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.

JEL codes: D72, D73, D78.

Keywords: Bureaucracy, polarization, trust, multiple equilibria.

Date: October 3, 2025.
Contact information: Dana Sisak (sisak@ese.eur.nl); Otto Swank (swank@ese.eur.nl) Department of Economics, Erasmus University Rotterdam, PO Box 1738, 3000 DR Rotterdam, The Netherlands. We would like to thank Benjamin Blumenthal, Frank Bohn, Josse Delfgaauw, Robert Dur, Aksel Erbahar, Barton Lee, Julian Emami Namini, Romain Ferrali, Sacha Kapoor, Dirk Schindler, Klaus Schmidt, and Stan Winer, as well as participants of the 2025 VfS meeting, the 2025 workshop "The Public Administration and State Capacity" in Stuttgart, the 2024 EPCS meeting, the Rucam workshop Nijmegen on political economics, the Brownbag seminar at Erasmus Rotterdam and the KVS New Paper Sessions 2024 for their helpful comments. Declarations of interest: none.

1. Introduction

There is a 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.

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 a politician decides on the proposal crafted by a bureaucrat on her behalf addressing a pressing policy issue. The proposal's quality depends on the bureaucrat's ability and his efforts to develop it. The politician cannot always judge the proposal's quality. Whether or not she ultimately supports the bill depends on her trust in the bureaucrat, where trust is an equilibrium phenomenon.

German ex-chancellor Angela Merkel's leadership during COVID-19 nicely illustrates what we have in mind. An academic herself, Merkel relied heavily and publicly on expertise from the Robert Koch-Institute (the German Federal Government's central institution in the field of biomedicine). By consistently framing political decisions as grounded in scientific reasoning and publicly acknowledging the authority

of virologists and epidemiologists, Merkel reduced political interference and legitimized expert input.[1] This prompted widespread agreement regarding the effectiveness of Germany's policy response, thereby enhancing trust in Merkel's leadership.[2] While relying on expertise may in itself lead to better policies, we argue that a politician's trust in bureaucrats tasked with designing/informing policy proposals creates a positive feedback loop. It reinforces their motivation to provide rigorous, evidence-based proposals, in turn reinforcing the politician's decision to trust them in the first place, thus building policy capacity.

More concretely, our model shows that the interaction between bureaucrats' motivation to design good policies and politicians' implementation decisions 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 even when they cannot judge them. Consequently many effective policies are enacted and thus 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. As more policies are implemented in the high-trust equilibrium than in the low-trust equilibrium, differences in policy capacity across countries may help explain differences in government size.[3] Visible policy failures are likelier in the high-trust equilibrium than in the low-trust equilibrium. Thus, the model predicts a *positive* correlation between the trust of politicians in bureaucrats and the frequency of bad policy reforms.

In Western democracies, bureaucrats tasked with policy design are typically, directly or indirectly, appointed by political leaders who face electoral incentives. For example, the appointment of the President of the German Robert Koch-Institute is made by the Federal Ministry of Health. At the same time, dismissing a bureaucrat is often difficult for an incumbent politician, for example due to civil service protection, or costly because of acquired specific human capital.[4] We proceed by showing

[1] https://www.theatlantic.com/international/archive/2020/04/angela-merkel-germany-coronavirus-pandemi
610225/ (accessed 28.08.2025)

[2] https://www.pewresearch.org/short-reads/2020/10/02/confidence-in-merkel-is-at-all-time-high-in-sev
(accessed 28.08.2025)

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

[4] An example for the latter is Werner Gatzer who served as State Secretary in the German Federal Ministry of Finance from 2005 to 2023, with a short interruption, under 4 ministers from

that without electoral concerns[5], 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 (more interventionist) and one more skeptical about the policy (less interventionist). 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, when given the opportunity, appoints an *incompetent*, *unmotivated* bureaucrat to reduce policy capacity. If re-elected, the policy-skeptical incumbent suffers from an inept and unmotivated bureaucrat. However, an incompetent and unmotivated bureaucrat (1) makes a policy-optimistic politician refrain from implementing policies when uncertain about their quality and (2) reduces voters' demand for optimistic decision-making, thereby increasing the chances that the skeptical politician wins the election.[6] Also the policy-optimistic politician has an incentive to exploit bureaucrat appointments for personal gain, but in the opposite direction, hiring overqualified and thus "too expensive" bureaucrats from a social point of view. While this increases policy capacity, it leads to an "inefficiently expensive" bureaucracy.

