TRUST AND POLICY CAPACITY - STRATEGIC BUREAUCRAT APPOINTMENTS UNDER ELECTORAL INCENTIVES

DANA SISAK AND OTTO SWANK

ABSTRACT. We investigate the determinants of states' policy capacity, defined as the ability of states to craft effective policies. Our model reveals that the interaction between politicians' implementation decisions and bureaucrats' motivation to design good policies can result in the coexistence of high-trust and low-trust equilibria. Without electoral concerns, politicians favor high-trust equilibria and hire capable bureaucrats. In a polarized society, electoral concerns may prompt more policy-skeptical politicians to appoint less capable bureaucrats to diminish policy capacity and ensure low-trust equilibria. This strategy shifts future implementation decisions of interventionist politicians in their favor. Moreover, it reduces voters' demand for interventionist decision-making.

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1. INTRODUCTION

There has long been broad consensus among economists that the protection of property rights and enforcement of private contracts are key prerequisites for economic development [e.g., Acemoglu et al. (2001) and Tabellini (2005)]. The recent literature on state capacity shows that a well-functioning bureaucracy is also essential for growth and well-being. In this literature, state capacity is 'the ability of states to collect public revenue and turn these resources into public goods' (Besley and Dray, 2024, p.225). This paper focuses on a specific part of state capacity: *policy capacity*, which we define as the ability of states to develop effective policies.[1]

Between policy preferences and laws sits bureaucracy (Berman, 1966). Politicians lack the technical skills to translate their ideas into legislation [Alesina and Tabellini (2007) and Klüser (2022)]. They need bureaucrats to develop policy proposals (Hirsch and Shotts, 2015) and to draft effective bills (Osnabrügge and Vannoni, 2024). Politicians' dependency on bureaucrats' expertise raises various questions. How capable are bureaucrats? Are they motivated to develop effective policies? If politicians cannot assess the quality of a policy proposal, do they dare to support it? Do politicians have incentives to hire competent and motivated bureaucrats? This paper theoretically examines these questions. To this end, we develop a model in which politicians decide on the proposals crafted by bureaucrats. A proposal's quality depends on the bureaucrat's ability and his efforts to develop it. Politicians cannot always judge a proposal's quality. Whether or not they support the bill then depends on their trust in the bureaucrat, where trust is an equilibrium phenomenon.

Our model shows that the interaction between politicians' implementation decisions and bureaucrats' motivation to design good policies may lead to the coexistence of a high-trust equilibrium and a low-trust one. In the high-trust equilibrium, bureaucrats put much effort into designing policies, and politicians implement policies when they cannot judge them. Policy capacity is high. In the low-trust equilibrium, bureaucrats exert little effort, and politicians reject proposals when they cannot judge them. Policy capacity is low. If both equilibria coexist, politicians prefer high-trust to low-trust equilibrium outcomes. Policy capacity is a public good. As more policies are implemented in the high-trust equilibrium than in the low-trust equilibrium,

[1]Policy capacity consists of two parts: the ability to develop high-quality policy proposals and the ability to translate these proposals into high-quality bills.

differences in policy capacity across countries may help explain differences in government size.[2] Visible policy failures are likelier in the high-trust equilibrium than in the low-trust equilibrium. Thus, the model predicts a *negative* correlation between policy failures and the trust of politicians in bureaucrats.[3]

A key assumption of our model is that politicians cannot always judge bureaucrats' proposals. Because of this assumption, politicians' trust in bureaucrats affects policy outcomes. In earlier work on the interactions between bureaucrats and politicians, bureaucrats' information advantage gives them agenda-setting power [e.g., Niskanen (1975) and Gilligan and Krehbiel (1989)]. Our model shows that lack of trust undermines agenda-setting power. We view our approach as complementary to Hirsch and Shotts (2015), who argue that competition among bureaucrats leads to high-quality policy proposals. In terms of our model, they show that competition among bureaucrats can induce effort and, in turn, create trust between politicians and bureaucrats.

Bureaucratic leaders are not chosen in a vacuum. Typically, in Western democracies, they are directly or indirectly appointed by political leaders who face electoral incentives. We proceed by showing that without electoral concerns, politicians use bureaucrat appointments to foster policy capacity. Appointments of bureaucrats are used as an equilibrium-selection device. We next introduce politics into the model. We assume that two politicians run for office, one more optimistic and one more skeptical about the policy. The more optimistic politician needs less evidence that a bill is good to support it than the skeptical politician. We show that if politicians' preferences are sufficiently misaligned (there is sufficient polarization), a policy-skeptical incumbent appoints an *incompetent*, *unmotivated* bureaucrat. If re-elected, the policy-skeptical incumbent suffers from an inept and unmotivated bureaucrat. However, an incompetent and unmotivated bureaucrat (1) makes the decisions of policy-optimistic politicians more conservative and (2) reduces the demand for optimistic decision-making, thereby increasing the chances that the skeptical politician wins the election.

[2]Relatedly, Osnabrügge and Vannoni (2024) show that legislative quality affects EU members' compliance with EU directives.

[3]Another interesting result is that the two equilibria generate different comparative static results. In the low-trust equilibrium, more competent politicians motivate bureaucrats to exert more effort, while in the high-trust equilibrium, more competent politicians induce bureaucrats to exert less effort.

Recent empirical studies support both predictions of our model. Using a regression discontinuity design, Bellodi et al. (2024b) estimate the effect of a populist mayor on the quality of bureaucracy. They find that the election of a populist mayor increases turnover among top bureaucrats by 50%. The election of a populist mayor decreases the share of bureaucrats with a university degree by five percentage points. The authors provide additional evidence that departures were forced, not voluntary. These results are consistent with the prediction of our model that a skeptical politician may destroy trust to constrain future opponents or to lower citizens' demand for certain policies.

In Brazil, municipality elections are held every four years on the first Sunday in October. The winners take office on the first of January. Using a regression discontinuity design, Toral (2024) examines the hiring and firing decisions of mayors who lost the elections between the election day and the winner's first day in office. He finds that losers of the election dismiss more temporary bureaucrats and hire more civil servants than the winners. Through changing the bureaucracy, losers try to influence their successors' policies.

Apart from this systematic evidence of the effect of politics on bureaucracy, there is a lot of anecdotal evidence of politicians using bureaucrat appointments to influence policy or the demand for policy. Jo and Rothenberg (2012) discuss several older examples of republican presidents appointing persons with dubious reputations. A notorious example is Gorsuch's appointment by Reagan as head of the Environmental Protection Agency in 1981. She lacked administrative experience and did not support the EPA's mission.[4]

2. Related Literature

Our paper offers a new model of trust. Our concept of trust is close to how political scientists define it: "*An individual's judgment that another person, whether acting as an individual, a member of a group, or within an institutional role, is motivated and competent to act in the individual's interests and will do so without overseeing or monitoring*" [Uslaner (2018), see also Baier (1986) and Norris (2011)]. This literature also hints to trust as an equilibrium phenomenon: "a trust relationship is established when trust judgments are met with trustworthy responses by those who are trusted" (Uslaner, 2018). In line

[4]See Gratton and Lee (2023) for other more recent examples.

with the above definition, our model emphasizes preferences, capability, and effort as determinants of trust. Trust does not refer to an agent's type in our paper as in, for example, Aghion et al. (2010). However, different types of politicians have different incentives to create or destroy trust. Our approach to trust shares with Besley and Dray (2024) that it links trust to asymmetric information about the desirability of a policy. Our model is indirectly related to the literature on trust in government / political trust [see Levi and Stoker (2000) for a survey]. Our focus is on trust between agents within the government. The nature of these trust relationships influences voters' perceptions about the desirability of government intervention.

