Political Institutions and Administrative Red Tape

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Abstract

Why does business face more red tape in some countries than in others? This paper engages the institutionalist debate on which political institutions lead to lower levels of red tape. The theoretical part argues that red tape is the effect of both extreme concentration and extreme separation of powers. When powers are extremely concentrated, unconstrained rulers resort to burdensome administrative procedures as a means for overcoming their credibility problems. Red tape is a consequence of the burdensome procedures necessary to offer guarantees to private investors that impartiality and fairness will prevail in their relationships with the state. On the contrary, when powers are extremely separated, veto players use red tape to control each other. The empirical results show a nonlinear relationship between veto players and red tape: the number of veto players initially reduces red tape, but, after a given point, it increases the pervasiveness of red tape in a country.

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“To a drowning victim, any flotsam or jetsam within grasp is more precious than knowledge of Archimedes’ principle of buoyancy. Extending and compounding the metaphor, on who is ‘drowning’ in red tape understandably has little patience with theorizing. However, the neglect of systematic theoretical thinking about red tape has contributed in large measure to the ambiguity that surrounds the topic”
Bozeman (1993: 297)

Red Tape versus White Tape

In the public debate, reports and statements by international organizations, policymakers, business-consumers associations and media commentators recurrently remind us that red tape matters and that it matters differently around the world. In some countries all interactions with the state, irrespective of their nature, are systematically covered by extensive red tape. For example, in Argentina, starting a business requires 15 administrative procedures, which take around 27 days and generate a cost of 11% of the annual income per capita. Obtaining a construction permit also requires an important investment of time and resources, taking 28 procedures, 338 days and 145% of the annual income per capita. Filing tax forms entails 453 hour/year for an average firm, while enforcing contracts takes up to 590 days. Red tape is even more extensive in countries like Guinea, where, in addition to the 13 procedures and 41 days, starting a business requires a cost equivalent to 139% of the annual income per capita. Overcoming the red tape for getting a construction permit escalates to 249% of the annual income capita and an average of 255 days. Even worse, red tape delays construction, on average, 629 days in Ivory Coast. The hours invested for paying taxes also involve more than 400 hours and enforcing contracts may require around 50 administrative procedures with a cost that may go over a staggering 45% of the claim (World Bank 2010).
On the contrary, in a country like New Zealand, an entrepreneur can start a business with one single procedure in one day and paying a 0.4% of the annual income per capita. Obtaining a construction permit takes barely 7 procedures, 65 days and a cost of 37% of the annual income. Not only business-friendly Anglo-Saxon countries lack costly red tape, but Nordic countries with big governments also exhibit very limited red tape. In Denmark a business can start its operation with four procedures, in less than one week and with zero cost. Similarly, construction permits can be obtained with only 6 administrative procedures and within 69 days. Average firms only need to invest around 100 hours a year in these countries to fill tax forms and they can see their contracts enforced in less than one year with very limited administrative costs (World Bank 2010).

Despite these stark contrasts in the burden red tape represents for the citizens and economic agents operating in different countries, scholarly analyses in political science and public administration have paid little attention to red tape in general and to cross-national differences in particular. We know little on what leads to red tape and why some countries suffer from it more than others. Years after Bozeman (1993: 273) stated that “theory [of the origins of red tape] remains poorly developed” while Rainey, Pandey and Bozeman (1995: 567) complained that the “scholarly analyses of red tape have been relatively rare”, we still lack theoretical advancements on why some governments seem keener than others in generating red tape. This paper aims to fill that gap in the scholarly literature by providing both a theoretical and an empirical contribution to the study of red tape.

The first challenge this paper faces is delimiting the boundaries of its dependent variable: red tape. The lack of consensus in the literature about a common scientific
conceptualization of red tape is precisely the main reason why “questions of cause [of red tape] are rarely even posed, much less answered” (Bozeman 1993: 298). The difficulty for developing an operational definition of red tape is related to its intrinsic subjectivity. What some people see as irritating red tape (e.g. producers of a certain good), others may see as an essential rule or procedure to guarantee their basic rights (e.g. consumers of that good) (Rainey, Pandey and Bozeman 1995: 568). Red tape frustrates some individuals, but benefits others and, all in all, may contribute to the social welfare (Goodsell 1985). As Kaufman (1977: 29) famously stated, “every restraint and requirement originates in somebody’s demand for it…we would be appalled by the resurgence of the evils and follies it [red tape] currently prevents.” Nevertheless, the cross-country examples depicted above reveal to us that red tape may provide social benefits in some polities, but not in others. In countries like Argentina or Italy – and to an even larger extent in Guinea, Ivory Coast or Iraq – we are actually appalled by the evils red tape produces.

