Bureaucratic Circumvention: Task Allocation in Low Capacity Bureaucracies, with Evidence from Latin America

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Abstract

Unlike in the U.S. and much of Western Europe, politicians in the developing world are often faced with the challenge of delegating policy to non-professional bureaucracies who cannot guarantee outcomes consistent with lawmakers' expectations. I argue that these countries' presidents often circumvent the existing bureaucracy, creating new agencies, outsourcing, or delegating to the armed forces when they seek predictable outcomes. Building on existing delegation games, I develop a formal model of circumvention dependent on bureaucratic capacity, policy importance, and presidential and agency ideologies. These propositions are then tested through maximum likelihood estimation using an original database of delegation decisions from over 35,000 presidential decrees in Latin America. I find that an increase in circumvention is caused by a decrease in existing agency capacity, an increase in the importance of the policy being pursued, an increase in ideological distance between the president and the agent, and a decrease in the cost associated with circumventing. However, these factors have differential effects on individual circumvention strategies.

Keywords: Bureaucracy, Delegation games, Task allocation, Latin America

Honoring policy commitments is germane to politicians' and political parties' electoral prospects. Making good on these commitments influences how politicians and their parties are perceived and ultimately judged at the ballot box. However, politicians in the developing world are often faced with the challenge of delegating policy to non-professional bureaucracies who cannot guarantee outcomes consistent with lawmakers' expectations. What results is an inability to effectively ensure successful policy implementation. A puzzle therefore arises: how do politicians guarantee predictable bureaucratic outcomes in contexts of low bureaucratic capacity? While they may use a combination of procedural control and monitoring similar to politicians in high capacity environments, I argue that politicians in low capacity environments are more likely to employ another mechanism for politically important legislation, that of "bureaucratic circumvention". This consists of bypassing existing government agencies in favor of delegating policies to the military, newly created agencies and executive groups, or outsourcing.

Avoiding the often unwieldy and unpredictable established bureaucracy allows politicians the access to agents with higher capacity or those who are easier to control. In practice, these distinct strategies have been used for decades by Latin American presidents, as with the insulated and modernizing *grupos executivos* that reported directly to President Juscelino Kubitschek in 1950s Brazil (Benevides 1976; Geddes 1994; Brasil de Lima Junior 1998), or the military groups tasked with implementing social welfare policies in contemporary Venezuela (McCoy 1999; Ellner 2001; Trinkunas 2004). In fact, in presidents' quests for greater bureaucratic capacity and/or control, circumvention has appeared across administrations and countries in Latin America. Yet in all of these places, circumvention coexists with normal bureaucratic delegation. The motivating question of this paper is thus, under what circumstances is circumvention used over traditional delegation?

Here I develop and test a model of policy delegation where a single principal must choose between two possible agents, a bureaucrat and a third party. This game builds on canonical delegation models, assuming a multiplicity of agents, and adding an exogenous cost for circumvention and a policy importance parameter. Under this model's assumptions, the probability of circumvention increases as the bureaucrat's capacity decreases, ideological distance between the president and the bureaucrat increases, the cost of circumvention decreases, or policy importance increases, although the model also reveals conditions under which an increasingly distant or incapable agent may still be preferred as their losses are offset by gains in other areas. I test four of these propositions with an original database of delegation decisions from over 35,000 presidential decrees from Latin America. Using maximum likelihood estimation techniques, I not only find statistical support for the hypotheses but also encounter differential effects of these factors on each individual circumvention strategy.

The paper proceeds as follows. The first section examines some of the accepted wisdom regarding delegation of policymaking authority and implementation. It also establishes how a key assumption of these models and explanations, that of high bureaucratic capacity, is violated in many contexts. The second section presents the concept of bureaucratic circumvention as a solution to how many politicians are able to implement their most important policies, describing empirical examples. In section three, I develop a formal model of delegation versus circumvention and derive six propositions. Section four presents the data and runs empirical tests of the theoretical propositions, while section five analyzes these models' results and variables' substantive effects on the probability of circumvention. Section six concludes.

1. The Conventional Wisdom

The conventional wisdom regarding policy delegation from politicians to the bureaucracy is based largely on the U.S. and Western European experience. In these places, lawmakers are confronted with a fundamental tension of delegation in the form of a tradeoff between achieving higher policy expertise and policy control (McCubbins et al. 1987; Epstein and O'Halloran 1994; Bawn 1995). Since the agent (the bureaucracy) is assumed to possess knowledge and expertise that the principals (politicians) lack, it can either use those information advantages to carry out policies that are far more extensive than what was defined in legislation, or use that knowledge and expertise to further personal goals contrary to the politicians' ultimate expectations. Therefore, elected officials are confronted with the question of how to ensure that their policy intentions are faithfully carried out as they intended. The literature examines two chief types of political control: *ex ante* controls, referring specifically to statutory design and administrative procedures (McCubbins et al. 1987; Moe 1990; Gailmard 2009), and *ex post* controls, referring to the monitoring, rewarding, and punishing of agents through such things as hearings, investigations, budget reviews, or legislative sanctions (McCubbins and Schwartz 1984).

However, in many contexts, particularly developing democracies, bureaucratic agencies do not fit the Weberian characteristics of professionalized, high capacity bureaucracies that are assumed in the delegation literature.[1] Low bureaucratic capacity adversely affects policy implementation in at least two ways: 1) pure efficiency loss, and 2) discouraging effective political control. By definition, low capacity bureaucracies are inefficient or incapable of implementing the policies intended by lawmakers. But as Huber and McCarty (2004) find, this

[1] In this context, the capacity is conceptually distinct from the idea of bureaucratic expertise. In the latter case, senior bureaucrats may be experts in their designated policy area, but poorly trained or untrained subordinates, inefficient organizational structure, a lack of resources, and myriad other factors may constrict or alter the implementation of a desired policy.

efficiency loss is compounded by the fact that low bureaucratic capacity diminishes the ability of politicians to influence the actions of bureaucrats. They show that low capacity bureaucrats recognize that their ability to take actions that comply with legislation declines, diminishing their incentive to try to do so. Politicians, then, are less able to use legislation to influence bureaucratic actions when bureaucratic capacity is low.[2] As a result, it may be difficult for bureaucracies to implement policies effectively, even when leaders within the bureaucracy have sufficient expertise to understand which policies will yield desired outcomes.

Politicians in low capacity bureaucratic environments are therefore faced with the problem of generating predictable policy outcomes in environments that hinder them. This is not because lawmakers necessarily care about the ultimate success or failure of the statute (which they might, of course), but because voters ultimately make electoral judgments based on real or perceived outcomes of the laws they write. And despite Huber and McCarty's (2004) advances they do not address how variation in capacity affects delegation strategies (bureaucratic capacity is instead assumed to be uniformly low), and they do not generate a testable theory of successful policy implementation under these circumstances. The question remains: how do lawmakers in countries with low bureaucratic capacity implement important policy?

2. Bureaucratic Circumvention

Even in places with poorly regarded bureaucracies and a significant "implementation gap" (Grindle 2009), politicians have developed ways to successfully implement policy. In many countries, presidents delegate certain visible policymaking authority not to the jurisdictionally

[2] Interestingly, while Epstein and O'Halloran (1994, 1996, 1999) refer to the political principal as a legislature, Huber and McCarty instead use the generic term "politician". This second term is actually more appropriate for the low capacity bureaucratic systems to which Huber and McCarty refer: delegation in Latin America is often (but not always) a presidential rather than legislative directive. I also refer to the principal as a "politician" or "lawmaker".

appropriate government agencies, but to new agencies, out of jurisdiction agents, or other third parties. I broadly call this set of policy delivery actions "bureaucratic circumvention".

Circumvention is a task allocation strategy and policy delivery system that allows politicians to bypass established bureaucratic channels, often with the goal of improving presidential control over the policy or achieving higher implementation efficiency. This is done in at least three different ways: 1) new agency creation, including ministries, executing or executive units, secretariats, institutes, commissions, councils, autonomous agencies, and even government corporations; 2) out of jurisdiction delegation, such as non-defense policy to the armed forces; and 3) outsourcing to the private or non-profit sector. This is conceptually and operationally distinct from "bureaucratic redundancy" or "parallel bureaucracy", concepts that refer to duplication or overlap in the agencies' areas of expertise (Bendor 1985; Landau 1969). Circumvention is not a mechanism to suppress potential errors by another agency or check reliability, but to avoid or replace the role of that agent entirely.

Increased implementation accuracy and efficiency as well as greater presidential control are at the heart of bureaucratic circumvention strategies. New agency creation allows the lawmakers the ability to design and mold an organization suited to the specific needs of a given policy or ideology, and—at least initially—to staff this organization with political cronies, technocrats, or allies. Delegating non-defense policy to the military may help lubricate the relationship between the president and the armed forces, while outsourcing provides the possibility of a market-based solution that is oftentimes more efficient than policy execution by public agencies. Of course, each of these solutions presents an expenditure not incurred by utilizing traditional bureaucratic channels, from monetary costs to personnel.

Circumvention is therefore a strategy that involves a number of different possible strategies. Yet, it is still not clear when the president will prefer circumvention to existing agency delegation (little lone which circumvention strategy is most desirable). To determine this deductively, I develop a formal model of delegation versus circumvention.

3. A Model of Bureaucratic Circumvention

3.1 Setup and Actions

Unlike games in which a legislator must choose between delegating and not delegating (e.g. Epstein and O'Halloran 1994; Bawn 1995), this model follows Huber and Shipan's (2002) "parliamentary model" of delegation where a politician unilaterally establishes legislation and delegates policymaking authority.[3] The intention of the model is to explain delegation from a single principal to one of multiple agents.[4] The game is played by a politician *P*, whose ideal point is $x_p = 0$, a bureaucrat *B*, with ideal point $x_B > x_p = 0$, and a third party agent R, with ideal point $x_R > x_P = 0$, all in a unidimensional policy space.