We view our paper as complementary to the literature on state capacity (Besley and Persson, 2009). As mentioned before, state capacity is "the ability of states to collect public revenue and turn these resources into public goods." We define policy capacity as the ability of states to draft effective legislation. State and policy capacity refers to two roles of bureaucrats: their role in policy implementation and their role in policy design. The paper by Acemoglu et al. (2011) on state capacity is closest related to our paper. It highlights politicians' incentives to create inefficient states to reduce the demand for income redistribution.

As is common in the literature on formal models of bureaucracy, we study the relationship between bureaucrats and politicians through the lens of a political agency model (Gailmard and Patty, 2012). Absent policy uncertainty, politicians and bureaucrats (and voters) agree on policy implementation, as in Gratton and Lee (2023). Politicians from different parties and bureaucrats differ in their skepticism regarding policy reform, which leads their preferences to diverge under uncertainty. Politicians rely on bureaucrats to invest costly efforts to design better policies, as in de Mesquita and Stephenson (2007), Gailmard and Patty (2007) or Ting (2008). Politicians influence bureaucratic effectiveness and, in turn, policy quality through their appointment decisions. Gailmard and Patty (2012) provides an excellent survey of the theoretical literature studying bureaucracies.

Several other papers have also considered the incentives of politicians to appoint bureaucrats of low ability and motivation using theoretical modeling.[5] In an early contribution, Jo and Rothenberg (2012) employ an appointment game where a less competent bureaucrat leads to more policy outcome variance. They show that a

[5]Gailmard (2024) studies the incentives of a president to make nonally appointments to encourage reliance on bureaucratic expertise.

politician may prefer an incompetent bureaucrat if she wants to escape from the status quo. Huber and Ting (2021) study the trade-off between appointing civil servants and patronage appointees when facing electoral competition in a dynamic model. They highlight the role of the incumbent's and challenger's characteristics on the probability of long-run high-quality bureaucracy. Other recent papers consider the appointment of incompetent bureaucrats as a strategy of populist politicians. Gratton and Lee (2023) focus on voter demand for inexperienced bureaucrats. While experienced bureaucrats are more effective in their model, they are too active. Replacing them with novices reduces activism and their bureaucracy's effectiveness. Similarly, Sasso and Morelli (2021) show that populist politicians prefer incompetent bureaucrats, as they are more willing to implement the policies they have committed to. In contrast, regular politicians prefer competent bureaucrats who adjust their behavior to the state. Bellodi et al. (2024a) present a theoretical model outlining why populist politicians might strategically choose to weaken bureaucracy (and thus also reduce trust in bureaucrats) to make commitment policies electorally appealing in the presence of a threat of elite capture.[6] We add to this literature by identifying two motives for appointing low-quality bureaucratic leaders by policy-skeptical politicians due to electoral competition.

An emerging empirical literature studies the frequency and types of bureaucratic appointments [for example Christensen et al. (2014), Doherty et al. (2018), and Bolton et al. (2020)]. Toral (2024) shows that lame-duck politicians dismiss and hire more staff than non-lame-duck incumbents, resulting in a decline in service delivery. More indirectly, Spenkuch et al. (2023) show that ideological misalignment between bureaucrats and politicians is related to more costly policy implementation, consistent with a morale-reducing effect of ideological misalignment. We show how such an efficiency decrease of misalignment may be exploited by a political incumbent for electoral purposes.

We find that appointing mediocre bureaucrats is an optimal strategy in settings with strong polarization. Our paper thus contributes to the literature studying the effects of political polarization on policymaking. Similar to Andreottola and Li (2024),

[6] A complementary strand of theoretical literature looks at the self-selection of bureaucrats into office and sorting patterns concerning ability (Forand et al., 2022) and public sector motivation (Gailmard and Patty, 2007).

we study the effect of polarization on policy choice. Andreottola and Li (2024) consider the effect of voter polarization on distributive policies while we consider the effect of party polarization on the implementation of common good policies. As in Austen-Smith et al. (2019), polarization and an uncertain environment foster inefficient policy choices (in our case, through incompetent/unmotivated bureaucrats). While Austen-Smith et al. (2019) focuses on a dynamic legislative bargaining setting, we focus on the interaction between a politician and a bureaucrat in designing and implementing policies.

Our paper is also related to literature, studying the incentives to choose policy today with an eye on influencing policy tomorrow. Tabellini and Alesina (1990) show that polarization may give incentives to a current administration to run a budget deficit to constrain the behavior of a future administration. The higher the probability that the opposition party wins the next election, the stronger the incumbent's incentive to run a budget deficit. Peletier et al. (1999) show similar incentives for public investment policies. As in these older papers, in our paper, current politicians distort choices today with an eye on influencing policy tomorrow.

The literature on political business cycles studies politicians' incentives to pursue policies with short-term benefits near the end of the electoral cycle to increase their chances of re-election [e.g., Nordhaus (1975) and Rogoff (1990)]. Schultz (1996) shows how incumbent parties adopt ideologies in a polarized political system to increase their chances of winning the next election. For example, left-wing parties may adopt a Keynesian economic view of the world to justify government activism. More directly, Gieczewski and Li (2022) study how an opponent can choose to sabotage an incumbent's policy and how, in turn, this affects the timing of the policy proposal with an eye on the coming election. In our model, politicians affect their chances of winning the election by appointing bureaucrats with a certain quality and motivation.

Our paper also relates to the literature on public service motivation [e.g., Besley and Ghatak (2005), Delfgaauw and Dur (2008) and Valasek (2018)]. We find that while politicians prefer to hire bureaucrats who exhibit a high public service motivation in most situations, this may not be true in a polarized society and when policy issues are complex.

Finally, our baseline model is related to the literature on relational contracts and models of authority. This literature shows how trust between an agent and a principal can be established as part of a relational contract through indefinitely repeated interactions. For example, Baker et al. (1999) present a model where an agent chooses effort to search for a high-quality project, while the principal decides on implementation, similar to our setting. The effects of the project on the agent and the principal diverge at least some of the time but revelation of the private information of the agent can be ensured through a relational contract that relies on delegated authority and the threat of revoking authority in the future upon observing misbehavior. In our setting in contrast, the agent and the principal always agree on the principal's decision under full information. We thus study trust in a setting where the consequences of policies take time to materialize and relationships between agents and principals are of limited time, as is often the case for politicians due to regular elections and term limits.

3. A Model of Trust

We present a model of trust between a politician P (she) and a bureaucrat (he) B.[7] Both P and B are involved in policymaking. The bureaucrat designs a policy, and the politician makes the final decision. Formally, a policy x can be implemented, $x = 1$, or not, $x = 0$. Whether the policy should be implemented depends on the state of the world, $w \in \{-1, 1\}$, which affects the utility derived from the policy. If $w = 1$, society benefits from implementation. By contrast, if $w = -1$, society suffers from implementation. The probability of $w = 1$ depends on B's ability a and effort e with $\Pr(w = 1) = a + e$. B's ability is common knowledge, but only B knows how much effort he has put into the design of the policy. B cannot be incentivized through a contract that links effort or outcomes to a wage.