Therefore, we need to conceptually distinguish between these two types of tape: the necessary rules and administrative procedures that contribute to the social welfare guaranteeing essential rights – i.e. “white tape” (Wintrobe 1982, Bozeman 1993) – from the “excessive constraints” (Buchanan 1975) that diminish social welfare – i.e. “red tape”. All states need to develop a certain amount of “good” or “white tape” (Bozeman 1993: 279). States’ internal operations and external relations with individual or collective agents always entail a level of formalization, through written rules, procedures, instructions and communications. Yet, as Bozeman (1993: 276), following Rosenfeld (1984), argues in one of the most elaborated conceptual discussions on the topic, red tape may be conceptually differentiated from white tape and be defined as a “pathology”: 
when “the sum of government guidelines, procedures, and forms are perceived as excessive, unwieldy, or pointless in relation to official decisions and policy.” Similar to some posterior studies (e.g. Rainey, Pandey and Bozeman 1995), this paper uses Bozeman’s (1993: 283) definition of red tape as “rules, regulations and procedures that remain in force and entail a compliance burden” (i.e. like white tape) and that “have no efficacy for the rule’s functional object” (i.e. unlike white tape).

The existing literature on red tape has mostly focused on the differences in red tape between private and public organizations. With some exceptions (Buchanan 1975), the vast majority of authors note higher levels of red tape in government organizations, from classic theoretical works (e.g. Dahl and Lindblom 1953, Downs 1967, Niskanen 1971) to empirical studies (e.g. Baldwin 1990, Bretschneider 1990, Rainey, Pandey and Bozeman 1995), mostly within the United States. Yet differences in red tape within organizations delivering the same services (e.g. business licenses) across countries have been overlooked in this literature.

As a result, the theoretical hypotheses that have been tested are typically of an organizational nature. For example, what drives red tape is that some public organizations have a high level of goal ambiguity in (e.g. Allison 1983, Mainzer 1973), a high level of insecurity (Warwick 1975, Rainey, Pandey and Bozeman 1995) or their managers are trapped in a problem of reward expectancies: since they cannot claim rights to the profits derived from an efficient performance in their units (Niskanen 1971), they may use red tape as a strategic tool to obtain benefits such as resisting budgetary or staff cutbacks (Rainey, Pandey and Bozeman 1995). A prevailing classical view in the literature is that red tape is an unintended consequence: public managers cope with the
enormous uncertainty associated with complex policy making by constantly creating new rules, and inadvertently they create more red tape (Simon 1947). On the contrary, analyzing cross-country differences, the focus of this paper is on hypotheses of a political nature: why do some political systems appear more likely to create red tape while others stick to necessary white tape?

The paper presents a theory of red tape based on theoretical developments in delegation theory and political economy of bureaucracies. In particular, the paper puts forward a hypothesis based on the opposite predictions on the bureaucratic “pathologies” created by a given configuration of political power posed by Terry Moe (1989, with Caldwell 1994) and Gary Miller (1992, 2000, with Falaschetti 2001).

On one hand, Terry Moe argues that in a political system such as the United States – a separation of powers system – the prevention of interference from future coalitions results in a cumbersome, grossly inefficient style of governance, that is laden with checks and balances (1989). Conversely, Moe and Caldwell argue that a Westminster, parliamentary system, in which one party controls the executive and the legislative branches of government, the incentive to create such checks and balances is absent and agencies are not burdened by as many procedural hurdles. In a Westminster system it does not make sense for the current (all-powerful) cabinet to try to encapsulate its policies through detailed regulations because the future (also all-powerful) cabinet will not have difficulties to reverse those regulations. In a parliamentary or one-veto-player polity the number of administrative procedures would *ceteris paribus* be the one considered as optimal by the executive to implement its preferred policies. The burden of
red tape would thus be as low as possible. Thus, Moe’s research appears to suggest that fewer veto players in government can lead to less red tape.

