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WORKS OF  
GORDON  
TULLOCK  
VOLUME 6

*Bureaucracy*

THE SELECTED WORKS OF GORDON TULLOCK

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*Gordon Tullock*

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OF GORDON TULLOCK

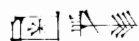
VOLUME 6

*Bureaucracy*

GORDON TULLOCK

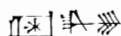
*Edited and with an Introduction by*

CHARLES K. ROWLEY



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## INTRODUCTION

The sixth volume in this series, *Bureaucracy* brings together two books by Gordon Tullock, namely, *The Politics of Bureaucracy* and *Economic Hierarchies, Organization and the Structure of Production*. It is important to note that these contributions deal with economic relationships that extend beyond bureaucracy in its narrow definition.<sup>1</sup>

### THE INTELLECTUAL ENVIRONMENT IN 1965

In 1965, when Gordon Tullock published *The Politics of Bureaucracy*, the intellectual climate in all western countries was extremely favorable to bureaucracy. Bureaucrats were widely viewed as impartial, even omniscient, servants of the public good, and they were accorded the respect that such an inference demanded, at least among members of the intellectual elite.

Following William Niskanen, bureaus are defined as organizations endowed with the following characteristics: (1) The owners and employees of these organizations do not appropriate any part of the difference between revenues and costs as personal income. (2) Some part of the recurring revenues of the organization derives from other than the sale of output as a per-unit rate.<sup>2</sup> In this sense, bureaus are nonprofit organizations that are financed, at least in part, by a periodic appropriation or grant. This includes most government agencies, most educational institutions, some hospitals, and many forms of social, charitable, and religious organizations. It extends to some component units in profit-seeking organizations, most especially staff units providing such services as advertising, public relations, and research.

The term *bureaucracy* comes with a pejorative flavor, defined as "government by a central administrative group, especially one not accountable to the public." In this sense, as Mancur Olson notes, the study of bureaucracy has to deal with an elemental paradox: the role of bureaucracy has increased dramatically throughout the western democracies in modern times but with-

1. Gordon Tullock, *The Politics of Bureaucracy* (Washington, D.C.: Public Affairs Press, 1965); Gordon Tullock, *Economic Hierarchies, Organization and the Structure of Production* (Boston/Dordrecht/London: Kluwer Academic Publishers, 1992).

2. William A. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton Press, 1971).



out any evident enthusiasm that ought to be associated with such a rapid expansion.<sup>3</sup>

This tension was very much evident during the early 1960s, when Tullock made his first contribution to the economics of bureaucracy. Tullock's thinking was strongly influenced by earlier contributions by Niccolò Machiavelli, Max Weber, and C. Northcote Parkinson. A brief summary of each of the relevant ideas advanced by these scholars helps us to understand Tullock's writings.

Machiavelli's famous treatise on statecraft, *The Prince*, uncompromisingly outlines the way a prince should govern if he is to maintain his own position and secure his principality from outside aggression.<sup>4</sup> So shocking was his advice to "men of goodwill" during the sixteenth century that Machiavelli was identified with Satan himself.

Machiavelli wanted a strong state, capable of imposing its authority on a badly divided Italy. *The Prince* frankly and amorally acknowledges that successful governments must always be prepared to act ruthlessly to attain their goals. In the final resort, in politics, whether an action is evil or not can be decided only in the light of what it is meant to achieve, and whether it successfully achieves it. For Machiavelli, the ends indisputably justify the means.

A prince has of necessity to be so prudent that he knows how to escape the evil reputation attached to those vices which could lose him his state, and how to avoid those vices which are not so dangerous, if he possibly can; but, if he cannot, he need not worry much about the latter. And then, he must not flinch from being blamed for vices which are necessary for safeguarding the State. This is because, taking everything into account, he will find that some of the things that appear to be virtues will, if he practises them, ruin him, and some of the things that appear to be vices will bring him security and prosperity.<sup>5</sup>

Machiavelli is equally clear that the successful prince will rule more through the use of fear than of love: "on this question of being loved or feared, I conclude that since some men love as they please but fear when the prince

3. Mancur Olson, "Bureaucracy," in *The New Palgrave: A Dictionary of Economics*, ed. John Eatwell, Murray Milgate, and Peter Newman, vol. 1 (London and New York: Macmillan, 1987), 296–99.