After B has chosen effort, P makes the final decision about the policy. With probability π, P is informed, $t = in$, and with probability $1 - \pi$ she is uninformed, $t = \varnothing$. An informed P observes w and can condition her decision about x on w. Trust does not play a role in this case. An uninformed P does not observe w. P's trust in B plays a role, as her expectation about B's effort affects her perception of the quality

[7] We keep the model as simple as possible to clarify the analysis. In the supplementary appendix, we analyze and discuss various extensions of the model. We discuss some of the results of these variants here but refer to the supplementary appendix for details.

of the policy. We can think of π as the general quality of politicians. An alternative interpretation is that π describes the complexity of policy x.

P's preferences are represented by the utility function

$$U_P(x) = (p + w)x, \tag{1}$$

where p denotes P's predisposition towards implementation. We assume that $-1 < p < 0$. Thus, P is biased towards $x = 0$ and prefers $x = 1$ to $x = 0$ only if she knows that $w = 1$ or believes that $w = 1$ is sufficiently likely. B's utility function is

$$U_B(x) = (b + w)x - 2e^2, \tag{2}$$

where b (with $-1 < b < 0$) denotes B's predisposition toward $x = 1$.[8] Note that the players' preferences regarding policy implementation are fully aligned if the state of the world is known. The last term in (2) shows that B is effort averse. We assume that $0 \leq a \leq \frac{1}{2}$. This assumption ensures that the equilibrium probability that B designs a welfare-improving project is always between zero and one, $0 \leq \Pr(w = 1|e^*) = a + e^* \leq 1$, where e^* denotes the equilibrium value of e.

We solve the model by backward induction. An informed P bases x on w. An uninformed P correctly anticipates e, e^a, in equilibrium. Given e^a and her information about w, P chooses $x = 1$ only if $x = 1$ yields a higher expected utility than $x = 0$. B anticipates P's decision, both when $t = in$ and $t = \varnothing$. B's effort choice maximizes his expected utility.

4. A Low-Trust and High-Trust Equilibrium

First, consider P's decision on x. An informed politician chooses $x = 1$ if and only if $w = 1$. P's trust in B does not matter if she is informed. It only matters if she does not observe w. In that case, P must form an expectation about e, e^e. An uninformed P chooses $x = 1$ if

$$\begin{aligned} (a + e^e)(p + 1) + [1 - (a + e^e)](p - 1) &\geq 0 \\ \Leftrightarrow p + 2(a + e^e) - 1 &\geq 0 \end{aligned} \tag{3}$$

[8] In the following, we also use the terms *bias* or *motivation* to describe this predisposition towards implementation.

and $x = 0$ otherwise. If condition (3) holds, P's confidence in B is sufficiently strong that without information about w, it is optimal for her to implement the policy designed by B. We say P *trusts* B.

Let us now determine B's effort. His expected utility depends on how an uninformed P will decide on x. First, suppose that an uninformed P chooses $x = 1$. Then, B chooses $e = e_H$ so as to maximize

$$\pi(a+e)(b+1) + (1-\pi)\{(a+e)(b+1) + [1-(a+e)](b-1)\} - 2e^2,$$

which gives

$$e_H = \frac{1}{4}[2 - \pi(1-b)]. \tag{4}$$

Equation (4) shows that the lower the likelihood that P is informed (a lower π), the higher the optimal effort by B. When an uninformed P is confident enough in the work of B to implement the policy, a bad policy may be implemented. B has an incentive to exert effort to avoid such a bad outcome. Equation (4) also shows that the incentive to exert effort increases in bias b.

Next, suppose that an uninformed P chooses $x = 0$. Then, B chooses $e = e_L$ so as to maximize

$$\pi(a+e)(b+1) - 2e^2,$$

yielding

$$e_L = \frac{1}{4}(1+b)\pi. \tag{5}$$

Equation (5) shows that a higher likelihood that P is informed *increases* B's incentive to exert effort. This opposite effect is because high effort is a waste when P is not informed in the present case. Like e_H, e_L increases in b. Note that $e_L \leq e_H$, and strictly so for $\pi < 1$. Hence, B exerts more effort when he anticipates that an uninformed P will implement the policy (P trusts him) than when an uninformed P will maintain the status quo (P mistrusts him).

An equilibrium of the Model of Trust requires that P bases her expectation about B's effort on B's strategy and that B correctly anticipates P's decision strategy. Two equilibria can exist. First, an equilibrium may exist where an uninformed P chooses $x = 1$ and B chooses $e = e^H$. We call this a **high-trust equilibrium**. This equilibrium requires that (3) holds for $e^e = e_H$. Define p_H as the value of p for which (3) just holds

if $e = e_H$

$$p_H = \frac{1}{2}(1-b)\pi - 2a. \tag{6}$$

If $p \geq p_H$, a high-trust equilibrium exists where an uninformed P chooses $x = 1$.

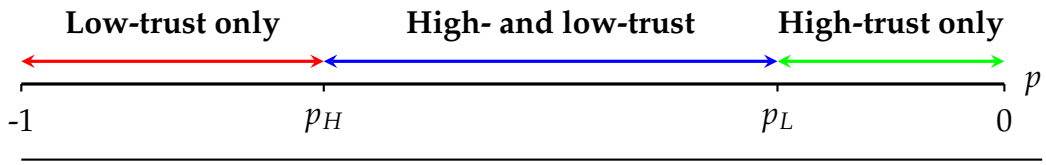
Second, a **low-trust equilibrium** may exist where an uninformed P chooses $x = 0$ and B chooses $e = e^L$. This equilibrium requires that (3) is violated for $e^e = e_L$. Define p_L as the value of p for which (3) is just violated if $e = e_L$

$$p_L = 1 - 2a - \frac{1}{2}(1+b)\pi. \tag{7}$$

If $p \leq p_L$, where $p_L \geq p_H$ always holds, a low-trust equilibrium exists where an uninformed P chooses $x = 0$.

Proposition 1 presents the possible equilibria of the Model of Trust, and Figure 1 illustrates.

FIGURE 1. **Equilibria of the Model of Trust for different values of p.**



Proposition 1. *In any equilibrium of the Model of Trust, an informed P chooses $x = 1$ if and only if $w = 1$. Furthermore,*

1. *If $p > p_L$, a unique **high-trust equilibrium** equilibrium exists where an uninformed P chooses $x = 1$ and B chooses $e = e_H$.*
2. *If $p < p_H$, a unique **low-trust equilibrium** equilibrium exists where an uninformed P chooses $x = 0$ and B chooses $e = e_L$.*
3. *If $p_H \leq p \leq p_L$ two equilibria coexist: a **high-trust equilibrium** in which an uninformed P chooses $x = 1$ and B chooses $e = e_H$, and a **low-trust equilibrium** in which an uninformed P chooses $x = 0$ and B chooses $e = e_L$.*

Item 3 stipulates the conditions under which a high-trust equilibrium and a low-trust one coexist. Under these conditions, an uninformed P's decision on x depends on B's decision on e, and vice versa. P trusts B only if B is trustworthy ($e = e_H$). At the same time, B is only trustworthy if P trusts him. Items 1 and 2 in Proposition 1 present the

conditions under which a unique equilibrium exists. In these cases, an uninformed P has a dominant strategy. Note that p_H is strictly larger than -1; thus, a unique low-trust equilibrium always exists for low enough p. On the other hand, p_L and p_H may exceed 0; thus, a (unique) high-trust equilibrium may not always exist. Its existence requires a to be sufficiently large.

