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**Should we wish the elite to engage in unethical behavior?
A consequentialist theory**

Elise S. Brezis*

Abstract

This paper investigates whether elite interconnections contribute to unethical behavior. It aims to present a clear explanation of how these connections are established, analyze the presence of unethical conduct within them, and assess their impact on the economy and societal welfare.

This paper centers on a specific aspect of elite interconnection – the revolving door. It shows that the entire power elite is responsible for orchestrating this procedure and, consequently, for engaging in unethical behavior. Interconnection is a direct outcome of the collective decision of all elites to endorse the revolving door. However, prohibiting it would be detrimental to everyone, including the general public.

This paper shows that the public and the political elite should accept the existence of unethical behavior to maintain an efficient bureaucratic elite. This serves as the main message conveyed throughout the paper.

Keywords: bureaucratic capital, compensation package, corruption; ethics; revolving door; social norms; consequentialist theory.

JEL classification: D63; D73; H10; H70; O43

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Introduction

A prevailing debate among economists revolves around the question of whether global changes originate from a top-down approach, wherein the ruling elite initiates transformations and the people follows suit, or if changes occur bottom-up, with revolutions and shifts happening against the will of the elite and leaders. This debate on the influence of elites encapsulates the clash between those subscribing to Thomas Carlyle's belief that the "history of the world is but the biography of great men" and those asserting that "cemeteries are full of indispensable people."¹

It is unclear who is right in this debate concerning the extent to which the elite singularly drive societal changes, but for sure, the elite has an immense impact on the economy. Therefore, the pertinent question arises: who exactly constitutes this elite?"

A ruling elite refers to a small, dominant group with decision-making authority across different sectors within the economic and social organization of a state. This elite is comprised of three primary groups. Firstly, the bureaucratic elite consists of bureaucrats and civil servants responsible for managing the macro-environment. Secondly, the political elite oversees and operates the executive, legislative, and judicial structures. Lastly, the business elite holds influence in economic affairs. Additionally, there are non-ruling elites, encompassing individuals from the media, academia, and the intelligentsia.²

Existing literature on elites primarily delves into two key aspects: elite recruitment and training. Economists and sociologists have thoroughly examined how elites are trained, the recruitment processes they undergo, and the incentives designed to encourage their contribution to economic growth rather than hindering it. Additionally, studies have highlighted the impact of elite interconnection and recruitment on social mobility and economic development.³

What remains puzzling is the omission of ethical and moral considerations in the research on elite interconnection and its repercussions on economic outcomes. This paper aims to address this gap by focusing on the analysis of ethical issues within elite interconnection.

¹ and also 'History is a cemetery of aristocracies' (Pareto, 1935).

² Today the influencers in social media have maybe more power than other elite, but this paper follows the mainstream division between ruling elite and the rest.

³ See Brezis and Temin (1999, 2008) for a synthesis on this literature.

This paper initially establishes that interconnection among elites can result in unethical behavior. Subsequently, it examines the question of whether ethical considerations should govern elite interactions. The emphasis is placed on the argument that a certain degree of unethical behavior can be conducive to economic benefits. In essence, the paper contends that while the elite should adhere to ethical standards, an excessive emphasis on ethics may contribute to a lower quality of elite.

What exactly is elite interconnection? The literature emphasizes that even in democratic regimes, where power is theoretically meant to rest with the demos ('the people'), it tends to be concentrated in the hands of a select few. In democratic societies, a division exists between the power elite and the demos, mirroring the situation in non-democratic systems where the elite displays unity, enjoys extensive political and economic power, and predominantly acts in its own interests.

However, why does this phenomenon persist even in democracies? In theory, a democracy should inherently exert some control over the power of the ruling elite. Schumpeter (1954) asserted that the democratic process facilitates 'free competition among would-be leaders for the vote of the electorate,' allowing the masses to choose between various elites.

In contrast, classical elite theorists such as Mosca (1939), Pareto (1935), Michels and Mills (1956) emphasized that despite the democratic character of a given regime, power is really concentrated in the hands of a few, the oligarchy, which Mills (1956) called the "power elite." In democracies, the power elite are in fact an oligarchy because there is an 'interconnection' between the various elites. This is the iron law of oligarchy as stated by Michels (1915). This view was followed by Hunter (1959) and Domhoff (1970) for the US, and Aaronovitch (1961) and Miliband (1969) for England. In consequence, there can be collusion even in democracies. Numerous elites may not be mutually competitive and may not control and balance each other; instead, they may be intertwined as a unanimous, cohesive power elite.

This paper seeks to provide a concise explanation of how interconnections are established and will assess the presence of unethical behavior within this network. Then, we examine the effects of this interconnection on the economy, and on welfare of society. This interconnection between the elites is related to what has been called the revolving door.

The revolving door, which is a common phenomenon in the Western world, takes place when members of the bureaucratic elite, upon concluding their terms in the bureaucracy, transition into the sector they previously regulated, in collaboration with the business elite.