Recent empirical work supports the relevance of the strategic mechanism we highlight. In Brazil, municipal 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 also a significant amount of anecdotal evidence that politicians use bureaucratic

3 different parties. In addition to Gatzer's professional expertise, he possessed ample experience and deep knowledge of the ministry. (https://www.politik-kommunikation.de/politik/vertrauen-ist-gut-erfahrung-ist-auch-gut/, accessed 28.02.2025, in German)

[5]Angela Merkel was a "lame duck" when she lead Germany through COVID-19 as she had already announced that she would not seek re-election in the next federal election in the fall of 2021.

[6]A crucial assumption underlying these results is that a bureaucrat cannot easily be re-hired by the optimistic politician, for example, because they took another job, because specific human capital was lost in the meantime, or because of civil service job protection of the current office holder.

appointments to influence policy or shape the demand for policy. Jo and Rothenberg (2012) discuss several older examples of republican presidents appointing persons with dubious reputations. A notorious example is Anne Gorsuch's appointment by Ronald Reagan as head of the Environmental Protection Agency in 1981. She lacked administrative experience and did not support the EPA's mission.[7]

Our model focuses on the interaction between politicians and bureaucrats during policy design. It is worth emphasizing that the model can be adapted to highlight trust between politicians and bureaucrats responsible for implementing policies. In a high-trust equilibrium, politicians exert high effort in designing effective policies, and capable bureaucrats exert high effort to implement those policies. However, when politicians expect mediocre bureaucrats to exert little effort in implementing policies, they have weak incentives to design effective policies. A low-trust equilibrium exists. In this setting, politicians may also have incentives to erode trust in bureaucrats to influence election outcomes and/or future policies.

2. Related Literature

Our paper offers a new model of trust aimed at understanding policy design through studying the relationship between politicians and bureaucrats. 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 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

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

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 craft effective policies. State and policy capacity refer to two roles of bureaucrats: their role in policy implementation and their role in policy design. While we study bureaucrats tasked with policy design, several papers consider bureaucrats tasked with policy implementation. 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. Gratton et al. (2021) study how quality of bureaucracy relates to policy implementation and reform. With an inefficient bureaucracy, bad politicians are more tempted to try to build a reputation as skillful reformer through enacting more policies as their adverse effects are less likely to be revealed to voters. Their model thus predicts a *negative* relation between the number of reforms and quality of bureaucracy. Daniele et al. (2023) link political and social trust to policy implementation.

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.

As is common in the literature on formal models of bureaucracy, we study the relationship between bureaucrats and politicians through the lens of a principal-agent 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 Bueno 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. We add to this literature a model of trust between politicians and bureaucrats and how electoral competition impacts this relationship. Forand (2025) shares with us the latter objective, studying the effects of partisanship in the permanent bureaucracy.

Several other papers have also considered the incentives of politicians to appoint bureaucrats of low ability and motivation using theoretical modeling.[8] 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 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. (2023) 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

[8]Related research studies politicians' incentives to appoint bureaucrats with similar policy preferences. For example, Gailmard (2024) studies the incentives of a president to make nonally appointments to encourage reliance on bureaucratic expertise. Swank and Dur (2001) study the incentives of politicians to appoint policy advisors with aligned preferences on temporary vs. permanent contracts with an eye on influencing future policy choices. In Zudenkova (2015) cronies provide services that privately benefit the politician while being less productive than experts in their main tasks.

presence of a threat of elite capture.[9] We add to this literature by identifying two motives for appointing low-quality bureaucratic leaders by policy-skeptical politicians due to electoral competition. We also discuss how these same motives may lead to policy-optimistic politicians hiring overqualified bureaucrats and thus in contrast to the extant literature, distortions in quality can be upwards or downwards.

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 in Brazilian municipalities dismiss and hire more staff than non-lame-duck incumbents, resulting in a decline in service delivery in line with our theoretical findings. Bellodi et al. (2024) estimate the effect of a populist mayor on economic performance and the quality of bureaucracy in Italian municipalities. They find that the election of a populist mayor leads to worse economic performance, an increase in turnover among top bureaucrats and a decrease in bureaucrat quality. The authors provide additional evidence that departures were forced, not voluntary. While the strategic incentives to decrease the quality of bureaucracy in our model are not particular to populist politicians, these results are also consistent with the prediction of our model that a skeptical politician may destroy trust and forego economic performance to constrain future opponents or to lower citizens' demand for certain policies. 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), 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).

[9] 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).