Item 3 of Proposition 1 means that two countries with the same primitives can be in different equilibria with different comparative statics. This complicates empirical research on the drivers of policy capacity using cross-country data. In our model, an index of the quality of a bureaucracy, the probability that B designs a socially beneficial policy $\Pr(w = 1)$, depends negatively on the quality of politicians (π) in a high-trust country. Bureaucrats compensate for less able politicians by working harder. In contrast, this index depends positively on the quality of politicians in a low-trust country. Bureaucrats become demotivated and work less hard to design good policies when politicians are of lower quality. [9]

One can show that if multiple equilibria coexist, P prefers high-trust equilibrium outcomes over low ones. As B bears the cost of effort, and P makes the final decision on x, P always benefits from a higher e. By contrast, B may prefer a low-trust equilibrium to a high-trust equilibrium if both coexist. This is the case whenever his ability is relatively low and/or his motivation is relatively low.[10] In such a situation, B may be trapped in the high-trust equilibrium. P's trust in B raises expectations he wants to meet. However, B would have been better off if P had lower expectations.

Our model also shows that in a high-trust equilibrium, governments are more likely to produce visible policy failures than in a low-trust equilibrium. Our Model of Trust may generate two types of errors: false positives ($x = 1$ while $w = -1$) and false negatives ($x = 0$ while $w = 1$). False positives may occur in the high-trust equilibrium (uninformed politicians implement welfare-reducing policies). In contrast, false negatives may occur in the low-trust equilibrium (uninformed politicians fail to implement welfare-enhancing policies). In practice, observing the state w after $x = 0$

[9] In Section 1 of the Supplementary Appendix we extend the model to allow for cheap talk communication between B and P before P chooses implementation of the policy. We show that allowing for the possibility of a "good chat" allows B and P to coordinate on a high-trust equilibrium if this is in B's interest but b is not too large. So in some cases, trust can be build through communication, while in others this is not possible.

[10] More precisely, he has a higher utility in the low-trust equilibrium if $a \leq \frac{1}{4}$ or $\frac{1}{4} < a < \frac{1}{2}$ and $-1 < b < \frac{1-4a}{2+\pi}$. See Section 1 in the Supplementary Appendix for a derivation.

might be less likely than after $x = 1$. If so, *visible* bad outcomes occur more frequently in the high-trust equilibrium than in the low-trust equilibrium and are thus an indication of a *high* policy capacity, all else equal. We summarize this discussion in the following proposition.

Proposition 2. *A high-trust equilibrium features more policy failures and a higher rate of successful reforms. If the high-trust and low-trust equilibrium coexist, P is better off in the high-trust equilibrium than in the low-trust equilibrium, all else equal, while B might be worse off.*

In the Model of Trust, ability and effort are perfect substitutes. We have analyzed a variant of this model where the effect of effort on the likelihood that $w = 1$ depends on B's ability, $\Pr(w = 1) = a(1 + eh)$ with $h > 0$. In that variant, a more able B exerts more effort. Otherwise, this variant qualitatively generates the same results. Essential for all our main results is that B's effort depends on the decision by an uninformed P, and vice versa. How e depends on a is less relevant.

5. The Optimal Bureaucrat without Politics

One of the objectives of this paper is to shed light on how electoral concerns affect a state's policy capacity. Politicians appoint bureaucrats and thus determine the main characteristics of a country's bureaucracy.[11] Our model contains two parameters that characterize B, his ability, a, and his predisposition toward x, b. As a benchmark, we now determine the optimal values of a and b from P's perspective without electoral concerns. To this end, we add a stage to the Model of Trust: at the beginning of the game, P chooses $a \in [0, \bar{a}]$, with $\bar{a} \leq \frac{1}{2}$, and $b \in [-1, 0]$. To capture that more able bureaucrats have better outside options, we assume that there is a cost to hiring a more able B, $c(a)$ with $c(0) = 0$, $c' > 0$, and $c'' > 0$. P's utility function becomes:

$$U_P(a, x) = (p + w)x - c(a).$$

By contrast, we assume that B's outside option does not depend on b. Hence, we consider an environment in which ability is transferable to other professions, but policy bias is not.

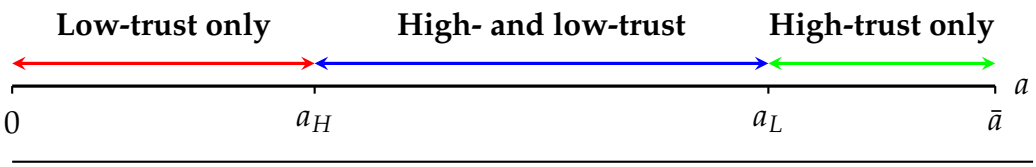
[11] The characteristics of P and expectations about P's behavior also determine the supply of bureaucrats (see also Forand et al. (2022) and Gailmard and Patty (2007)). In Section 2 of the Supplementary Appendix we discuss self-selection incentives by ability in high- and low-trust equilibria.

5.1. **Ability.** In this section we discuss the optimal choice of a, taking b as given. In the extended game, the model of trust is a subgame following the choice of a by P. It is thus useful to first write Proposition 1 in terms of a:

(1) If $a > a_L = \frac{1}{2}(1-p) - \frac{1}{4}\pi(1+b)$, the subgame has a unique high-trust equilibrium.
(2) If $a < a_H = \frac{1}{4}\pi(1-b) - \frac{1}{2}p$, the subgame has a unique low-trust equilibrium.
(3) If $a_H \leq a \leq a_L$, the high-trust and low-rust equilibrium coexist in the subgame.

Figure 2, which is very similar to Figure 1, depicts Proposition 1 in terms of a.

FIGURE 2. **Equilibria of subgame for different values of a.**



The politician anticipates how her choice of a affects the quality of the policy designed by B and her decision on x in the subgame. Suppose that P anticipates a high-trust equilibrium: $e = e_H$ and, if uninformed, chooses $x = 1$. Then, P chooses a so as to maximize

$$\pi(a+e_H)(p+1) + (1-\pi)[(a+e_H)(p+1) + (1-a-e_H)(p-1)] - c(a).$$

Let a_{HT} denote the value of a that maximizes the above equation. One can verify that a_{HT} solves

$$2 - \pi(1-p) = c'(a_{HT}). \tag{8}$$

A necessary condition for a_{HT} to be an equilibrium outcome is $\bar{a} \geq a_{HT} \geq a_H$.

Now suppose that P anticipates a low-trust equilibrium: $e = e_L$ and, if uninformed, chooses $x = 0$. Let a_{LT} denote the value of a that maximizes P's payoff. a results from maximizing

$$\pi\left(a+e_L\right)\left(p+1\right) - c(a),$$

with respect to a. The next equation implicitly defines a_{LT}:

$$\pi(p+1) = c'(a_{LT}). \tag{9}$$

Note that $a_{LT} < a_{HT}$. The marginal benefit of a capable bureaucrat is greater in a high-trust than in a low-trust equilibrium. A necessary condition for a_{LT} to be part of an equilibrium is $0 \leq a_{LT} \leq a_L$.