To give some examples of revolving doors in the financial sector, Alan Greenspan, Chair of the Fed moved to the financial firm Paulson and Co; Jacob Lew, US Secretary of the Treasury, went to Lindsay Goldberg, a private equity firm, while Timothy Geithner, US Secretary of the Treasury, went to Warburg, Pincus & Co. Larry Summers, the US Secretary of the Treasury and Robert Zoellick, US Deputy Secretary of State went to Goldman Sachs. The revolving door phenomenon is also prevalent in many other sectors, and also in the EU.⁴

This paper argues that both the demos and the political elite should tolerate certain forms of unethical behavior to ensure the efficiency of the bureaucratic elite. This proposition constitutes the central theme of the paper.

Two primary issues are associated with the behavior of the bureaucratic elite, both of which can be connected to the revolving door. The first issue pertains to the potential for erroneous decisions made by the bureaucratic elite due to their incompetence.

Indeed, some regulators appointed to crucial positions lack the qualifications and expertise necessary for effective performance. This challenge is identified as 'lack of competence.' It may arise when the salary offered for the job is not sufficiently high to attract highly qualified and competent individuals, who may prefer employment in the private sector.

This problem can be attenuated by allowing the use of the revolving door. Indeed, the prospect of a high future compensation package, after passing through the revolving door enables to attract competent workers into the civil service.

The second issue arises when some regulatory decisions are not inaccuracies resulting from incompetence but are driven by 'greed.' In this context, regulators take actions aimed at boosting their future compensation, either through the issuance of regulations or through deliberate inaction. These actions are unethical and are an 'abuse of power.'⁵

This paper underlines that the phenomenon of the revolving door can lead to greed, through the establishment of 'bureaucratic capital.' Essentially, the bureaucratic elite possess the capacity to augment their lifetime compensation by generating a unique form of capital—referred to as 'bureaucratic capital'—during their tenure in office.

⁴ For an empirical analysis of the revolving door in the US financial sector, see Lucca et al., 2014, Shive and Forster, 2017, and Brezis and Cariolle, 2019; and for the EU, see Chalmers et al., 2022.

⁵ Greed can manifest itself also in the form of regulatory capture, but the 'regulatory capture' is illegal because the regulator has a special connection with a specific firm, so this paper will focus only on 'abuse of power'. The literature on the capture theory put forward by Stigler (1971), Peltzman (1976), Eckert (1981), and Laffont-Tirole (1996) perceives the power of the regulator as leading to bribery. Indeed, the regulator who is supposed to prevent monopolistic power behaves in her own interest, and not in the interest of the people.

Bureaucratic capital refers to rules and regulations established by regulators that are deemed unnecessary and have adverse effects on the efficiency of the economy. It also includes her achievement of accumulating an ample phone 'contact list' by investing time in good relationships with the lower-level bureaucracy, ties which will benefit her in the future. As the architect of these rules, regulations, and relationships, the bureaucratic elite has knowledge of the system, including any loopholes that might exist.

The creation of bureaucratic capital is unethical and should be discouraged. But it is not illegal. The difference between ethical and legal behavior is essential. Public policy should eradicate all unlawful behavior. What about the unethical behavior linked to the bureaucratic capital and the revolving door? Should the demos and the political elite allow the interconnections between the business elite and the bureaucratic elite through the revolving door?

This paper stresses that unethical behavior, due to the revolving door should be allowed, due to the tradeoff between 'lack of competence' and creation of bureaucratic capital. Indeed, this paper analyzes the tradeoff between the positive effects of the revolving door (highly qualified regulators) and the negative effects of the revolving door (bureaucratic capital). We find that the optimal solution is to allow the revolving door practice, and the creation of bureaucratic capital. In consequence, some greedy behavior should be accepted.

In other words, this paper highlights that the political elite should allow the interconnection of elite and should accept that the bureaucratic elite creates bureaucratic capital. It advocates a willingness to tolerate certain forms of unethical behavior.

The paper is divided into four parts. In the next section, we present the related literature. The model is presented in part III. The model shows that we should not avoid unethical behavior. Part IV concludes.

I. The Related literature

The interconnection among elites is not universally accepted. While classical elite theorists argue that elites form a monopolistic group because of such interconnections, sociologists embracing the "pluralist-democratic" perspective, as advocated by scholars like Dahl, Aron, and Parsons, present an opposing viewpoint.⁶ They argued that in Western democracy, the existence of many various groups within the power structure is

⁶ See Dahl (1957, 1959), Aron (1960) and Parsons (1960, 1963).

not an empty fiction. Western social order is characterized by a dissociation and diversification of power, a fragmented elite which is characterized as a 'polyarchy' that permits competition among its members. And this, in contrast to the social order in the communist countries, where all such groups are unified in the single party system. This plurality of elites ensures competition, and that they do not form a "power elite" separated from the "mass society."