4. Niccolò Machiavelli, *The Prince* (1514; London: Penguin Classics, 1981).

5. *Ibid.*, 92.

pleases, a wise prince should rely on what he controls, not on what he cannot control. He must only endeavor, as I said, to escape being hated.”<sup>6</sup> He stresses, also, that the successful prince must take great care to avoid flatterers, in order to ensure that he is well informed on matters of policy.

The only way to safeguard yourself against flatterers is by letting people understand that you are not offended by the truth; but if everyone can speak the truth to you then you lose respect. So a shrewd prince should adopt a middle way, choosing wise men for his government and allowing only those the freedom to speak the truth to him, and then only concerning matters on which he asks their opinion, and nothing else. But he should also question them thoroughly and listen to what they say; then he should make up his own mind, by himself.<sup>7</sup>

As the reader of this volume will see, this hardheaded approach to statecraft powerfully influences Tullock’s analyses of hierarchical relationships within any kind of bureaucracy.

Max Weber’s book *Economy and Society*<sup>8</sup> blends ideas drawn from the German historical school of political economy with Weber’s own ideas drawn from sociology to provide an original analysis of the strengths and weaknesses of bureaucracy. According to this analysis, a distinctive feature of capitalism is that, as firms grow in size, there is a change in their internal mode of organization, namely, the extension of a hierarchical structure of administration that increasingly resembles the bureaucracy already well established in the political sphere.<sup>9</sup>

In Weber’s judgment, the bureaucratic model of administration was increasingly dominant because of its efficiency in performing complex organizational tasks. Associated with this advance was the emergence of a new middle class whose position depended neither on physical capital nor on physical labor, but, rather, on its possession of technical and organizational skills and on its authority position within the bureaucratic hierarchy. Weber had no doubt that members of the bureaucracy selflessly served the goals of their superiors, whether in the private or the public sector.

6. Ibid., 98.

7. Ibid., 126.

8. Max Weber, *Economy and Society* (1922; New York: Bedminster Press, 1968).

9. David Beetham, “Weber, Max (1864–1920),” in *The New Palgrave: A Dictionary of Economics*, vol. 4, 886–88.

Tullock's analyses of bureaucracy and hierarchical structures constitute a direct rational choice attack on Weber's views. In this sense, Weber provided Tullock with the fulcrum from which he would launch his devastating critique at an early stage in the public choice revolution.

"Work expands so as to fill the time available for its completion."<sup>10</sup> With these fateful words, C. Northcote Parkinson, in 1957, launched the modern theory of bureaucracy and challenged at its roots the earlier twentieth-century theory of bureaucracy dominated by Weberian notions of impartial, efficient service by government officials concerned exclusively to serve the public interest as interpreted by their governments.

Parkinson's Law, as it is known, is characterized as a scientific statement identified from detailed statistical analyses, first of British Admiralty data and subsequently of British Colonial Office data, each stretching over an extensive period of time.

The strength of the British navy in 1914 consisted of 146,000 officers and crew, 3,249 dockyard officials and clerks, and 57,000 dockyard workmen. By 1928 the number of warships was a mere fraction of its 1914 strength, with only twenty capital ships under commission compared with sixty-two in 1914. The navy had declined by one-third in men and two-thirds in ships. Its size was limited for the foreseeable future by the Washington Naval Agreement. Yet the number of Admiralty officials had grown at a compound rate of 5.6 percent per annum, providing a "magnificent navy on land."<sup>11</sup>