A key feature of the present model is that $a = a_{HT}$ and a_{LT} are not the only possible interior equilibrium outcomes of a. As we argue below, equilibria exist in which P chooses $a \downarrow a_L$, to ensure a high-trust equilibrium.

We now argue that depending on $c(a)$ and the other parameters, there are four types of equilibria.[12] First, P may optimally choose $a = a_{LT}$ consistent with the low-trust equilibrium. This equilibrium requires that (i) $a_{LT} < a_L$, and (ii) choosing a_L, ensuring a higher-trust equilibrium, does not increase P's utility.[13] Second, P may optimally choose $a = a_{HT}$ consistent with the high-trust equilibrium. This equilibrium requires that $a_{HT} > a_H$ and P cannot increase her utility by creating a low-trust equilibrium.

Figure 3 illustrates when $a = a_{HT}$ and $a = a_{LT}$ can be an equilibrium outcome.[14] The black (partly dashed) line shows the combinations of p and π for which $a_{HT} = a_H$. A high-trust equilibrium with $a = a_{HT}$ requires combinations of p and π below this line. The blue line depicts the combinations of p and π for which $U^P_{LT}(a_{LT}) = U^P_{HT}(a_{HT})$. As for the assumed parameters $a_{LT} < a_H$ (see footnote 14), P chooses $a = a_{LT}$ for combinations of p and π left to this line.

The main result of this section is that P may optimally overinvest in ability, $a > a_{HT}$, to ensure a high-trust equilibrium. This may be relevant in situations where $a_{HT} < a_H$ (a_{HT} is not consistent with a high-trust equilibrium) or $a_H \leq a_{HT} \leq a_L$ (a_{HT} is consistent with both a high- and a low-trust equilibrium but P is pessimistic about B's effort choice following a_{HT}, anticipating the low-trust equilibrium). In this case, P may optimally choose $a \downarrow a_L$ to ensure a high-trust equilibrium in the subsequent subgame. The red and blue lines represent the area where P overinvests. The blue line gives the combinations of P and π for which P is indifferent between a low-trust equilibrium with $a = a_{LT}$ and a high-trust equilibrium with $a = a_L$. The red line shows when overinvestment is feasible $a_L + e_H \leq 1$.

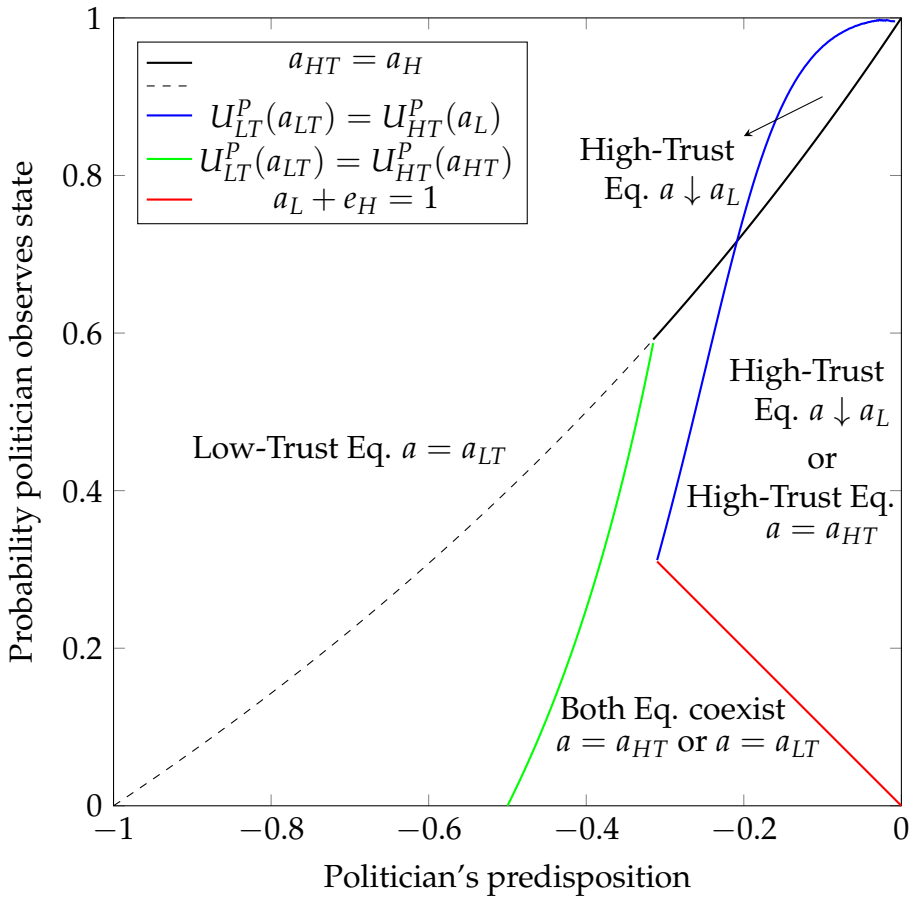
[12] A complete characterization of all equilibria goes beyond the scope of the paper. It requires examining the consequences of alternative assumptions about how B responds to a if $a_H < a < a_L$.

[13] Another condition for a_{LT} to be part of an equilibrium is that P cannot increase her utility by choosing $a_H < a < a_L$ leading to a high-trust equilibrium.

[14] We assume $c(a) = 2a^2$ and $b = 0$. For these parameters, $a_{LT} < a_H$ and $a_{HT} < a_L$.

Interestingly, P never wants to choose $a \uparrow a_H$ to ensure a low-trust equilibrium if $a_{LT} \geq a_H$ (and thus a_{LT} is either not consistent with the low-trust equilibrium or consistent with both a high- and a low-trust equilibrium).[15] Thus politicians without electoral concerns sometimes optimally choose to invest extra in bureaucrat quality to foster policy capacity but they never choose to deliberately lower bureaucrat quality to destroy policy capacity. We will show in the following sections that electoral concerns make destroying trust by choosing $a \uparrow a_H$ an attractive option for some politicians.

FIGURE 3. **Types of equilibria in the extended model of trust**



Finally, if ability is very cheap, P chooses the highest ability possible, $a = \bar{a}$. Specifically, if $c(a) = 0$, P chooses $a = \bar{a}$ as the marginal benefits of ability are positive in both a high-trust and low-trust equilibrium. Proposition 3 summarizes the results

[15] This follows from Proposition 2 where we show that for a given a, P is better off in the high-trust than in the low-trust equilibrium. Since a_{LT} is consistent with a high-trust equilibrium, as $a_{LT} \geq a_H$ we know by the definition of a_{LT} as optimal ability anticipating a low-trust equilibrium that the high-trust equilibrium at a_{LT} is also preferred to $a \uparrow a_H$.

of this section that are most relevant to the analysis of electoral concerns on policy capacity.

Proposition 3. *Consider the Model of Trust with P choosing B's ability at the beginning of the game. In this model, P may overinvest in B's ability to ensure a high-trust equilibrium. P never underinvests in B's ability. Moreover, if* $c(a) = 0$ *for* $a \in [0, \bar{a}]$, $a = \bar{a}$ *in any equilibrium.*

The lesson from Proposition 3 is that, without electoral concerns, politicians sometimes invest extra in bureaucrat quality to foster policy capacity. They never want to destroy policy capacity. The following two sections show that electoral concerns can induce P to appoint a mediocre bureaucrat even in an environment where there is no cost of hiring the most capable bureaucrat, $c(\bar{a}) = 0$.

