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**Bureaucrats or Interest Groups – Whose Preferences Prevail
in Democratic Policy Making?**

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Introduction

Public policies in democracies are influenced by the competing preferences of key actors - politicians, voters, bureaucrats, and interest groups. This essay will explore how policies are influenced by **bureaucrats** and **interest groups** and whose preferences prevail. While bureaucrats have the institutional mandate to design and implement policies, interest groups lobby for policies that serve their constituencies' specific interests. Bureaucrats are internal to the government. Interest groups are external. Bureaucrats rely on their technical expertise. Interest groups rely on their traction with the public. Understanding how they influence policy outcomes determines whose preferences will prevail in democratic systems.

This essay first contrasts these actors' roles, motivations, and constraints within theoretical frameworks of public policy. It then examines them in the policy contexts of two democracies: Goods and Service Tax (GST) reform of India and the Fuel Subsidy Reform of Indonesia. It illustrates how governance structures and policy characteristics determine whose preferences will prevail in public policy.

This essay argues that, by and large, bureaucrats dominate centralized systems unless policies risk electoral losses, while interest groups dominate decentralized systems unless stability or growth is at stake. Bureaucrats prioritise policies that deliver public goods to a large populace. Policies imposing concentrated costs empower interest groups to resist reforms. The balance of power between the two is crucial in democratic policymaking.

Contrasting Bureaucrats and Interest Groups Influence in Theory

Bureaucrats derive legitimacy from their specialized knowledge, allowing them to focus on evidence-based policymaking (Friedrich, 1940). However, they are constrained by political oversight, which ensures their accountability to elected officials and limits excessive technocratic independence (Finer, 1941).

Bureaucratic autonomy enhances government effectiveness compared to systems where civil servants rely on political connections (Dahlstrom & Lapuente, 2021). Merit-based recruitment and promotion ensure impartial public services, a cornerstone of governance quality (Rothstein & Teorell, 2008).

Interest groups promote the interests of specific groups in society and are motivated to secure concentrated benefits for their members. Smaller, organized groups effectively overcome "collective action" challenges. Larger, diffuse groups face mobilization issues and challenges

such as the "*free rider*" problems (Olson, 1965). Their influence depends on their access to policymakers and ability to overcome opposition from competing groups or broader public interests.

India's GST Reforms: Bureaucratic and Interest Group Dynamics.

India implemented Goods and Service Tax (GST) reform in 2017 to unify the country's fragmented tax structure. It replaced the complex web of central and state taxes with a single unified framework to improve tax compliance, enhance fiscal coherence between the center and the states, and create a national market.

Indian bureaucrats played a pivotal role in designing and implementing GST with Indian Administrative Service (IAS) officers drafting the framework, coordinating between governments, and managing its implementation. The Indian Revenue Service (IRS) officers contributed their domain knowledge in indirect taxes to design the GST structure. State tax officials aligned the state-level taxes like the VAT with the unified GST framework.

The Goods and Services Tax Network (GSTN), a government company, provided the technological backbone for GST, with IAS officers and IRS officers on its Board of Directors. The 50-50 stake of both central and state governments in GSTN fostered a cooperative environment.

GST Council, chaired by the Union Finance Minister and including State Finance Ministers, fostered cooperative federalism and fiscal harmony. GST Council blended bureaucratic expertise with political oversight. While IAS officers contributed to policymaking, coordination, and governance, IRS officers focused on operational and technical aspects of taxation. Together, they provided the "intellectual and administrative backbone" that supported the functioning of the GST Council.

GST implementation in India required extensive coordination between the central and state governments, highlighting the importance of addressing trust deficits to ensure policy success (Sarma & Bhaskar, 2012). IAS officers demonstrated exceptional skill in mediating between state and central governments. Through the GST Council, they facilitated consensus by ensuring equitable decision-making with mechanisms such as the "one-state-one-vote system" and a three-fourths majority rule. Additionally, they introduced a "compensation clause" guaranteeing states reimbursement for revenue losses over five years.

Interest Groups in the GST included business associations and sectoral lobbies like the Confederation of Indian Industry and the Federation of Indian Chamber of Commerce and Industry. They lobbied for simplified compliance and favourable tax rates. Sectoral Groups, especially those representing textile and luxury goods like high-end cars and jewelry, successfully got exemptions and lower tax rates. They lobbied the GST Council, using data to show how higher rates could harm their sectors. The textile sector benefited because its workforce was concentrated in Gujarat, a politically influential state, from where Prime Minister Modi hailed. The sectoral groups presented unified and well-coordinated arguments, making a compelling and persuasive case to the GST Council.