On the contrary, Gary Miller’s (1992) work points out in the opposite direction. Bureaucratic pathologies are more likely to emerge when powers are concentrated because the “principals” of the organization lack credibility – i.e. they can take opportunistic ex post actions – and they need to compensate their “excessive powers” by tying their hands with “excessive rules”. In the private realm, when ownership is very concentrated in a few hands, managers need to resort to more detailed corporate laws to offer guarantees to employees and stakeholders and, in the public sector, a high degree of concentration of powers should also lead to more detailed bureaucratic rules (Miller and Falaschetti 1999). In an application of Miller’s argument to the development of Spanish bureaucracy, Lapuente (2007) offers narratives on how, on the brink of economic collapse in the 1950s, Spanish dictator Francisco Franco, one of the most unconstrained rulers of the time, “tied his hands” with the enactment of numerous and encompassing regulations and administrative procedures as a mechanism to gain credibility in the eyes of both (foreign and domestic) investors and also public employees. As a result, Spain, one of the Western political systems with higher concentration of powers adopted an Administrative Procedure Act (APA) in 1958 which parallels the APA adopted by the U.S. in 1946. However, dictatorships may also be characterized by high levels of red tape, due to lack of expertise within the bureaucracy or because dictators can favor particular business actors and use red tape as barriers to entry for new business participants (Djankov et al 2002).
This paper reconciles Moe’s and Miller’s opposing predictions on the effects of concentration of powers over bureaucratic pathologies into a unified theory. Because authoritarian systems also will tend to have high levels of administrative procedures, we expect that an initial increase in veto players ought to result in less red tape. However, as the number of veto players gradually increases, and we enter the realm of separated power systems and consensual parliamentary systems, veto players are more conscious of potential principal-agent problems, in addition to what future coalitions may attempt to do. Thus, in these cases we are entering a Moe-like world, and we can expect an increase in the prevalence of bureaucratic procedures and red tape. In other words, veto players would have a curvilinear effect on the level of red tape: negative when we move from regimes with one all-powerful veto player to some veto players; and positive from there onwards. Red tape would thus be the effect of both extreme concentration and extreme separation of powers. The remainder of the paper is organized as follows. Section 2 presents the theory of red tape, Section 3 introduces the data from the Quality of Government dataset (Teorell et al. 2008) utilized to examine the potential relationship between veto players and red tape, and Section 4 discusses the results and normative implications of this research.

Which political systems produce more red tape?

The Terry Moe View: Separation of Powers and Bureaucratic Pathologies

The first building block of the theory presented here comes from insights developed in the study of delegation between governments and bureaucrats. The cornerstone idea is that politicians attempt to insulate bureaucratic agencies from political
influence in order to ensure credible commitment. This idea harks back to Weber’s ideal type of bureaucracy in which administrative tasks are delegated to experts who are assigned fixed terms of tenure, so that they are immune to arbitrary dismissal. In contemporary political science, numerous researchers have demonstrated that democratic governments attempt to insulate bureaucratic agencies from political decision making in order to ensure credible commitments from the government. If a government is trying to attract private investment, it can not be assured of a steady stream of any such investment until businesses are assured that their assets will not be expropriated. Similarly, in the case of central banks, governments can only credibly commit to monetary policy by insulating the central bank from arbitrary decisions by politicians. If no such constraints exist, the government can engineer economic booms to achieve its electoral ambitions.

Empirically, Gilardi finds that in many European Union nations, the liberalization of previously nationalized industries was soon followed by the delegation of independent authority to the newly created regulators (2002). Additionally, there is evidence that such independence has the desired effects, as independent regulators promote elite perceptions of regulatory quality (Bertelli and Whitford 2009). However, these attempts to insulate bureaucratic activity from political influence may be borne of various motivations and may produce different results, depending on the political system. While politicians may delegate independence to bureaucrats, such as central bankers, in order to ensure credible commitment to economic policy, numerous other factors enter the decision calculus of politicians.

The form that this insulation takes depends very much upon the type of political systems in which the bureaucratic agencies exist. In that sense, McCubbins, Noll and
Weingast (McNollgast) argue that federal legislators in the United States hard wire new agencies with the preferences of the enacting coalition (1987, 1989). There is evidence for this type of hard-wiring at the American state level as well (Potoski 1999; Potoski and Woods 2001). However, many scholars have also pointed out that governments attempt to tie the hands of future coalitions, so that they can not undo the work of current coalitions (Horn 1995; Moe 1989; Moe and Caldwell 1994, Baum and Jensen 2009).