5.2. **Bias.** Now consider P's decision on b. The effect of b on P's utility runs through B's effort decision [(4) and (5)]. A bureaucrat more biased towards implementation has a stronger incentive to exert effort, as effort increases the probability that $w = 1$ and, in turn, the probability that the project is implemented. A higher b and, thus, a higher effort may also make the high-trust equilibrium viable. All this implies that P always wants to hire a bureaucrat strongly biased towards implementation ($b = 0$).

Our result that P chooses $b = 0$ aligns with the view that a sense of a mission motivates bureaucrats [Wilson (2019), Besley and Ghatak (2005), Francois (2000) and Wilson (2019)]. This raises the question of why some governments attract less intrinsically motivated bureaucrats (Valasek, 2018). The following sections answer this question.

6. Reducing Policy Capacity to Influence Future Policy

This section introduces an election into the (extended) Model of Trust. In this election, two candidates $P \in \{O, S\}$ compete for who will decide on x after the election. S is in office before the election and determines B's ability a for the next period. The election creates uncertainty about who decides on x after the election. S is re-elected with probability ρ and O is elected with probability $1 - \rho$. This section assumes that S's decision on a before the elections does not affect ρ. The next section investigates how S can shape the bureaucracy to increase her chances of winning the election.

In our model, S can hire a bureaucrat before the election, who cannot be replaced after the election.[16] At the end of this section, we discuss an empirical study by Toral (2024). He examines the hiring and firing of bureaucrats between the election day and the day the winner takes office. He distinguishes between bureaucrats hired on temporary contracts and bureaucrats hired on civil service contracts. By hiring more bureaucrats on a civil service contract, the election's loser can influence the bureaucracy the winner will get. His setting is close to our setting.[17]

The setting of this section enables us to investigate how one crucial feature of democracy - uncertainty about the preferences of the future politician - affects the characteristics of a bureaucracy and thus a state's policy capacity. The main result of this section is that S may choose a mediocre bureaucrat. To isolate the effect of electoral concerns on S's choice of a, we assume that $c(a) = 0$. Thus, P does not appoint a mediocre B to reduce cost. Proposition 3 shows that if $c(a) = 0$, P chooses $a = \bar{a}$ without an election. Hence, we show that S may choose a less capable bureaucrat, $a < \bar{a}$, when faced with the possibility of electoral defeat. The analysis focuses on S's choice of a. To reduce notation, we assume that $b = 0$. Similarly, we can show that uncertainty about who will decide on x after the election may induce S to hire an unmotivated bureaucrat, $b < 0$.

S and O have different biases towards implementation. P's preferences are described by (1), with $p \in \{o, s\}$ and $0 \geq o \geq s \geq -1$, where p is P's bias towards implementation. As $o \geq s$, O is more *optimistic* about x than S. S is more *skeptical*. The difference between o and s is a measure of polarization. Note that the preferences of O and S are fully aligned if the state of the world is observed.[18] After the election has determined who decides on x, the model proceeds as the Model of Trust.

The current model reduces to the model of the previous section if $s = o$. Consequently, for $c(a) = 0$, S would choose $a = \bar{a}$ if $s = o$. Politics potentially affects S's decisions on a if S wants to influence O's decisions. Specifically, choosing $a < \bar{a}$ matters if it destroys trust between O and B. Thus, one requirement for a to matter is

[16] Our results extend qualitatively to a setting where B can be replaced with a certain probability in the next period or rehiring is possible but causes disruption leading to a less effective B in the next period. In Section 2 of the Supplementary Appendix, we discuss the role of self-selection.

[17] Our setting is a bit more general. In Toral (2024), the incumbent is the sure loser, while in ours, the incumbent loses the election with an exogenous probability.

[18] For example, thinking about stricter environmental policy, S might represent voters for whom implementation of the policy would be quite costly, for example, because they work or invest in polluting industries, while voters of O face smaller implementation costs.

that for $a = \bar{a}$ and $e = e_H$, S is unhappy with an uninformed O's decision on x if the latter is elected. Hence, the first requirement for S not to choose $a = \bar{a}$ is that after the election, for $a = \bar{a}$, an uninformed O chooses $x = 1$ if elected, and an uninformed S chooses $x = 0$ if elected[19]:

$$[\bar{a} + e_H](s+1) + \{1 - [\bar{a} + e_H]\}(s-1) < 0 \tag{10}$$

$$[\bar{a} + e_H](o+1) + \{1 - [\bar{a} + e_H]\}(o-1) > 0. \tag{11}$$

which reduces to

$$s < \frac{1}{2}\pi - 2\bar{a} < o. \tag{12}$$

A sufficient degree of polarization (which we define as $|s - o|$) as well as a sufficiently high maximal ability $\bar{a} > \frac{\pi}{4}$ is needed for these inequalities to hold for $\pi \in (0, 1]$.

A second requirement for bureaucratic quality to matter is that by choosing $a < \bar{a}$, S can influence an uninformed O's decision. For $a = 0$, a low-trust equilibrium of the subgame must exist if O wins the election. To put it otherwise, for $a = 0$ and $e = e_L$, an uninformed O must prefer $x = 0$ to $x = 1$:

$$\begin{aligned} e_L(o+1) + (1 - e_L)(o-1) &< 0 \\ o &< 1 - \frac{1}{2}\pi, \end{aligned} \tag{13}$$

which always holds (as $o < 0$). Hence, S can destroy trust between B and O.

The inequalities in (12) give the conditions under which S *wants* to affect an uninformed O's decision on x. However, destroying trust by reducing a comes at a cost. A less capable B designs good policies with a lower probability. This backfires if S wins the election. To minimize this cost, S reduces bureaucracy quality only up to the point where an uninformed O just prefers $x = 0$ to $x = 1$. By choosing $a \uparrow a_H = \frac{1}{4}\pi - \frac{1}{2}o$, S just destroys O's trust in B, as it implies that $o \uparrow p_H$ [see (6)]. The question remains whether the benefits of destroying trust exceed the cost. This requires that a low-quality bureaucracy with an uninformed P always choosing $x = 0$ yields a higher payoff than a high-quality bureaucracy with a possibly uninformed

[19] At the end of this section, we turn to the case that O is the incumbent before the election. In that case, O may want to prevent an uninformed S from choosing $x = 0$.