The game, shown in extensive form in Figure 1, begins with the president promulgating a statute $x \in [\underline{x}, \overline{x}]$. After choosing the statute, the president then delegates policy execution to an existing bureaucratic agent *B* or a third party *R*. If the president circumvents the bureaucracy, she incurs an exogenous cost $c_i > 0$, where subscript i refers to each alternative agency.[5]

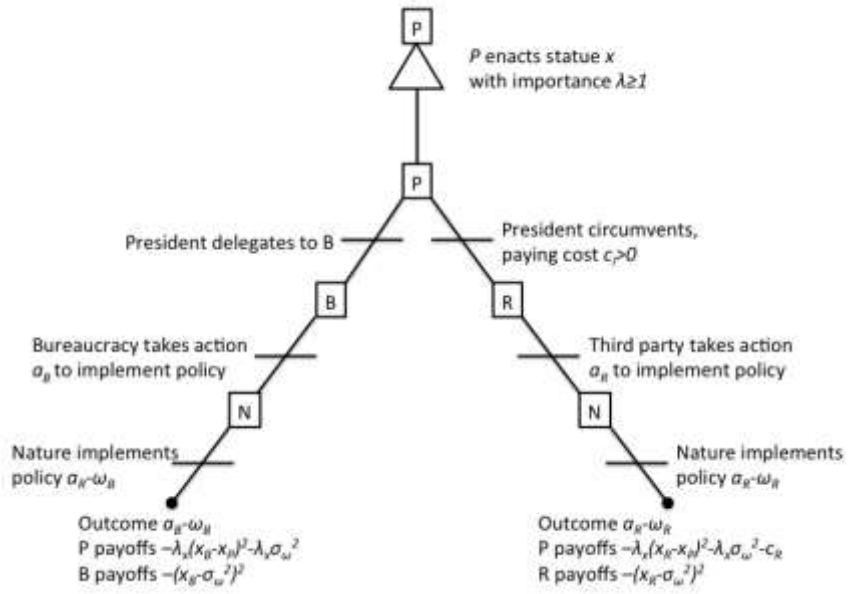
[3] Ting (2011) provides an excellent model of policy outcomes along two dimensions (spatial preferences and capacity), but this is predicated on capacity being endogenous to the game. Here, I follow Geddes (1994), Rauch and Evans (1999), and Rauch (2001) in considering agency capacity to be largely driven by exogenous factors, making the unidimensional model more appropriate.

[4] As a result, I do not include the commonly used "policy shock" term that is included in most models as unknown to the principal, but observed and accounted for by the agent(s). Under common assumptions, this is the variable upon which the principal's decision to delegate or not delegate initially depends.

[5] This will differ according to circumvention strategy. The ability to control policy exists across existing agencies and all circumvention strategies and could be included in the expected utility for each of the elements in the set of circumvention strategies.

After the president makes her delegation decision, the agent (B or R) observes x and executes action a_i. Like Huber and McCarty (2004), I assume that agencies vary in their implementation capacity. Nature implements policy $a_i - \omega_i$ where ω_i is an implementation error for agent i with mean 0 and $\omega_i \in [-\Omega, \Omega]$. The associated probability density function is $f(\omega_i) = \frac{\Omega - |\omega_i|}{\Omega^2}$ with variance $\sigma^2_{\omega_i} = \frac{\Omega^2}{6}$.[6] Since ω_i refers to the implementation error, high capacity bureaucracies have a small magnitude Ω resulting in a higher likelihood of implementation success, and low capacity bureaucracies have a high magnitude Ω resulting in a lower likelihood of policy success. The expected policy outcome is $\tilde{a} = a - \omega_i$.

Figure 1. Extensive form representation of delegation game



The policy space is unidimensional, and actors possess single-peaked, symmetric preferences. Following common practice (and setting aside concerns raised by Bendor and Meirowitz (2004)), I assume that actors are risk-averse. As a result, their utility is represented

[6] An alternative approach might assume a constant probability of $\omega \sim U[-\Omega, \Omega]$, resulting in the uniform density function defined as $f(\omega) = \frac{1}{2\Omega}$. However, here I maintain the non-uniform probability density function approach.

through a quadratic loss function $u_i(x) = -(x - x_i)^2$ that is concave down around their ideal point. The president's preference curve is also shaped by the importance of the policy $\lambda_x \geq 1$, a coefficient that reinforces or mitigates the effect of policy loss. An increase in λ_x indicates a more important policy that will result in a steeper loss function, making implementation error costlier.

3.2 Agent's Optimal Action

In order to choose a statute, the president must anticipate each agent's optimal action. Since implementation error is drawn randomly from the given probability distribution with variance $\sigma^2_{\omega_i}$, it is possible that a_B will actually lie closer to x_P than a_N. Simultaneously, there is an equal probability that a_B is farther than a_N (making the president's delegation decision dependent on her type: risk-averse, risk-neutral, risk-acceptant). The agent's optimal action, however, does not change, regardless of the value of $\sigma^2_{\omega_i}$.

Proposition 1. If $EU_i(a) = -(a_i - x_i)^2 - \sigma^2_{\omega_i}$, then the agent's optimal intended action $a_i^* = x_i$.

Proof. See the Appendix.

The logic behind Proposition 1 is straightforward. Since the agent is unable to determine how the random implementation shock will skew the policy, he always prefers to implement on his ideal point. Second, and importantly, without the possibility of the politician punishing agents for implementation transgressions, agents have no incentive to modify their implementation action towards the president's ideal point x_P, and a_i is always the preferred action.

Further, unlike Epstein and O'Halloran (1994), Bawn (1994), Volden (2002) and others, this model is not concerned with discretion and does not include the politician's policy uncertainty as a parameter observed by the bureaucrat and incorporated into his best response function (normally denoted by *E*). In contrast to the role of ε, here the bureaucrat cannot anticipate the *actual* implementation error, and thus the bureaucrat or new agency's best responses are not able to adjust for this error. In other words, the agent is still unable to anticipate exactly how the random implementation shock will skew the policy. However, he is able to estimate the mean error and make policy adjustments accordingly (although $\omega_i = 0$ in this model).

3.3 Politician's Optimal Delegation Decision

The next step is the politician's optimal delegation decision. Given the uncertainty regarding the final outcome, a president must make her decision based on expected results from each of the potential agents. Since the best action that *P* can induce from *i* when $\bar{\omega}_i = 0$ is $a_i^* = x_i$, *P*'s expected utility from delegating to any *i* is:

$$EU_P(i) = -\int_{-\Omega}^{\Omega} [\lambda_x(a_i^* - \omega_i - x_P)^2 - c_i] f(\omega) d\omega$$

$$= -\lambda_x(x_i - x_P)^2 - \lambda_x \sigma_{\omega_i}^2 - c_i \quad (1)$$

P considers the expected utility in (1) for both *B* and *R*, to determine what her optimal delegation decision is. This equilibrium is expressed in Proposition 2, below.

Proposition 2. If $x_P = 0$ and $\bar{\omega}_i = 0$, the politician will prefer *R* to *B* when $(x_R)^2 + \sigma^2_{\omega_R} + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma^2_{\omega_B}$.

Proof. See the Appendix.

Inequality (2) above captures the politician's logic in deciding between the existing bureaucracy and a third party. This politician must consider the distance between her ideal point and that of each agent, loss from implementation as a function of policy importance, and in the case of the third party, the cost associated with choosing that action over the importance of the policy. But what does this mean for each constituent element? The impact of agent ideology on the president's delegation decision depends on which agent is closer to the president. This is at the center of the following proposition.

Proposition 3. The politician will circumvent the bureaucracy under the following relationships of agents' ideologies:

(i) If $x_R < x_B$, then $\sigma^2_{\omega_B} - \sigma^2_{\omega_R} \geq (x_R)^2 - (x_B)^2 + \frac{c_R}{\lambda_x}$

(ii) If $x_R = x_B$, then $\sigma^2_{\omega_R} < \sigma^2_{\omega_B}$

(iii) If $x_R > x_B$, then $\sigma^2_{\omega_R} < \sigma^2_{\omega_B}$

Proof. See the Appendix.

These three cases show that an increase in x_R relative to x_B (or a decrease in x_R relative to x_B) increase the politician's incentives to circumvent. Informally, this supports the intuition that the closer an agent is to the politician, the more likely the president will delegate to that

agent, while the farther the agent's ideal point, the less likely the president is to delegate policy to him. This is similar to the Ally Principle (Epstein and O'Halloran 1994, 1996), which dictates that delegation will increase to the agent with the most similar preferences. Despite its seeming intuition, this finding is noteworthy because it does not hold in low capacity democracies where the existing agent is the only delegation option (Huber and McCarty 2004) or even in certain simple high capacity circumstances (Bendor and Meirowitz 2004). The reason it holds here is because the president's only action is limited to delegating to the existing agent or circumventing, and she is not allowed to refrain from delegating. This logic is reinforced by the lack of punishment parameters which makes ideal points the agent's optimal actions.

