

Comparative Politics

The principal-agent perspective

Jan-Erik Lane



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Starting from the principal–agent perspective, this book offers a new analysis of government. It interprets political institutions as devices designed to solve the omnipresent principal–agent game in politics. In other words how to select, instruct, monitor and evaluate political agents or elites so that they deliver in accordance with the needs and preferences of their principal: the population.

This book explores whether there are any evolutionary mechanisms in politics which guide mankind towards the rule of law regime, domestically and globally. It combines a cross-sectional approach with a longitudinal one.

Comparing the extent of the rule of law among states, using a set of data from 150 countries concerning political and social variables, the author seeks to understand why there is such a marked difference among states. Taking a state-centred perspective and looking at countries with a population larger than one million people during the post-Second World War period, the book examines:

- the stability and performance of states;
- the conditions for the rule of law regime: economic, social, cultural and institutional;
- the evolution of governments towards rule of law.

Comparative Politics: The principle–agent perspective will be of interest to students and scholars of comparative politics, government, political theory and law.

Jan-Erik Lane is professor of comparative politics at the University of Geneva and he also teaches at the University of the South Pacific.

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Foreword

The key problem in comparative politics being how to account for the variation in macro-political institutions, this book starts from the assumption that political regimes involve in one way or another a resolution to principal-agent problems in politics. They concern: How does one select, instruct and monitor rulers or politicians so that they govern a country in the interests of the principal of the political body, namely the population? This assumption sets the book off from other approaches to comparative politics and links this subdiscipline of political science with recent advances in game theory and the economics of information. The structure of the book in three parts follows from my ambition to offer a concise presentation of one of the main themes in comparative politics, namely *rule of law*, in terms of principal-agent theory.

Part I derives the core problems of political stability and democracy from a micro foundation in the principal-agent approach. According to this approach, the principal would search for institutions that *constrain* the agents, leading them to exercise political power in a predictable and accountable manner. Chapter 1 makes a survey of the states of the world as they may be counted today, looking at various properties of statehood, in particular state persistence, with state stability in general and regime longevity in particular discussed at length. In Chapter 2, state performance is analysed, including the record of states in terms of rule of law as well as key policy outputs and social outcomes.

Part II probes into the general conditions for rule of law. Chapter 3 focuses on the set of structural conditions and their consequences for rule of law. Employing various typologies for the presentation of institutions, Chapter 4 discusses the impact of salient institutions. In Chapter 5 the problem of regime transition is brought up, namely how states have recently tried to introduce economic and political regimes that restrain elites. Chapter 6 explores the implications of principal-agent theory for understanding electoral volatility in democracies.

Part III outlines an evolutionary theory explaining how systems of political authority develop. Chapter 7 identifies the key political selection mechanisms. Chapter 8 examines city states and ancient empires. Chapter 9

explores ancient empires, and Chapter 10 analyses feudalism: ancient and modern, while Chapter 11 deals with the modern state and colonialism. Chapter 12 examines the regionalisation of the state, and the concluding chapter states the case for the evolutionary superiority of the rule of law regime.

This study is based on a selected set of some 150 countries, all with a population larger than one million, for which Svante Ersson (in Parts I and II) managed to gather a set of data concerning political, economic and social variables. To come to grips with the immense variation in data about state and country characteristics around the world, I will use a country classification with 11 categories. The country categories in this classification include: (1) Arab, (2) Western Europe, (3) Eastern Europe, (4) other occidentals: North America and Australia plus New Zealand as well as Israel, (5) South Asia, (6) Sub-Saharan Africa, (7) Muslim non-Arab, (8) Latin America, (9) Turkish: Turkey and Central Asia, (10) Asean plus 3 and (11) The Pacific (The Philippines and Papua New Guinea). This classification takes a number of factors into account such as religion, ethnicity and historical legacy. It is based upon the recently surging interest in culture in general and civilisations in particular (Huntington, 1997; Lane and Ersson, 2005).

The level of exposition has been kept elementary, as my hope is that the volume could be used in graduate courses in comparative politics. Applying the principal-agent approach to comparative government, it looks upon the rulers or the politicians as the agents of the population, raising crucial questions about motivation, remuneration, monitoring and information as well as especially the rules that channel this interaction. I have drawn upon the Lane and Rohner article "Institution Building and Spillovers" in *Swiss Political Science Review* (2004), Vol. 10 (1): 77–90, as well as the Lane and Ersson article "Party System Instability in Europe: Persistent Differences in Volatility between West and East?" in *Democratization* (2007), Vol. 14 (1): 92–110. I could not have written this book without all the data assistance of Svante Ersson (Umea university) and the correctional skills of Sylvia Dumons (University of Geneva). The basic ideas in this volume were presented at seminars in the Political Science Department at the Hebrew University in Jerusalem and the University of South Pacific in Suva. I wish to acknowledge the assistance provided by a Hebrew University Forchheimer Visiting Professorship in the Department of Political Science in the spring of 2006.