Nevertheless, numerous sociologists adhere to the classical perspectives of Michels, contending that elites exhibit unity and collusion, functioning as a cohesive and monolithic group. They emphasize that the power elite essentially forms an oligarchy due to interconnections among different elite factions. These scholars scrutinize the repercussions of such interconnection on inequality, economic growth, and social mobility.

A. Elite interconnection and inequality

The literature underscores the significant impact of elite interconnection on inequality. While the plurality and competition among elites ensure responsiveness to public demands, a consensual elite might exploit its power for self-interest. According to Etzioni-Halevi (1997), a unified elite, characterized by common recruitment and shared interests, is unlikely to utilize its power to diminish inequality and foster a more egalitarian society. Consequently, the homogeneity within the elite may exacerbate the gap between the elite and the masses. This is particularly evident when the political elite controls wealth and key factors of production, resulting in a convergence of elite and class stratifications, with power and wealth concentrated in the hands of a privileged few.

Engerman and Sokoloff (1997) showed that members of the elite who have power and wealth establish institutions that serve their own interests and exclude the masses from benefits. In consequence, inequality persists through institutional development in the elite's own favour.

Justman and Gradstein (1999) added that elite unity leads to greater inequality through regressive redistribution policy. A power elite that controls wealth may refrain from investment in human capital of the majority because education would increase the latter's political voice and weaken the elite's hold on power (Easterly, 2001); yet in some cases, the elite deliberately decides to forfeit power by investing in human capital as a consequence of a cost-benefit analysis (Bourguignon and Verdier, 2000).

The extent of elite unity can be endogenously determined (Sokoloff and Engerman, 2000), and elite unity can also be affected by revolutions, wars, and economic growth.

Justman and Gradstein (1999) argue that economic growth dilutes the power of the elite by broadening political participation and reducing inequality.

B. Elite interconnection and Economic growth

A robust interconnection among elites results in a scenario where various sectors of the economy are governed by a unified group with a monolithic mindset. Three lines of thought connect a monolithic group to economic growth. The first emphasizes that such unity leads to a stagnation of ideas and attitudes, hindering the adoption of significant technological breakthroughs. Sociologists, inspired by Bourdieu (1977), have developed this perspective.

The second line of thought contends that wealthy elites, possessing both power and wealth, establish institutions that primarily serve their interests while excluding the masses from the associated benefits. Essentially, elites with sufficient political power to impede changes are unlikely to adopt institutions that would foster growth if it threatens their own interests. Acemoglu, Johnson, and Robinson (2001) followed this line of thought in the context of colonial impacts, demonstrating that economic progress was curtailed in regions where colonial governments were dominated by a small elite.

Following the same line of reasoning, Acemoglu and Robinson (2000) and Gradstein (2007) stressed that elite plurality, in which the political and economic elites are separate, explains the adoption of political franchise and industrialization in Western Europe; while 19th-century eastern Europe, where elite unity was strong, did not adopt growth-enhancing institutions, since its elites held on to their wealth and power.

Paradoxically, in countries in which the elite was united and consensual, with common aims, the transition to capitalist production in the 1990s took place without violence, as in Poland and the Czech Republic. In contrast, wherever the elite was divided and fragmented, there were conflicts, especially on the ethno-nationalist level, as in Yugoslavia and Romania (Pakulski, 1999).

The third line of thought stresses that the lack of competition in a monolithic powerful group also generates either corruption, or unethical behavior, which reduces economic growth.

C. Elite interconnection and the revolving door

This paper delves into the themes of interconnection, the revolving door, and the quality of bureaucrats. The economic literature on bureaucracy is extensive and varied. Descriptive studies, such as those by Johnson and Libecap (1994), explore the evolution of bureaucratic institutions, while others, like Rauch (1995), examine the typical profile

of bureaucrats, considering factors like political affiliations, professionalism, and efficiency. A wealth of articles has been dedicated to scrutinizing the quality of bureaucracy and its impact on economic performance, particularly in terms of economic growth (e.g., Krueger, 1993; Shleifer and Vishny, 1993; Mauro, 1995). La Porta et al. (1999) have provided a comprehensive synthesis of various perspectives on these topics.⁷

Regarding the revolving door, the mainstream of the economic literature has mainly emphasized conflict of interest in the form of regulatory capture, in which regulators can be induced to act in the firm's interest.⁸ This literature started with the works of Stigler (1971) and Peltzman (1976) followed by Eckert (1981). Most researchers in this field have focused on the potentially undesirable effects of corruption and regulatory capture, and solutions thereto that could be implemented (Spiller, 1990; Brezis and Weiss, 1997). However, there are also studies that show that there may be positive aspects of the revolving door that should not be overlooked (Salant, 1995; Che, 1995).

An empirical literature has recently arisen that investigates the revolving door's effects on firms' performance.⁹ As an indication of the strong link between political connections, the revolving door process, and corrupt practices, cross-country analyses (Faccio, 2006; Faccio and Parsley, 2009) showed that the gap in economic returns between firms with and without political connections increases in highly corrupt environments. Moreover, Faccio (2010) showed that politically connected firms pay lower taxes than do other firms.

