

The Budget maximisation, initiated by William Niskanen in 1968 and further detailed in his book. states that rational bureaucrats continuously strive to augment their budget to enhance their own power. This behaviour is thought to lead to state growth while potentially diminishing social efficiency. In response to this model bureau-shaping model was developed, drawing inspiration from Parkinson's Law.

Niskanen's model rests on two simple central assumptions. One is that Bureaucrats maximize the size of their budgets and the other that bureaucrats are in effect simple mono-polists who are able to impose their own preferences on the governing political party.

In fact, Niskanen ~~for~~ presents the relationship between a bureau and its sponsor (a govt, govt review group, or some other representative, collective body) as a bilateral monopoly.

The Bureau sells services only to the sponsor, and the sponsor buys those services

only from the bureau. Output is exchanged for budget and not at a per-unit price. For the purpose of the model, there is one bureaucratic decision maker, the senior official in each bureau which has a separate, identifiable budget. The bureau is funded by a single government review body which in turn, is funded from taxes.

Demand for the bureau's output first determined exogeneously but at any level of demand bureaus will over-supply because the bureaucrats will seek to maximize the budget of their bureau.

The total budget of the bureau is a logical maximum because budget size will be positive monotonic function of what Niskanen assumed would be significant variables in the bureaucrats utility function: Salary, perquisites of the office, public reputation, power and patronage.

Other likely significant arguments in the bureaucrats utility function, such as ease of managing the bureau

and ease of making changes, while not positively correlated with total size of budget, would be affected positively by increases in the budget.

Niskanen argued that it is not necessary for the bureau's utility to depend strongly on each of those variables, merely that it be positively and continuously associated with the level of budget.

Budget maximisation itself will be subject to the constraint of the level of output expected by the govt when it set the bureau's budget.

The full statement of the motivational assumption of Niskanen's theory then becomes:

"Bureaucrats maximise the total budget of their bureau during their tenure, subject to the constraint that the budget must be equal to or greater than the minimum total costs of supplying the output expected by the bureau's chairman."

In a nutshell, the Niskanen model predicts that in representative democracies public bureaucracies will not only generate allocative inefficiency (by oversupplying public goods) but also x-inefficiency (by producing public good inefficiently).