Yet Proposition 3(i) also shows the condition under which a third party agent may be preferred even when it is more ideologically distant from the president than the bureaucrat. Referring back to inequality (2) $(x_R)^2 - (x_B)^2 \leq \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x}$, as x_R and x_B approach each other, then regardless of λ_x and c_R, it remains true that $\sigma_{\omega_R}^2$ must be smaller than $\sigma_{\omega_B}^2$.[7] However, as the value of x_R shrinks relative to x_B, there is an inflection point $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 \geq (x_R)^2 - (x_B)^2 + \frac{c_R}{\lambda_x}$ where $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2$ no longer needs to be positive! In other words, if x_R is sufficiently smaller than x_B—that is, the third party is sufficiently closer to the president than the existing bureaucracy—than the potential implementation error $\sigma_{\omega_R}^2$ can actually be *larger* than $\sigma_{\omega_B}^2$, and the new agent will still be preferred. This implies that an agent who is loyal to the president but completely inefficient may be preferred by the president to an alternative agent

[7] The worst-case scenario for *R* receiving a policy in Proposition 3(i) is that $(x_R)^2 - (x_B)^2$ is minimized near 0, in which case $(x_R)^2 - (x_B)^2 \leq \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x}$ becomes $\sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} < \sigma_{\omega_B}^2$. That is, only when x_R and x_B become essentially indistinguishable, $\sigma_{\omega_R}^2$ must be smaller than $\sigma_{\omega_B}^2$, since $\lambda_x \geq 1$ and $c_i > 0$, making $\frac{c_R}{\lambda_x}$ positive.

who is more efficient but more ideologically distant. Further, the same potential tradeoff applies to agency capacity.

Proposition 4. The politician will circumvent the bureaucracy when *R* and *B*'s capacities are related as such:

(i) If $\sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$, then $(x_B)^2 - (x_R)^2 \geq \sigma_{\omega_R}^2 - \sigma_{\omega_B}^2 + \frac{c_R}{\lambda_x}$

(ii) If $\sigma_{\omega_R}^2 = \sigma_{\omega_B}^2$, then $x_R < x_B$

(iii) If $\sigma_{\omega_R}^2 > \sigma_{\omega_B}^2$, then $x_R < x_B$

Proof. See the Appendix.

These three cases show that an decrease in $\sigma_{\omega_R}^2$ relative to $\sigma_{\omega_B}^2$ (or an increase in $\sigma_{\omega_B}^2$ relative to $\sigma_{\omega_R}^2$) increase the politician's incentives to circumvent. In other words, the lower the capacity of the existing bureaucracy, the more likely the president is to go around it, and the higher the capacity of the new agent, the more likely the president is to use it. This means that independent of other factors such as ideology, cost, and policy importance, low existing agency capacity is not the only factor that may cause a politician to circumvent; the third party agent must offer higher capacity.

Yet, similar to Proposition 3(i), this is not necessarily always the case. Proposition 4(i) shows a relationship of agent ideology in which a more *distant* agent is preferred to a closer one. As $\sigma_{\omega_R}^2$ and $\sigma_{\omega_B}^2$ approach each other, then regardless of λ_x and c_R, it remains true that x_R must be smaller than x_B. Given scenario (i)'s condition that $\sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$, then $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2$ is always positive, and $(x_R)^2 - (x_B)^2$ in inequality (2) $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 \geq (x_R)^2 - (x_B)^2 + \frac{c_R}{\lambda_x}$ does not

necessarily have to be negative. If $\sigma^2_{\omega_R}$ is sufficiently smaller than $\sigma^2_{\omega_B}$, x_R can actually be larger than x_B and the third party agent will still be preferred. That is to say, when a third party agent possesses (or is thought to possess) very high capacity in relation to the existing bureaucracy, or the existing bureaucracy has incredibly low capacity, a president may turn to the third party *even when the existing agent's ideal point is closer*. Circumvention cost and policy importance, however, do not share this type of tradeoff. The expectations for these two variables are straightforward.

***Proposition 5**:* The politician will circumvent the bureaucracy when $c_R \leq \lambda_x[(x_R)^2 - (x_B)^2 + \sigma^2_{\omega_R} - \sigma^2_{\omega_B}]$

Proof. See the Appendix.

***Proposition 6**:* The politician will circumvent the bureaucracy when $\lambda_x \geq \frac{c_R}{(x_R)^2-(x_B)^2+\sigma^2_{\omega_R}-\sigma^2_{\omega_B}}$.

Proof. See the Appendix.

Proposition 5 produces a general, intuitive condition that a decrease in circumvention cost causes an increase in circumvention. Additionally, as c_R grows, there must be a concomitant increase in λ_x, x_R, or $\sigma^2_{\omega_R}$, or a decrease in x_B or $\sigma^2_{\omega_B}$ for the president to prefer circumvention. That is, as it becomes more costly for a politician to circumvent, she will only do so as the policy importance grows, the new agency's ideal point grows closer or its capacity is high, or the existing bureaucracy is ideologically distant or reflects a high degree of incapacity. The value of the exogenous cost serves as a barrier keeping less important policies from

circumventing the existing bureaucracy. Simply put, this result implies that the likelihood of circumvention increases as the cost of circumvention decreases.

Proposition 6 indicates that as policy importance grows, politicians will be more likely to circumvent. A decrease in this value, however, must be met by a decrease in the circumvention cost, an improvement in the new agent's qualities, or deterioration in the existing bureaucrat's qualities. In sum, given a common state of affairs, a politician should always be more likely to delegate a more important policy or policies outside the existing bureaucracy, to the extent that this action is a possibility. However, a politician may circumvent the bureaucracy with relatively unimportant policies, for example, when the existing bureaucratic capacity is incredibly low or the bureaucrat's ideology is distant, or the cost approaches zero.

The second stage of the president's decision-making process is a repetition of the first, except the president is presented with multiple agents instead of two, and the values of the circumvention cost and capacity further vary by agent. The same logic applies in this stage as in the first, since, as set out above, *P*'s expected utility from delegating to *B* in the first stage is merely a special case of the more general one in which $c_i = 0$. In the next section, then, I empirically test Propositions 3-6, and then conduct further estimations to explore how each of the four circumvention sub-strategies responds to the general expectations.

4. Empirical Tests

To test the theoretical propositions, I use an original database of delegation decisions from nearly 35,000 presidential decrees across seven Latin American countries[8] and 21 presidential administrations between 2000 and 2012. Data include the complete palette of executive decree

[8] Bolivia, Brazil, Ecuador, Guatemala, Nicaragua, Uruguay, and Venezuela.

instruments available to specific presidents, from those issued under their constitutional decree authority (CDA) to those delegated by the legislature (delegated decree authority, DDA).[9] Decrees were copied from official government gazettes or registrars, and then coded for a number of characteristics, including but not limited to, 1) whether the content reflected an administrative action, a symbolic action, or a policy; 2) whether the content was local or national in application (or not applicable); 3) whether the content was short- or long-term in scope (or not applicable); 4) whether implementation of the decree involved delegation or circumvention; 5) if circumvention was pursued, which sub-type was used; 6) who the specific implementation agent/s is/are; and 7) classification of the decree content according to 14 distinct area categories, and additional sub-categories.

4.1 Why decrees?

In the Latin American context of exaggerated presidentialism, presidents are the *sine qua non* of lawmaking. Unlike the U.S., where congress controls the agenda and presidential power is largely "negative" (Cameron 2000), Latin America is characterized by a constitutional design that (ostensibly) favors efficiency over deliberation. This institutional arrangement means that circumvention is more likely to occur by presidents bypassing the bureaucracy (and legislature) than the legislature being able to bypass the bureaucracy and president. The collective action problem inherent in legislatures also implies that presidents are more likely to express strong and clear preferences in decrees than other executive-initiated legislation. As a result, although circumvention is possible under any type of legislation, its incidence should be higher in

[9] The included instruments are: *Decreto Supremo* and *Decreto Presidencial* (Bolivia); *Decreto*, *Decreto Não Numerado*, and *Medida Provisória* (Brazil); *Decreto Presidencial* (Ecuador); *Acuerdo Gubernativo* (Guatemala); *Decreto Ejecutivo* (Nicaragua); *Decreto* (Uruguay); *Decreto* and *Decreto de Ley Habilitante* (Venezuela).

presidential decrees than in comparable legislative laws, rules, or statutes. Decrees tend to explicitly delegate policymaking authority to cabinet bureaus, government agencies, or the heads of those bureaus or agencies, which in turn delegate that authority downward in their institutional hierarchy.

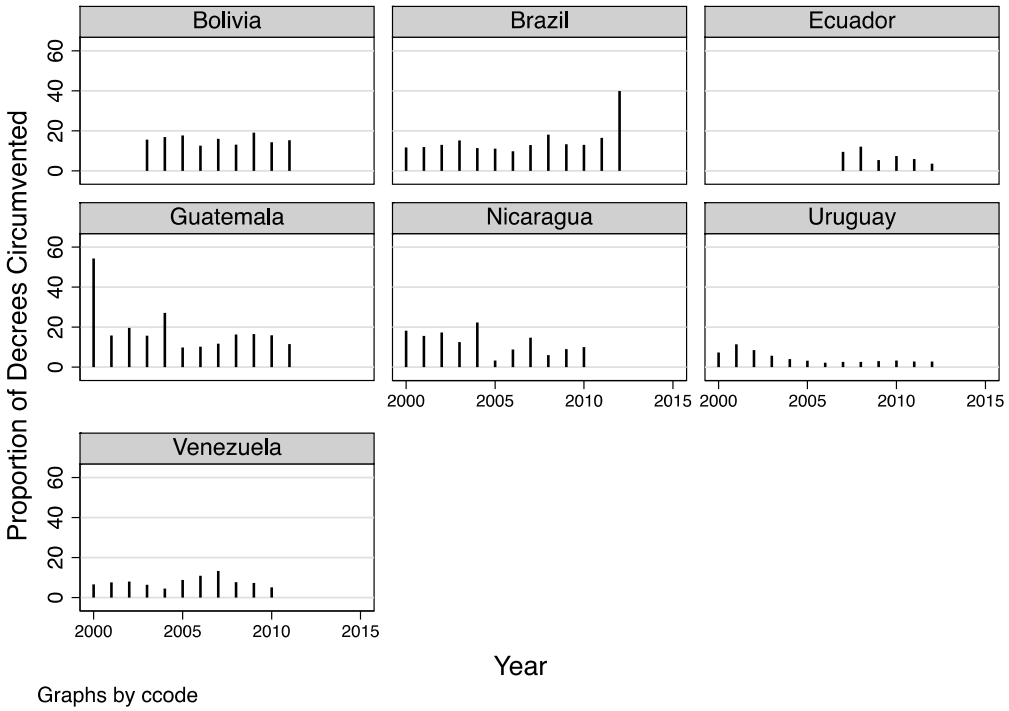
4.2 Dependent variable

Bureaucratic circumvention is first operationalized as a dummy variable, coding the implementation agent as part of the jurisdictionally appropriate public administration (y=0) or a new agency created for that purpose, an out of jurisdiction military agent, or a third party from the private or non-profit sectors (y=1). This classification is further disaggregated into a second dependent, categorical variable specifying no circumvention (y=0), agency creation (y=1), military delegation (y=2), private sector outsourcing (y=3), non-profit outsourcing (y=4), and mixed public-private partnership (y=5).[10]

Circumvention is far from rare in Latin America. Of the data at hand, roughly 9.8% (3,343 of the 34,217) of decrees involved delegation of policy implementation outside of the existing bureaucracy through one of the circumvention mechanisms. As the spike plots in Figure 2 show, there is significant variation in incidence across countries and preferred strategies within countries, with ebbs and flows in the proportion of circumvented policies: from less than 5% in Uruguay to over 20% in some years in Brazil, Guatemala, and Nicaragua.

