Lost in Translation:
How Bureaucratic Hierarchies Limit Presidential Control

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Abstract

Scholarship on the politics of distribution have uncovered how presidents deliver benefits strategically through federal agencies (Hudak, 2014; Kriner and Reeves, 2015). While interagency differences are incorporated into the distribution literature, intra-agency hierarchy is not considered. Instead, an assumption of uniform control by the president exists, without considering the impacts of organizational hierarchy. As the government has grown, the president faces challenges to oversee agencies that have expanded beyond traditional means of control. This work explores the effects of vertical insulation in agencies, showing that presidential control is the strongest at the top of the hierarchy, and weakest at the bottom. Presidential preferences are explored using campaign contributions by federal contractors to the president and their influence over contracting awards at various offices within agencies. This work aims to show which parts of the bureaucratic hierarchy are most susceptible to presidential influence, and which are insulated.

An important question in literature on the bureaucracy deliberates on how and when agencies can be influenced in their decision-making. In one area in particular, the distribution of federal funds, the focus has been on the president's control over agency decision-making. Much of this work has concluded that presidents have nearly complete control over agencies. This research has been valuable in terms of showing that the president has a stronger influence over distribution from agencies than Congress (Berry, Burden, & Howell, 2010; Hudak, 2014). This conclusion however, is too simplistic to present an accurate portrait of how agencies function relative to political influence. Furthermore, they fail to consider the role that public agencies have in their own decision-making. Instead, we need to consider that the organizational hierarchy within agencies underlie distributive policymaking.

Decisions at the highest levels of agencies are made with different considerations than those at the bottom. Thinking of agencies as a pyramid, top level offices represent a tight-knit network of Washington insiders that are heavily influenced by political forces (Heclo, 1977, p. 184). These political forces could include the national political parties or influential members of Congress. Most directly, appointees are both beholden to, and closer in the hierarchy to, the president. Their decisions will be given greater scrutiny, leaving them with little leeway to deviate from the president's preferences for fear of sanctions. Furthermore, they rely on a much smaller network of elites in their decision-making process. Similarly, careerists working in the highest level of agencies are a part of a narrow network more attuned to the political pressures of Washington rather than the functional needs of the agency. Bureaucrats in executive positions who interact with elected officials differ from other bureaucrats in that they are also more likely to have been hired directly into that position rather than rising through the ranks (Teodoro, 2013).

Lower in the bureaucratic pyramid, these influences dissipate. Instead, lower level bureaucrats rely on a diffuse network of policy experts to influence decision-making, which is possible because of their greater insulation from the top-level politics (Heclo, 1978). These networks consist of people who are connected through their long-term employment and professional associations. For example, careerist accountants or lawyers will form their own networks based on their skillsets and experience rather than on political associations.

A consequence of working in close proximity to the president is that missteps will receive far more attention than mistakes or policy deviations made by employees at lower levels. Appointees serving at the will of the president are in a far more tenuous employment situation than careerist employees. Career bureaucrats, on the other hand, rarely fear sanction from supervisors, as applying punishments is costly and rarely effective (Brehm & Gates, 1997, p. 108). This is not true universally however, as top level careerists do not enjoy the same protections as other civil servants, leaving them in a precarious situation between politics and policy (Heclo, 1977, p. 134).

President’s employ a variety of politicization tools that can be utilized to either remove or neutralize non-appointed managers in an agency (Lewis, 2008, pp. 30-42). In lower offices, increased insulation creates information problems for hierarchical monitoring, allowing greater latitude for policy decision-making. Evidence of increased insulation can be seen from careerists located further from appointees in the organization reporting less oversight from the president’s budget arm, the Office of Management and Budget (Aberbach & Rockman, 2000, p. 120).

By exploring the importance of organizational structure on political influence throughout agencies, this study will demonstrate the limits of presidential power in the bureaucracy. While the recent trend has been to assume that the president has potent and uniform control across organizational levels *within* public agencies, the layers of hierarchy create diminishing influence. Though it has been shown that programs run by careerists were shown to be better run than those managed by appointees (Gilmour & Lewis, 2006; Lewis, 2008), this does not address department control. In other words, this research shows that careerists are better at managing programs than appointees, but it does not consider how agency hierarchy may impact specific decision-making.

The concept that there are people in government who are insulated from political influence may be heartening to some, yet the idea of accountability makes policymaking discretion problematic. In a representative democracy, the expectation is that there will ultimately be someone to hold accountable for policy decisions. From a normative perspective, bureaucrats who are insulated from political actors signify a potential breach in the public's ability to hold government responsible for policy (Heclo, 1978). While a scandal will bring attention from superiors and possibly Congress (McCubbins & Schwartz, 1984), many policy decisions occur in a network where the political authority is minimized due to the policy dominance of careerists over ineffectual appointees. Furthermore, at the lower levels, instead of depending on a politicized network for influence, a diffuse network of careerists will control decision-making and have the option to shirk from the preferences of elected officials (Krause, 2013).

This theory builds on the work of Carpenter (2001), who proposed that bureaucratic autonomy is achieved through alliances and networks that ultimately hold more power than politicians. As found by Aberbach, Rockman, and Putnam (1981, pp. 213-226), higher level careerists have more interactions with top-level appointees, whereas lower level careerists have more communication with other bureaucrats and external stakeholders. Furthermore, bureaucrats know that they will outlast their political supervisors, and may be willing to stall, or simply ignore orders that contradict their policy preferences (Aberbach & Rockman, 2000, p. 90). While lower level networks may be perceived as a threat to the top-level executives, attempts to constrain relationships that do not conform to the hierarchical structure are ineffective (Heclo, 1978, p. 147).

My core thesis therefore is that executives at the top of agencies are locked into narrow, politically-charged networks heavily connected to the president, the parties, and influential members of Congress, whereas at progressively lower levels of agencies, the networks become more diffuse, relying on professional and career connections. The implication of this thesis is that presidential control has limits *within* agencies, rather than assuming that agency independence is part of the initial organizational design (Moe, 1989). This diminishing power over agencies indicates both bounds in presidential power and electoral accountability of the federal government.

This paper will explore bureaucratic decision-making through the case of government contract distribution. Contracting decisions represent an intragovernmental decision to engage with the private sector to deliver goods and services either to the government or on behalf of the government. In contrast, government grants, which have been studied extensively, are intergovernmental decisions because they involve the distribution of funds between the federal government and other localities or institutions. Grants are intended to extend the work of the government, whereas contracts bring in private sector entities to complete the work of the government (Cooper, 2003). Given the nature of grants as a way for agencies to distribute money to specific districts and states, they have become highly politicized (Hudak, 2014; Kriner & Reeves, 2015). Additionally, grants are frequently tied either to specific legislation or formulas that determine how much each state receives. As such, grants are most commonly seen as separate lines in an agency's annual budget. The fact that they are created as a separate budget item that is vetted by Congress (Jackson, 1997) indicates that there is greater opportunity for political influence of the budget by both the president and the legislature.

Contracts, in contrast, are created from the discretionary funds within a given agency. As such, they are part of a lump sum that is approved by Congress and do not require specific legislative approval. Instead, government contracts are issued after an agency determines a need for service delivery that may be more effectively or efficiently provided by an outside vendor (Brown, Potoski, & Van Slyke, 2006). Therefore, the generation of funding for contracts is not influenced by presidents and Congress as directly as grants. Furthermore, the insulation of these decisions suggest that they are representative of other decisions that are made within agencies. Contract decisions allow a window into how insulated decisions are made in agencies. The expectation, which will be explored through interviews in a separate part of this project, is that this type of insulation is pertinent to decisions beyond those made on contracts.

Government Contracting and 'Pay-to-Play'

The concept of "pay-to-play" is a concept that has a long history in American politics and continues to resonate in the modern environment. The attempt to regulate such behavior goes back to the Hatch Act of 1939, which banned federal officials from using contracts, grants, jobs, or other benefits to compel political contributions (Bloch, 2005). Specifically, the Hatch Act bans contributions by federal contractors to federal election candidates. The purpose of this ban is based on the intention that the "federal service should depend upon meritorious performance rather than political service" ("U.S. Civil Service Commission v. National Association of Letter

Carriers," 1973). Yet, despite these intentions, loopholes exist for contractors to potentially influence the system.

In fact, the ban on contributions from contractors has been clarified to only apply to individual contractors, or sole proprietors of a businesses with a federal contract. Employees of contractors however, are permitted to make contributions from their own personal funds (Federal Election Commission, 2015). This clarification means that while a single owner of a contractor may not make contributions, high level managers with personal stakes in contracts may still make contributions. In an effort to balance freedom of speech through contributions and contracting decisions made without outside influence, this loophole exists.