The success of sector groups illustrates Olson's (1965) "*logic of collective action*", where smaller, organized groups achieve concentrated benefits. However, their influence was mostly limited to certain rules for specific sectors, and bureaucrats kept control over the overall framework.

The GST implementation significantly increased the indirect tax-to-GDP ratio, rising from 5.12% in 2016-17 to 8.41% in 2022-23 (Ministry of Finance, India, 2023).

Table 1: India's Indirect Tax-to-GDP Ratio Before and After GST Implementation

Fiscal Year	Indirect Tax Revenue (₹ Crore)	Nominal GDP (₹ Crore)	Indirect Tax-to-GDP Ratio (Percent)
2013-14	299,496	98,01,370	3.06
2016-17	630,687	1,23,08,193	5.12
2017-18	719,078	1,31,44,582	5.47
2022-23	18,10,000	2,32,15,000	8.41

Source: Union Budget 2023-24, Ministry of Finance, India; ClearTax (2023).

Explaining Bureaucratic Dominance in India's GST Reforms.

India's GST reforms show how bureaucrats dominate in centralized systems. They are chosen through merit-based recruitment and promoted based on merit. They have significant autonomy. Using their expertise and authority, they built a unified framework, which balanced state and central interests. These enabled them to enhance government effectiveness, reflecting the concepts of Rothstein and Teorell (2008) and Dahlstrom and Lapuente (2021).

Bureaucrats' ability to balance political demands with technical rigor reflects Evans' (1995) concept of "*embedded autonomy*", wherein bureaucrats align long-term national goals with stakeholder concerns while insulating policy from narrow political pressures.

However, this *bureaucratic efficiency* is not universal. For instance, Indian bureaucracy struggled to address **Delhi's air pollution crisis**, despite mounting evidence of its severe health and economic impacts. This inaction underscores how bureaucratic autonomy can sometimes fail to prioritize pressing public needs due to institutional fragmentation and competing policy priorities.

Interest Group Challenges in India's Policy Reforms: The case of Farmers' Protests

Farmers' protests in 2020-2021 showed that *bureaucratic influence* in centralised systems was not absolute. Bureaucrats had drafted three Farm Laws aimed at liberalizing agricultural markets. Farmers' protests successfully mobilized public opinion on the grounds of weakened Minimum Support Price (MSP), corporate exploitation, and crony capitalism. (CRS, 2021). These protests had a significant impact on electoral outcomes for the ruling BJP in Punjab, Haryana, and western Uttar Pradesh, forcing the government to repeal the laws. This demonstrates that even in centralized systems, bureaucrats cannot entirely insulate policies from politically sensitive interest group resistance.

In India's centralized system, interest group influence was confined to a few stakeholders in specific sectors, while in Indonesia's decentralized system, interest groups wielded broader influence, shaping policies that impacted a larger population, as seen in the fuel subsidy reforms.

Indonesia's Fuel Subsidy Reforms: Bureaucrats vs. Interest Groups.

Indonesia introduced fuel subsidies to make energy affordable to the public, control inflation, and stimulate economic growth. These accounted for a significant portion of the national budget, reaching a peak of 20-30% of the total budget spending during 2005-2012. According to a World Bank survey of 2009 cited in Widodo (2012), the richest 40% of households received 60% of the subsidy benefits, while the bottom 10% consumed less than 1%.

Bureaucrats in the Ministry of Finance and Bappenas relied on data to justify subsidy cuts. They focused on how reallocating funds would help in the long term. This reflects Friedrich's (1940) view that bureaucrats are guided by expertise and future goals. They also used partnerships with the IMF and World Bank to achieve subsidy reductions. This reflects Evans' (1995) concept of "*embedded autonomy*" where bureaucrats balance global responsibilities with national priorities.

In December 2014, President Joko Widodo initiated major reforms by removing gasoline subsidies and introducing a "fixed" diesel subsidy of IDR 1,000 per liter, with the objective of reallocating savings to infrastructure and social programs.

Interest Groups mobilized effectively and argued that removing subsidy will increase prices of goods and services impacting the low-income households. SMEs relying on subsidized fuel feared rising costs. Farmers argued that higher fuel prices would increase the cost of irrigation, machinery, and transportation. Interest groups doubted the government's transparency on reallocation of subsidy savings. They used protests, political partnerships, media campaigns, and lobbying to strengthen their opposition.