The administrative staff at the British Colonial Office grew from 372 in 1932 to 1,661 in 1954, despite the major shrinkage of the British Empire as colonies were granted self-government. The compound annual rate of growth throughout this period was remarkably similar to that of Admiralty staff previously analyzed. Parkinson generalized from these two empirical studies that the staff of any public administrative department would grow at an annual percentage rate ( $X$ ), given by the formula

$$X = 100 (2k^m + l/yn)$$

where  $k$  represents the number of staff seeking promotion through the appointment of subordinates, where  $l$  represents the difference between the ages at appointment and retirement, where  $m$  represents the number of man-hours devoted to answering minutes within the departments, where  $n$  repre-

10. C. Northcote Parkinson, *Parkinson's Law* (New York: Ballantine Books, 1957).

11. *Ibid.*, 9.

sents the number of units being administered, and where  $y$  represents the number of original staff.

Fundamentally, Parkinson's Law predicts that staff will increase in any public bureau at an annual rate of between 5.17 and 6.56 percent, "irrespective of any variation in the amount of work (if any) to be done."<sup>12</sup>

The publication of *Parkinson's Law* coincided with a rising undercurrent of popular criticism of bureaucrats on the grounds of laziness and insensitivity to citizens' preferences ("busy loafers," as Nikita Krushchev contemptuously labeled them). Nevertheless, economists obsessed with remedying the alleged failures of private markets and political scientists still wedded to idealized Platonic notions of government simply continued to ignore the writing on the wall.

### THE POLITICS OF BUREAUCRACY

Tullock's groundbreaking book, *The Politics of Bureaucracy*, combines the contributions of Machiavelli and Parkinson, together with his own original rational choice approach, into a full-scale attack on the then overwhelming complacency toward bureaucracy of economists, political scientists, and sociologists.

Part I, consisting of two chapters, introduces key concepts and outlines the methodology of the study.

Tullock uses the term *politics* to describe situations in which the dominant or primary relations are those between superiors and subordinates in a hierarchy. This contrasts with *economic exchange*, in which the dominant or primary relations are between equals. Government employment is the field in which the superior-subordinate relationship is most characteristic. The typical government employee can hope for promotion only by pleasing his superiors. He cannot readily change employers without suffering a personal financial loss. This is the core insight on which Tullock develops his theory of the politics of bureaucracy.

Tullock notes that governmental systems in which a large number of officials are selected on hereditary grounds and hold their positions for life are historically rare. For the most part governmental systems are composed of individuals who may move up or down in the hierarchy depending on merit, broadly determined as performance that pleases their respective superiors. In such circumstances Tullock explains the nature of the bias against morality

12. Ibid., 14.

within hierarchical systems, echoing some of the arguments about how “the worst get on top,” advanced earlier by Friedrich von Hayek.<sup>13</sup>

The methodological approach adopted by Tullock is that of “understanding.” We understand how others feel or act because we know how we would feel or act under similar circumstances. While recognizing that this approach is not as scientifically prestigious as deploying mathematics and statistical analysis, Tullock makes a strong claim for its implementation within the social sciences.

As Tullock notes, the application of this methodology has a paradoxical consequence. Instead of presenting concrete evidence for his assertions, Tullock appeals to the intuition and experience of the reader. If the reader’s intuition leads him to the same conclusion that Tullock reaches, then the reader should be able to accept Tullock’s statements, at least in principle, as being true.

Part 2, consisting of eight chapters, introduces the reader to the politician’s world.

Because hierarchies differ greatly in detail, although they are always pyramidal in structure, Tullock simplifies analysis by focusing attention on an individual politician as the reference base and classifying other individuals in terms of their relationship to that individual, that is, higher rank, equal rank, or lower rank.

Tullock separates all the individuals with whom the ambitious reference-base politician makes contact into either allies or spectators. Allies are those who are directly involved in struggle for advancement, whether favorable or hostile to his cause. Spectators are all those individuals, whether or not in his hierarchy, who are too removed to be directly involved. Tullock explains why the ambitious politician will cultivate a favorable general reputation among the spectators, and he explains why his relationship with allies will differ, with much more attention paid to those of higher, than to those of equal or lower, status.