There are also differences between firms with and without state connections in the finance realm. Khwaja and Mian (2005) and Boubakri et al. (2012) showed that firms with state connections are more likely to be bailed out of financial distress.¹⁰

Political connections created by the revolving door increase firms' value by re-directing consumer demand in their favor. Goldman et al. (2013) showed that, following the 1994 House and Senate elections, the presence of former politicians affiliated with

⁷ There is also an extensive literature on the quality of politicians. See Besley (2005), Besley et al. (2011), Mattozi and Merlo (2008), Galasso and Nannicini (2011, 2015), de Paola and Scoppa (2011), and Kotakorpi and Poutvaara, (2011).

⁸ For a review on regulatory capture see Dal Bo (2006). Lately, de Haan and Veltrop (2014) developed a model of regulatory capture based on social identity. There is also another type of state capture -- the *lobbying capture*, wherein after leaving office, the bureaucrat is hired by a lobbying firm. But this capture is not directly linked to the revolving door focusing on individuals entering a firm in the sector they have regulated (see Blanes et al., 2012).

⁹ The empirical research on the revolving door focuses on both directions, i.e., from the public sector to the private sector and vice versa, while this paper focuses only on the transition from the bureaucratic elite to the business elite.

¹⁰ In contrast, Luechinger and Moser (2012) related the value of the firm on the stock market to the timing of the revolving door. See also Fisman (2001) and Faccio et al. (2013).

the winning political party on the boards of U.S companies increases the total value of awarded public procurement contracts.

In a study on Italy, Cingano and Pinotti (2013) showed that corporate appointments of local politicians do not lead to higher productivity; and Kramarz and Thesmar (2013) showed that French firms hiring directors and CEOs with former careers in the civil service, underperform. Moreover, they found that connected CEOs are better paid than their non-connected counterparts, are less likely to be fired, and are associated with lower performance.

Finally, in Russia, Slinko et al., (2005) find that politically powerful Russian firms adversely affect the performance of small or politically-powerless firms, by lobbying regulators to excessively regulate the latter, and also by diverting government spending. In contrast, they found that politically powerless firms, wherein which the firms' concentrations of political power are lower, invest more and are more productive. In conclusion, the recent literature has shown that the revolving door erodes the tax base, reduces productivity, and lowers aggregate growth.

In the next section, we present a model analyzing the revolving door's net effects on economic growth.

III. Unethical behavior of the elite: a consequentialist model ¹¹

1. The structure of the model

The "revolving door" is a practice in which the bureaucratic elite which is composed of heads of state agencies, after completing their bureaucratic terms, enter the very sector they have regulated, and become part of the business elite. This practice is legal in most countries despite leading to unethical behavior of the elite.

The model presented has a consequentialist perspective. Indeed, consequentialist moral theory is an ethical framework that assesses the morality of an action by examining the consequences it generates. In essence, the rightness or wrongness of an action is contingent upon the outcomes it produces. This perspective places emphasis on maximizing the overall good or positive results, commonly expressed as the principle of "the greatest good for the greatest number." This consequentialist model will permit us to understand why this unethical behavior is permitted in the western world.

¹¹ The model is based on Romer, 1990; and Brezis, 2017. In the next version, I will add a paragraph on why this model is a consequentialist one.

The model addresses two issues: first, the creation of bureaucratic capital stemming from greed and second, the lack of competence. One should be aware that there are distortions resulting from creating bureaucratic capital. Bureaucratic capital is defined as actions and decisions made while in office that enable regulators to capitalize later when joining a firm they had regulated. Examples include cultivating positive relationships with lower-level bureaucracy or developing excessive regulation. These are unethical acts; these are the negative effects of the revolving door.

The second issue pertains to the potential incompetence of the bureaucratic elite. The revolving door can offer a solution to this problem by facilitating the recruitment of competent and qualified bureaucrats. Given the heterogeneity in the abilities of bureaucrats, allowing the revolving door ensures the hiring of high-quality individuals who contribute to more effective regulation, ultimately leading to higher economic growth. These are the positive effects of the revolving door.

In other words, by incorporating positive as well as negative effects of the revolving door, this small model enables us to draw two main conclusions.

The first is that it is not optimal to prevent the revolving door, even if it is unethical. The second conclusion is that in equilibrium, the revolving door leads to an excessive level of bureaucratic capital, which in turn leads to over-regulation and to lower economic growth.

In the next sections, we first define what the bureaucratic elites are doing. Then the business elite. We then define optimality from the point of view of the political elite and society.

2. The demand and supply of bureaucratic capital by the power elite

In this model we focus on the behavior of a regulator who is part of the bureaucratic elite of a country. During her time in office, the regulator regulates, but at the same time, she creates *bureaucratic capital*. The bureaucratic capital are all the unnecessary regulations she is developing. Bureaucratic capital is supplied by the bureaucratic elite, while the demand comes from the firms, the business elite.

Let us start with the regulators, who are appointed by the political elite, i.e., the government to regulate the economy efficiently. Yet the regulators do not merely enact efficient regulation; they also create bureaucratic capital.