Through detailed regulations – such as the Administrative Procedures Act (APA) – current legislators would ‘lock in’ the implementation of a given policy, reducing to a minimum the margin of maneuver of future (hostile) legislative coalitions. The key assumption of this theory is that in a system of separation of powers such as the US it is necessary the agreement of a very diverse coalition of political actors and thus, once a law has been passed, its reform by future legislative coalitions becomes extremely difficult.

Kathleen Bawn refines the McNollgast argument and finds that Congress delegates authority to experts in order to alleviate technical (policy) uncertainty, but that delegation is less likely when procedural uncertainty (likelihood of agent shirking or capture) is high (1995). In essence, she argues that Congress trades off one type of uncertainty for another and that delegation must balance the two competing interests. Other scholars have added to the debate the idea that delegation also depends on the salience and complexity of the issue (Gormley 1986; Rinquist, Worsham and Eisner 2003). In a separated powers system, salient issues are more important to voters and therefore give legislators the incentive to exert greater control over the issue, thus preventing bureaucratic drift and potentially undesirable policy outcomes. Nevertheless,
simultaneously, policy complexity dictates that legislators must delegate certain policy responsibilities to bureaucrats with greater levels of expertise. This is consistent with Bawn’s findings that politicians must delegate authority because of policy complexity, but must retain some control in order to prevent bureaucratic drift in a potentially important issue.

However, while the nature of the policy issue is crucial for determining the nature of delegated authority, so is the nature of the political system. Political systems matter because at the heart of delegation is the issue of time horizons. While McNollgast argue that legislators want to hard wire agencies to contain the preferences of the enacting coalition, Terry Moe argues convincingly that legislators are also concerned with preserving their enacted bureaucratic structure from future coalitions of legislators (1989). Similarly, Murray Horn argues that legislative benefits directed at constituents are only useful to the extent that they are durable (1995). Thus, legislators must frequently enact detailed laws which will reduce the margin of discretion of the civil servants responsible for policy implementation but which will also prevent their accomplishments from being altered by future coalitions.

Moe further argues that in a separation of powers system, these incentives invariably result in inefficient bureaucratic structure, as legislators fight over institutional arrangements that will best favor their constituents. This is also consistent with the research of Epstein and O’Halloran (1999) who find that legislators delegate less authority to bureaucrats in times of divided government. In essence, the atmosphere of divided government results in suspicion that the opposition will try to subvert bureaucratic pursuit of legislative goals. Similarly, in Moe’s case, the large number of
veto players in a separation of powers system, results in cumbersome and red tape-riddled bureaucratic structures, as legislators enact numerous checks to protect their gains from future coalitions.

Conversely, Moe and Caldwell argue that systems with fewer veto players, such as Westminster parliamentary systems, will be less red tape-bound for two crucial reasons (1994). First, in a Westminster system, the executive party also controls a majority in the legislature, so there is less reason to be concerned about the opposition subverting bureaucratic pursuit of legislative goals. Second, because of the absence in the United Kingdom of an American-style Administrative Procedure Act, and because there is more cohesive and coordinated guidance of bureaucratic behavior, there is also a greater reliance on informal norms than in the United States. The authors argue that such norms actually result in fewer attempts by governments to undo work of their opposition predecessors. There exists evidence of U.K. bureaucratic behavior to support this idea. For example, environmental regulation in the U.K. is considered to be much more flexible than in the United States, and resemble a system, where bureaucrats cooperate with regulated interests in order to achieve compliance, rather than coerce (Baldwin 1996; Vogel 1986; Weale 1996). Additionally, Hawkins shows that British regulators will typically exhaust every possible remedy before prosecuting businesses for violating regulations (2002). Such measures provide evidence of a system where informal, cooperative measures are exercised before punitive measures are employed, measures which may be more reminiscent of a system with detailed checks and procedures.