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 [e.g. Aghion and Tirole (1997)]. 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.[10] Both P and B are involved in policymaking. The bureaucrat is tasked with designing a policy on a pressing societal problem on behalf of the politician. Then the politician makes the final decision on implementation.[11] Formally, the policy x can be implemented, $x = 1$, or not, $x = 0$. Whether the policy should be implemented depends on its quality, $w \in \{-1, 1\}$, which affects the utility derived from the policy. If $w = 1$, quality is high, and society benefits from implementation. By contrast, if $w = -1$, quality is low and society suffers from implementation.[12] 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. Before P makes the decision, she first receives a signal t about the quality of the policy ω. With probability π (independent of ω), this signal is fully informative, $t = \omega$, while

[10] 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.

[11] As we focus on policy design, this timing is natural. Bureaucrats, as experts, first decide on their input into the draft policy, then the politician takes the final decision of whether to bring the policy to a vote in parliament. In principle, one could model an earlier stage where the politician decides whether to initiate policy design at all. We thus implicitly focus on policies with sufficient urgency such that design has been initiated. Also note that in papers focusing on policy implementation (e.g. Acemoglu et al. (2011) or Gratton et al. (2021)), the timing is naturally reversed, with the politician deciding on policy before the bureaucrat decides on implementation effort.

[12] An example of an arguably badly designed but implemented policy is the U.S. "check-the-box" regime, which meant to simplify the classification rules for organizations for tax purposes but also paved the way for creative tax avoidance planning options. (https://www.uakron.edu/law/lawreview/taxjournal/atj20/docs/Sweitzer201.pdf accessed 04.09.2025)

with probability $1-\pi$ the signal is completely uninformative, $t = \varnothing$, and P stays uninformed. An informed P thus 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 of the policy. We can think of π as the general quality of politicians. A larger π implies that the politician is more often able to assess the quality of policies. An alternative interpretation is that π describes the complexity of policy x. A larger π means that the policy environment is less complex, and thus there are more policies for which P receives an informative signal about their quality.[13]

P's preferences are represented by the utility function

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

where p denotes P's predisposition against implementation. We assume that $-1 < p < 0$. Thus, P is biased towards the status quo $x = 0$ 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 towards $x = 0$. Note that the players' preferences regarding policy implementation are fully aligned if the quality of the policy is known.[14] 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. This allows us to focus on interior solutions and thus situations where policy failures cannot be completely excluded.

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 anticipated effort e^a and her information about w, P chooses $x = 1$ only if $x = 1$ yields a higher expected

[13] Whether the bureaucrat learns ω if $t = \varnothing$ is not critical for our results.

[14] We thus refrain from introducing other potential ideological differences which exist also under full information. We will show that even in such a "common value" environment, P will sometimes have an incentive to appoint an incompetent B.

utility than $x = 0$. B anticipates P's decision, both when $t = \omega$ 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. Trust only matters if P does not observe w. In that case, P must form an expectation about e, e^e. An uninformed P chooses $x = 1$ if

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

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 b. A B who is less predisposed against implementation exerts more effort.

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**.[15] 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 $x = 1$. A more able B makes such an equilibrium more likely, p_H decreases, while a B more predisposed against implementation makes such an equilibrium less likely.

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 $e = e_L$

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

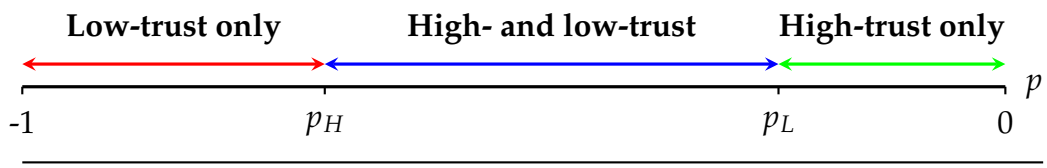
where $p_L \geq p_H$ always holds. If $p \leq p_L$, a low-trust equilibrium exists where an uninformed P chooses $x = 0$. A more able B makes such an equilibrium less likely, while a B more predisposed against implementation makes it more likely.

Proposition 1 presents the possible equilibria of the Model of Trust, and Figure 1 illustrates.[16]

[15] We thus define trust in our setting as an equilibrium belief that B is sufficiently able and put in sufficient effort such that P dares to implement the policy even when she is uninformed about its quality.

[16] 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, $\Pr(w = 1) =$

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 the probability that B designs a socially beneficial policy $\Pr(w = 1)$, which can be considered an index of the quality of a bureaucracy, 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

$a(1 + eh)$ 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.

of politicians in a low-trust country. Bureaucrats become demotivated and work less hard to design good policies when politicians are of lower quality.[17]

One can show that if multiple equilibria coexist, P prefers high-trust equilibrium outcomes over low ones.[18] 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 predisposition towards the status quo is high.[19] 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 quality of the policy w after $x = 0$ 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.