Bureaucratic capital therefore enables the regulator to cash in later thereon, after exiting the public sector and joining a firm in the sector she previously regulated.

The regulator maximizes her lifetime income net of efforts, since the production function of bureaucratic capital, H is a nonlinear function of effort, E (equation 2).

The utility function, V , she maximizes is:

$$V = \Omega + qH - \lambda E \quad (1)$$

where Ω is her lifetime salary when appointed as regulator. After leaving her job as regulator, the regulator works in the industry that she regulated. She receives on top of her lifetime salary, a rent, qH , which is a function of the amount of "bureaucratic capital", H she has accumulated at price q less her effort, E .

The production function of bureaucratic capital, H as a function of effort, E takes the specific form:¹²

$$H(E) = [(1 + \gamma)E]^{1/\gamma} \quad \gamma > 0 \quad (2)$$

Taking the FOC of equation (1) with respect to H , when H is a function of effort as described in (2), we get the optimal level of bureaucratic capital she wants to accumulate:

$$H = (q / \lambda)^{1/\gamma} \quad (3)$$

The second player in this framework are the firms, the business elite. These firms consist of monopolistic firms each with its own intermediate good, and in consequence, they are regulated by regulators nominated by the government (I follow the model of Romer, 1990).

Entrepreneurs maximize profits of the regulated firms. Those firms find the knowledge accumulated by the bureaucrat valuable, since the bureaucratic capital under the board's control enables increasing the firm's revenue. In consequence, I develop the demand of these firms for the "knowledge" of the "revolver" regulators, i.e., the bureaucratic capital, H .

When a firm j hires a bureaucrat with a bureaucratic capital H_j , the production of output j becomes more efficient. This is so, because the regulator has knowledge and connections on the system. More specifically, it depends on the relative level of bureaucratic capital by the different regulators of the different firms, since it is only the relative knowledge which matters. So, the production function in sector j takes the form:

¹² In other words, Ω is the lifetime compensation of the regulator, which includes also what she gets after retiring from being a bureaucrat. qH is the 'bonus' she gets by the company which will hire her after leaving office, for her over-regulation.

$$x_j = k_j \left(\frac{H_j}{\bar{H}} \right)^\phi \quad \phi > 0 \quad (4)$$

where H_j is the level of bureaucratic capital produced by the regulator entering firm j , and as in the Romer model, output is also a function of capital, k_j .¹³

So, the profit maximization, π for an intermediate good firm, j is:

$$\text{Max } \pi_j = p_j(x_j)x_j - rk_j - qH_j \quad (5)$$

where the output is x , the price of the output is p . The two costs of factors of productions are (i) capital, k_j where r is the interest rate, and (ii) the bureaucratic capital, H at cost q . The last term in equation (5) is the amount paid to the regulator for her bureaucratic capital.

Each firm maximizes profits by finding the optimal amount of output, x_j prices p , and bureaucratic capital, H_j .

$$p_j = p = \frac{1}{\alpha} r \quad (6)$$

$$H_j = \bar{H} = \frac{\phi r K}{qA} \quad (7)$$

Equation (7) represents the demand for bureaucratic capital, as a decreasing function of q . This is the demand from the side of the firms.

Recall that from the side of the bureaucrats, we get the supply equation of bureaucratic capital (equation 3). By equating demand with supply, we get the equilibrium stock of bureaucratic capital, H^*

$$H^* = (\phi r K / \lambda A)^{1/1+\gamma} \quad (8)$$

and

$$q^* = [\lambda(\phi r K / A)^\gamma]^{1/1+\gamma}$$

Is this level of bureaucratic capital optimal from the standpoint of the economy? In the following section, we show that it is not so, but we also show that the optimal bureaucratic capital level is not zero.

¹³ Note that if $H_j = \bar{H}$, then the output is just: $x_j = k_j$, no matter the average level of bureaucratic capital. Although having hired a bureaucrat to increase the productivity of the firm may bring advantage from an individual point of view, it is pure waste from a social point of view.

3. The effects of bureaucratic capital on the economy

The question to be asked is why does a government, for which economic growth is a priority, not find a way to prevent the regulators from creating *bureaucratic capital*?

We now show that the government indeed does not act to eliminate the revolving door. On the contrary, they find it optimal to allow the regulator to create a certain amount of *bureaucratic capital*. Solution to ethical problems will never be to choose the extreme.

The explanation behind this result is the following: regulators are heterogeneous in their abilities, and more able regulators enable higher productivity and higher economic growth. In order to recruit high-quality regulators, governments must pay them well. An easy way to let regulators have high income is by legislators' closing their eyes to the fact that the regulator can cash in on the bureaucratic capital they create while serving as heads of agencies.

Thus, a government that wants to maximize the rate of growth of the economy, faces a tradeoff between on the one hand, having high-quality regulators, and on the other hand, letting the high-quality regulators create *bureaucratic capital*, which has a negative effects on growth.