The most important category in the politician’s world is that of the sovereigns, defined as those individuals who are able to reward or to punish the reference politician, and thus those toward whom he must act in such a manner that they will reward him. Tullock devotes several chapters to analyzing the relationship between sovereign and reference politician and to showing

13. Friedrich von Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).

how this relationship changes as the hierarchy varies from the single sovereign to the group sovereign to the multiple sovereign situation. In each case, he analyzes the roles played by the peers of the reference politician. In all these several models, the influence of Machiavelli is clearly evident.

Part 3, consisting of the remaining fourteen short chapters, analyzes the behavior of the reference politician as he looks downward and attempts to ensure that his inferiors perform according to his wishes. I shall focus on three important insights offered in this section of the book.

The first arises in chapter 13, where Tullock critically analyzes Parkinson's Law. He acknowledges that bureaucratic imperialism of the kind outlined by Parkinson does exist in bureaucratic systems. In terms of the broad sweep of history, however, he rejects the notion that such imperialism is inevitable. He claims that the idea has been given more attention than is its due because of the concentration on recent American and European hierarchies where the phenomenon has been pervasive. Where it does exist, he argues that the condition is pathological. The ultimate sovereigns should reward their subordinates in terms of their accomplishments, not in terms of the number of subordinates that they have managed to acquire. Information deficiencies by the ultimate sovereigns is the real explanation of this pattern of bureaucratic imperialism.

This leads Tullock, in chapter 14, directly into a discussion of the nature of the information problem within a hierarchical system. He illustrates by reference to the game of "whispering down the lane," in which an initial message is passed along a chain of individuals and usually ends up with a completely distorted message. The problem is especially serious when the politician at the apex of the hierarchy makes all the final decisions on the basis of information that has moved up several tiers. Tullock's suggested reform is that the ultimate sovereign should structure his bureau along incentive-compatible lines so that decisions made at lower levels are in conformity with his grand design.

The third insight follows in chapter 20, where Tullock addresses the issue of enforcing compliance by subordinates with the instructions that they receive from above. As Tullock points out, if the ultimate sovereign monitors in detail, he will spend all his time on that activity. Tullock's suggested solution is a statistical method of control in which superiors at each level in the hierarchy review specific performances by inferiors, randomly and without prior warning, and in which the ultimate sovereign does the same with his immediate inferiors.

*The Politics of Bureaucracy* provided the first-ever rational-choice evaluation of the inner workings of a bureau, and it set the scene for the more ambitious modeling and the statistical evaluations that would shortly follow.

#### ECONOMIC HIERARCHIES, ORGANIZATION AND THE STRUCTURE OF PRODUCTION

In 1992 Tullock returned to the theme that he had left in 1965, basing his new book on a significantly different literature dealing with the theory of the firm, most of which had developed during the intervening period. This second book, in consequence, compares the politics of bureaucracy with the economics of industrial organization and offers new insights into the nature of hierarchical systems that operate under different institutional constraints.

The key insight of the industrial organization literature seized upon by Tullock in *Economic Hierarchies* is the importance of transaction costs for the emergence of firms, for their size, for their market reach, and for their internal organization. The point of departure for this literature is the seminal 1937 paper by Ronald Coase on the nature of the firm.<sup>14</sup>

Before Coase, the firm in economic theory was a shadowy concept, treated as a black box that transformed inputs into outputs and motivated by a desire to maximize profit. Coase made a determined attempt to rectify this weakness both by providing a rationale for the existence of the firm in a free market economy and by explaining the nature of the forces that determine the range of its activities.