The Gary Miller View: Concentration of Powers and Bureaucratic Pathologies
However, following a different political economy perspective of bureaucracies, that pioneered by Gary Miller in *Managerial Dilemmas* (1992), the implication that political systems with concentrated powers will have less red tape may not be necessarily true under certain circumstances. If the implication derived from the work of Moe is centered around the standard principal-agent problem of multiple principals (e.g. political veto players) trying to control a potentially shirking agent (e.g. bureaucracy), Gary Miller’s concern is not agents’ moral hazard, but principal’s moral hazard. And, in particular the problems of credible commitment that all-powerful principals – either unconstrained CEOs in private firms or unconstrained executives in government – pose for social welfare. As shown by North and Weingast’s (1989) famous study of the *Glorious Revolution*, societies that succeed are those able to constrain authoritarian rulers’ abilities to opportunistic actions. Miller (with Hammond 1994, with Falaschetti 2001) argues that constraining the king or the Leviathan to gain credibility is the necessary condition of a well-functioning political system. In absence of a Third Part, en external supervisor of the state, constraining the ruler inevitably poses multiple problems, but there are different mechanisms that may work in different circumstances. In some cases, credibility can be achieved through a system of separation of powers. When that is not possible, hand-tying institutions, such as administrative procedures and red tape, may be an alternative solution.

For example, authoritarian governments with high concentration of executive power have a great need to demonstrate credible commitment if they want to ensure stable economic policy or attract investment. In order to demonstrate such commitment, these governments may create detailed bureaucratic procedures, which also may be likely
to lead to an abundance of red tape. For example, the 1958 Spanish Administrative Procedures Act, written under the authoritarian regime of Francisco Franco, at the height of his power—contains many of the same, very detailed procedures as the American Administrative Procedure Act 1946. If the latter may have been the result of an “excessive” separation of powers in the US, according to the literature reviewed above, the former would be the result of an “excessive” concentration of powers in Spain according to the Gary Miller view.

This idea is partially supported by the findings of Keefer and Stasavage who claim that delegation of economic policy matters to central banks is more credible when there are institutional checks and balances (2003). If there are fewer veto players, then the need to display credibility becomes even more crucial, and highly powerful veto players may choose to tie their hands through rules that limit their discretion and thus their chances for undertaking ex post opportunistic actions. Very powerful rulers have a dominant ex post strategy to expropriate the product of economic agents in a society and establishing predictable, even if up to certain extent burdensome, administrative procedures is a mechanism to ex ante tie their hands. Powerful rulers will still be able to take opportunistic actions, such as violating the guarantees of some bidders for a public contract, but they will be costlier if there is an Administrative Procedure Act that forces civil servants to follow certain rules—apart from political superiors’ instructions than in absence of those rules—when civil servants only follow superiors’ orders.

The need for detailed bureaucratic rules as a second-best solution to the inherent credibility problem when there is no separation of powers at the top of an organization has been analyzed both in the public (Lapuente 2007, Lapuente and Fernández-Carro
2008) as well as in the private realm. For example, studies on the adoption of detailed “corporate law” (Miller and Falaschetti 1999) or of golden parachutes agreements in firms (Falaschetti 2002) point out the existence of a certain substitutability between these two alternative solutions –“separation of powers” and “hand-tying institutions” to the problems of excessive concentration of powers in the same hands. Corporate law and golden parachutes seem to be more likely when the firm ownership is concentrated with one or a few all-powerful individuals. Diffuse ownership (i.e. “separation of powers” within a firm) and detailed corporate law or golden parachutes (i.e. “hand-tying institutions”) act as substitute factors in producing credible commitments (Falaschetti 2002:161). We argue in this paper that this could also be the case with regards to the enactment of hand-tying administrative procedures acts: they should be more necessary in those polities with high concentration of powers.

In this paper, we hypothesize a U-shaped relationship between the type of political system and the prevalence of red tape. In authoritarian systems with very high concentrations of power, there is inevitably a need for credible commitment in order to avoid economic collapse. In order to attract investment, businesses quite simply must be assured that property rights are protected and that governments will not arbitrarily expropriate their assets.

Following Miller (2000), we argue first that standard operating procedures (SOPs) and bureaucratic routines are mechanisms through which politicians can be credibility committed to the social welfare goal of public policies. Public authorities must follow written rules and procedures which give predictability to public action and prevent arbitrary power. The creation of SOPs and bureaucratic routines serves the purpose of
preventing “officials with short-term opportunities to pursue narrow, self-interested goals (Miller 2000, 318). One example would be the Keating scandal in the late 1980s. In this illustrious case, two inspectors of the Home Loan Bank Board had the courage to stand up to the pressure of five powerful US senators – including the 2008 presidential nominee John McCain – who demanded a special treatment for a major political contributor – Charles Keating. As Miller shows, the source of the two civil servants’ courage was that they could justify their actions by reference to neutral routines and standard operation procedures.