Indeed, if the government wants to hire a high-quality bureaucrat, her income must be high. Since wages in the public sector are lower than the reservation wage of the regulator, they must let her accumulate bureaucratic capital so that she will be indifferent between being working as bureaucrat, or providing private services as lawyer or economist. This trade-off is the QH curve in equation (9), depicted in Figure 1.

This QH curve is the production possibility frontier between bureaucratic capital, H and quality of the regulator, Q , in equation (9). The maximum amount of quality is reached at $H=H^*$ (see appendix 1 for the details).

$$Q_i = \frac{1}{\xi} \left[\Omega - \lambda \frac{H_i^{1+\gamma}}{1+\gamma} + qH_i \right] \quad (\text{The QH curve}) \quad (9)$$

The QH curve is the curve representing the decision of the regulator.

We are left with the question, which bundle of quality and bureaucratic capital is optimal for the country? For matter of simplicity, this paper assumes that the goal of the government is to maximize the rate of growth of the economy.

Following Romer (1990), the intermediate goods develop new technology through a sector of R&D, and the final good is produced with labor and the intermediate goods in the following way:

$$Y = L_y^{1-\alpha} \int_0^A x_j^\alpha dj \quad (10)$$

where Y is the output at each period; L_y - the number of workers in the production sector; x_j the number of intermediate goods from type j ; and A , the level of technology, measured by the range of capital goods available. The power of monopolist firms is also embedded in the parameter α .

In consequence, the growth rate in the economy which is constant (since we focus only on the balanced growth path) is:

$$g = \frac{\dot{A}}{A} = \delta(Q)L_r \quad (11)$$

where δ is a positive parameter function of the quality of the bureaucrat, Q , $\delta' \geq 0$ and $\delta'' < 0$. L_r is the size of the labor force in the R&D sector.

In consequence the rate of growth in the economy is:

$$g = \delta(Q) \left[1 - \frac{r}{\alpha \delta(Q)} - \frac{q^* H}{\alpha(1-\alpha)\tau} \right] \quad (12)$$

Equation (12) describes the rate of growth of the market economy as a function of the behavior of the bureaucrat described by H and Q . The rate of growth in the economy is a positive function of the ability of the bureaucrat, Q , and a negative function of the level of bureaucratic capital, H . In Figure 1, we present the iso-growth curve as a function of Q and H (see Appendix 2 for details). We get that the rate of substitution is positive, and the iso-growth curves are concave.

So, the two main equations of this model are the QH function (equation (9)), which describes the production possibility frontier of the regulator faced by the government in terms of quality and bureaucratic capital. The second one is the equation of the iso-growth curves, equation (12), which describes for each Q and H chosen by the regulator, what is the level of growth rate, g obtained in the economy.

We now determine the amount of bureaucratic capital which leads to the highest rate of growth.

4. Equilibrium and optimal choice

Let us focus on the iso-growth curves in Figure 1. As we move further to the right, an iso-growth curve depicts a higher growth rate (higher quality of a bureaucrat leads to higher growth). In consequence, the highest rate of growth which is also on the production possibility frontier is point M. This is the optimal solution from the point of view of the country. At this point, the level of H is positive, and non-zero.

In other words, *it is in the public interest to allow the bureaucrats to create bureaucratic capital. The solution to an ethical problem is not zero-tolerance.*

This result stresses that despite the negative effects of bureaucratic capital on the economy, the economy has an optimal mix of level of redundant bureaucracy and quality of the regulator. While the government could restrict the possibility of the revolving door, this would mean reducing the quality level of the regulators in the economy, which is not a good solution. This result states that the highest rate of growth is attained when there is creation of bureaucratic capital which is *non-zero*.

Although the market economy reaches its highest economic growth at point M, we also show that the regulators choose a level of bureaucratic capital which is higher than the one the economy would prefer. The regulator chooses to create bureaucratic capital at the level of H^* , which gives her the highest utility. Therefore, in a market equilibrium, the regulators choose the amount of H^* , and the economy will be at point F. Comparing F to M, we obtain that at F, the amount of bureaucratic capital is higher, and the rate of growth is lower.

This fact stresses that the amount of bureaucratic capital chosen by regulators and firms, H^ is higher than that favored by the government, and the public.* The equilibrium is at a point wherein ability is at its maximum. The public would rather have less bureaucratic capital, even at the price of having less able bureaucrats. The reason we are not at the Pareto optimum of point M in Figure 1 is due to the social waste, bureaucratic capital leads to.

In conclusion, this concise consequentialist model emphasizes that even at the maximum growth rate (point M), the presence of bureaucratic capital is not zero. The central message conveyed by this paper is that it is in the public's interest to permit the elite to engage in some level of unethical behavior.

IV. Conclusion

This paper has delved into the inquiry of whether the public should tolerate unethical conduct by the power elite, and surprisingly, the answer is affirmative. Allowing

unethical behavior and facilitating the interconnection of elites through the revolving door serves both the public's and the political elite's interests. The rationale is straightforward: it is in our collective interest to attract high-quality regulators who may find the current civil service salary inadequate. The revolving door enables individuals to enhance their lifetime compensation, thereby attracting more skilled civil servants to the bureaucratic elite.