Coase noted in his essay that production could conceivably be carried out in a completely decentralized way by means of contracts between individuals. Such transactions, however, are often costly. Firms will emerge to replace market transactions whenever their costs at the margin are less than the costs of carrying out such transactions through the market. The limit to the size and the range of the firm is set where its transaction costs are equal to those of the market. Though neglected for some thirty-five years, this notion of transaction costs would be harnessed during the 1970s and 1980s into a thoroughgoing revision of the theory of firms and markets.<sup>15</sup>

14. Ronald H. Coase, "The Nature of the Firm," *Economica*, n.s. 4 (November 1937): 386–405.

15. Armen Alchian and Harold Demsetz, "Production, Information Costs and Economic Organization," *American Economic Review* 62 (1972): 777–95; Eugene Fama, "Agency Problems and the Theory of the Firm," *Journal of Political Economy* 88 (1980): 288–307; Michael

Tullock draws upon these insights to demonstrate the superior economic efficiency of corporations over government bureaus. Even when corporations are organized as hierarchies, he notes, their efficiency is monitored externally through the capital market and the outside labor market. Takeovers, mergers, buyouts, and sellouts provide flexible mechanisms for the internal reorganization of the inefficient corporation. No such control mechanisms exist to monitor and to reorganize the inefficient bureau. The only mechanism available to the public bureau is that of internal incentives, and these are rarely deployed effectively in practice.

*The Politics of Bureaucracy*, the first-ever book devoted to the economic analysis of bureaucracy, opened a major field of research that challenged Max Weber's view that bureaucrats are impartial servants of the public good. *Economic Hierarchies, Organization and the Structure of Production* was an early attempt to deploy new insights from industrial organization theory to explain why public bureaus predictably are less efficient than their private corporate counterparts. In complementary fashion, the two books shed light on the complex economic relationships that exist in bureaucracies and the implications those relationships have on the workings of a free society.

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Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics* 3 (1976): 305–60; Oliver Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: Free Press, 1975).



# The Politics of Bureaucracy

## FOREWORD

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” This statement is, perhaps, the most renowned in the classic book in political economy, Adam Smith’s *Wealth of Nations*. From Smith onwards, the appropriate function of political economy, and political economists, has been that of demonstrating how the market system, as a perfectible social organization, can, and to an extent does, channel the private interests of individuals toward the satisfaction of desires other than their own. Insofar as this cruder instinct of man toward acquisitiveness, toward self-preservation, can be harnessed through the interactions of the market mechanism, the necessity for reliance on the nobler virtues, those of benevolence and self-sacrifice, is minimized. This fact, as Sir Dennis Robertson has so eloquently reminded us, gives the economist a reason for existing, and his “warning bark” must be heeded by those decision makers who fail to recognize the need for economizing on “love.”

Despite such warning barks (and some of these have sounded strangely like shouts of praise), the politicians for many reasons have, over the past century, placed more and more burden of organized social activity on political, governmental processes. As governments have been called upon to do more and more important things, the degree of popular democratic control over separate public or governmental decisions has been gradually reduced. In a real sense, Western societies have attained universal suffrage only after popular democracy has disappeared. The electorate, the ultimate sovereign, must, to an extent not dreamed of by democracy’s philosophers, be content to choose its leaders. The ordinary decisions of government emerge from a bureaucracy of ever-increasing dimensions. Non-governmental and quasi-governmental bureaucracies have accompanied the governmental in its growth. The administrative hierarchy of a modern corporate giant differs less from the federal bureaucracy than it does from the freely contracting tradesman envisaged by Adam Smith.

This set, this drift, of history toward bigness, both in “public” and in “private” government, has caused many a cowardly scholar to despair and to seek escape by migrating to a dreamworld that never was. It has caused other “downstream” scholars to snicker with glee at the apparent demise of man, the individual. In this book, by contrast, Tullock firmly grasps the nettle

offered by the modern bureaucratic state. In effect, he says: "If we must have bureaucratic bigness, let us, at the least, open our eyes to its inner workings. Man does not simply cease to exist because he is submerged in an administrative hierarchy. He remains an individual, with individual motives, impulses, and desires." This seems a plausible view of things. But, and surprisingly, we find that few theorists of bureaucracy have started from this base. Much of administrative theory, ancient or modern, is based on the contrary view that man becomes as a machine when he is placed within a hierarchy, a machine that faithfully carries out the orders of its superiors who act for the whole organization in reaching policy decisions. Tullock returns us to Adam Smith's statement, and he rephrases it as follows: "It is not from the benevolence of the bureaucrat that we expect our research grant or our welfare check, but out of his regard to his own, not the public interest."