[10] This category is omitted from regressions because within the range of data, it is only found in Venezuela and only occurs 46 times. I do not fold this into privatization, because it is conceptually different, representing a certain level of government oversight and ideological influence not shared by completely outsourcing tasks to the for-profit sector.

Figure 2. Proportion of circumvented decrees from executive decrees in seven countries



Patterns of preferred circumvention strategies also emerge according to country, and to a somewhat lesser degree, political administration. Agency creation, the most-used tool, is distributed relative equally across countries, with Brazil and Venezuela responsible for the most (Table 1, below). The second-most used tool, private sector outsourcing, is more popular in Brazil, Uruguay, and even Bolivia, than it in Nicaragua or Venezuela, while non-profit outsourcing is most-used by the Guatemalan and Bolivian governments. As could be expected, the election of Bolivia's Evo Morales and Uruguay's Pepe Mujica, two leftists, coincided with dramatic decreases in privatization, and in the former case, an increase in non-profit outsourcing. The least-pursued strategy is military delegation. Brazil, Ecuador, and Venezuela show the greatest proclivity to involve the military in carrying out non-defense policy.

Table 1. Bureaucratic circumvention in nine countries (2000-2012), % of all decrees

Country	Time	None	New	Military	Outsourcing		Total Circ.*	TOTAL
					Private	Non-profit		
Bolivia	2003-10	84.27	3.37	0.86	2.48	8.57	15.29	100
Brazil	2000-12	86.70	5.05	1.07	6.85	0	12.97	100
Ecuador	2007-12	92.08	3.25	2.17	1.82	0.66	7.89	100
Guatemala	2000-12	85.07	5.80	0.05	0.55	8.54	14.93	100
Nicaragua	2000-10	86.55	10.04	0.10	0.80	2.41	13.35	100
Uruguay	2000-12	95.06	2.59	0.15	2.03	0.14	4.91	100
Venezuela	2000-12	91.98	6.69	0.56	0.01	0.10	7.36	100
TOTAL		90.23	4.54	0.71	2.53	1.72	9.49	100

*Excluding 95 cases of mixed enterprises and combinations of delegation strategies, which bring the total percentage to 9.8%

4.3 Independent Variables

4.3.1 Bureaucratic Capacity

I rely on four country-level indicators as operationalizations of bureaucratic capacity: *bureaucratic quality*, *release of information*, *government effectiveness*, and *regulatory quality*. The first of these comes from the Political Risk Service Group's International Country Risk Guide (ICRG), which measures "Bureaucracy Quality" for 140 countries, including all Latin American countries included in the present analysis from 1984 to 2012.[11] In an analysis of different operationalizations of bureaucratic capacity, Hendrix (2010) finds the ICRG bureaucratic quality measure to hold the highest construct validity.

The second measure of bureaucratic capacity is Williams' (2009) original "release of information" indicator, which shows the proportion of data coverage released annually by

[11] The data used is currently limited to the 2000-2005 period, but will be expanded to include bureaucratic quality until 2012.

governments to the World Bank (WB) and International Monetary Fund (IMF). Williams argues that information is a signal of the degree of political and institutional transparency. Consequently, he develops an indicator based on the quantity of reported socio-economic data contained in the World Development Indicators and the International Finance Statistics databases, taking the proportion of data coverage for each country for each individual year. Due to the general increase in data coverage over this time, proportions are taken by dividing a country's raw score in time *t* for each database by the number of categories that had data for at least one country for that year. This measure is highly correlated with the ICRG measure of bureaucratic quality, but offers a finer degree of variation (see Table 2.6 for summary statistics). Unfortunately, due to changes in the International Finance Statistics database, release-of-information scores are only available until 2005.

The last two measures of bureaucratic capacity, *government effectiveness* and *regulatory quality*, come from the World Bank's Worldwide Governance Indicators' database. Unlike the first two indicators, these indicators completely cover the entire time period under study as well as all countries included. Like ICRG scores, they are also calculated following experts' opinions. *Government effectiveness* captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. *Regulatory quality* on the other hand captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Each of these is measured on a -2.5 to 2.5 scale, but re-scaled here from 1 to 100. Of all the indicators, they show the greatest range of scores and variance around

their means. The operationalization of this and all other independent variables is summarized in the Appendix.

4.3.2 Ideological Distance

The second principal independent variable is the ideological distance between the president and the relevant agency to which they would likely delegate a given policy. I proxy this through comparing differences in partisan affiliation of relevant ministers to that of the president. Unlike the single-party cabinets that dominate in the U.S. (Polsby 1978; Best 1981), the multiparty systems of Latin America tend to produce presidents with legislative minorities who shore up their support through cabinet coalitions (Amorim Neto 2006; Martínez-Gallardo 2012) or "majority" presidents from ideologically heterogeneous parties who must distribute portfolios to different party fractions (Chasquetti 2008). This is most clear in the coalition governments of Brazil or Uruguay, where portfolio distribution is the rule rather than the exception. Yet even strong, single-party governments of Evo Morales in Bolivia, Rafael Correa in Ecuador, and Hugo Chávez in Venezuela have included other parties or movements in their cabinets.

I begin by reconstructing ministerial cabinets during the entirety of the relevant time period (see Table 2 for a summary of these data). Of 946 total ministers, 122 (12.8%) were affiliated with a party (or in Uruguay, party fraction) other than that of the president. Predictably, Brazil and Uruguay were the countries with the highest level of non-presidential party ministers, with 64 of 165 (39%) and 38 of 79 (48%) respectively, although all countries had at least two.

Table 2. Summary of ministries and non-presidential party ministers

Country	Period	Ministries	Ministers	Non-Pres. Party
Bolivia	2003-2012	20	131	5
Brazil	2000-2012	25	165	64
Ecuador	2007-2012	29	130	3
Guatemala	2000-2010	14	119	2
Nicaragua	2000-2012	13	84	4
Uruguay	2000-2012	14	79	38
Venezuela	2000-2010	36	238	6
TOTAL	2000-2012	151	946	122

Sources: Polga-Hecimovich, et al. (2012), Annual country reviews from 2006-2011 in *Revista de Ciencia Política*, the Enrique Bolaños Biblioteca (http://enriquebolanos.org/), and newspaper reports of ministerial changes.

Next, using Lodola and Quierolo's (2011) five-point left-right ideological classification of Latin American political parties and adjusting Coppedge's (2010) similar classification, I assign an ideological value to all 21 presidents and all 946 ministers according to their party. The penultimate step simply involves taking the absolute distance between each president's party ideology and his or her relevant cabinet ministers' party ideologies.

Lastly, given the 24-area policy coding for the decrees, I match each area to its appropriate cabinet agency (e.g. labor laws correspond to the Ministry of Labor, infrastructure projects correspond to the Ministry of Public Works or Infrastructure, etc.) during the moment each decree was issued. Through this logic, a public health policy issued by Brazilian President Lula de Silva between January 1, 2003 and July 8, 2005, would be more likely to be delegated to the Ministry of Health and Minister Humberto Costa Lima of the government *Partido dos Trabalhadores* (PT), than a policy issued after July 8, 2005, when the portfolio for the Ministry of Health was held by José Saraiva Felipe of the centrist *Partido do Movimiento Democrático Brasileiro* (PMDB).

4.3.3 Policy Importance

The third major independent variable, *policy importance*, combines three factors recorded from the decrees into a scale: geographical scope (none, local, national), temporal scope (none, short-term, long-term), and electoral timing (first-third of term, second-third of term, last-third of term). First, I assume that policies that affect a larger swath of national territory should be of greater consequence to leaders than local policies, or those without any territorial scope. Secondly, policies with longer time horizons should generally be more consequential than short-term policies. Third, I assume policies sought closer to the end of a president's term are more politically or electorally valuable than those pursued at the beginning of the mandate. This is because as elections approach, it is more important for politicians to shore up public opinion and should find less room for policy error.

Each of these three components—geography, time horizon, and electoral cycle—is given a value of 1 (lowest) to 3 (highest) and then multiplied, so that movement upwards is geometric rather than linear. This produces a 27-point scale, with a decree issued in the first third of a president's term without geographical or temporal implications scoring the lowest (a single point), and a long-term, national policy dictated in the last-third of his or her term scoring the highest (27 points). Or, isolating only the effect of electoral proximity, a short-term, local policy undertaken at the beginning of a president's term should be much less important than a national policy at that same time or the same short-term, local policy at the end of the same president's term.