The consequence of this opportunity for contractors to donate is that political factors can potentially influence government contract awards. Specifically, the expectation is that as the head of the bureaucracy, contractors seeking to receive benefits from contributions would target presidential candidates. The ability for campaign contributions to sway bureaucratic decisions allows for an examination of the circumstances in which the presidents are able to influence bureaucrats.

Contracting decisions are ultimately made by middle-level bureaucrats who are imbedded within the office that will execute the contract. Therefore the decisions on contracts will represent the views of the office, but not necessarily the overall agency. The insulation of this decision-point allows for significant discretion, allowing for the potential for bureaucrats to avoid politicized decision-making. Utilizing this mechanism we can see specific agency influences at different levels based on to whom contracts are awarded. If they are making decisions in such a way that is insulated from presidential control, then it raises questions of public accountability versus trusting the expertise of career bureaucrats.

The motivations of the top level agency executives are straightforward if it is found that they are giving preference to contractors that have donated to the president: they want to keep their jobs. The motivations of lower level bureaucrats, if they do in fact have discretion, are more complicated. There are two primary reasons why bureaucrats may want to distribute contracts to specific contractors. The first rationale is the intent of the rules over contracting decisions, where contractors are selected based on their merits and anticipated ability to execute the contract effectively. Bureaucrats would then be motivated by the quality of their work, and building a positive reputation with the agency. The focus on delivering quality work would also be connected to motivations of advancement within the government.

The alternative scenario is one where bureaucrats develop relationships with contractors and deliver contracts in the hope of securing lucrative employment outside of the government. In other words, the lower level bureaucrats are no nobler than their counterparts at the top of the hierarchy, but rather than rewarding campaign donors, they are using contracts as a mechanism for their own personal gain. Instead of simply working to manage their career within the agency, they may also be strategically planning to exit the government (Teodoro, 2011) and take a position with a contractor to increase their salary and capitalize off of their expertise.

The specific mechanism that this study explores is whether campaign contributions to the president drive contracting decisions at the highest levels of agencies, but this influence dissipates in lower levels of the hierarchy. Previous work has shown that presidents wield significant influence over agency distribution, and this mechanism extends this concept to consider how campaign contributions influence agency management. Witko (2011) has previously shown that contributions to federal candidates yield more contracts for contractors, but this project will isolate this mechanism on the president due to the control that presidents hold over agencies and whether this influence dissipates due to organizational hierarchy.

Presidents are incentivized to reward contributors to encourage future donations. This influence however is strongest at the highest levels of agencies due to the politicized nature of these offices. In top level offices, the small and transient networks will have little other information to rely on to choose contractors, and thus will rely on these signals from the president. In lower level offices, where entrenched careerists carry more influence, they will have their own motivations and knowledge base to inform contracting decisions. This process has the potential to answer two questions. First, does the president's influence decrease in lower levels of agencies? Second, can contractors buy their way into the government through campaign contributions? The expectation is that top level offices will deliver contracts more to donors to the president than lower level offices, and that those contracts will be worth substantially more money.

Hypothesis 1a and 1b: *(a) Higher level offices in the bureaucratic hierarchy will be more likely to award contracts to presidential donors than lower levels, and (b) these contracts will be for substantially more money.*

Despite the focus on grants and presidential influence, the politicization of contracts has been shown in specific cases. The most notable occurrence was during George W. Bush's second term, involving the General Services Administration (GSA). It was found that the White House had given explicit orders for the GSA to provide contracts to vulnerable swing districts. Gordon (2011) showed empirically that contracts were being driven to specific districts. This case highlights the mechanism that exists for the White House to deliver messages to bureaucrats to award contracts in a strategic and politicized manner.

In terms of how contractors may influence distribution decisions, Leech (2006) shows that lobbying does not appear to provide additional government funding to organizations. Long, Hogan, Stretesky, and Lynch (2007) look only at contracts related to the wars in Iraq and Afghanistan. While do they find connections between donations and contract awards, their analysis is limited to those two countries, which can only explain a very specific aspect of contracting awards. Therefore, along with Witko (2011), a proven link between campaign dollars and contract awards exists, but current work has only scratched the surface in terms of understanding the decision-making mechanisms within agencies. The analysis in this project will estimate the value of the returns for campaign contributions by contractors in the form of government contracts.

Through the competitive bidding process, contracting officers first determine whether a proposal by a contractor meets the threshold of acceptability based on their own standards that were stated in the request for proposal. After a list of acceptable bids is determined, the lowest price may be a determining factor in the contract decision (General Services Administration, 2009). While strictly going by the lowest acceptable price would seem to limit the level of discretion by contracting officers, there is still considerable leeway provided in the Federal Acquisition Regulation (FAR). The regulations state that the lowest price is not required to be the determining factor, and instead the agency can select based on the “best value” that is provided based on their own interpretations of technical requirements and past performance of contractors. The flexibility in these regulations are sensible to prevent the government from restricting itself to only considering price, but it also increases the opportunity for discretion by bureaucrats. While bureaucrats are constrained by the limited pool of contractors to choose from in each bidding process, there is enough leeway for them to exercise discretion to select the vendor of their preference.

The contracting officers, despite their significant powers to oversee the contracting process, are not given priority in the government in terms of training, appealing career tracks, or retention strategies (Kelman, 2002). The poor working environment for these bureaucrats creates the potential that they may be open to influence either by other people in their agency or by their own ideological preferences. Clearly, there are serious implications regarding unfair preference in government contract awards and government waste, but this project will focus exclusively on the political nature of contracting decisions. Without strong enforcement and training on contracting guidelines, the environment is susceptible to manipulation of contracting awards for strategic purposes. Furthermore, contract officers are frequently left to manage a balance between choosing contractors that fulfill technical specifications and also satisfy political demands (Hefetz & Warner, 2004). Due to the sheer number of government contracts it is unrealistic that agency leadership is involved in all contracting decisions, leaving room for considerable discretion by bureaucrats. Per the theory of insulation, it is also expected that these influences will be most evident at higher levels, when the contracting officers are most closely connected to agents near the president.

When examining this question of influence, there are certain questions that stand out. First, do these donations help win contracts? Unfortunately, it is impossible to know this because the identities of bidders on requests for proposals for contracts are not released. What we can do however, is dig deeper into the types of contracts that are awarded. One way to do this is to examine the bidding process. There are two primary ways that contract bids are awarded: no-bid or competitive. No-bid contracts should theoretically provide the best opportunity for bureaucrats to show political preferences because they avoid a competitive bidding process and simply give contracts to a preferred vendor. Technically there are only two reasons that a contract can be awarded without a competitive process. Either there is only one vendor that can provide the service, or the contract is reacting to an emergency that requires immediate action (General Services Administration 2013). While additional administrative steps are required to generate a no-bid contract, this does not mean that they are necessarily immune from influence. A study by the Government Accountability Office (GAO) found that, of 24 contracts that were extended after the initial award, 16 were extended without competition. Furthermore, of those 16, 12 had never been open to competition (Cooper, 2003). Furthermore, it is intuitive to think that if a politically motivated superior wanted to deliver contracts to supporters, a no-bid contract takes decision-making out of the hands of neutral or potentially oppositional bureaucrats. Therefore, the expectation is that donors will receive preferential treatment on no-bid contracts, earning more money than their out-group counterparts at the top levels of departments, where political influence is the strongest.

Hypothesis 2: *Donors to the president will receive larger* ***no-bid*** *contracts at the highest levels of departments compared to non-donors.*

Data and Methods

The data on government contracting come from the Federal Procurement Data System (FPDS), maintained by the General Services Administration. The FPDS provides information on contracts in each agency from the 2004 fiscal year to present. The analysis in this paper will use data from the 2005 fiscal year through the 2008 fiscal year. Future iterations of the paper will use data through 2016. Similarly, the agencies related to the Department of Defense are not included in this sample due to the unique nature of the department and specific challenges that exist with that data. Defense will be included in future analyses.

The FPDS contains several useful categories of information. First, it contains the department, agency, and office from which a contract originates. This allows for a more precise understanding of the hierarchy within agencies and where these decisions are occurring. The data includes 93 departments, 293 agencies, and 10,786 offices. The signing date for each contract is included, which is critical for evaluating when political influence may take place. Additionally, the place of performance of most contracts is included with the information, nearly always listing the state, and often the congressional district as well. The amount for each contract is listed. For the purposes of analysis, the obligated amount of funds for each contracted is utilized. Due to a large variation in the size of contracts, with a mean of $65,977, and a high of $1.46 billion (a Department of Energy contract to a company that runs the Los Alamos National Laboratory), the natural log of this value is used to normalize the data.