Contents

<i>List of illustrations</i>	xi
<i>Foreword</i>	xiv

Introduction: micro foundations of comparative politics	1
--	----------

<i>Politics as a series of principal–agent games</i>	4
<i>Politics as principal–agent contracting</i>	6
<i>Institutional mechanism: rule of law</i>	11
<i>Political agents and incentives</i>	12
<i>Political agents: outputs and outcomes</i>	25
<i>Rules and preferences</i>	27
<i>Conclusion</i>	30

PART I	
States: stability and performance	33

1 The states of the world	35
----------------------------------	-----------

<i>Introduction</i>	35
<i>Weber's concept of the state</i>	36
<i>The identification of present states</i>	40
<i>States as institutional probabilities</i>	43
<i>State longevity and regime stability</i>	49
<i>Institutional foundations of states</i>	54
<i>Regimes</i>	58
<i>Regime longevity and constitutional changes</i>	64
<i>State stability and political unrest</i>	68
<i>Conclusion</i>	70

2	Rule of law	75
	<i>Introduction</i>	75
	<i>Performance analysis</i>	76
	<i>Rule of law measure</i>	76
	<i>The public sector</i>	83
	<i>Social outcomes</i>	89
	<i>Conclusion</i>	95
 PART II		
	Conditions that support rule of law	97
3	Environmental factors	99
	<i>Introduction</i>	99
	<i>Size and climate</i>	99
	<i>Social structure</i>	103
	<i>Religion</i>	108
	<i>Family values: individualism versus collectivism</i>	112
	<i>Economic conditions</i>	114
	<i>Relevance of social, cultural and economic conditions</i>	123
	<i>Conclusion</i>	125
4	Impact of political institutions	126
	<i>Introduction</i>	126
	<i>Institutions, principals and agents</i>	126
	<i>Participation</i>	127
	<i>Adversarial, concurrent and consociational democracy</i>	129
	<i>Federations and confederations</i>	132
	<i>Presidentialism</i>	135
	<i>Parliamentarianism and bicameralism</i>	137
	<i>Authoritarian institutions</i>	138
	<i>Institutional consolidation or decay</i>	144
	<i>Judicial institutions</i>	147
	<i>Relevance of institutions</i>	149
	<i>Conclusion</i>	150
5	Changing principal-agent institutions	152
	<i>Introduction</i>	152
	<i>Introducing the market economy</i>	152
	<i>Third World state transformation</i>	158
	<i>Political stability</i>	161
	<i>Conclusion</i>	166

6	Party system instability and volatility from the principal-agent perspective	169
	<i>Introduction</i>	169
	<i>Party system stability and democratic stability</i>	170
	<i>Volatility and the vitality of democracy</i>	173
	<i>The data</i>	174
	<i>Net volatility</i>	176
	<i>Party system fractionalisation</i>	179
	<i>Volatility and fractionalisation</i>	181
	<i>A regression model of volatility</i>	183
	<i>Conclusion</i>	184
	<i>Appendix 6.1</i>	185

PART III

	Towards an evolutionary regime theory	189
7	Regime fitness: on the survival of polities	191
	<i>Introduction</i>	191
	<i>Polity forms, fitness and evolutionary mechanisms</i>	192
	<i>Capacity</i>	194
	<i>Efficacy and legitimacy of a political regime</i>	197
	<i>Conclusion</i>	198
8	The concept of a polity: from the city-state to the empire	201
	<i>Introduction</i>	201
	<i>The Greek heritage</i>	202
	<i>Emergence of the Hellenistic empires and Pax Romana</i>	208
	<i>Conclusion</i>	210
9	The ancient empires: Oriental despotism or the patrimonial state	212
	<i>Introduction</i>	212
	<i>Wittfogel</i>	213
	<i>Weber</i>	214
	<i>The Aztecs</i>	216
	<i>The Mayas</i>	217
	<i>The Incas</i>	218
	<i>West African empires</i>	219
	<i>China</i>	222