O choosing $x = 1$:

$$\begin{aligned} &\rho\pi[\bar{a}+e_L](s+1)+(1-\rho)\pi[\bar{a}+e_H](s+1) \quad + \\ &(1-\rho)(1-\pi)\left([\bar{a}+e_H](s+1)+\{1-[\bar{a}+e_H]\}(s-1)\right) \\ &\qquad\qquad < \pi\left(a_H+e_L\right)(s+1), \end{aligned} \tag{14}$$

implying

$$s < s^T = \frac{\pi(\pi-2o)-4\bar{a}[2(1-\rho)+\pi(2\rho-1)]}{4(1-\rho)+\pi[4\bar{a}-3\pi+2o+2\pi\rho-2(1-\rho)]} \tag{15}$$

One can verify that (14) always holds if s is close to -1. As shown in Section 4, (14) never holds for $s = o$. Hence, $-1 < s^T < o$, meaning that if (12) is satisfied, there exists always a range of s for which S chooses $a \uparrow a_H < \bar{a}$. One can verify that s^T decreases in o. If o is high, s must hire a highly incapable bureaucrat to destroy trust. As a result, the cost of influencing future outcomes is higher. Thus, the model shows that the effect of polarization on S's incentive to hire a mediocre bureaucrat depends on the source of polarization. A lower s strengthens S's incentive to choose $a < \bar{a}$. A higher o weakens her incentive. Note that the effect of o on S's incentive to destroy trust is non-monotonic. S only wants to destroy trust if o is sufficiently high, but she is only willing to destroy trust if o is sufficiently small.

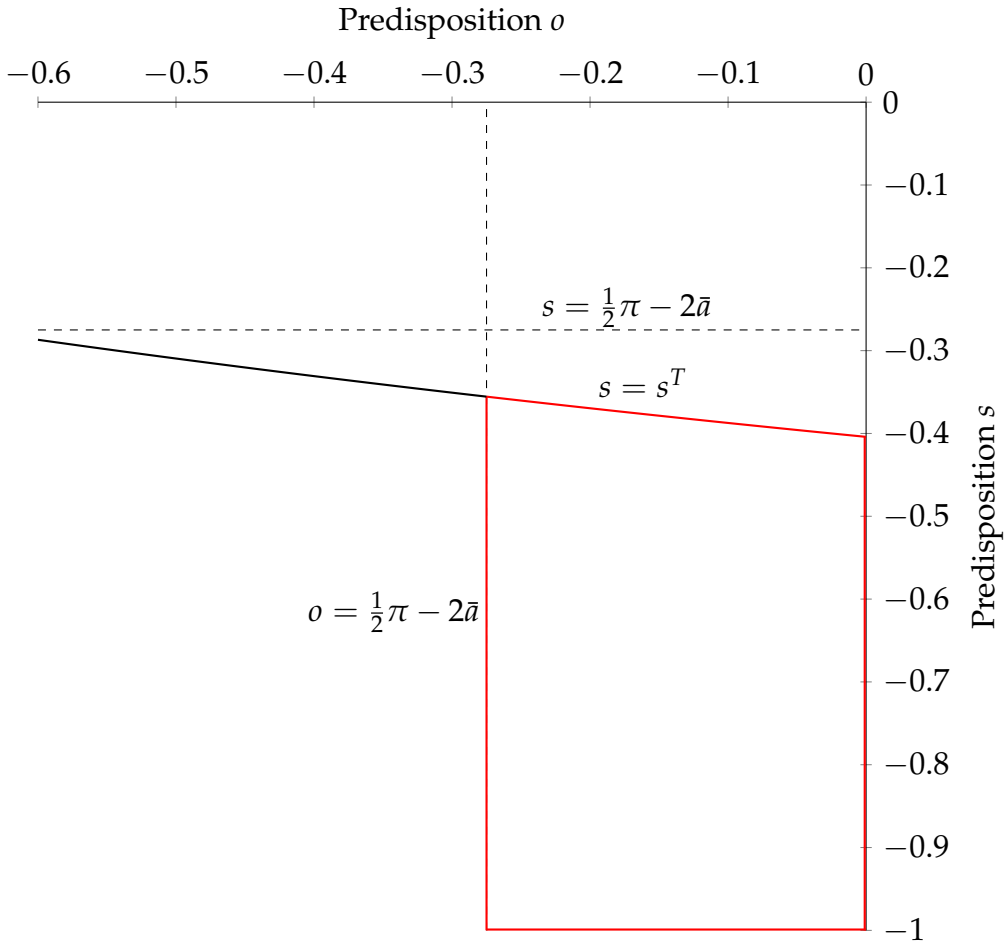
The threshold s_T decreases in ρ. The reason for lowering bureaucracy quality becomes less important if O is less likely to be elected. The effect of π is more nuanced. On the one hand, a higher probability of a more informed politician makes it more costly to lower a, as the benefit of a reduction in a works through influencing the behavior of an *uninformed* O. On the other hand, $e_H - e_L = \frac{1-\pi}{2}$ decreases in π. The reduction in B's effort when trust is destroyed is larger when π is smaller. Proposition 4 summarizes the main result of this section.

Proposition 4. *Consider the extended Model of Trust with exogenous elections with* $c(a) = 0$. *Suppose that the inequalities in (12) hold. Then, S appoints a low-ability bureaucrat,* $a \uparrow a_H < \bar{a}$ *if (15) holds.*

Figure 4 illustrates Proposition 4. The area inside the red lines gives the combinations of o and s for which S appoints a mediocre B.[20]

[20]We made the following assumptions to draw Figure 4: $\bar{a} = 0.2$, $\pi = 0.25$, and $\rho = 0.5$.

FIGURE 4. **Equilibrium Outcomes of the extended Trust Model where S chooses a to affect O's policy after the election.**



Toral (2024) empirically investigates the incentives of election losers to change the bureaucracy's composition in Brazilian municipalities. He focuses on hiring and firing decisions between the election day and the winner's first day in office. Using a regression discontinuity design, he estimates the causal effect of the election outcome on the composition of bureaucracies. He distinguishes between bureaucrats on a civil service contract and bureaucrats on a temporary contract. One of his main results is that election losers hire more civil servants and dismiss more temporary bureaucrats than winners. Furthermore, he provides evidence that hiring and firing decisions are driven by constraining the winners after the elections. Finally, he finds that public services decline after an electoral defeat. These empirical results are consistent with Proposition 4.

If $c(a) = 0$, S is indifferent between using a and b to destroy trust between B and O. If $c(a) \neq 0$, then S prefers using a over b. Another implication of $c(a) > 0$ is

that if O chooses bureaucracy quality before the election, she may have an incentive to overinvest in B. This requires that O wants to create trust between S and B by choosing a that solves (7) for $p_L = s$: $a \downarrow a_L$. An overly competent bureaucrat also requires that O can create trust between B and S. While a low-trust equilibrium always exists for low values of a, a high-trust equilibrium does not always exist, even when $a = \bar{a}$.

7. Reducing Policy Capacity to Influence Election Outcomes

We saw in the previous section that a project-skeptical S might use the appointment of a mediocre bureaucrat to destroy trust between a project-optimistic O and B and manipulate O's policy choice in S's favor. In this section, we show that appointing mediocre bureaucrats may also serve to manipulate the election outcome. By reducing policy capacity, voters become more pessimistic about the quality of the policy. They may lose trust in bureaucrats and prefer an uninformed P not to implement. As in the previous section, and for the same reasons, we abstract from any cost of hiring a more able B, $c(a) = 0$. As argued before, S can use a and b interchangeably in this environment. We focus the analysis on a, assuming that $b = 0$.

For S to be able to influence the election outcome, we need an environment where an uninformed S does not implement the policy while an uninformed O does. Otherwise, voters are indifferent between the two in our setting. We assume that $a \in \{\underline{a}, \bar{a}\}$, such that $o > \frac{1}{2}\pi - 2\underline{a}$ and $s < \frac{1}{2}\pi - 2\bar{a}$.[21] These assumptions ensure that an uninformed S will choose $x = 0$, while an uninformed O chooses $x = 1$, irrespective of S's decision on a. Thus, we exclude the possibility that S uses a to influence O's policy. That was the topic of the previous section.