Additionally, the vendor for each contract is listed, along with information about their location, and some details about their company. For this analysis, the annual revenue of contractors will be utilized to control for the size of companies in the analysis. Similarly, the state of the place of performance of each contract is included in the analysis to control for any location effects. For example, states with larger populations are more likely to be the place of performance of contracts than more sparsely populated areas.

The classification of offices in departmental hierarchies is done using a three level scale. Contracts that originate from top level offices on agency organizational chart in departments are classified as level one. These are offices that are minimally removed from the secretary’s office and as such are more vulnerable to political influence. Level two offices are those in the lower levels of agencies on the organizational chart, and as such are more insulated from influence. Level three offices are field offices, so they are both removed in terms of the organizational hierarchy, and also geographically from the central offices of the department.

A counterargument to my suggestion that hierarchy is a decisive factor in presidential influence in agencies that control can be better understood through politicization throughout departments and agencies. Therefore, using data from Lewis (2008) on Senate confirmed appointees, Schedule C appointees, and SES employees in each agency, an agency packing variable is created (as was done in Berry and Gersen (2016)) by taking the total number of appointees (Senate approved and Schedule C), over the total number of leadership in that agency (Senate approved + Schedule C + SES). This allows for the ability to determine if the appointed leadership in agencies has a stronger impact on contracting decisions than hierarchy.

In order to determine whether campaign contributions influenced contracts, federal contribution data by individuals to presidential candidates was gathered from the Center for Responsive Politics (www.opensecrets.org). For the analysis presented in this paper, only the contributions during the 2004 presidential campaign to President George W. Bush were used to determine if they influenced contracts from 2005 through 2008.

As a part of any campaign contribution, donors are required to complete a field regarding their employer. This field was used to do a fuzzy match to the names of federal contractors during the time period being analyzed. These matches were checked individually to determine accuracy, and ultimately resulted in 8,599 vendors from whom employees had donated to President Bush during the 2004 election. The average amount donated across the vendors was $3,676.

Due to the two-level nature of the question, a Heckman Sample-Selection Regression Model will be utilized. This model is preferable because it allows for a two stage process that can also account for possible endogenous selection bias in the contracting decisions. The selection stage of the model will be based on the decision to award to an *in-group* contractor versus an *out-group* contractor. In this context, the in-group contractors are those that donated to President Bush's 2004 reelection campaign.

Therefore, the model of the outcome is fitted as:

$$ln(contract\ amount_{isd}) = \beta_0 + \beta_1 Level1_{isd} + \beta_2 Level2_{isd} + \beta_3 Level3_{isd} + \beta_4 Agency\ Packing_{isd} + \upsilon_1$$

and is assumed that a contract is observed if (decision):

$$\Upsilon_0 + \Upsilon_1 Level_{isd} + \Upsilon_2 Level2_{isd} + \Upsilon_3 Level3_{isd} + \Upsilon_4 Agency\ Packing_{isd} + \Upsilon_5 Annual\ Revenue_{isd} + \upsilon_2 > 0$$

Where υ_1 and υ_2 have correlation ρ.[1]

The model is set up to test first whether presidential donors are more likely to be observed in the top, middle, or lower levels of departments, when controlling for politicization and the size of contractors through their annual revenue, along with fixed effects for year(i), the state of the place of performance of the contract(s), and the department (d). The size of contracts is a function of office level, politicization, and the fixed effects of the decision equation.

In addition to pooling all of the agencies together, agencies that are large enough to have multiple levels will be broken out to examine if there are specific departments or types of departments that are more likely to show strong influence at the top-level offices and less in lower. Similarly, given that this data is all during President Bush's second term, are there any political effects. The Clinton and Lewis (2008) ideology ratings help to differentiate the

[1] http://www.stata.com/manuals13/rheckman.pdf

departments to determine if there is an ideological determination to when offices are more or less susceptible to presidential influence.

Results

Before looking at the analysis, it is helpful to get an understanding, at a high level, of the data. The key element of the analysis is the assignment of the levels to offices that generate contracts within agencies. Of the total 4,512,109 contracts in this dataset, 23.70% are categorized originating in level one offices, 36.04% are level two, and 40.25% are level three. The distribution of these classifications is not surprising as there are large quantities of smaller contracts that are delivered from field offices in agencies such as Veterans Affairs. The largest contracts are awarded by top level offices, with an average of $138,697 per contract, whereas level two offices are the lowest at $13,856 per contract, and level three contracts are only slightly higher at $18,252 per contract. Not only would we expect donors to get more preference in high level offices because of the increased political pressure due to the adjacency to the president, this is also where the money resides. The investment of campaign donations to the president provide more value to contractors if they are bidding on the most lucrative contracts in the top level offices of federal departments.

Similarly, the top level offices are the most likely to be awarding service contracts as opposed to contracting out for goods. In top level offices, 54.79% of contracts are for services, whereas in level two offices only 13.06% are for services, and in level three offices, 23.18% are for services. Particularly since this current dataset excludes defense contracts, the larger contracts are going to be for services rather than goods, as services will include the cost of labor, potentially for long periods of time.

Additionally, to get an overview of where contractor donors are winning contracts, Table 1 presents the largest departments included in this study, along with the number of contracts from 2005-2008 and the percent of contracts that were awarded to Bush campaign donors. The overall impression is that a relatively small number of contracts are awarded to donor companies, with the highest being at NASA (10.92%).

[INSERT TABLE 1 HERE]

The first model tested looks at all departments and agencies pooled together to determine the effects across all federal government contracts from 2005-2008. Table 2 presents the results of the first model, which includes 2,890,808 contracts. The first column present the results of the probit model determining the likelihood of the variable occurring given the independent variables, and the second column represents the censored results for Bush donors relative to the amount (ln) of contracts awarded. The results generally show what was expected, in that contractors who donated money to President Bush in 2004 were more likely to be present in the highest levels of departments, and that those contracts would be associated with larger dollar amounts. Lower levels offices located centrally within the agencies (Level 2) are significantly less likely to have contractors that are donors, and when that does occur, the contracts are smaller. For the lowest level of offices, field offices, being a donor to the president does not appear to be a factor in actually holding contracts, but for those donors the contracts are significantly smaller. These results, at least preliminarily, suggest that during this time period, there was a hierarchical impact of where donors are more likely to win contracts within central offices, but that once decisions are made in the field, the donations no longer have an impact.

[INSERT TABLE 2 HERE]

An examination of the department-by-department decision data show that for top level offices (Figure 1), Health and Human Services (HHS), Department of Homeland Security (DHS), Department of Agriculture (USDA) and the Department of the Interior are the most likely to have contractors that donated to President Bush working in these offices. There does not appear to be any ideological reason for these decisions, as there is one liberal department (HHS), two conservative department (DHS, Interior) and one neutral department (USDA). While the only two departments that are significantly less likely to have Bush donors in their top level offices, Environmental Protection Agency (EPA) and the Department of Labor, are both considered liberal agencies, this is hardly conclusive evidence that liberal agencies were rebelling against Bush loyal contractors. Further stages of this project will include interviews and surveys of bureaucrats and contractors to dig deeper into these types of questions.

[INSERT FIGURE 1 HERE]

Figure 2 presents the department-by-department amount (ln) advantage given to donors in the top level offices in agencies. The agencies where this makes the largest difference are the VA and the Department of Transportation. In general the impact is generally positive, or inconclusive, with only the EPA giving less contract money to donors in top level offices. When looking at both sets of data, the EPA stands out as an agency that did not give donors preference in top level offices and did not provide larger contracts. It is possible that Bush's antagonistic relationship with the EPA during his tenure may have led to dissatisfaction throughout the agency, leading to this effect.

[INSERT FIGURE 2 HERE]

The suggestion about an agency-wide opposition to Bush donor contractors is bolstered by the decision results presented in Figure 3, again showing the EPA as the least likely to have

Bush donors as contractors in lower level offices. While both HHS and USDA are still significantly likely to have Bush donors in their lower level offices, more agencies are inconclusive or negatively correlated. When looking at the amounts awarded to Bush donors (Figure 4), there is considerably more variance, with the VA and USDA as positive and strongly significant, and the Department of Interior as positive and moderately significant. According to Clinton and Lewis (2008), both the VA and USDA are neutral agencies, whereas the Interior is conservative. Again, the perceived partisanship of departments does not appear to influence contract decisions. In general, the trend appears that while in some agencies, second level offices do give larger contracts to Bush donors, this does not occur nearly as often as in the top level offices.

[INSERT FIGURE 3 HERE]

INSERT FIGURE 4 HERE]

Unfortunately, in nearly all departments, the level three offices did not produce results in the statistical equations. In the aggregate, there appears to be a difference between levels two and three, but by individual departments, level two and level three offices more often than not behave identically, leading to statistical failures.