4.3.4 Circumventing cost

The cost associated with circumvention is context-specific, and depends not only on policy characteristics (e.g. the time horizon and geographical scope), but the ability of the government to incur that circumvention cost. Creating a million dollar agency should not be as easy in a place such as Bolivia as it is in Brazil; the actual value of this cost is a function of the government's total revenue, the size and budget of the military, and the amount of private capital available. As available capital grows, this exogenous cost shrinks, while places with low government revenue and foreign investment should find creating agencies, entrusting the military with policy implementation, and outsourcing more difficult. Given this straightforward conceptualization, I operationalize cost with fiscal data from the World Bank's World Development Indicators database, as well as government revenue and expenses from each country's finance ministry or central bank.

The first indicator, applying specifically to agency creation, is annual government revenue excluding grants in current USD. This captures a government's flexibility in being able to create new agencies. To measure the cost of military delegation, I use total military expenditures in current USD. Lastly, I approximate the ability to outsource through two indicators: annual levels of total foreign direct investment (FDI) inflows, and net official development assistance and official aid received. The first of these, FDI inflows, approximates the level of foreign capital available to outsource. While this admittedly does not give a measure of the private domestic capital available to carry out projects, there should be a high correlation between the two indicators. The second indicator, net development assistance and aid, captures a government's ability to outsource beyond non-domestic entities and the private sector.

4.4 Control variables

Additional variables are included to account for potential alternative explanations and enrich the explanations for variation in delegation actions. To begin, I include an indicator for *country wealth* to account for the possibility that wealthier countries should receive less foreign assistance than poorer ones: annual GDP per capita in constant 2005 USD. Secondly, I include dummy variables if the president is an ex-businessperson, and therefore more likely to turn to the private sector, or ex-military, and thus more likely to turn to the military. These ex-business sector presidents are Álvaro Arzú, Óscar Berger and Álvaro Colom (Guatemala) and Arnoldo Alemán and Enrique Bolaños (Nicaragua), and the ex-military president is Hugo Chávez (Venezuela). Considering new agency creation may be more likely in new policy areas, I control for this through a dummy variable, *new*, coding for a policy not directly related to any existing ministry. An additional control for military heritage, which may lead to increased reliance on the armed forces, is included as a continuous indicator of the number of years since an authoritarian interruption. The penultimate control, dealing directly with an expectation of increased outsourcing as presidential preferences move to the right, is for presidential ideology. This is based on the same 1-5 scale for political parties utilized in the ideological distance variable. The last control is a series of country dummies. All variables are summarized in Table 3.

Given the binary and categorical nature of the dependent variables, I use a combination of logistic regression and multinomial logistic regression (MNL) to evaluate the theoretical proposals. The first set of models uses logistic estimation to test a binary outcome (circumvention versus non-circumvention), while the third model uses the MNL estimator to test the determinants of a categorical outcome variable. Estimations use robust standard errors.

Table 3. Descriptive statistics

Variable	N	Mean	SD	Min	Max
DEPENDENT					
Bureaucratic circumvention	32744	0.10	0.31	0	1
Type of circumvention	32613	0.23	0.81	0	7
INDEPENDENT					
Agency capacity					
ICRG	13981	1.71	0.45	1.0	2
Williams	13981	0.73	0.06	0.5	1
WGI bureaucratic efficiency	31841	43.90	11.24	28.9	63
WGI regulatory quality	31841	43.28	13.30	18.2	64
Ideological distance	32744	0.19	0.61	0	4
Policy importance	32615	4.71	4.51	0	27
Circumventing cost					
Revenue (millions USD)	32246	140325.65	246522.57	567.9	1034386
Military personnel	31937	213687	273010	12000	754000
Military exp. (millions USD)	32146	4850	7880	0	35400
FDI Inflow (millions USD)	32125	7820	14700	-2600	76100
Dev. assist. (millions USD)	31965	272.74	284.64	-389.53	1577.04
CONTROLS					
Per capita GDP	32743	4283.73	1747.76	800.0	7497
Ex-military president (0,1)	32702	0.22	0.41	0	1
Ex-business president (0,1)	32702	0.09	0.29	0	1
New policy areas (0,1)	32744	0.01	0.07	0	1
Time since dictatorship (years)	32743	19.36	9.07	0	43
Presidential ideology (1-5)	32721	2.03	1.17	1	5

5. Results and Discussion

The first series of estimations strongly support the theoretical predictions. Models 4.1-4.4 (Table 4) utilize four different operationalizations of bureaucratic capacity alongside ideological distance, policy importance, and the four corresponding operationalizations of circumvention cost, one for each circumvention category. Across these specifications, the signs, magnitudes, and statistical significance hold for all variables save bureaucratic capacity.

Models 5.1-5.4 (Table 5), add additional estimators to test some of the alternative hypotheses as well as changes in specification as robustness checks. Model 5.1 removes

commissions, committees, and working groups—by far the cheapest and most common agency creation—to see how the remaining variables respond. Results from this specification are consistent with models 4.2-4.4. Model 5.2 then further assesses robustness by dropping all symbolic and administrative decrees from the regression, shrinking the *N* from 31,619 to 11,255. Three of the four key independent variables remain significant in the expected directions. Model 5.3 fills out Model 4.3, which possesses the largest magnitude log-likelihood value of the four baseline models, by adding the additional independent variables and country dummies. *Bureaucratic effectiveness* loses statistical significance in this specification, while *policy importance*, *ideological distance*, and the indicators related to the circumvention cost of new agency creation and outsourcing are significant. All of the country dummies are negative and significant. The final specification in this series, Model 5.4, removes the country dummies, resulting in the best model fit of the second four models. Additionally, *bureaucratic effectiveness* regains statistical significance to $\rho<0.08$. Despite alterations, the significance and signs of the principal independent variables are consistent across these models, strongly supporting the hypotheses.

5.1 Capacity, distance, importance and cost

To begin, the estimations strongly support conclusions from Proposition 3, that an increase in bureaucratic capacity should cause a decrease in the probability of circumvention. Except for the ICRG measure in model 4.1, all capacity variables are negative and statistically significant in the four baseline models.[12] In the other three operationalizations, an increase in the government's administrative capacity decreases the probability of circumvention, with a high degree of

[12] This variable is temporally limited (2000-2005), cutting the sample of observations from more than 31,600 to only 13,759 and eliminating all Ecuadorian data and most of the Bolivian decrees in the process.

certainty. In the second set of tests (models 5.1-5.4), bureaucratic capacity only loses statistical significance in model 5.3. In this case, it appears that the negative and significant country dummy variables are offsetting the effect of bureaucratic capacity. The data show that this logic is not limited to isolated cases, but reflect broader patterns of agency creation and other delegation strategies that are a function of low bureaucratic efficiency.

Similarly, *ideological distance* is also positive and significant across all eight models. This result indicates that as the ideological distance between the president and the agency—or here, the head of that agency—grows, the probability of circumvention also increases. This not only supports Proposition 4, but is consistent with the Ally Principle. Unlike Huber and McCarty's (2004) finding that low bureaucratic capacity decreases incentives for presidents to favor ideological allies, adding additional agents with higher capacity reestablishes the logic underpinning the Ally Principal and produces expectations borne out by reality. Latin American presidents may be able to replace certain ministers whose ideology deviates from their own, but in other cases these ministers will belong to the governing coalition and a level of ideological divergence will be unavoidable. Beyond the minister's ideological predilection, the agency itself may be staffed with bureaucrats who violate neutral competence, not only in low capacity bureaucracies but high capacity ones as well (Clinton and Lewis 2008; Clinton et al. 2012).

Circumvention cost shows mixed results. As this increases (i.e. money or resources grow scarcer), the likelihood of circumvention should decrease (Proposition 5). Unlike the previous three concepts, cost is operationalized with four different fiscal variables that meet expectations to different degrees. Further, these different variables should not apply broadly to circumvention but to specific types of circumvention strategies. As a result, caution should be exercised in evaluating their effects on circumvention in general.

Government revenue, used as a proxy for the ability to create new agencies, is positive and significant in all models except 5.2, which eliminates administrative and symbolic decrees. This means that an increase in revenue is correlated with an increase in circumvention, although this relationship is not robust when the definition of "policy" becomes stricter. Likewise, *FDI inflow* is positive and significant in six of the eight models, with specifications 4.1 and 5.2 (again) as exceptions. So, an increase in foreign direct investment is associated with an increase in the larger data samples, while statistical results from the smaller samples advise exercising some restraint in assuming this relationship. *Development assistance* provides even more ambiguous statistical results, with models 4.1-5.1 showing a positive and significant relationship between this and circumvention, while the variables loses its significance in the fuller models 5.2-5.4. Still, there does appear to be some statistical support for a relationship. The poorest performing variable is military expenditures, which is negative and significant in seven of the eight models, indicating that the amount of money diverted to the armed forces actually correlates to a higher probability of delegation through the bureaucracy than around it.

If these results are encouraging for Propositions 3 and 4, they are unequivocally supportive of the implications of Proposition 6. Not only is *policy importance* positive and significant across all four baseline models, but its significance, magnitude, and sign barely budges from models 5.1 to 5.4. Indeed, these results strongly support the contention that more important policies are likely to bypass the bureaucracy. The removal of administrative and symbolic decrees, which are almost by definition low importance, does not alter these results in Model 5.2, although the magnitude of this variable decreases from above a value of 1 in all other models to around 0.35. This is supported anecdotally: rehabilitation and administration of national highways through concessionaries from northern Mexico to southern Patagonia; Brazil's

conditional cash transfer program appealing to millions of its citizens; Ecuador's ambitious ten year national education plan to meet the United Nations' Millennium Goals; and Venezuela's enormous and missions that are a centerpiece of the country's national social policy. The scope and length of these policies, as well as broad appeal and electoral importance, make their success dearer to politicians than lesser policies.