<i>Mughal India</i>	226
<i>Conclusion</i>	227
10 Feudalism: political, economical and modern	230
<i>Introduction</i>	230
<i>Occidental and Oriental feudalism</i>	230
<i>Political feudalism</i>	232
<i>Economic feudalism: manorialism</i>	233
<i>An ideal-type feudal polity?</i>	234
<i>Modern feudalism: the war lords</i>	236
<i>Conclusion</i>	237
11 The nation-state and colonial empires	238
<i>Introduction</i>	238
<i>West European nation-states</i>	238
<i>Birth of the nation-state</i>	242
<i>Colonial empires</i>	247
<i>African colonialism</i>	255
<i>Towards an American empire?</i>	258
<i>The postcolonial state</i>	260
<i>Conclusion</i>	263
12 Regionalisation of the state	264
<i>Introduction</i>	264
<i>Basic modes of regional organisation</i>	265
<i>The regional forum</i>	266
<i>Regional facilities</i>	268
<i>Economics I: FTAs and customs unions</i>	269
<i>Economics II: monetary unions</i>	271
<i>Economics III: the common market</i>	272
<i>The regional regimes: will they replace the state?</i>	274
<i>Conclusion</i>	277
Conclusion: evolutionary advantage of rule of law regimes	278
<i>Can stable authoritarian regimes survive?</i>	279
<i>Politics as principal–agent contracting</i>	281
<i>Conclusion</i>	287
<i>Bibliography</i>	289
<i>Index</i>	307

Illustrations

Figures

5.1	GDP growth 1992 to 1999 and economic institutions	157
5.2	The two dimensions of political stability	163
5.3	Affluence and voice and accountability	164
5.4	Affluence and state strength	165
6.1	Effective number of parties and volatility (1990–2005)	182

Tables

1.1	United Nations' member states	41
1.2	Population of the continents	46
1.3	Year of state independence	52
1.4	States with traditional rule (2006)	61
1.5	Current constitution	64
1.6	Long-term instability post-Second World War	67
1.7	Short-term political stability (1996–2004)	69
1.8	Analysis of variance of short-term political stability rankings	69
2.1	Rule of law	78
2.2	Analysis of variance of rule of law scores	79
2.3	Stable rule of law (1960–1987)	81
2.4	Rule of law in Latin America (1945–1986)	82
2.5	Size of the public sector: general government consumption in percentage of GDP	85
2.6	Size of public sector: general government consumption and transfers in percentage of GDP	86
2.7	Quality of life: human development index (1975–2003)	90
2.8	Analysis of variance of HDI scores	91
2.9	Income inequality (1990–2000)	92
2.10	Analysis of variance of GINI scores	93
2.11	Inflation	95
2.12	Analysis of variance of inflation rates	95

3.1	The growth of mega-cities (1950–2005)	101
3.2	Distribution of states by climate and distance from the equator	103
3.3	Size of agriculture in terms of GDP	105
3.4	Analysis of variance	105
3.5	Urbanisation	107
3.6	Ethnic and religious fragmentation	109
3.7	Protestantism, Buddhism, Islam and Hinduism	110
3.8	Family systems	113
3.9	Level of affluence: purchasing power parities and gross domestic product, US\$	115
3.10	Analysis of variance: purchasing power parities and gross domestic product	118
3.11	Openness of the economy: IMPEX	119
3.12	Analysis of variance: IMPEX	119
3.13	External debt: various measures	120
3.14	Analysis of variance of external debt measures	121
3.15	Economic freedom index scores (1975–2003)	122
3.16	Relevance of social, economic and cultural conditions	124
4.1	Electoral participation in the early 1990s	128
4.2	Election systems	132
4.3	Federal states	133
4.4	States with presidential rule	136
4.5	States with parliamentary rule	137
4.6	Legislative institutions	138
4.7	Some authoritarian institutions	139
4.8	Military coups	143
4.9	Institutional consolidation	145
4.10	Control of corruption in government in various civilisations around 2000	147
4.11	Analysis of variance of corruption scores	147
4.12	Judicial institutions	148
4.13	Legal institutions: legal review and Ombudsman institution	149
4.14	Institutional relationships	150
4.15	Conditions for rule of law	151
5.1	GDP growth and institutions	155
5.2	Regression analysis	156
5.3	Institutionalisation of the rules of the market economy	157
5.4	Cross-tabulation of governance dimensions	162
6.1	Volatility in Europe in the 1990s and 2000s at four elections	176
6.2	Volatility by space and time in Europe in the 1990s and 2000s	177