Thus far we have treated all contracts the same, but one fundamental way that they vary is in how they are actually awarded. As noted previously, while we cannot know who bid on competitively awarded contracts, we can examine who receives no-bid contracts. A standard OLS regression only looking at the logged amount no bid contracts (again controlling for agency packing, and including fixed effects for year, place of performance state, and department), is presented in Table 3. These results include interactions of each of the three levels with contracts awarded to Bush donors. The outcomes show that while no bid level one contracts are always going to be larger, the coefficient for contracts given to Bush donors are significantly larger than those awarded to non-donors (confirmed using a Wald test, $p < 0.001$). These results continue down through each level, with donors receiving significantly larger contracts in both second and third level offices.

[INSERT TABLE 3 HERE]

This finding confirms that general idea that there may an in-group and out-group effect, but does not point to the vertical insulation seen in the previous analysis. Instead, it appears that for no-bid contracts only, in-group donors are given significantly larger contracts than out-group contractors at all levels of the bureaucracy.

These results are particularly interesting when comparing them to the same analysis but only with competitively competed contracts (Table 4). Here we see a similar story where both donors and non-donors receive larger contracts at the highest level, again where the donors receive significantly larger contracts ($p = 0.035$). This holds true at the second level as well, but things change in the lowest level offices. Here, the donors receive significantly less ($p < 0.001$) money than non-donors, suggesting that insulation is occurring with competitively bid contracts.

[INSERT TABLE 4 HERE]

Together, these results suggest that no-bid contracts are a tool used by the president to deliver contracts to donors throughout the hierarchy in departments. Using this tool, they are able to subvert potential interference by bureaucrats. For competitively bid contracts, the insulation is more prevalent, with strong influence in the top two levels, but no signs of political influence in the lowest level offices.

When breaking the data down by departments, the conclusion becomes less clear. Figure 5A presents the coefficients for no-bid contracts awarded to Bush donors in top level offices. The only agencies that show positive and significant effects are the VA, GSA, and EPA, with the Department of Labor nearing significance. Three departments are negative and significant: Justice, Transportation, and Health and Human Services. These conflicting findings suggest that, in the overall model, the no-bid contracts in the three significant and positive departments are large enough to skew the results, and thus there may not be a government-wide systematic preference toward giving large no-bid contracts to Bush donors, but rather a strategy that occurs in specific places.

When comparing these results to the no-bid contracts of non-donors in Figure 5B, we see that while contractors in the VA and GSA still receive large contracts, there are not nearly as large as those given to donors. In the EPA, non-donors actually receive significantly smaller contracts. In most other departments however, non-donors receive larger contracts, in contrast to donors. These findings suggest that at the highest level of departments, in most cases, there does not appear to be a preference for donors, except for in the few specified cases.

The results are similar for Level 2 no-bid contracts (Figure 5C), again with the VA and GSA showing positive and significant results for donors, this time joined by the USDA. Only the Department of Justice shows significant and negative results, with other departments failing to show significance. The results for non-donors (Figure 5D) do not show a particular pattern, with the results scattered.

Figure 6 shows the results of contracts that were bid on competitively by contractors. Figure 6A presents the results of contracting awards for donors in the top level of departments. Again the VA and GSA are significant and positive, along with the Department of Labor, State, Interior, and Justice. For the competitively bid contracts for non-donors, the VA contracts are significantly larger, while GSA contracts are significantly smaller. There do not appear to be any particular patterns that are occurring within these groups. In level two offices (Table 6C) donors receive significantly larger contracts in the GSA, USDA, Interior, and HHS, and slightly smaller contracts in the VA. Non-donors, in contrast, receive significantly smaller contracts in the GSA, but similar contracts in the USDA, Interior, and HHS.

Discussion and Next Steps

Vertical insulation within the bureaucracy does appear to exist, though it is not systemic throughout government, and instead is focused in specific departments, at least during the time period measured in this paper. Across all agencies and contracts, contractors who have donated to the president are more likely to be present in the highest levels of government, and less likely to be in the lower level offices. In contrast, when examining only no bid contract awards, across all agencies, it appears that donors receive significantly more money in the highest level offices. This suggests that there is a possibility that presidents use no-bid contracts to subvert insulation and deliver large contracts to their donors. If this truly is the case, it is the clearest example of a "pay-to-play" scheme.

The results get murkier when looking at specific agencies, though this may be a result of the limited sample. One agency of particular note is the GSA. While the data did not converge for the baseline analysis, for the no-bid analysis, there appear to be clear signs of vertical insulation. The political influence in these decisions confirms the findings of Gordon (2011), which proved that the Bush administration was driving contracts to swing districts. While the analysis in this paper did not look specifically at swing districts, it does confirm the political influence that was infiltrating decisions at the GSA, and that it was at least partly driven by donors to President Bush.

There are several next steps that will occur to further our understanding of influence and insulation in the federal bureaucracy. First, more years of data, along with all defense agencies will be included in the analysis. This will allow for comparison across administrations and also the timing of elections. For example, do presidents grant more favors to donors in their first term compared to their second term?

Additionally, in-depth interviews with bureaucrats are planned to provide greater context with how contracting decisions are made. This will provide first-hand accounts of times when influence has occurred, and whether they believe that this is a systemic issue in government. Contractors will also be interviewed to explore how they perceive contract awards are made, and whether they feel that political influence drives decisions.

Finally, I am currently planning a survey to be sent to bureaucrats in all agencies to gauge how they feel that decisions are made generally in their offices, and also how specifically contracting decisions are made. A key component of this survey is to ask questions that will be used to construct a network analysis to determine the hierarchical nature of decision-making within the organizational framework of federal offices, agencies, and departments. The evidence found from the data, interviews, and survey, will help to provide a clearer picture of both how contracting decisions are made relative to hierarchy and influence, along with decisions in general.

Table 1: Contributors by Department

Department	Total Contracts	Percent Associated with Donors
Department of Agriculture	105,371	2.86%
Broadcasting Board of Governors	1,341	0.45%
Department of Commerce	52,717	4.12%
Court Services and Offender Supervision Agency	1,308	3.82%
Defense nuclear Facilities Safety Board	351	0.57%
Department of Education	5,001	3.88%
Environmental Protection Agency	64,080	8.58%
Equal Employment Opportunity Commission	12,958	2.15%
Executive Office of the President	12,958	5.94%
General Services Administration	1,598,604	3.97%
Department of Health and Human Services	170,683	4.21%
Department of Homeland Security	127,095	3.73%
Department of Housing and Urban Development	6,348	3.42%
Department of the Interior	165,395	4.25%
Department of Justice	189,931	4.73%
Department of Labor	23,051	5.81%
NASA	93,807	10.92%
National Science Foundation	3,177	3.18%
Nuclear Regulatory Commission	6,169	6.14%
Smithsonian Institution	3,208	2.99%
Department of State	85,222	0.98%
Department of Transportation	13,090	2.81%
Department of Treasury	112,813	2.92%
Department of Veterans Affairs	1,693,335	3.54%

Table 2: All Agencies Sample Selection Results

Independent Variable	**2004 Bush Donors for 2005-2008 Contracts**	
N = 2,890,808 (105,534)	*Decision*	*Amount (ln)*
Level 1 Offices	0.372***	1.03***
Level 2 Offices	-0.381***	-0.562***
Level 3 Offices	-0.011	-0.460***
Agency Packing	-0.044**	-0.654***
Service Contract	-0.126***	1.24***
Swing States (2004)	-0.264***	-0.038
Annual Revenue	-0.001	Not Included