Corollary 1.1. *A high-trust equilibrium features more visible 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.*

[17] 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.

[18] Since P is policy motivated, this implies that a median voter with the same predisposition as P also shares P's preferences. We will extend the model to include voters in Section 7.

[19] 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.

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.[20] Our model contains two parameters that characterize B, his ability, a, and his predisposition against implementation, 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 predisposition towards $x = 0$ is irrelevant.

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:

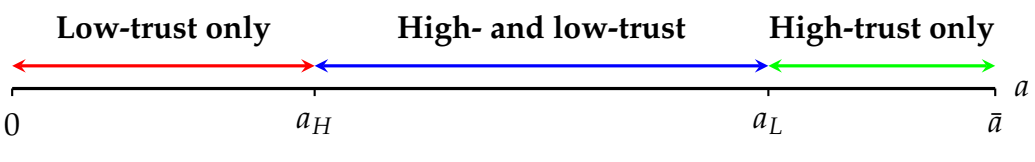
(1) If $a > a_L = \frac{1}{2}(1 - p) - \frac{1}{4}\pi(1 + b)$, the subgame has a unique high-trust equilibrium.

(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-trust 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.**



[20] 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.

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 $a = a_{LT}$ are not the only possible interior equilibrium outcomes of a. As we argue below, equilibria exist in which P chooses an a such that $a \downarrow a_L$ (a approaches a_L from above) to ensure a high-trust equilibrium.

We now argue that depending on $c(a)$ and the other parameters, there are four types of equilibria.[21] 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.[22] Second, P may

[21] 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 $a_H < a < a_L$.

[22] 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.

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.[23] 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 green 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 23), 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 "overinvest" in ability[24], $a > a_{HT}$, 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 to guarantee a high-trust equilibrium is feasible $a_L + e_H \leq 1$.

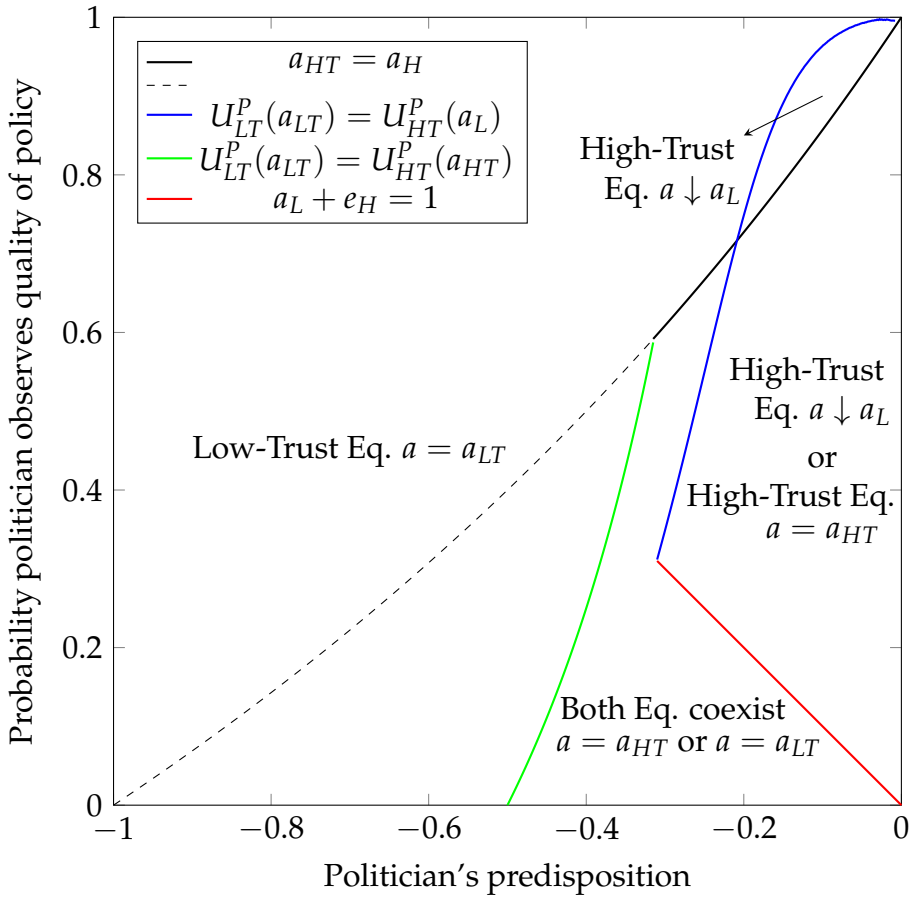
Interestingly, P never wants to choose $a \uparrow a_H$ (a approaching a_H from below) to ensure a low-trust equilibrium if $a_{LT} \geq a_H$ (and thus a_{LT} is either not consistent with the low-trust equilibrium or consistent with both a high- and a low-trust equilibrium).[25] Thus politicians without 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.