Adam Smith and the economists have been, and Tullock will be, accused of discussing a world peopled with evil and immoral men. Men "should not" be either "getting and spending" or "politicking." Such accusations, and they never cease, are almost wholly irrelevant. Some social critics simply do not like the world as it is, and they refuse to allow the social scientist, who may not like it either, to analyze reality. To the scientist, of course, analysis must precede prescription, and prescription must precede improvement. The road to Utopia must start from here, and this road cannot be transversed until here is located, regardless of the beautiful descriptions of yonder. Tullock's analysis is an attempt to locate the "here" in the real, existing world of modern bureaucracy. His assumptions about behavior in this world are empirical, not ethical. He is quite willing to leave the test of his model to the reader and to future scholars. If, in fact, men in modern bureaucracy do not seek "more" rather than "less," measured in terms of their own career advancement, when they are confronted with relevant choices, Tullock would readily admit the failure of his model to be explanatory in other than some purely tautological sense.

When it is admitted, as all honesty suggests, that some individuals remain individuals, even in a bureaucratic hierarchy, Tullock's analysis assumes meaning. It provides the basis for discussing seriously the prospects for improving the "efficiency" of these bureaucratic structures in accomplishing the tasks assigned to them. There are two stages in any assessment of the efficiency of organizational hierarchies, just as there are in the discussions of the efficiency of the market organization. First, there must be a description, an explanation, a theory, of the behavior of the individual units that make up the structure. This theory, as in the theory of markets, can serve two purposes, and, because

of this, methodological confusion is compounded. Such an explanatory, descriptive theory of individual behavior can serve a normative purpose, can provide a guide to the behavior of an individual unit which accepts the objectives or goals postulated in the analytical model. In a wholly different sense, however, the theory can serve a descriptive, explanatory function in a positive manner, describing the behavior of the average or representative unit, without normative implications *for* behavior of any sort. This important distinction requires major stress here. It has never been fully clarified in economic theory, where the contrast is significantly sharper than in the nascent political theory that Tullock and a few others are currently attempting to develop.

The analogy with the theory of the firm is worth discussing in some detail here. This theory of the firm, an individual unit in the organized market economy, serves two purposes. It may, if properly employed, serve as a guide to a firm that seeks to further the objectives specified in the model. As such, the theory of the firm falls wholly outside economics, political economy, and, rather, falls within business administration or managerial science. Essentially the same analysis may, however, be employed, by the economist, as a descriptive theory that helps the student of market organization to understand the workings of this system which is necessarily composed of individual units.

Tullock's theory of the behavior of the individual "politician" in bureaucracy can be, and should be, similarly interpreted. Insofar as such units, the "politicians," accept the objectives postulated—in this case, advancement in this administrative hierarchy—Tullock's analysis can serve as a "guide" to the ambitious bureaucrat. To think primarily of the analysis in this light would, in my view, be grossly misleading. Instead the analysis of the behavior of the individual politician should be treated as descriptive and explanatory, and its validity should be sought in its ability to assist us in the understanding of the operation of bureaucratic systems generally.

Once this basic theory of the behavior of the individual unit is constructed, it becomes possible to begin the construction of a theory of the inclusive system, which is composed of a pattern of interactions among the individual units. By the nature of the systems with which he works, administrative hierarchies, Tullock's "theory of organization" here is less fully developed than is the analogous "theory of markets." A more sophisticated theory may be possible here, and, if so, Tullock's analysis can be an important helpmate to whoever chooses to elaborate it.

Finally, the important step can be taken from positive analysis to normative prescription, not for the improvement of the strategically-oriented