From this view of SOPs and bureaucratic routines, our argument continues as follows. We consider that it is plausible to assume that officials do not need to follow the same amount of “legal routines” across all political systems in order to acquire credibility. The expectations of a business entrepreneur of impartial treatment when bidding for a public contract will be different in an authoritarian regime – where public officials are accountable to one single authoritarian veto player – than in a democratic system with proper checks and balances – where public officials face independent courts and other veto players apart from their direct political superior. In the latter case, the business entrepreneur may be satisfied with a minimum amount of administrative procedures and guarantees, since she knows that ex post mechanisms of control of the public activity will be available to her. On the contrary, when interacting with public officials directly accountable to an all-powerful ruler, the business entrepreneur cannot rely on ex post mechanisms of administrative control. She will prefer the public authority to follow as many detailed SOPs as possible to have, at least, some ex ante guarantees that public authorities will treat her fairly.
The result of the numerous ex ante administrative procedures, SOPs and bureaucratic routines will inevitably be a high formalization of the interactions between private individuals and public officials, which will be perceived by many as emergence of red tape. Nevertheless, as Kauffmann famously pointed out, “one person’s red tape may be another’s treasured safeguard” (1977: 4). And red tape becomes a more treasured safeguard in polities where other safeguards – e.g. an opposition or a coalition party checking government officials or a truly independent court system – are not properly operating. In other words, the required amount of SOPs necessary to guarantee neutrality in public action will be higher when the pressures for opportunistic violations of impartiality come from an autocrat than when they come from Senator John McCain.

Thus, we believe that governments with a high concentration of power (few veto players) will have a prevalence of red tape in order to ensure credible commitment. However, as the number of veto players gradually increases, we move along the continuum into democratic systems, such as Westminster, parliamentary systems. These systems, like those in the United Kingdom and Barbados, have more veto players than authoritarian systems, as for example, the courts have greater degrees of independence. However, for democratic systems, Westminster systems have relatively few veto players. The executive power also has the majority in Parliament and Parliament is sovereign, thus preventing courts from actually striking down any laws, only the exercising of delegated authority. This high concentration of power, according to Moe and Caldwell (1994) leads to a greater reliance on informal norms, in order to prevent abuses of power. These informal norms, when followed, ensure mutual trust between parties and reduce the need for administrative procedures that check bureaucratic agencies.
As we move along the veto player continuum, to separated power systems and consensual, parliamentary systems, we ought to see an increase in the prevalence of bureaucratic procedures. Politicians feel the need to protect their legislative achievements from opposition veto players in power, as well as future coalitions that may try to overturn the institutional arrangements for which they fought. The result is a higher number of checks and balances on bureaucratic behavior, and thus a higher prevalence of red tape.

**Data and Methods**

We gauge the determinants of red tape with two different dependent variables. First, we employ the World Bank’s measure of regulatory quality, which measures perceived excessive regulation, in addition to the prevalence of price ceilings, import quotas and other market-distorting policies. Thus, we work under the assumption that higher regulatory quality is a proxy for less private-sector red tape. Second, in previous work, we have used the Heritage Foundation’s business freedom index, but due to changes in the methods of measurement for this variable, we have opted to use a broader variable created by the Heritage Foundation, known as Economic Freedom. This accounts for business freedom, but also the degree of freedom in several other categories, notably trade, monetary and fiscal policy, and business and labor policy.

In addition to the dual dependent variables, we also employ two different measures of veto players. Our first measure of veto players is the political constraints index (Henisz 2000; 2002), which gauges the number of independent branches of government with veto authority, as well as the degree of divided government and
preference heterogeneity within the legislature.\(^1\) In order to account for a possible U-shaped relationship, we include political constraints, as well as political constraints squared. Our second measure is a continuous variable which is based on separate indices of legislative and executive competitiveness. In each case, we expect the coefficient on veto players to be positive, as an initial increase in political constraints leads to less red tape. However, as the number of political constraints continues to increase, red tape also begins to increase. We expect a negative sign on the veto players squared coefficient, to capture this effect. As control variables, we include three standard control variables: gross domestic product, and dummy variables indicating whether the given country is a democracy or a dictatorship and whether its legal system is of common law origin. We expect higher GDP, presence of democracy and presence of common law to all lead to less red tape. We estimate our model using ordinary least squares regression.