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

[24] By this we mean choosing an ability larger than that in an interior solution, a_{HT}, under high trust.

[25] This follows from Corollary 1.1 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 $a \uparrow a_H$.

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



Finally, if ability is very cheap, P chooses the highest ability possible, $a = \bar{a}$ regardless of her predisposition p. 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 2 summarizes the results of this section that are most relevant to the analysis of electoral concerns on policy capacity.

Proposition 2. *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, $a > a_{HT}$, to ensure a high-trust equilibrium. P never underinvests in B's ability, $a < a_{LT}$. Moreover, if $c(a) = 0$ for $a \in [0, \bar{a}]$, $a = \bar{a}$ in any equilibrium.*

The lesson from Proposition 2 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. **Predisposition.** 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 less predisposed towards the status quo has a stronger incentive to exert effort in designing the policy, as effort increases the probability that $w = 1$ and, in turn, the probability that the policy 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 who is not predisposed towards the status quo ($b = 0$), even when P is strongly predisposed towards the status quo ($p = -1$).

This implies, that in our setting P does not adhere to the *ally principle* which states that a politician prefers a bureaucrat who is ideologically aligned (Bendor et al., 2001). Instead, 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 $P \in \{O, S\}$, one more *optimistic* and one more *skeptical* about the policy (to be defined further below), 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 appoint a bureaucrat before the election, who, we assume for simplicity, cannot be replaced after the election. Our results extend qualitatively to a setting where B can be replaced again with a certain probability in the next period or re-hiring is possible but causes disruption or a loss of specific human capital leading to a less effective B in the next period. In Section 2 of the Supplementary Appendix, we discuss the role of self-selection.

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.[26]

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 2 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 a bureaucrat predisposed towards the status quo, $b < 0$.

We assume that S and O have different predispositions towards the status quo, for example, because of differences in ideologies. 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 predisposition towards the status quo. As $o \geq s$, O is more *optimistic* about implementing the policy than S (she needs less evidence that the policy is of high quality to implement it). 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 quality of the policy is observed.[27] 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 $a < \bar{a}$

[26]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.

[27]In the COVID-19 example, party S could represent business interests and party O the general population. Implementing a policy of increased safety measures in the workplace will carry higher implementation costs for businesses than individuals, leading to divergent interests under uncertainty. Thinking about stricter environmental policy, S could represent voters for whom implementation of the policy is costly, for example, because they work or invest in polluting industries, while voters of O face smaller implementation costs.

matters if it destroys trust between O and B. Thus, one requirement for a to matter is 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:[28]

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

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

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

[28] 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.