Note: Standard errors reported in parentheses. ***p<0.001, **p<0.01, *p<0.05

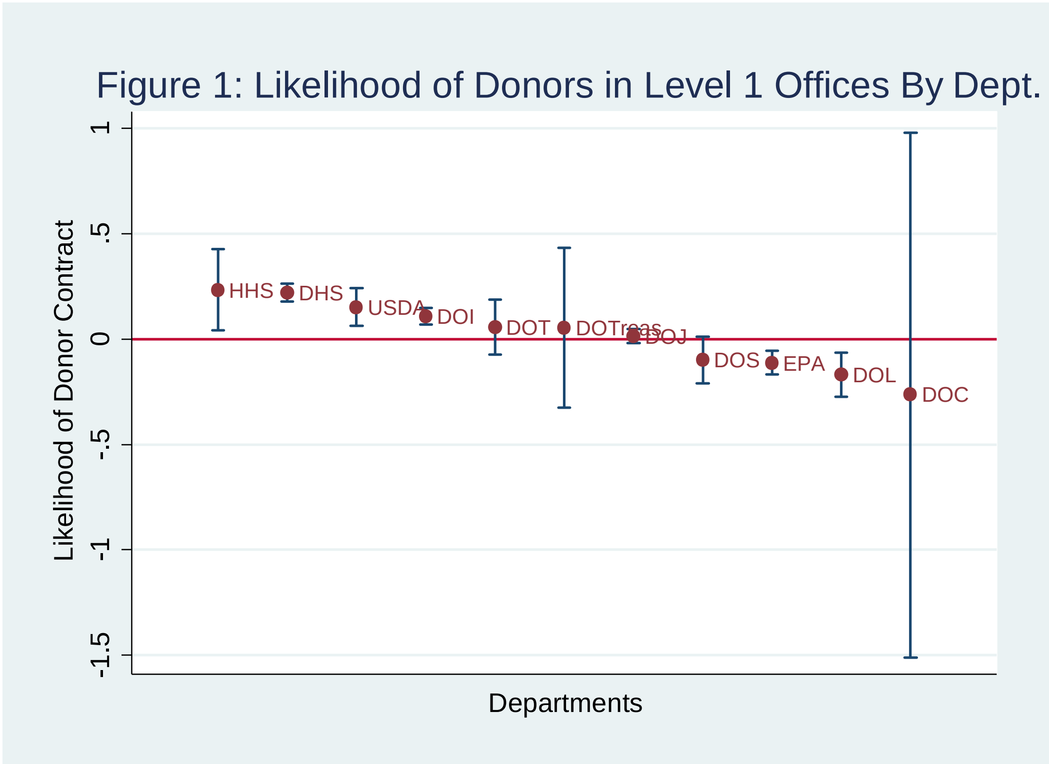

Figure 1: Likelihood of Donors in Level 1 Offices By Dept.
Likelihood of Donor Contract
1
.5
0
-.5
-1
-1.5
HHS
DHS
USDA
DOI
DOT
DOTreas
DOJ
DOS
EPA
DOL
DOC
Departments

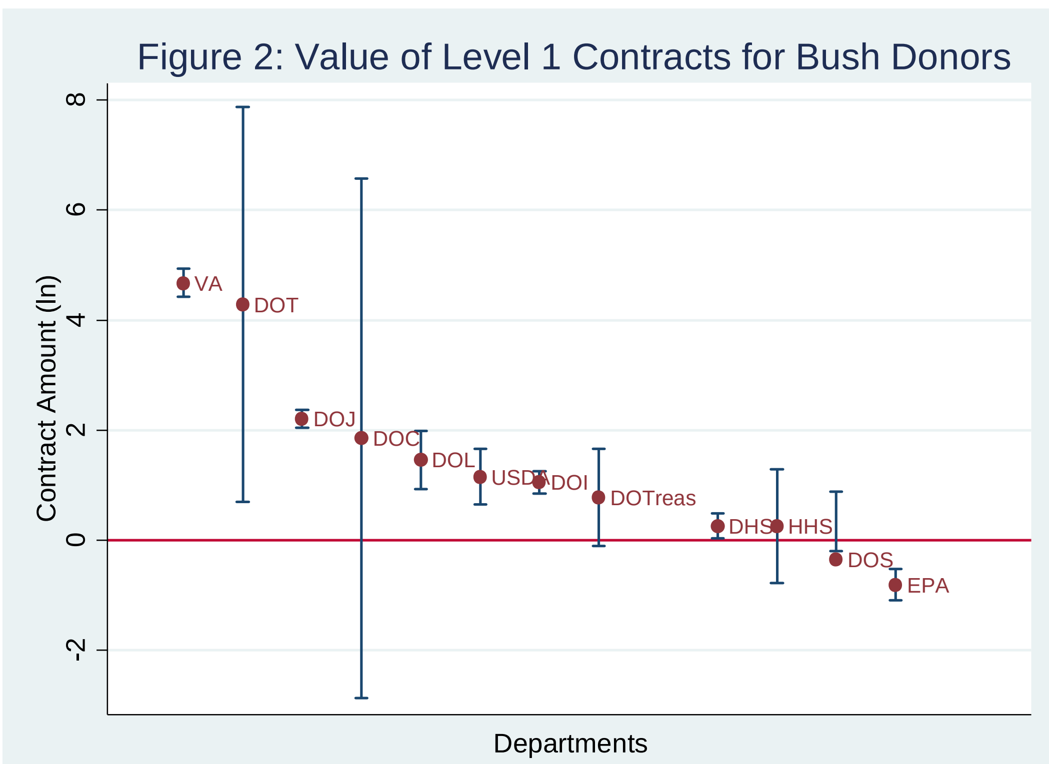

Figure 2: Value of Level 1 Contracts for Bush Donors
Contract Amount (ln)
8
6
4
2
0
-2
VA
DOT
DOJ
DOC
DOL
USDA
DOI
DOTreas
DHS
HHS
DOS
EPA
Departments

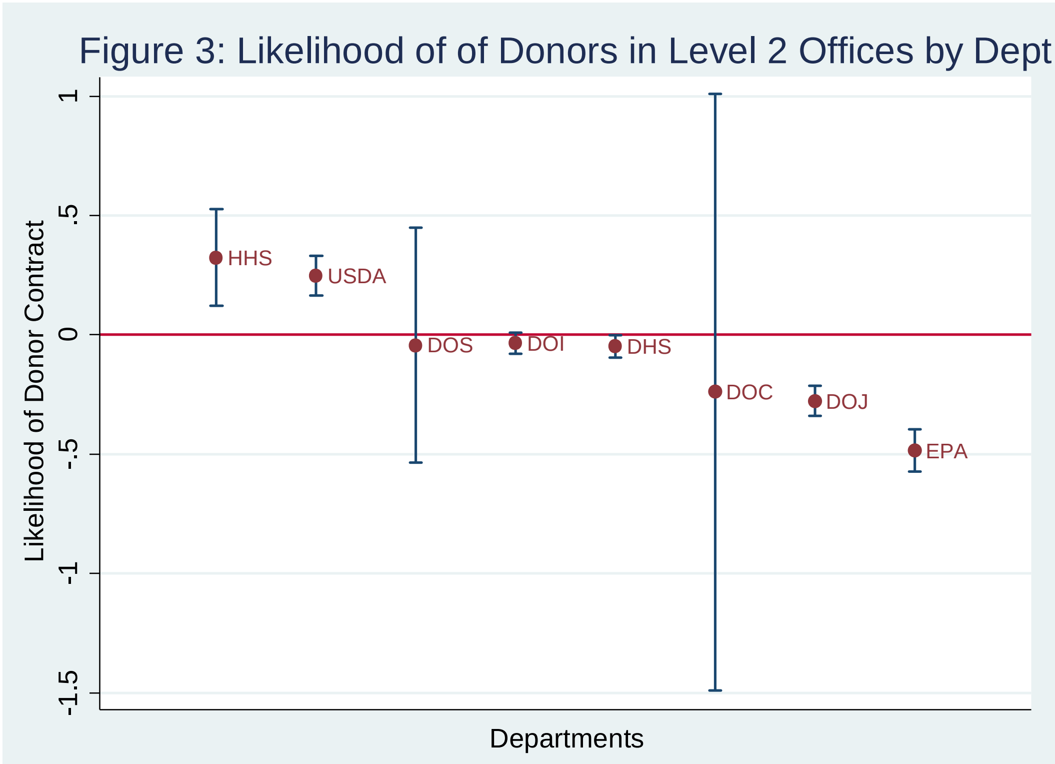
Figure 3: Likelihood of of Donors in Level 2 Offices by Dept.
Likelihood of Donor Contract
1
.5
0
-.5
-1
-1.5
HHS
USDA
DOS
DOI
DHS
DOC
DOJ
EPA
Departments