The decentralized system in Indonesia had a fragmented decision-making authority. It created multiple veto points for interest groups to amplify their resistance. According to the World Bank (2003), regional politicians aligned with interest groups to resist reforms. ADBI (2016) notes decentralization gave lobbyists more ways to block reforms. Weaker bureaucratic autonomy at the regional level made local governments easier to lobby.

The 2015 reforms reduced energy subsidies from IDR 240 trillion (12.8% of the budget) in 2014 to IDR 60.8 trillion (3.4%) in 2015. Savings were redirected to infrastructure and social programs, showing how centralized bureaucracies can ensure fiscal stability (World Bank, 2024; Pradipto et al., 2016). However, sustained opposition from interest groups and rising

global commodity prices led to a reversal, with energy subsidy spending rebounding to IDR 551.2 trillion (17.8% of central government expenditure) by 2022 (World Bank, 2024; Ministry of Finance, Indonesia, 2022).

Table 2: Indonesia’s Fuel Subsidy Expenditures Before and After Reform

Year	Fuel Subsidy (IDR Trillion)	Percent of Budget	Percent of GDP
2014	240.0	12.8%	2.3%
2015	60.8	3.4%	0.5%
2018	97.0	4.4%	0.7%
2022	551.0	17.8%	2.8%

Source: World Bank (2024), “Indonesia’s fuel subsidies reforms”, and Ministry of Finance, Indonesia (2022).

Overcoming Lobbying: Bureaucratic Wins in Indonesia’s Tobacco Regulations

The Ministry of Health implemented **anti-smoking campaigns** and restricted tobacco advertising. This was achieved despite intense lobbying by the tobacco industry. Public health advocacy groups, including health-focused NGOs and international organizations, played a key role in countering the tobacco lobby. Bureaucrats supported these efforts by prioritizing public health over economic pressures, showcasing how public-interest groups can influence policy even in the face of powerful opposition.

Contrasting Actor Influence Across Systems

The case studies of India's GST reform and Indonesia's fuel subsidy reform show how governance structures and policy characteristics impact the powers of bureaucrats and interest groups in democracies. By and large, centralized systems, like India's, empower bureaucrats to implement cohesive reforms. However, this advantage depends on strong institutional capacity and political will. Decentralized systems, like Indonesia's, often amplify interest

group influence and reduce bureaucratic efficiency, though they can enhance policy responsiveness in certain contexts.

Policy characteristics also shape actor dominance. In both cases, bureaucrats prioritized policies with broad public benefits—GST aimed at economic integration, while fuel subsidy reforms sought fiscal sustainability. In India, the centralized system allowed bureaucrats to insulate GST reforms from widespread lobbying. However, they could not prevent interest groups from getting suboptimal tax rates and exemptions for textiles and gold jewelry as they affected politically sensitive constituencies. They also couldn't insulate Farm Laws as they impacted potential electoral outcomes.

In Indonesia's decentralised system, bureaucrats initially succeeded with fuel subsidy reforms despite widespread protests. However, the country's decentralized system and limited bureaucratic autonomy at the regional level allowed interest groups multiple access points for lobbying and amplified their opposition to reverse reforms. However, bureaucrats succeeded in implementing stricter anti-smoking measures despite the tobacco lobby's considerable economic and political clout because of growing public health awareness, support from health-focused NGOs, international pressure, and persistent government priorities.

Conclusion

Policymaking in democracies depends on governance structures and policy characteristics. While centralized systems, like India's GST reform, often empower bureaucrats to create long-term reforms insulated from lobbying, this is not always absolute, as electoral considerations or public backlash can disrupt even centralized policymaking. In decentralized systems, like Indonesia's fuel subsidy reform, interest groups frequently gain more influence, mobilizing against policies that impose concentrated costs. However, such systems can also foster accountability and responsiveness to local needs under certain conditions.

Policy characteristics further mediate these dynamics. Bureaucrats are generally effective in advancing public goods, but their autonomy can lead to inefficiency or public detachment. Similarly, interest groups excel in protecting entrenched interests but can also promote equitable policies, as seen in Indonesia's tobacco regulation.

Democracies must balance bureaucratic autonomy with interest group accountability to achieve fair and effective governance. Bureaucratic autonomy supports long-term policies but risks ignoring public needs, while unchecked interest groups may cause inefficiency and policy capture. Hybrid mechanisms like India's GST Council, which combines expert decision-making with political input, provide a way forward. Contextual factors, such as political goals and economic pressures, also shape policymaking, as seen in India's Farmers' Protests and Indonesia's Tobacco Regulation, demonstrating that these patterns are not absolute.

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