Consequently, the optimal solution does not advocate a 'zero tolerance' stance towards the ethical concerns tied to the revolving door. Accepting some degree of unethical behavior is justified by the fact that, while unethical bureaucratic capital may be inefficient for society, it enhances the competence and effectiveness of regulators. Implementing stringent restrictions on bureaucratic capital could lead to a decline in the quality of civil servants, ultimately resulting in lower economic growth. There exists a tradeoff between competence and the potential for greed and unethical behavior.

As for assigning blame for unethical behavior, it lies partly with the political elite that permits the interconnection between the bureaucratic and business elite. The government retains the authority to potentially prohibit the revolving door, should it choose to do so.

On the other hand, the bureaucratic elite plays a crucial role in implementing unethical bureaucratic capital, contributing to the reduction in economic growth. Additionally, the business elite shares culpability as they are the ones hiring these bureaucrats and offering them substantial salaries.

Therefore, the entire power elite is responsible for orchestrating this procedure and, consequently, for engaging in unethical behavior. Interconnection is a direct outcome of the collective decision of all elites to endorse the revolving door. However, prohibiting it would be detrimental to everyone, including the general public.

This paper serves as an initial exploration into understanding why a considerable portion of the elite in the Western world engages in unethical behavior. The focus was on the bureaucratic elite, and not on the political elite.

Concerning the political elite, this paper has assumed that the desires of the political elite align with those of the public, in contrast to the 'public choice' perspective. It is evident that this assumption should be reconsidered. In various nations, prime ministers have been found lying, confronted with corruption charges in court, and potentially involved in concealing funds in offshore accounts, such as those in Panama or Liechtenstein. Ministers occasionally make decisions solely to benefit their acquaintances

and secure votes.¹⁴ However, this goes beyond mere unethical behavior; it enters the realm of corruption.

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¹⁴ Watch the Netflix documentaries on corruption within FIFA and the L'Oréal scandal, which led to Sarkozy's indictment. Explore the Qatar affair, where Bernard-Henri Lévy (BHL), an intellectual and a philosopher has also faced charges. Additionally, see the developments in Israel, where Benjamin Netanyahu, considered by some as the worst prime minister in the history of the country, may potentially conclude his political career in prison due to corruption charges!

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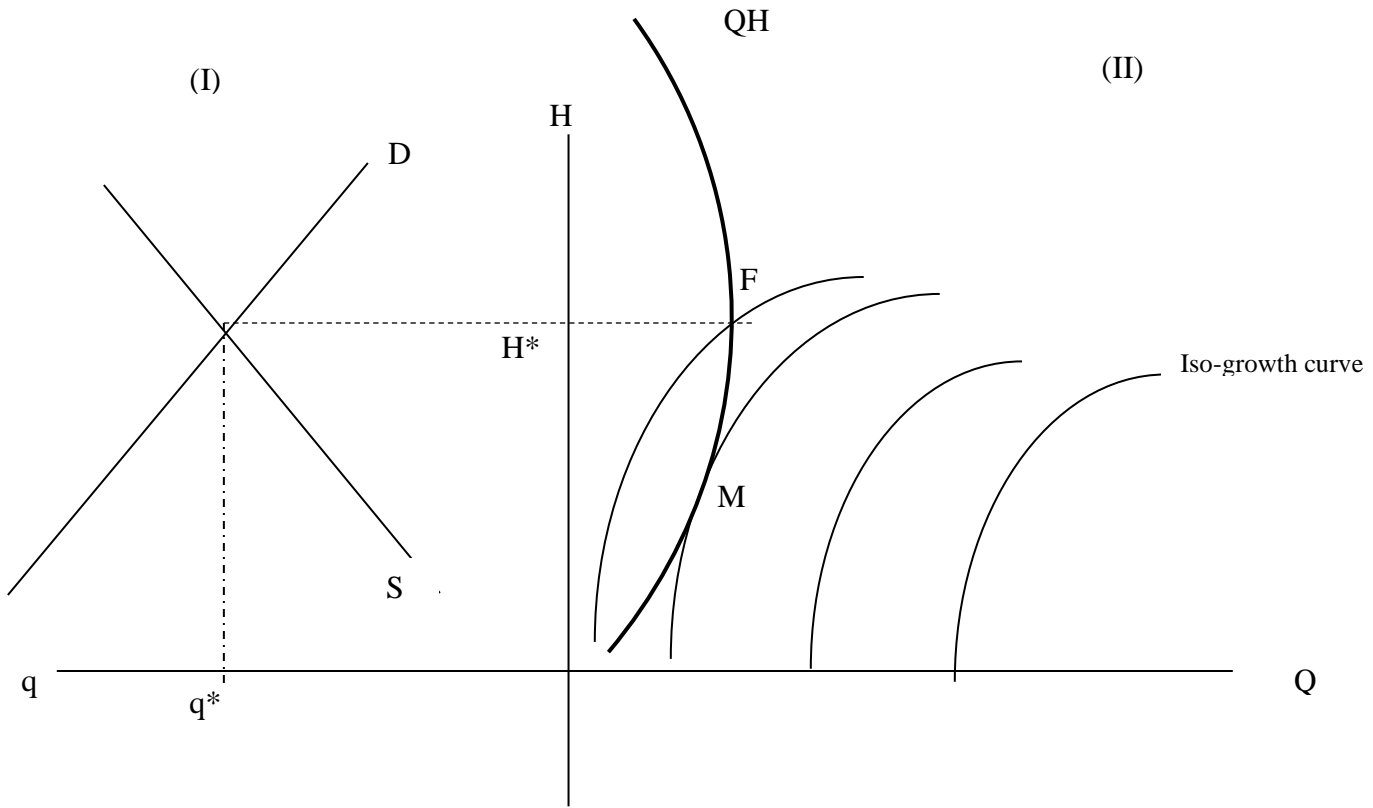
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Figure 1: The amount of Bureaucratic Capital in equilibrium, and the Trade-off between Quality and Bureaucratic Capital