**Results and Discussion**

Tables 1 and 2 present the results, with regulatory quality and economic freedom as the respective dependent variables. In Table 1, the signs for veto players and veto players squared are in the right direction for each set of measures, but the squared term is insignificant in the case of the Henisz index. However, the significant effect of veto players squared for the DPI index presents us with preliminary evidence that red tape does increase as veto players increase, after an initial decrease. In Table 2, again the signs for veto players and veto players squared are correctly signed and statistically significant, indicating that an initial increase in veto players leads to a decrease in red tape.

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\(^1\) For a complete description of the political constraints index, see the Quality of Government dataset codebook: http://www.qog.pol.gu.se/data/QoG_Codebook_vJune09.pdf
tape, yet as the number of veto players subsequently increases, red tape does as well. The
effects for gross domestic product, democracy and common law, for each table, are
signed in the correct direction, yet show inconsistent levels of significance across the
models. However, what is important here is the nature of veto players. Common law,
democracy and economic wealth have been common variables in previous studies of red
tape, yet veto players has not been. This study demonstrates that the number of veto
players in government has a significant role to play in both the diminishing and creation
of red tape.
References


Table 1: Determinants of Red Tape as Measured by Regulatory Quality

<table>
<thead>
<tr>
<th></th>
<th>Coefficient (Standard Error)</th>
<th>Coefficient (Standard Error)</th>
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<tbody>
<tr>
<td>Veto Players (Henisz Index)</td>
<td>1.410** (.561)</td>
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<tr>
<td>Veto Players Squared (Henisz Index)</td>
<td>-.722 (.697)</td>
<td></td>
</tr>
<tr>
<td>Veto Players (DPI 2000)</td>
<td></td>
<td>.442*** (.126)</td>
</tr>
<tr>
<td>Veto Players Squared (DPI 2000)</td>
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<td>-.050*** (.018)</td>
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<tr>
<td>Gross Domestic Product</td>
<td>.0000645*** (.000000526)</td>
<td>.00007*** (.0000004)</td>
</tr>
<tr>
<td>Common Law Legal System</td>
<td>.194** (.091)</td>
<td>.121 (.092)</td>
</tr>
<tr>
<td>Democracy/Dictatorship</td>
<td>.294*** (.108)</td>
<td>.213* (.121)</td>
</tr>
<tr>
<td>Constant</td>
<td>-1.269*** (.087)</td>
<td>-1.630*** (.170)</td>
</tr>
<tr>
<td>N</td>
<td>167</td>
<td>172</td>
</tr>
<tr>
<td>Adjusted R Squared</td>
<td>.72</td>
<td>.70</td>
</tr>
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--“Regulatory Quality” is from World Bank Governance Indicators Database
--***p<.01, **p<.05, *p<.10
--Coefficients are unstandardized regression coefficients
Table 2: Determinants of Red Tape as Measured by Economic Freedom

<table>
<thead>
<tr>
<th></th>
<th>Coefficient (Standard Error)</th>
<th>Coefficient (Standard Error)</th>
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<tbody>
<tr>
<td>Veto Players (Henisz Index)</td>
<td>34.434*** (9.032)</td>
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<tr>
<td>Veto Players Squared (Henisz Index)</td>
<td>-31.787*** (10.998)</td>
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<td>Veto Players (DPI 2000)</td>
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<td>4.719** (2.157)</td>
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<td>Veto Players Squared (DPI 2000)</td>
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<td>-.596* (.325)</td>
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<td>Gross Domestic Product</td>
<td>.0007*** (.00008)</td>
<td>.0007*** (.00007)</td>
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<tr>
<td>Common Law Legal System</td>
<td>4.347*** (1.481)</td>
<td>4.255*** (1.534)</td>
</tr>
<tr>
<td>Democracy/Dictatorship</td>
<td>2.849* (1.661)</td>
<td>3.908** (1.892)</td>
</tr>
<tr>
<td>Constant</td>
<td>42.028*** (1.477)</td>
<td>39.954*** (2.922)</td>
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</table>

N: 150 Adjusted R Squared: .57

--Economic Freedom Data from Heritage Foundation Economic Freedom Database
--***p<.01, **p<.05, *p<.10
--Coefficients are unstandardized regression coefficients