We now model elections explicitly. Consider a society with an infinite number of citizens. Citizen i's utility function is

$$U_i(x) = (v_i + w)x, \tag{16}$$

where v_i is citizen i's predisposition toward $x = 1$. Let v_m denote the median voter's predisposition toward $x = 1$. Because of single-peaked preferences, the median voter's vote determines the election outcome. When S chooses a and b, the median voter's preferences are uncertain (Calvert, 1985). We assume that nature draws v_m

[21] We assume a high-trust equilibrium when O is in office.

from a uniform density function with interval $[v^e - z, v^e + z]$. P does not observe v_m but knows it distribution. Citizens are forward-looking. Each citizen votes for the politician who is expected to deliver higher utility.

Anticipating politicians' policies, citizen i prefers voting for S (who does not implement when uninformed) to voting for O (who implements when uninformed) if

$$\begin{aligned} \pi(a+e_L)(v_i+1) &> \pi(a+e_H)(v_i+1) \\ &\quad +(1-\pi)\{(a+e_H)(v_i+1)+[1-(a+e_H)](v_i-1)\} \\ \Leftrightarrow v_i &< -\frac{4a}{2+\pi}. \end{aligned} \tag{17}$$

Whether or not (17) holds for v_m determines the election outcome. The probability that S wins the election equals

$$\rho(a) = \Pr\left[v_m < -\frac{4a}{2+\pi}\right] = \frac{-\frac{4a}{2+\pi} + z - v^e}{2z}, \tag{18}$$

which decreases in a.[22] Hence, with polarized parties where one party prefers not to implement when uncertain while the other does, hiring a less able bureaucrat increases the policy-skeptical party S's chances of winning the election.

Lemma 1. *Consider the extended Model of Trust with endogenous election. Suppose that* $s < \frac{1}{2}\pi - 2\bar{a} < \frac{1}{2}\pi - 2\underline{a} < o$. *A lower bureaucracy quality increases the probability that S wins the election.*

Section 4 shows that a good bureaucracy and thus a high policy capacity is a public good. Nevertheless, Lemma 1 shows that when S reduces the quality of bureaucracy, she receives more support from the electorate. Lemma 1 also has another implication. Parties care only about policies in our model. If we add to the model that politicians also care about winning the election, this will give a direct incentive to S to choose $a < \bar{a}$.

Now consider S's decision on a. S's expected payoff equals

$$\begin{aligned} U_S(a) &= \rho(a)\pi[a+e_L(s+1)] + [1-\rho(a)]\pi[a+e_H(s+1)] \\ &\quad +[1-\rho(a)](1-\pi)\{(a+e_H)(s+1)+[1-(a+e_H)](s-1)\} \end{aligned} \tag{19}$$

[22] We focus on cases where v^e and z are such that $\rho(a)$ is interior. In particular, z needs to be sufficiently large.

Equation (19) shows that the benefit of a high-quality bureaucracy ($a = \bar{a}$) is twofold. First, it increases the probability that an informed politician of either party faces a good policy and implements it. Second, it increases the probability that an uninformed O implements a good rather than a bad policy. The benefit of appointing a mediocre bureaucrat runs through $\rho(a)$. It reduces the chance that an uninformed O gets to decide on implementation. Thus, when deciding to reduce a on the margin, S trades of a reduction in the probability of good policies in the future with an increase in the probability of being re-elected, avoiding implementation of the policy when uncertain.

Differentiating Equation (19) with respect to a and evaluating it at $a = \bar{a}$ and $b = 0$, we find that $U_S(a)$ decreases in a iff

$$v^e < s(-1+z) - \frac{(1+s)z}{1-\pi} - \frac{8\bar{a}}{2+\pi} \tag{20}$$

holds. The lower s (the more biased against implementation is S), the more S suffers from (uninformed) O winning the election. Thus, reducing bureaucrat quality is most likely beneficial for $s = -1$. Note that $s = -1$ is not a sufficient condition for S choosing $a < \bar{a}$. Hence, a politician may appoint an able bureaucrat to design a policy even though she anticipates that she will never implement that policy. By appointing a highly able B, S reduces the probability that an uninformed O implements a (very) bad policy.

S's incentive to appoint a mediocre B also depends on how sensitive the election outcome is to a and b. The width of the distribution of v_m, $2z$, determines the extent to which the election outcome depends on policies or luck. A lower z makes the outcome more dependent on politicians' expected policies after the election (and thus a and e). Consequently, a lower z increases the electoral benefit of weakening bureaucracy. Similarly, reducing a is more likely to be beneficial when the median voter's expected bias against implementation is strong, v^e close to -1, and thus S is relatively advantaged already. It also becomes more likely that S optimally appoints a less able bureaucrat when the maximum ability $\bar{a}$ is not too large. Hence, a high potential quality of the bureaucracy makes outcomes less sensitive to opportunistic politicians.

The effects of π are less clear-cut. On the one hand, a low π and thus a higher complexity of policies means that a median voter who prefers an uninformed politician

not to implement suffers more from an O politician in power. On the other hand, a low π means that B's effort in the high trust equilibrium will be much higher than in the low trust equilibrium, making it more costly to elect S. Differentiating Equation (19) with respect to b gives precisely the same condition.

Proposition 5 summarizes the above discussion.

Proposition 5. *Assume* $o \geq \frac{1}{2}(\pi - 4\underline{a})$ *and* $s < \frac{1}{2}(\pi - 4\bar{a})$. *Then S has an incentive to appoint a bureaucrat of lesser ability than* $\bar{a}$ *when* s ,v^e, z, *and* $\bar{a}$ *are sufficiently low.*

As in the previous section, assuming $c(a) > 0$ gives an additional reason to S for choosing $a < \bar{a}$. Moreover, if $c(a) > 0$, O may again have an incentive to appoint a too-able B from a social point of view. Equation (18) drives all results in this section. If S were also able to choose b, it shows that from an office point of view, S wants the electorate to believe that B is unmotivated and mediocre, while O wants the electorate to believe that B is motivated and capable. This is consistent with the observation by Besley et al. (2022) that interventionists portray bureaucrats as capable and motivated by a sense of a mission. By contrast, "those who are suspicious of large states see bureaucracy as sclerotic" Besley et al. (2022, p. 399).

8. Conclusion

This paper has proposed a theoretical framework to study the determinants of policy capacity, which we define as the ability of states to make good laws, highlighting the importance of trust between politicians and bureaucrats. Societies with the same fundamentals may be trapped in a low-trust equilibrium or flourish under a high-trust equilibrium. In a low-trust equilibrium bureaucrats draft mediocre policies and few reforms are implemented – societal challenges are hardly addressed. In a high-trust equilibrium bureaucrats drafts high quality policies, reforms are frequent, though also policy failures are more likely. Our model illustrates the public good nature of a competent and motivated bureaucracy.

The second contribution of this paper is to highlight how electoral concerns may act as an impediment to fostering policy capacity. Policy-skeptical politicians in polarized societies may have an incentive to reduce the quality of bureaucracy and diminish policy capacity for electoral gain and to influence future implementation decisions of their political opponents in their favor.

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