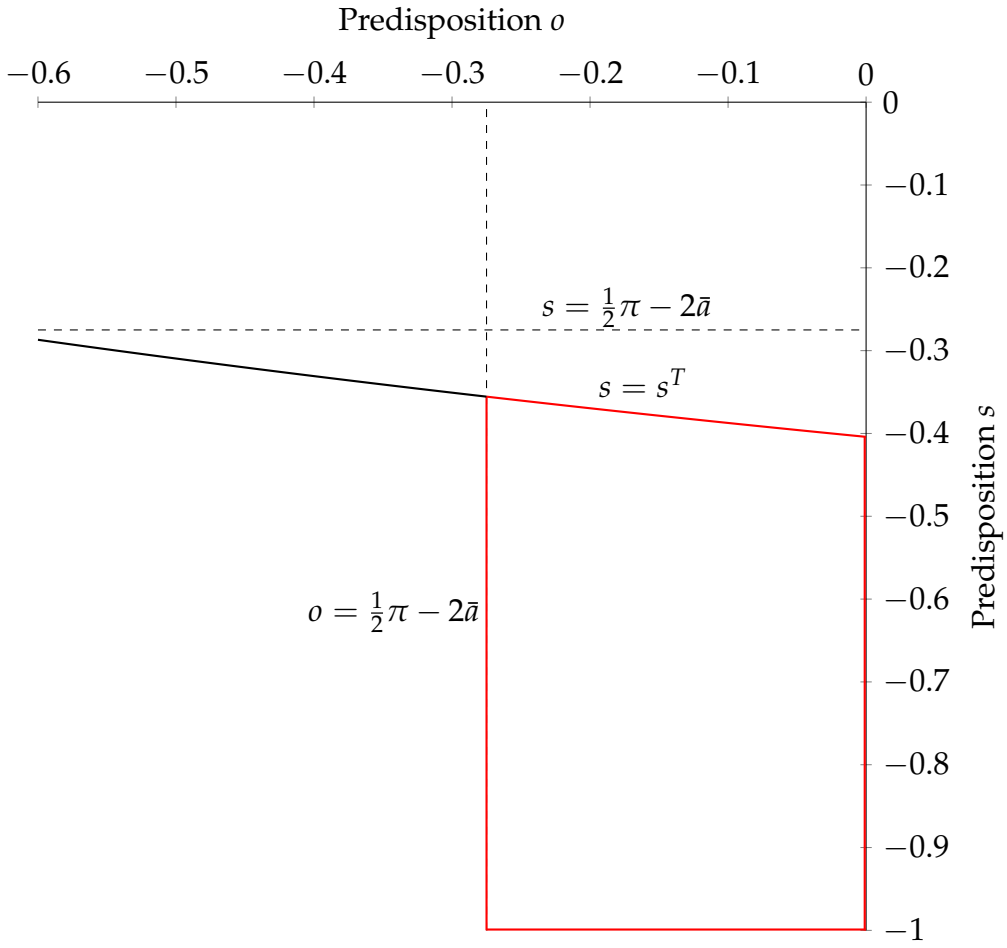
The threshold s_T decreases in ρ. The reason for lowering bureaucracy quality becomes less important if O is less likely to be elected. The effect of π is more nuanced. On the one hand, a higher probability of a more informed politician makes it more costly to lower a, as the benefit of a reduction in 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 3 summarizes the main result of this section.

Proposition 3. *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 3. The area inside the red lines gives the combinations of o and s for which S appoints a mediocre B.[29]

[29]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.**



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 (instead of S) chooses a before the election, she may have an incentive to *overinvest* in the quality of 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 $a = \bar{a}$. Thus, while both parties have an incentive to use bureaucrat appointments to influence future policy, opportunities may be scarcer to do so for O than for S. Consequently, electoral concerns in a polarized society operating through this channel will likely reduce policy capacity.

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. These empirical results are consistent with Proposition 3 and the mechanism we highlight. Finally, he finds that public services decline after an electoral defeat and thus strategic hiring and firing decisions also have consequences for the quality of policy implementation, (which is outside of the current model).

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 thus influencing O's policy choice in S's favor. In this section, we show that appointing mediocre bureaucrats may also serve to influence 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 $s < \frac{1}{2}\pi - 2\bar{a}$.[30] 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.

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

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 the status quo, $x = 0$. Citizens are forward-looking. Each citizen votes for the politician who is expected to deliver higher utility $U_i(x)$. Let v_m denote the median voter's predisposition toward $x = 0$. Because of single-peaked preferences, the median voter's vote determines the election outcome. We assume that nature draws v_m from a uniform density function with interval $[v^e - z, v^e + z]$. P does not observe v_m but knows it distribution. Consequently, when S chooses a and b, the median voter's preferences are uncertain (Calvert, 1985).

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.[31] 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 bureaucratic 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,

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

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

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

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 (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 predisposed towards the status quo 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 predisposition towards the status quo 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 (19) with respect to b gives precisely the same condition.

Proposition 4 summarizes the above discussion.

Proposition 4. *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). Finally, note that in our setting politicians are purely policy motivated. Thus, if the median voter shares the preferences of the policy-skeptic politician, $v_m = s$, such a voter would elect S over O knowing that S will then reduce the quality of bureaucracy for electoral gain. The ultimate motive of S is to ensure a higher chance of conservative policy making, also aligned with the preferences of such a conservative median voter.

8. Conclusion

This paper proposes a theoretical framework for studying the determinants of policy capacity, which we define as the ability of states to enact effective laws, emphasizing 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 draft high-quality policies, reforms are frequent, though also *visible* 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, but may also lead to over-investment in policy capacity. These electoral distortions are relevant in polarized societies, where one party, S, has lost trust in bureaucrats and prefers to implement only policies known to be effective, while the other party, O, trusts bureaucrats and thus implements policies even when uncertain about their quality. In such polarized societies, the skeptical party 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. For the same reasons, the optimistic party chooses to overinvest in the quality of bureaucracy.