Table 4. Determinants of bureaucratic circumvention, robust standard errors

	(4.1) coef/se	**(4.2) coef/se**	**(4.3) coef/se**	**(4.4) coef/se**
ICRG capacity	0.477***			
	(0.078)			
Release of information		-1.351*		
		(0.587)		
WGI bureaucratic effectiveness			-0.016***	
			(0.002)	
WGI regulatory quality				-0.015***
				(0.002)
Policy importance	0.106***	0.101***	0.113***	0.116***
	(0.005)	(0.005)	(0.003)	(0.003)
Ideological distance	0.250***	0.252***	0.325***	0.330***
	(0.035)	(0.035)	(0.026)	(0.027)
Government revenue	0.000**	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
Military expenditures	-0.000**	-0.000***	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
FDI inflow	0.000	0.000*	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
Development assistance	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)
Constant	-3.825***	-2.030***	-2.490***	-2.594***
	(0.148)	(0.434)	(0.096)	(0.083)
Number of observations	13,759	13,759	31,619	31,619

Psuedo R2	0.063	0.059	0.081	0.081
Log-Likelihood	-4,334.97	-4,352.88	-9,491.84	-9,488.02

note: *** p<01, ** p<0.01, * p<0.05; Coefficients are expressed as log-odds ratios.

5.2 Substantive effects

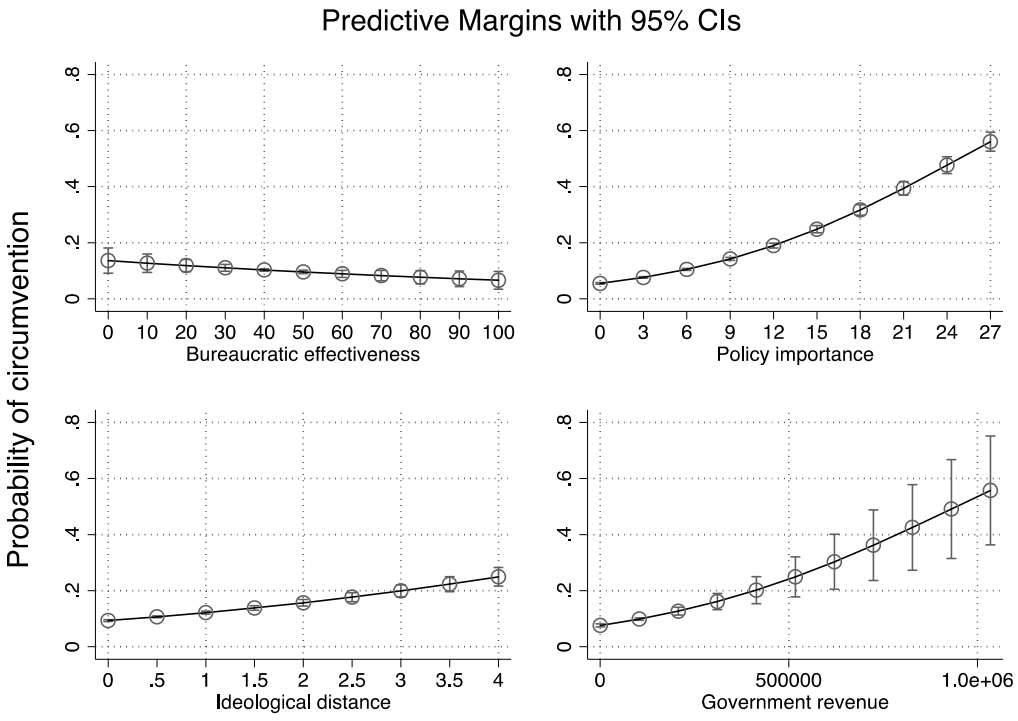
A comparison of the predicted probabilities of circumvention while varying, respectively, *bureaucratic effectiveness*, *ideological distance*, *policy importance*, and the significant *government revenue* variable shows that all four exercise a substantively significant effect. The common y-axis in Figure 3 shows the relative impact of these variables on the probability of circumvention, in each case varying the relevant variable and holding all others at their means. As the two charts on the right in Figure 3 show, *policy importance* and *government revenue* vary the most across the range of possible theoretical values, while the changes in likelihood when *effectiveness* and *distance* vary are smaller. Still, there is movement.

The upper left hand chart in Figure 3 reveals a decrease of nearly 10 percentage points in the probability of circumvention from the minimum level of capacity (16% probability of circumvention) to the maximum (around 6%). This is not only consistent with expectations, but anecdotal evidence. The U.S., for example, is recognized to have a professionalized, meritocratic public administration, and Howell and Lewis (2002) and Lewis (2003), show agency creation there to be rarer than in the majority of lower capacity cases here.

The likelihood of circumvention rises monotonically with an increase in all other variables. As the lower left hand chart in the figure demonstrates, the probability of circumvention rises from 10% when the there is no ideological distance between the president and relative cabinet minister to around 24% at its extreme, and all other factors are held constant. Chances of circumvention increase more steeply over changes in *policy importance*. Policies

without temporal horizons or geographical scopes and issued in the first third of a president's term (a value of 1), have around an 7% chance of bypassing the public administration, while those in the middle ranges of policy importance fall into the 20% range, and long-term, national policies issued in the last-third of a president's term show a 55% likelihood of circumvention. Lastly, government revenue exercises a similar substantive effect on circumvention with the lowest revenue government circumventing in a predicted 7-8% of policies and the largest revenue cases producing estimations above 55% (although, it must be noted, the paucity of cases at this end of the government revenue spectrum engenders an increase in the size of the standard errors). In all cases, changes across the range of values for the relevant variable produce definite movement in the likelihood of circumvention.

Figure 3. Predictive margins of four principal IVs on circumvention, with all other variables held at their means (Model 5.4)



5.3 Alternative hypotheses and discussion

Models 5.3 and 5.4 improve the overall model fit by adding additional covariates intended to test some alternative explanations. *Country wealth* (GDP per capita) is negative and positive in Model 5.4, as expected, but it is not statistically significant in Model 5.3. Ex-military president—Hugo Chávez—in Model 5.4 (dropped in 5.3 because of perfect correlation with the Venezuela dummy) is positive and significant for circumvention, although using only a single ex-military president in the sample severely limits any generalizations.

The other military-related variable *years since authoritarian interruption*, is negative and significant in Model 5.3, as predicted, but loses significance when the country dummies are removed. Further, time removed from an authoritarian interruption is also highly correlated with improvements in the public administration in many Latin American countries, meaning that this variable may instead be catching some of the *bureaucratic capacity* term rather than any real vestiges of a military regime. Even more puzzling than this is *ex-business president*, positive and significant in Model 5.3 and negative and significant in model 5.4. However, little should be taken from this, since it applies specifically to private firm outsourcing and concessions rather than circumvention in general. Lastly, *new policy area* and *presidential ideology*, theorized to apply to new agency creation and private firm outsourcing, respectively, are positive and significant in both models 5.3 and 5.4. New policies are therefore more likely to bypass the bureaucracy, as expected, and rightist president are also more likely to circumvent.

Model 5.3 also includes country dummy variables in an attempt to understand how patterns of circumvention may differ across political contexts. The baseline term against which the country dummies are compared is Bolivia. The negative signs for all dummies indicate that policies are most likely to bypass the bureaucracy in Bolivia than any other country analyzed.

This is not unexpected, given the prevalence of patromonialism and clientelism in Bolivia's public administration (Leyton 1994; Dove 2002; Kaufmann et al. 2002; Gingerich 2013), the high perception of public sector corruption (Lambsdorff 1998; Seligson 2006), and limited fiscal resources, all of which exercise limits on bureaucratic efficiency.

The next most likely places for circumvention are Ecuador (-0.518) and Venezuela (-0.956). Although the figure for Ecuador may be slightly high—it ranks as a mid-level capacity bureaucracy in Latin America according to Zuvanic and Iocaviello (2010)—its level of circumvention in relation to capacity is consistent with those rates in Bolivia (low end) and Brazil (high end). Venezuela's rate of circumvention is logical, given the country's infamous reputation for a bloated and inefficient public sector (Stewart 1978; Iacoviello 2006; Echebarría and Cortázar 2007). Nicaragua and Guatemala fall in the middle as intermediate cases (Zuvanic and Iacoviello 2010), although Guatemala has recently achieved higher public sector governance through public-private partnerships (Birner and Wittmer 2006).

The countries with the largest magnitude coefficients are Brazil and Uruguay. These are logical places, since they are higher-income countries in the region that, although prone to constant administrative reforms, boast rather well functioning bureaucracies (Brasil de Lima Junior 1998; Narbondo and Ramos 1999; Echebarría and Cortázar 2007). Their large coefficients indicate that policies in those places are far less likely to circumvent the bureaucracy than in Bolivia and the other countries included. In sum, despite *bureaucratic efficiency* switching signs in Model 5.3, the country dummy coefficients reinforce the theoretical expectation that bureaucratic circumvention is more likely as administrative capacity shrinks, since the sign and relative magnitude of each country's coefficient is roughly equivalent to stylized perceptions of their administrative capacity.