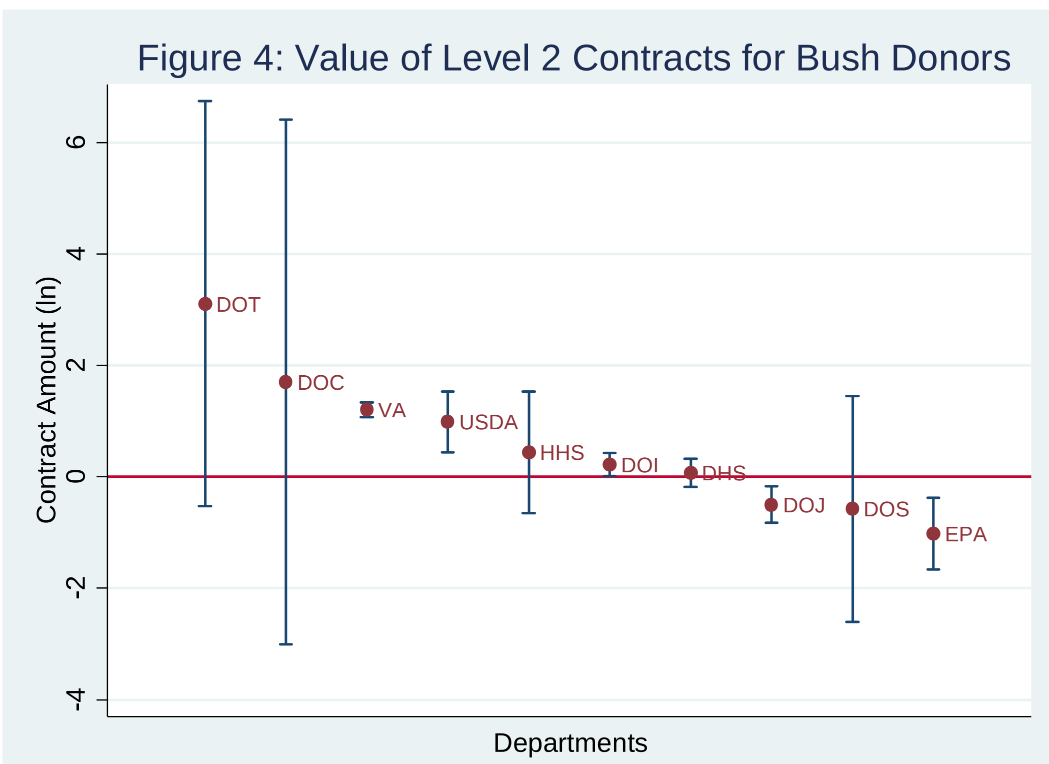
Figure 4: Value of Level 2 Contracts for Bush Donors
Contract Amount (ln)
6
4
2
0
-2
-4
DOT
DOC
VA
USDA
HHS
DOI
DHS
DOJ
DOS
EPA
Departments

Table 3: No-Bid Contract Awards

Independent Variable N = 1,335,419	**2004 Bush Donors for 2005-2008 No Bid Contracts (ln)**
Bush Donors	-1.215 (0.07)***
Level 1 Contracts	1.279 (0.02)***
Level 2 Contracts	0.389 (0.02)***
Level 3 Contracts	0.321 (0.01)***
Level 1 * Bush Donors	1.86 (0.07)***
Level 2 * Bush Donors	1.59 (0.07)***
Level 3 * Bush Donors	1.10 (0.07)***

Note: Standard errors reported in parentheses. ***p<0.001, **p<0.01, *p<0.05

Table 4: Competitively Contract Awards

Independent Variable N = 2,580,554	**2004 Bush Donors for 2005-2008 No Bid Contracts (ln)**
Bush Donors	0.515 (0.07)***
Level 1 Contracts	1.47 (0.02)***
Level 2 Contracts	0.182 (0.02)***
Level 3 Contracts	0.264 (0.02)***
Level 1 * Bush Donors	1.63 (0.07)***
Level 2 * Bush Donors	0.559 (0.07)***
Level 3 * Bush Donors	-0.406 (0.07)***

Note: Standard errors reported in parentheses. ***p<0.001, **p<0.01, *p<0.05

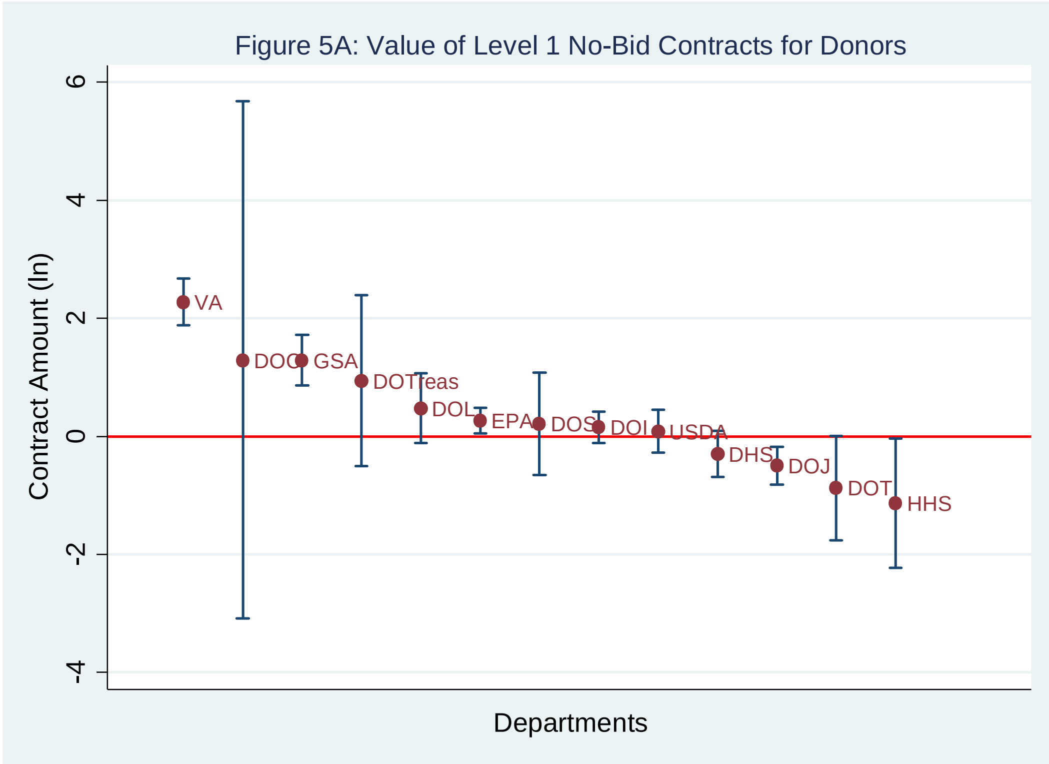
Figure 5A: Value of Level 1 No-Bid Contracts for Donors
Contract Amount (ln)
6
4
2
0
-2
-4
VA
DOC
GSA
DOTreas
DOL
EPA
DOS
DOI
USDA
DHS
DOJ
DOT
HHS
Departments

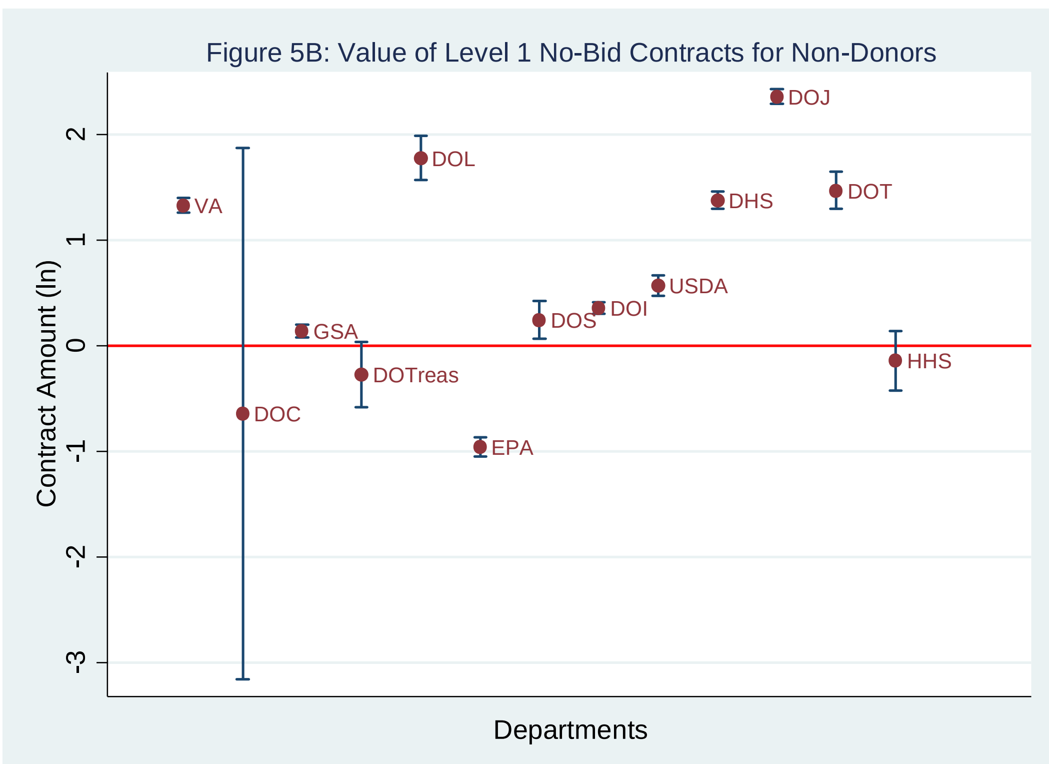
Figure 5B: Value of Level 1 No-Bid Contracts for Non-Donors
Contract Amount (ln)
2
1
0
-1
-2
-3
DOJ
DOL
VA
DHS
DOT
USDA
DOI
DOS
GSA
DOTreas
HHS
DOC
EPA
Departments