Our model shows that the costs of eroding trust can be high in environments where the low-trust equilibrium and the high-trust one initially co-exist. In this context, eroding trust means weakening bureaucrats' incentives to the point where the low-trust equilibrium becomes unique. Society transitions from a high-trust to a low-trust equilibrium. However, reinvesting in bureaucracy does not guarantee a return to the high-trust equilibrium. Initially, the low-trust equilibrium and the high-trust one coexist after all. Hence, in a dynamic context, underinvestment in policy capacity can have long-run consequences. This threat is less clear for overinvestment in policy capacity. If, in a dynamic context, *temporary* overinvestment moves society to a *permanent* high-trust equilibrium, "overinvestment" becomes "investment".

REFERENCES

Acemoglu, D., Johnson, S., and Robinson, J. A. (2001). The colonial origins of comparative development: An empirical investigation. *American Economic Review*, 91(5):1369–1401.

Acemoglu, D., Ticchi, D., and Vindigni, A. (2011). Emergence and persistence of inefficient states. *Journal of the European Economic Association*, 9(2):177–208.

Aghion, P., Algan, Y., Cahuc, P., and Shleifer, A. (2010). Regulation and distrust. *The Quarterly Journal of Economics*, 125(3):1015–1049.

Aghion, P. and Tirole, J. (1997). Formal and real authority in organizations. *Journal of Political Economy*, 105(1):1–29.

Alesina, A. and Tabellini, G. (2007). Bureaucrats or politicians? Part I: A single policy task. *American Economic Review*, 97(1):169–179.

Andreottola, G. and Li, C. (2024). Polarization and policy design. *Journal of Political Economy Microeconomics*, 2(1):1–42.

Austen-Smith, M. D., Dziuda, W., Harstad, B., and Loeper, A. (2019). Gridlock and inefficient policy instruments. *Microeconomics: Welfare Economics & Collective Decision-Making eJournal*.

Baier, A. (1986). Trust and antitrust. *Ethics*, 96:231–260.

Baker, G., Gibbons, R., and Murphy, K. J. (1999). Informal authority in organizations. *Journal of Law, Economics, & Organization*, 15(1):56–73.

Bellodi, L., Morelli, M., Nicolò, A., and Roberti, P. (2023). The shift to commitment politics and populism: Theory and evidence. Working paper, CEPR Discussion Paper No. 18338.

Bellodi, L., Morelli, M., and Vannoni, M. (2024). A costly commitment: Populism, government performance, and the quality of bureaucracy. *American Journal of Political Science*, 68(1):193–209.

Bendor, J., Glazer, A., and Hammond, T. (2001). Theories of delegation. *Annual Review of Political Science*, 4(Volume 4, 2001):235–269.

Berman, D. M. (1966). A bill becomes a law: Congress enacts civil rights legislation. *(No Title)*.

Besley, T., Burgess, R., Khan, A., and Xu, G. (2022). Bureaucracy and development. *Annual Review of Economics*, 14(1):397–424.

Besley, T. and Dray, S. (2024). Trust and state effectiveness: The political economy of compliance. *The Economic Journal*, 134(662):2225–2251.

Besley, T. and Ghatak, M. (2005). Competition and incentives with motivated agents. *American Economic Review*, 95(3):616–636.

Besley, T. and Persson, T. (2009). The origins of state capacity: Property rights, taxation, and politics. *American Economic Review*, 99(4):1218–1244.

Bolton, A., de Figueiredo, J. M., and Lewis, D. E. (2020). Elections, ideology, and turnover in the us federal government. *Journal of Public Administration Research and Theory*, 31(2):451–466.

Bueno de Mesquita, E. and Stephenson, M. C. (2007). Regulatory quality under imperfect oversight. *The American Political Science Review*, 101(3):605–620.

Calvert, R. L. (1985). Robustness of the multidimensional voting model: Candidate motivations, uncertainty, and convergence. *American Journal of Political Science*, 29(1):69–95.

Christensen, J. G., Klemmensen, R., and Opstrup, N. (2014). Politicization and the replacement of top civil servants in denmark. *Governance*, 27(2):215–241.

Daniele, G., Martinangeli, A. F., Passarelli, F., Sas, W., and Windsteiger, L. (2023). Externalities and the erosion of trust. Working paper, CESifo Working Paper No. 10474.

Delfgaauw, J. and Dur, R. (2008). Incentives and workers' motivation in the public sector. *Economic Journal*, 118(525):171 – 191.

Doherty, K. M., Lewis, D. E., and Limbocker, S. (2018). Executive control and turnover in the senior executive service. *Journal of Public Administration Research and Theory*, 29(2):159–174.

