hire a supporter who will bring more loyal voters, or may be pocketed (with the coefficient P_1 determining what fraction of the dollar can be effectively moved into the politician's utility function). It should also be kept in mind that the patronage jobs are usually not there but the politician has to compete for their creation. An example of this process is what has been termed 'machine politics' (Wolfinger, 1972).

Given the above, the problem of the typical politician is the following:

$$\max_{R, L} U = R^s [aL + e + h((Y - t)/I)]^{(1-s)}$$

s.t.

$$C = P_1R + wL.$$

The Lagrangian function G and the first-order conditions are the following (g is the Lagrangian multiplier):

$$G = R^s [aL + e + h((Y - t)/I)]^{(1-s)} + g(C - P_1R - wL)$$

$$\frac{\partial G}{\partial R} = \frac{R^s [aL + e + h((Y - t)/I)]^{(1-s)}}{R} - gP_1 = 0$$

$$\frac{\partial G}{\partial L} = \frac{R^s s [aL + e + h((Y - t)/I)]^{(1-s)} (1-s)a}{aL + e + h((Y - t)/I)} - gw = 0 \tag{5}$$

$$\frac{\partial G}{\partial g} = P_1R + wL - C = 0.$$

From the first-order conditions we can find the equilibrium equation:

$$\frac{Ra(1-s)}{[aL + e + h((Y - t)/I)]s} = \frac{w}{P_1}. \tag{6}$$

The first part of the expression is the slope of the politician's indifference curve and the second is the slope of the budget constraint. Now if we assume that there are a significant number of politicians with the ability to appoint people (thus the market is not oligopolistic), we can get the

representative politician's demand function. The demand for political appointments (D_L) can be found from the first-order conditions:

$$D_L = \frac{C(1-s)}{w} - \frac{s[e + h((Y-t)/I)]}{a}. \quad (7)$$

III.2. Comparative statics

It would be interesting to see what happens to the demand for political appointments when one of the variables affecting them changes. The best way to see that is by following a comparative statics analysis. From relation (7) we can get the first results:

$$\frac{\partial D_L}{\partial w} = -\frac{C(1-s)}{w^2} < 0 \quad (8)$$

$$\frac{\partial D_L}{\partial C} = -\frac{(1-s)}{w} > 0. \quad (9)$$

The sign of equation (8) indicates a negatively sloped demand for political appointments. In particular, it implies that the demand for political appointments will fall if there is an increase in the average wage of the people appointed. We can also see the above result as similar to the price effect in consumer theory: an increase in price reduces the optimal 'consumption' of L . Result (9) implies a positive expenditure effect that is similar to the income effect in standard consumer theory. Furthermore, a comparison of (8) and (9) indicates that wages are more important in affecting the demand for L . We can also get the following results:

$$\frac{\partial D_L}{\partial e} = -\frac{s}{a} < 0 \quad (10)$$

$$\frac{\partial D_L}{\partial a} = \frac{s[e + h((Y-t)/I)]}{a^2} > 0. \quad (11)$$

Relation (10) provides an interesting result: the number of political appointments falls as the exogenous variable e increases. To put it differently, the more (less) able a politician is, the fewer (more) people he or she needs to appoint in order to increase his/her re-election chances. The significance of this result for policy is that in order to reduce imperfect meritocracy, a society (maybe through a restructuring of the electoral system) should encourage able and qualified politicians. Clearly this assumes that imperfect meritocracy is undesirable for economic and

non-economic reasons; for a discussion, see Karayiannis (1995). Apart from the negative welfare effects of imperfect meritocracy, we can gain some insight about the implications for the economy from work in labour market favouritism (Toikka, 1976).

The significance of result (11) is that as the parameter a increases (therefore the more votes an appointment carries through relatives and friends), the greater the demand for political appointments and vice versa. In other words the more families and friends are influenced by one appointment and therefore become loyal voters, the more the demand for political appointments. This implies that political appointments might be more prevalent in a society in which personal or family relations are important in voting behaviour.

The following comparative statics concern the effect of a change in nominal income, tax payments and price index:

$$\frac{\partial D_L}{\partial Y} = - \frac{sh'((Y-t)/I)}{aI} < 0 \quad (12)$$

$$\frac{\partial D_L}{\partial t} = \frac{sh'((Y-t)/I)}{aI} > 0 \quad (13)$$

$$\frac{\partial D_L}{\partial I} = \frac{sh'((Y-t)/I)(Y-t)}{aI^2} > 0. \quad (14)$$

Relation (12) implies that an increase (fall) in income reduces (increases) the demand for political appointments. The obvious explanation here is that when Y increases the politician's party is gaining popularity, and thus the average politician needs to do less favours in terms of appointing people. This situation is likely to happen during an expansionary period, and vice versa. This result can also be linked with theories that have been suggested in relation to 'machine' politics in American cities: one of the reasons for the decrease of patronage-based city government during the present century is that average incomes rose in cities, but the nature of much of government service did not. Thus patronage jobs (e.g. cleaning services) became politically less valuable (Banfield and Wilson, 1963).

The next result (13) indicates that as taxation increases (decreases) the politician needs to appoint more (fewer) individuals. For instance, in a period of high-tax policies, one would expect that the number of persons appointed not on basis of merit will increase. The positive relationship between high taxation and corruption has also been noted in the literature concerning the issue of corruption in general (e.g. Rose-Ackerman, 1978, p. 81). Result (14) implies that rising (falling) inflation has a positive (negative) effect on imperfect meritocracy.

We can also notice that a comparison of results (12), (13) and (14) indicates that a change in the price index is stronger in affecting the demand for political appointments than changes in taxation or income. This means that, other things being equal, anti-inflationary policies might be more effective in reducing non-meritocratic appointments.

IV. CONCLUSIONS

The basic purpose of this paper was to set the basis for an economic analysis of the typical politician's behaviour in an imperfect meritocracy framework. It has been argued initially that imperfect meritocracy could arise for two main reasons: careerist politicians and a weak institutional setting. The next step was an attempt to model the typical or average politician's behaviour in such a framework. The politician was assumed to maximize an objective function subject to a cost constraint. The subsequent analysis provided some interesting insights. After deriving the demand for political appointments and the price (in this case, wage) and expenditure effects, we proceeded to more comparative statics. The analysis verified the intuitive insight that the number of political appointments falls when politicians are competent. Assuming that imperfect meritocracy is undesirable because of, among other reasons, economic inefficiency, this result implied that society should encourage competent politicians to limit the consequences of imperfect meritocracy. A second interesting result was that the number of political appointments increases when more people are affected by these appointments. This is more likely to happen in a society in which family and personal contacts affect voting behaviour. Finally, the analysis showed that when disposable income increases, a society is less likely to be burdened by an increasing degree of imperfect meritocracy. Furthermore, it was seen that a fall in the price index has strong effects in reducing political appointments.

It should be noted, though, that an important point of the paper was the concept of the ability of the politicians which positively affects the time in parliament. The implicit assumption here was that there are certain attributes of ability which can best be exploited by securing political office, but not by seeking other outside opportunities (e.g. in business). The implication is that there are some able individuals who would prefer a political rather than a business career because of a natural inclination towards political life and all its special characteristics (e.g. being in the centre of public attention, social influence, engagement in grand-scale decision-making, family tradition of involvement in politics, etc).

It is clear that the subject of imperfect meritocracy has a number of different dimensions many of which have political and sociological implications. Our analysis in this paper was limited to the economic

aspects and more specifically to the typical politician's behaviour. Thus, in this respect it is by no means complete. However, it is hoped that it will provide the basis for further research in this relatively neglected subject.

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