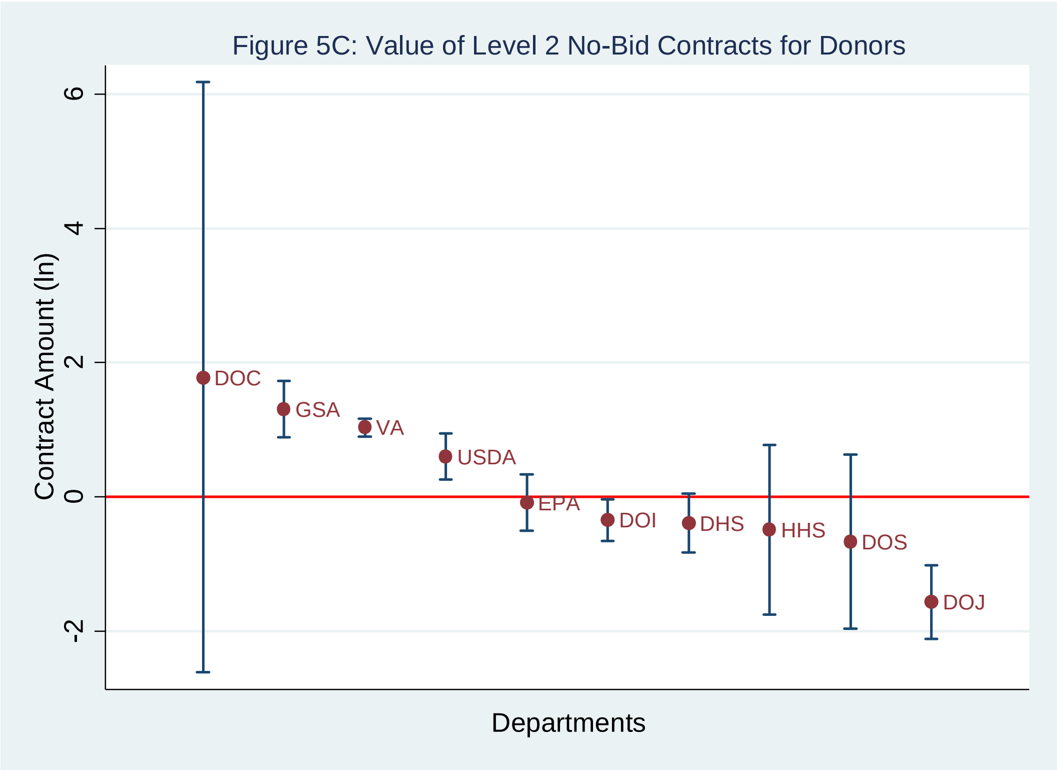
Figure 5C: Value of Level 2 No-Bid Contracts for Donors
Contract Amount (ln)
6
4
2
0
-2
DOC
GSA
VA
USDA
EPA
DOI
DHS
HHS
DOS
DOJ
Departments

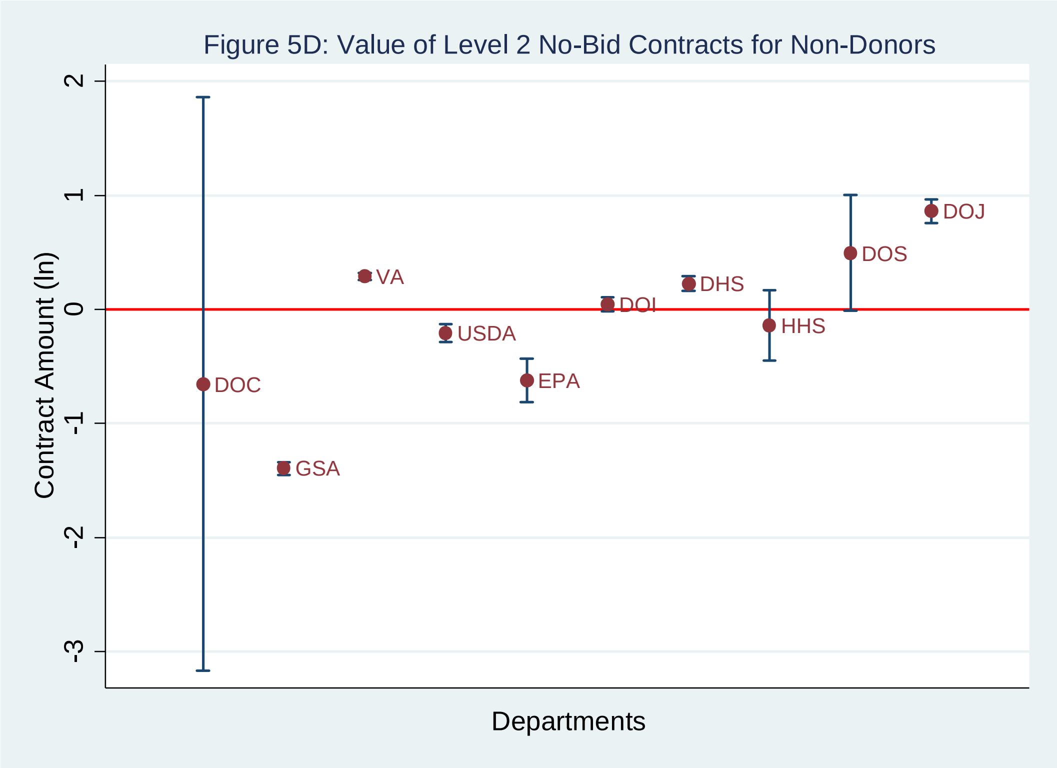
Figure 5D: Value of Level 2 No-Bid Contracts for Non-Donors
Contract Amount (ln)
2
1
0
-1
-2
-3
VA
USDA
DOC
GSA
EPA
DOI
DHS
HHS
DOS
DOJ
Departments

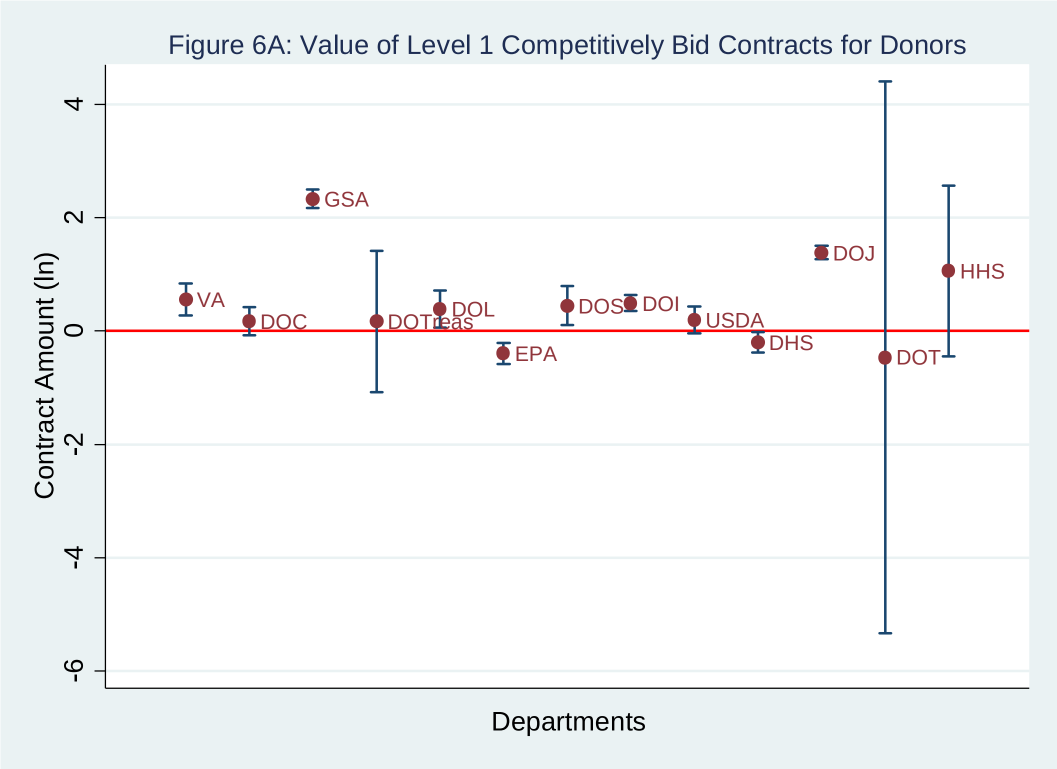

Figure 6A: Value of Level 1 Competitively Bid Contracts for Donors
Contract Amount (ln)
4
2
0
-2
-4
-6
VA
DOC
GSA
DOTreas
DOL
EPA
DOS
DOI
USDA
DHS
DOJ
DOT
HHS
Departments