Forand, J. G. (2025). Bureaucratic partisanship. Working Paper.

Forand, J. G., Ujhelyi, G., and Ting, M. M. (2022). Bureaucrats and policies in equilibrium administrations. *Journal of the European Economic Association*, 21(3):815–863.

Francois, P. (2000). Public service motivation as an argument for government provision. *Journal of Public Economics*, 78(3):275–299.

Gailmard, L. (2024). The politics of presidential removals. *The Journal of Law, Economics, and Organization*. forthcoming.

Gailmard, S. and Patty, J. W. (2007). Slackers and zealots: Civil service, policy discretion, and bureaucratic expertise. *American Journal of Political Science*, 51(4):873–889.

Gailmard, S. and Patty, J. W. (2012). Formal models of bureaucracy. *Annual Review of Political Science*, 15(1):353–377.

Gieczewski, G. and Li, C. (2022). Dynamic policy sabotage. *American Journal of Political Science*, 66(3):617–629.

Gilligan, T. W. and Krehbiel, K. (1989). Asymmetric information and legislative rules with a heterogeneous committee. *American Journal of Political Science*, pages 459–490.

Gratton, G., Guiso, L., Michelacci, C., and Morelli, M. (2021). From Weber to Kafka: Political instability and the overproduction of laws. *American Economic Review*, 111(9):2964–3003.

Gratton, G. and Lee, B. E. (2023). Drain the swamp: A theory of anti-elite populism. Working paper, UNSW Economics Working Paper 2023-02.

Hirsch, A. V. and Shotts, K. W. (2015). Competitive policy development. *American Economic Review*, 105(4):1646–1664.

Huber, J. D. and Ting, M. M. (2021). Civil service and patronage in bureaucracies. *The Journal of Politics*, 83(3):902–916.

Jo, J. and Rothenberg, L. S. (2012). Rational incompetence. *Journal of Theoretical Politics*, 24(1):3–18.

Klüser, K. J. (2022). From bureaucratic capacity to legislation: How ministerial resources shape governments' policy-making capabilities. *West European Politics*, 46(2):347–373.

Levi, M. and Stoker, L. (2000). Political trust and trustworthiness. *Annual Review of Political Science*, 3(1):475–507.

Niskanen, W. A. (1975). Bureaucrats and politicians. *The Journal of Law and Economics*, 18(3):617–643.

Nordhaus, W. D. (1975). The political business cycle. *The Review of Economic Studies*, 42(2):169–190.

Norris, P. (2011). *Democratic deficit: Critical citizens revisited*. Cambridge University Press.

Osnabrügge, M. and Vannoni, M. (2024). Quality of legislation and compliance: a natural language processing approach. *Political Science Research and Methods*, pages 1–9.

Peletier, B. D., Dur, R. A. J., and Swank, O. H. (1999). Voting on the budget deficit: comment. *American Economic Review*, 89(5):1377–1381.

Rogoff, K. (1990). Equilibrium political budget cycles. *The American Economic Review*, 80(1):21–36.

Sasso, G. and Morelli, M. (2021). Bureaucrats under populism. *Journal of Public Economics*, 202:104497.

Schultz, C. (1996). Polarization and inefficient policies. *The Review of Economic Studies*, 63(2):331–344.

Spenkuch, J. L., Teso, E., and Xu, G. (2023). Ideology and performance in public organizations. *Econometrica*, 91(4):1171–1203.

Swank, O. H. and Dur, R. A. J. (2001). Why do policy makers give (permanent) power to policy advisers? *Economics & Politics*, 13(1):73–94.

Tabellini, G. (2005). The role of the state in economic development. *Kyklos*, 58(2):283–303.

Tabellini, G. and Alesina, A. (1990). Voting on the budget deficit. *American Economic Review*, 80(1):37–49.

Ting, M. M. (2008). Whistleblowing. *The American Political Science Review*, 102(2):249–267.

Toral, G. (2024). Turnover: How lame-duck governments disrupt the bureaucracy and service delivery before leaving office. *The Journal of Politics*, forthcoming.

Uslaner, E. M. (2018). The study of trust. *The Oxford handbook of social and political trust*, pages 3–13.

Valasek, J. (2018). Dynamic reform of public institutions: A model of motivated agents and collective reputation. *Journal of Public Economics*, 168:94–108.

Wilson, J. Q. (2019). *Bureaucracy: What government agencies do and why they do it*. Hachette UK.

Zudenkova, G. (2015). Political cronyism. *Social Choice and Welfare*, 44:473–492.