Table 5. Robustness tests of bureaucratic circumvention, robust standard errors

	(5.1) **coef/se**	**(5.2)** **coef/se**	**(5.3)** **coef/se**	**(5.4)** **coef/se**
WGI bur. effectiveness	-0.019***	-0.024***	0.055***	-0.009^{+}
	(0.002)	(0.003)	(0.013)	(0.005)
Policy importance	0.114***	0.035***	0.128***	0.120***
	(0.003)	(0.004)	(0.004)	(0.004)
Ideological distance	0.331***	0.198***	0.328***	0.318***
	(0.029)	(0.031)	(0.028)	(0.026)
Government revenue	0.000**	0.000	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
Military expenditures	-0.000***	0.000	-0.000***	-0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
FDI inflow	0.000*	0.000	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)
Development assistance	0.001***	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)
GDP per capita			-0.000	-0.000***
			(0.000)	(0.000)
Ex-military president				0.252^{+}
				(0.147)
Years since authoritarian			-0.014**	-0.003
			(0.004)	(0.003)
Ex-business president			0.576*	-0.499***
			(0.250)	(0.092)
New policy area			0.697**	0.657**
			(0.238)	(0.236)
Presidential ideology			0.125***	0.081***
			(0.026)	(0.023)
0=Bolivia				
Brazil			-2.080***	
			(0.347)	
Ecuador			-0.518**	
			(0.181)	
Guatemala			-1.564***	
			(0.296)	
Nicaragua			-1.403***	
			(0.263)	
Uruguay			-3.062***	
			(0.463)	

Venezuela			-0.956**	
			(0.287)	
Constant	-2.852***	-0.419**	-3.771***	-1.617***
	(0.108)	(0.140)	(0.460)	(0.202)
Number of observations	31,619	11,255	31,619	31,619
Pseudo R2	0.087	0.057	0.094	0.088
Log-Likelihood	-7,496.23	-6,232.32	-9,350.62	-9,415.70

note: *** p<01, ** p<0.01, * p<0.05, + p<0.10

Perhaps more than any other variable, the statistically significant results for *bureaucratic capacity* lend important empirical credibility to the concept of circumvention. Capacity is a crucial variable not only because it is a country (or ideally, agency) level variable that differentiates systematic patterns of circumvention across countries or over time, but also because of its role in conditioning or even setting off the causal chain behind circumvention. Given its similar country- and agency-specific traits, the other variable that most approaches capacity is *circumvention cost*. Still, variation in agency capacity provides a stronger impetus for bypassing the bureaucracy than the circumvention cost, and perhaps even the other chief explanatory variables. This is because the presence of a low capacity agency necessitates the institutional innovation or bureaucratic machinations of circumvention in order to better guarantee a successful outcome, whereas simply enjoying the luxury of higher government revenue, foreign investment, or foreign assistance does not *per se* represent sufficient motivation to circumvent. Similarly, while *ideological difference* is an administration level variable and may be sufficient incentive for bypassing that agency, it cannot reflect more general inter-country differences. Likewise, *policy importance*, is obviously specific to each presidential dictate, and should also not vary systematically across countries or over time.

5.4 Determinants of Individual Circumvention Strategies

The multinomial logit estimations in Model 6.1 examine which specific circumvention strategy is more likely to be employed, and if the principal relevant variables have equivalent or differential effects across these strategies. The results are consistent with many of those from the logistic regressions, but also reveal some striking differences in the impact of distinct independent variables across the outcomes of interest. Table 6 shows that bureaucratic capacity is still negative and significant for new agency creation and military delegation. Among other results, the capacity term switches signs for both types of outsourcing! This means that contrary to general expectations for outsourcing, improved bureaucratic capacity actually increases the likelihood of governments seeking out the private sector or non-profits in order to manage policy implementation or carry out that implementation themselves.

This evidence implicitly supports Peters' (2001) argument that outsourcing the provision of public goods in a low capacity environment may not be as effective as in high capacity cases. Presidents make judgments on when to turn to the private sector based on past results, and if those results are mediocre or disappointing in low capacity environments as Peters suggests, then this should discourage use of this strategy. By extension, the reverse is also true. It also supports Robinson (1999) and others, who argue that under certain circumstances, federal bureaus in the U.S. can achieve technical and cost efficiency through outsourcing, and question why more bureaus do not pursue it to improve their policies' technical efficiency.

Unlike *bureaucratic effectiveness*, *policy importance* is positive and significant across all outcomes. An increase in the political importance of a policy unequivocally increases the probability that it will bypass the bureaucracy, regardless of the specific circumvention strategy. *Ideological distance*, too, behaves similarly to how it did in earlier estimations, although it loses

statistical significance for the military delegation and non-profit outsourcing outcomes. An ideological disparity between a president and different agencies therefore is not a motivating factor in pushing the president to seek out the military to implement policy or outsource.

Circumvention cost is the only one of the four main variables whose coefficient and sign are conditional on the specific circumvention outcome and whose empirical impact could not be fully resolved above. Its results are more mixed than *effectiveness*, *importance*, and *distance*. The *government revenue* term, hypothesized to cause an increase in new agency creation, is indeed positive and significant. In fact, it is positive for military delegation and private sector outsourcing as well, only losing its significance when applies to non-profit outsourcing. Similarly, the coefficient for *FDI inflow* is positive and significant for private sector outsourcing, supporting the contention that the probability of seeking implementation assistance from private firms increases with an increase in that type of capital.

However, strongly confounding expectations, *military expenditures* is negative and significant for military delegation (as well as all other categories), indicating an increase in the military budget *decreases* government reliance on it to implement policy. Additionally, the coefficient for the *development assistance* term is also negative and significant for non-profit outsourcing. These contradictory empirical results may reflect poor operationalization of the concept of circumvention cost or biases in the countries and years used. In the case of military delegation, for example, an increase in military expenditures may better reflect expenses dedicated to costly defense department resources, such as infrastructure and technology investments for the organization, rather than money dedicated to development projects. In sum, the statistical results for *circumvention cost* support two of the four possible outcomes in Proposition 5 (new agency creation and private sector outsourcing), while providing negative

signs and contradictory conclusions for the other two outcomes (military delegation and non-profit outsourcing).

Table 6. Multinomial logit regression results, robust standard errors

	Model (6.1)			
Dependent variable:	**New agency**	**Military**	**Private**	**Non-profit**
Bureaucratic effectiveness	-0.038***	-0.046***	0.068***	0.054**
	(0.004)	(0.008)	(0.008)	(0.020)
Policy importance	0.121***	0.122***	0.157***	0.046***
	(0.004)	(0.009)	(0.005)	(0.010)
Ideological distance	0.196***	0.187	0.448***	0.315***
	(0.044)	(0.133)	(0.039)	(0.073)
Government revenue	0.000***	0.000***	0.000***	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Military expenditures	-0.000***	-0.000***	-0.000**	-0.001**
	(0.000)	(0.000)	(0.000)	(0.000)
FDI inflow	0.000***	0.000***	0.000***	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Development assistance	0.000	-0.004***	-0.001***	-0.001***
	(0.000)	(0.001)	(0.000)	(0.000)
Per capita GDP	0.000*	-0.001***	-0.001***	-0.001***
	(0.000)	(0.000)	(0.000)	(0.000)
Years since dictatorship	-0.004	0.015*	0.049***	0.085*
	(0.004)	(0.007)	(0.008)	(0.038)
Ex-business president	-0.628***	-4.381***	-2.215***	0.578**
	(0.120)	(1.004)	(0.274)	(0.177)
New policy area	1.052***	1.260**	-1.150	-19.607***
	(0.260)	(0.468)	(1.020)	(0.199)
Presidential ideology	0.274***	0.101	0.280***	0.002
	(0.036)	(0.068)	(0.046)	(0.062)
Constant	-2.887***	0.187	-6.381***	-4.191**
	(0.238)	(0.561)	(0.384)	(1.476)
Number of observations	31,619			
Psuedo R2	0.1530			
Log pseudolikelihood	-12311.376			

note: *** p<01, ** p<0.01, * p<0.05

6. Conclusions

The motivation for this work is how politicians in contexts of low bureaucratic capacity are able to guarantee the successful implementation of some of their policies. My explanation, which I call "bureaucratic circumvention", takes from the *de facto* actions of Latin American presidents. This project enriches the conventional theory by exploring how low bureaucratic capacity affects policy delegation, and then proposing that the political principal's decision-making process is not restricted to the act of delegating or not delegating policy, but rather deciding to *whom* to delegate policy. In many cases, they appear to delegate prioritized policies to agents other than the normal bureaucratic agents in order to generate more predictable outcomes and/or exercise more control over that agent. Using a formal model, I argue that at least four factors influence the probability of circumvention: lowering existing agencies' capacities, increasing the congruence between the circumventing agent and president's ideal points, lowering the relative cost of circumvention, and increasing policy importance.

I empirically test these predictions using data from over 35,000 presidential decrees in seven Latin American countries between 2000 and 2012. These estimations show that presidents are more likely to circumvent as bureaucratic capacity decreases, policy importance increases, and ideological distance between the president and potential implementation agent increases. Disaggregating the circumvention variable slightly alters the direction and impact of these causes, but the main effects persist. The impact of *bureaucratic efficiency* remains negative, although the signs flips to positive for private sector outsourcing, with estimations showing that an increase in agency capacity causes an increase in the probability of outsourcing to a private firm. At the same time, *ideological distance*, *policy importance*, and two of the four *cost*

categories remain positive. The results not only support the hypotheses but also confirm the validity of bureaucratic circumvention as a phenomenon and political strategy for presidents.

This research should enhance delegation and task allocation theories by highlighting a broader range of possible strategies and consequences in the delegation "game" between lawmakers and bureaucrats. The resulting conclusions should therefore extend beyond Latin America to myriad political systems with low capacity bureaucratic agents, and may also inform executive and agency behavior in high capacity cases such as the United States. Further, the consistency and statistical robustness of these models provide evidence that bureaucracy-, policy-, and president-specific factors all exercise effects on whether or not policies are implemented through established bureaucratic agencies or channeled around them. Changes in characteristics along any one of these dimensions may cause concomitant variations in the probability of circumvention strategy, but all three must be considered.