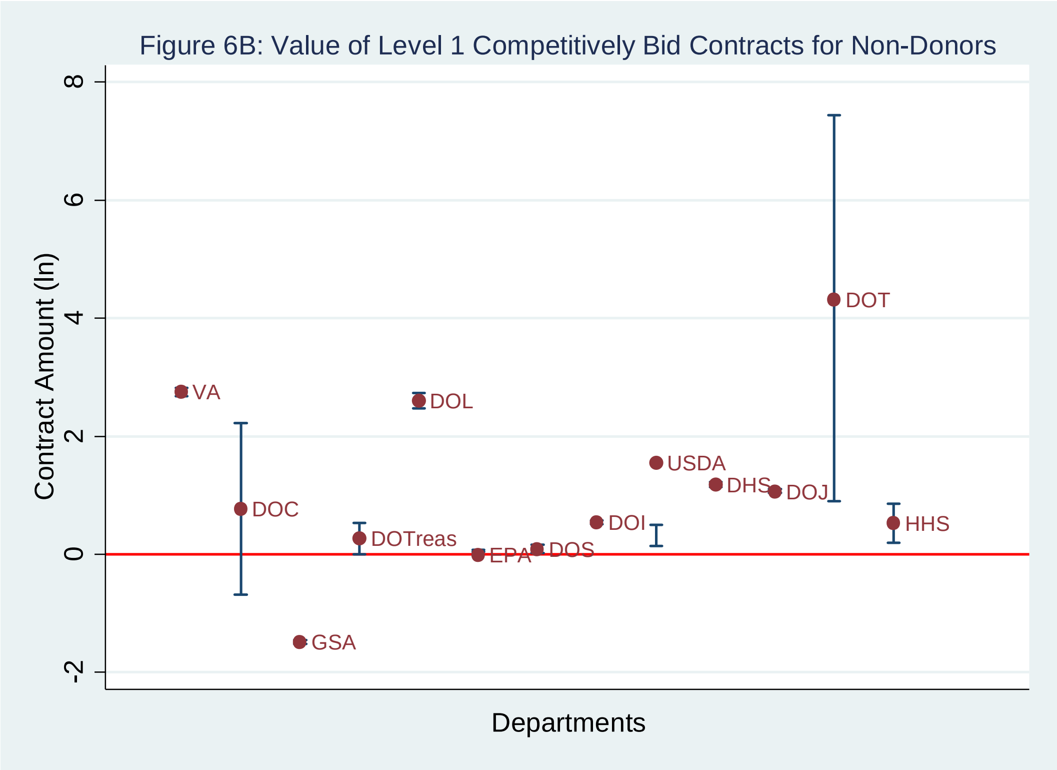

Figure 6B: Value of Level 1 Competitively Bid Contracts for Non-Donors
Contract Amount (ln)
8
6
4
2
0
-2
VA
DOC
GSA
DOTreas
DOL
EPA
DOS
DOI
USDA
DHS
DOJ
DOT
HHS
Departments

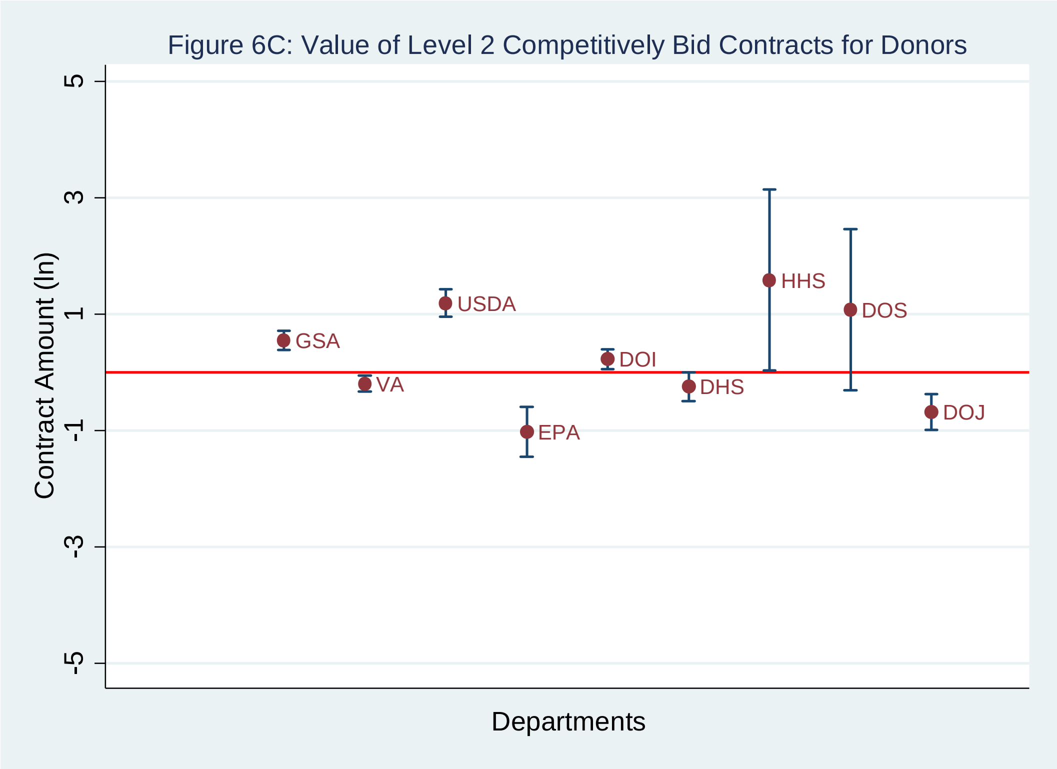
Figure 6C: Value of Level 2 Competitively Bid Contracts for Donors
Contract Amount (ln)
5
3
1
-1
-3
-5
GSA
VA
USDA
EPA
DOI
DHS
HHS
DOS
DOJ
Departments

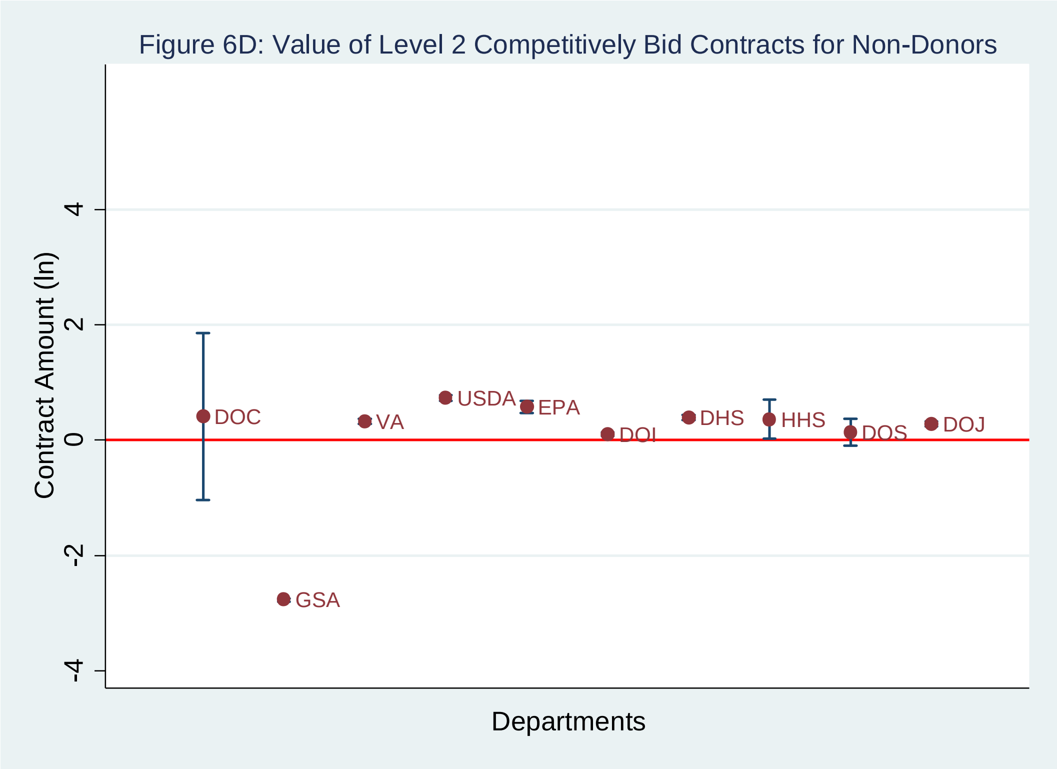
Figure 6D: Value of Level 2 Competitively Bid Contracts for Non-Donors
Contract Amount (ln)
4
2
0
-2
-4
DOC
GSA
VA
USDA
EPA
DOI
DHS
HHS
DOS
DOJ
Departments

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