Appendix 1

One instrument in the hand of government is to appoint regulators who regulate monopolistic firms. Regulators are chosen from among the individuals with specific abilities and skills. These individuals are heterogeneous in their abilities, and as emphasized by Weiss (1980), when ability affects the productivity of a person, then wages are not equal for all: “workers’ wage is an increasing function of his ability”. Individuals with high ability and quality earn more than ones with less ability.

In consequence, without loss of generality, we assume the following form:

$$W_s = \xi Q_s \quad (A1)$$

where W_s is the income of a specific individual, and Q_s is the ability of this individual.

Since quality of the regulator affects economic growth (equation 11), the government will choose a regulator with the highest ability possible and who gets an income related to quality given by equation (A1). We assume that the legislator possesses perfect knowledge of each candidate's ability. In consequence, he knows that the reservation income of the potential regulator is given by (A1) and therefore the choice faced by the legislator is to hire a regulator with ability such that:

$$Q_i = \text{Max} \langle Q_s \mid \xi Q_s \leq V_s \rangle \quad (A2)$$

and the solution is:

$$Q_i = \frac{1}{\xi} V_i \quad (A3)$$

where V_i is the lifetime income of the bureaucrat i . Substituting equation (1) into equation (A3), we get the relationship between ability and level of bureaucratic capital faced by the political elite:

$$Q_i = \frac{1}{\xi} [\Omega - \lambda \frac{H_i^{1+\gamma}}{1+\gamma} + qH_i] \quad (\text{The QH curve}) \quad (9)$$

Appendix 2

Based on Romer, the equilibrium is obtained by equating wages earned by workers in the output and the R&D sectors. So, we have:

$$w_r = w_y \quad (\text{B1})$$

where w_r and w_y are wages in the R&D and production sectors respectively. The total labor force working in the production and the research sectors is constant and denoted by \bar{L} .

$$L_r + L_y = \bar{L} \quad (\text{B2})$$

where L_r is the size of the labor force in the R&D sector, and L_y the labor force in the output sector. Since the salary earned by workers in the R&D sector is the value of the patent of their invention, we have that:

$$w_r = \frac{\dot{A}}{L_r} P_r \quad (\text{B3})$$

where P_r is the price of a new-design patent, and \dot{A} is the number of new inventions developed. Moreover:

$$w_y = (1 - \alpha) \frac{Y}{L_y} \quad (\text{B4})$$

$$rP_r = \pi + \dot{P}_r \quad (\text{B5})$$

where \dot{P}_r is the change in the price of patents and π are profits. Since there is no increase in population, along the balanced growth path, output Y , and inventions, A grow at the same rate, so that patent prices also are constant, and we get:

$$P_r = \frac{\pi}{r} \quad (\text{B6})$$

Moreover, the profit for each of the firms is:

$$\pi = \alpha(1 - \alpha) \frac{Y}{A} - qH \quad (\text{B7})$$

In consequence, we get that:

$$\frac{(1 - \alpha)Y}{L_y} = \frac{\delta A}{r} \left[\frac{\alpha(1 - \alpha)Y}{A} - q^* H \right]$$

Then we obtain:¹⁵

¹⁵ Interest rate is determined by the demand of goods, as in Romer (p. 88), and is not a function of the endogenous variables of equation (9).

$$L_y = \frac{r}{\alpha\delta(Q)} + \frac{q^*H}{\alpha(1-\alpha)\tau} \quad (\text{B8})$$

In consequence the rate of growth in the economy is:

$$g = \delta(Q)[\bar{L} - L_y] = \delta(Q)\left[\bar{L} - \frac{r}{\alpha\delta(Q)} - \frac{q^*H}{\alpha(1-\alpha)\tau}\right] \quad (12)$$