APPENDIX: Game Proofs

Proposition 1. If $EU_i(a) = -(a_i - x_i)^2 - \sigma^2_{\omega_i}$, then the agent's optimal intended action $a_i^* = x_i$.

Proof. Given that *P* delegates, both *B* and *R* have complete discretion to choose any action a. *P* does not move after *B* or *R*, so no learning is involved. *B* and *R*'s optimal implementation strategy is derived from the expected utility function

$$-\int_{-\Omega}^{\Omega} (a_i - \omega_i - x_i)^2 f(\omega) d\omega$$

Further, the mean implementation error term ω_i can be dropped since, as defined above, its value is 0. As a result, the expected utility can be re-written as:

$$EU_i(a) = -(a_i - x_i)^2 - \sigma^2_{\omega_i}$$

Then, the agent's optimal action solves the first order condition (FOC) of the expected utility $x_i - a_i^* = 0$, which leads to the intuitive ideal action $a_i^* = x_i$.

Proposition 2. If $x_P = 0$ and $\bar{\omega}_i = 0$, the politician will prefer *R* to *B* when $(x_R)^2 + \sigma^2_{\omega_R} + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma^2_{\omega_B}$.

Proof. Following the expected utility in (1), $EU_P(B) = -\lambda_x(x_B - x_P)^2 - \lambda_x\sigma^2_{\omega_B} - c_B$ and $EU_P(R) = -\lambda_x(x_R - x_P)^2 - \lambda_x\sigma^2_{\omega_R} - c_R$. However, c_B=0 since delegating to B incurs no exogenous cost, $EU_P(B)$ reduces to $-\lambda_x(x_B - x_P)^2 - \lambda_x\sigma^2_{\omega_B}$. Given these expected utilities, *P* will choose to delegate to *R* when $EU_P(R) \geq EU_P(B)$:

$$= -\lambda_x(x_R - x_P)^2 - \lambda_x\sigma^2_{\omega_R} - c_R \geq -\lambda_x(x_B - x_P)^2 - \lambda_x\sigma^2_{\omega_B} - c_B$$

And since $x_P = 0$ as defined above, this further reduces to

$$= -\lambda_x(x_R)^2 - \lambda_x\sigma^2_{\omega_R} - c_R \geq -\lambda_x(x_B)^2 - \lambda_x\sigma^2_{\omega_B}$$

(2) $$= (x_R)^2 + \sigma^2_{\omega_R} + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma^2_{\omega_B}$$

Proposition 3. The politician will circumvent the bureaucracy under the following relationships of agents' ideologies:

(i) If $x_R < x_B$, then $(x_R)^2 - (x_B)^2 \leq \sigma^2_{\omega_B} - \sigma^2_{\omega_R} - \frac{c_R}{\lambda_x}$

(ii) If $x_R = x_B$, then $\sigma^2_{\omega_R} < \sigma^2_{\omega_B}$

(iii) If $x_R > x_B$, then $\sigma^2_{\omega_R} < \sigma^2_{\omega_B}$

Proof. (i) Given that $x_P = 0$, inequality (2) $(x_R)^2 + \sigma^2_{\omega_R} + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma^2_{\omega_B}$ simplifies to $(x_R)^2 - (x_B)^2 \leq \sigma^2_{\omega_B} - \sigma^2_{\omega_R} - \frac{c_R}{\lambda_x}$.

(ii) Given $x_R = x_B$ and the condition defined above that $x_i > 0$, then inequality (2) $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$ simplifies to $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 \geq \frac{c_R}{\lambda_x}$. And since $\lambda_x \geq 1$ and $c_i > 0$, $\frac{c_R}{\lambda_x} \in (0, \infty]$, then $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 \geq \frac{c_R}{\lambda_x}$. As such, $\sigma_{\omega_B}^2 > \sigma_{\omega_R}^2$ is *always* true for presidents to delegate to *R* when $x_R = x_B$.

(iii) Inequality (2) states that $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$. Given $x_R > x_B$ and $x_i > 0$, $(x_R)^2 - (x_B)^2$must be positive, and since $\lambda_x \geq 1$ and $c_i > 0$, $\frac{c_R}{\lambda_x}$ must also be positive. Therefore, like in Proposition 3(ii), $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 > 0$, which simplifies to $\sigma_{\omega_B}^2 > \sigma_{\omega_R}^2$. This condition must be true for the president to choose *R* whenever $x_R > x_B$.

Proposition 4. The politician will circumvent the bureaucracy when *R* and *B*'s capacities are related as such:

(i) If $\sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$, then $\sigma_{\omega_R}^2 - \sigma_{\omega_B}^2 \leq (x_B)^2 - (x_R)^2 - \frac{c_R}{\lambda_x}$

(ii) If $\sigma_{\omega_R}^2 = \sigma_{\omega_B}^2$, then $x_R < x_B$

(iii) If $\sigma_{\omega_R}^2 > \sigma_{\omega_B}^2$, then $x_R < x_B$

Proof. (i) Inequality (2) $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$ can be arranged as $\sigma_{\omega_R}^2 - \sigma_{\omega_B}^2 \leq (x_B)^2 - (x_R)^2 - \frac{c_R}{\lambda_x}$. Since $\sigma_{\omega_R}^2 < \sigma_{\omega_B}^2$, this inequality cannot be further simplified.

(ii) Given $\sigma_{\omega_R}^2 = \sigma_{\omega_B}^2$, then inequality (2) $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$ simplifies to $(x_R)^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2$. And since $\lambda_x \geq 1$ and $c_i > 0$, $\frac{c_R}{\lambda_x}$ must be positive. As such, x_R must always be smaller than x_B when $\sigma_{\omega_R}^2 = \sigma_{\omega_B}^2$.

(iii) Inequality (2) $(x_R)^2 + \sigma_{\omega_R}^2 + \frac{c_R}{\lambda_x} \leq (x_B)^2 + \sigma_{\omega_B}^2$can be rearranged as $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2 - \frac{c_R}{\lambda_x} > (x_R)^2 - (x_B)^2$. Given that $\sigma_{\omega_R}^2 > \sigma_{\omega_B}^2$, $\sigma_{\omega_B}^2 - \sigma_{\omega_R}^2$ must be negative, and since $\lambda_x \geq 1$ and $c_i > 0$, $\frac{c_R}{\lambda_x}$ must be positive. Therefore when $\sigma_{\omega_R}^2 > \sigma_{\omega_B}^2$, $(x_R)^2 - (x_B)^2$ *must* be smaller than 0, and $x_R < x_B$.

Proposition 5: The politician will circumvent the bureaucracy when $c_R \leq \lambda_x[(x_R)^2 - (x_B)^2 + \sigma_{\omega_R}^2 - \sigma_{\omega_B}^2]$

Proof. From equation (1) $-\lambda_x(x_R)^2 - \lambda_x\sigma_{\omega_R}^2 - c_R \geq -\lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_B}^2$,

$$c_R \leq -\lambda_x(x_R)^2 + \lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_R}^2 + \lambda_x\sigma_{\omega_B}^2$$

$$= c_R \leq \lambda_x((x_B)^2 - (x_R)^2 + \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2)$$

Proposition 6: The politician will circumvent the bureaucracy when $\lambda_x \geq \frac{c_R}{(x_R)^2 - (x_B)^2 + \sigma_{\omega_R}^2 - \sigma_{\omega_B}^2}$.

Proof. From equation (1) $-\lambda_x(x_R)^2 - \lambda_x\sigma_{\omega_R}^2 - c_R \geq -\lambda_x(x_B)^2 - \lambda_x\sigma_{\omega_B}^2$,

$$c_R \leq -\lambda_x (x_R)^2 + \lambda_x (x_B)^2 - \lambda_x \sigma_{\omega_R}^2 + \lambda_x \sigma_{\omega_B}^2$$

$$= c_R \leq \lambda_x ((x_B)^2 - (x_R)^2 + \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2)$$

$$= \lambda_x \geq \frac{c_R}{(x_B)^2 - (x_R)^2 + \sigma_{\omega_B}^2 - \sigma_{\omega_R}^2}$$

Variable operationalizations and sources

Variable	Operationalization	Source
DEPENDENT		
Bureaucratic circumvention	0 delegation to existing agent; 1 circumvention	Decrees
Type of circumvention	0 none; 1 agency creation; 2 military; 3 privatization; 4 other outsourcing	Decrees
	0 commissions, etc.; 1 mid-level agencies; 2 cabinet-level	Decrees
INDEPENDENT		
Bureaucratic capacity	1) Bureaucratic quality, 0-4 scale	Political Risk Service's International Country Risk Guide (ICRG)
	2) Bureaucratic effectiveness, 0-100 (rescaled from -2.5-2.5)	World Governance Indicators (WGI)
	3) Regulatory quality, 0-100 (rescaled from -2.5-2.5)	World Governance Indicators (WGI)
	4) Release of Information, 0-1 scale	Williams (2009)
Ideological distance	Ideological distance between president and most relevant cabinet minister (1-5 scale)	Lodola and Quierolo (2011), Coppedge (2010), Polga-Hecimovich, et al. (2012)
Policy importance	Scale (geographical scope, temporal scope, and electoral timing)	Decrees
Circumventing cost	3a) Government revenue, budget	World Development Indicators (WDI), individual governments
	3b) Military budget	World Development Indicators (WDI)
	3c) Amount of FDI (t-1), domestic investment (t-1)	World Development Indicators (WDI)
Policy area dummies	Dummy variables for each policy area	Decrees
Country wealth	Annual per capita GDP	World Development Indicators (WDI)
Ex-military president	0 non-military, 1 military	
Ex-business president	0 non-business, 1 business	
New policy areas	Dummy for new policy area	
Ex-military government	Years since military dictatorship	
Rightist ideology	0 Left, 1 Right	
Country dummies	Dummy variables for each country	

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