6.3	Volatility in Europe in the 1990s and 2000s: four clusters	178
6.4	Effective number of parties in Europe in the 1990s and 2000s	180
6.5	Effective number of parties by space and time in Europe in the 1990s and 2000s	181
6.6	Effective number of parties in Europe in the 1990s and 2002: four clusters	181
6.7	Volatility and its determinants: volatility is the dependent variable	184
7.1	Regime fitness: capacity and rights	198
8.1	Aristotles' typology	203
9.1	Evolution of authority from patrimonial to legal-rational authority	215

Appendices

1.1	Occurrence of civil and ethnic wars (1946–2004)	71
5.1	List of the variables	167

Introduction

Micro foundations of comparative politics

Comparative politics has known a number of approaches, from the so-called traditional framework (classical institutionalism) over functionalism and systems analysis and the dependency approach to rational choice and neo-institutionalism or new institutionalism (Almond *et al.*, 2003; Newton and van Deth, 2005). The principal–agent framework for analysing how one group of actors – the principal – contracts with another set of actors – the agents – to get things done, has received increasing attention in economics and business administration (Laffont, 2003). The time has come to explore what this model offers when interpreting politics, either in micro studies such as elections or in macro studies such as with comparative politics. Politics are social systems that certain actors operate for specific purposes. Political systems are supported by certain groups of people and sometimes opposed by other groups. Politics give rise to benefits and costs for the human beings involved, which can best be stated in terms of the principal–agent model.

The basic motive in politics with the population is, I surmise, safety. Human beings set up and support political regimes because they wish to live in safety against foreign intruders or domestic violence. Thus a political community arises from the need for protection. Economies of scale explain why the community would turn to a set of agents to handle this protection, namely the rulers or the politicians (Olson, 2001; Barzel, 2002). Yet, how can the population contract with agents who take on this task concerning concrete objectives, tools of governance, remuneration of agents and so on? First and foremost, the principal would be interested in having influence over the agent as to selection, monitoring, dismissal, renewal and so on.

Thus, a political community in this model would have two kinds of interests: (1) peace and security; (2) control over the agents and decent remuneration of them. Political communities tend to regard foreign intrusion as especially threatening. Thus, they search for some mechanism that can offer protection against invasion. Similarly, internal political stability is high in esteem, since the population would wish to stay away from the Hobbesian predicament: war of all against all (*bellum omnium contra omnes*). The political

2 Introduction

community may be protected by a set of agents, the rulers, but who protects the community against the rulers if they wish to engage in oppression of their own community, or if they turn greedy, searching for huge resources in order to pay for pharaonic enterprises or their own lavish consumption? Juvenal, satirical poet of the late first and early second century AD, stated the rhetorical question "*Quis custodiet ipsos custodes?*" ("Who shall guard the guards themselves?") in *On Women*, discussing the usefulness of having eunuchs guard one's women. Thus, the rule of law perspective upon government arises as one solution to Juvenal's question.

Primarily, a polity provides protection of the life of the members of the community. The regime would need to keep out potential intruders as well as make sure that the internal order is not threatened by insurgency. When there are no outside threats from other political communities, then regime survival hinges upon internal matters. When a country has external and internal stability, then there results a total value, V , to society, covering economic and non-economic benefits from peace and prosperity. The size of V will vary with the type of society and its degree of economic advancedness.

Crucial here is the nature of the contract between the population and its guardian agents. Although the agents and the political community have similar interests in fending off foreign intruders and domestic anarchy or anomie, they differ in their opinions about the rights and privileges of the agents vis-à-vis the political community. Assuming that agents attempt to maximise their share of the community resources, they would be inclined or tend to loot, meaning amassing as much of the resources as they can for themselves unless constrained. Again assuming an ambition to maximise utility, the political community would prefer a modest remuneration for its agents, just enough to elicit a large effort. This sets up a game where the outcome will depend upon the capacity of the agents to drive the community to pay remuneration for the services of the agents out of the total value of society, V .

Both the community and the agents wish to safeguard the value V for themselves, keeping out intruders. This constitutes the basis of collaboration between the political community and the agents. Conflict arises concerning the division of V between the agents on the one hand, securing $V(A)$, and the community on the other hand, to be given $V(C) = V - V(A)$. The agents may, theoretically, be prepared to invest resources into the effort of maximising $V(A)$ up to the limit where all of $V(A)$ is dissipated. The political community would first and foremost look for a share of V that enables them to survive. When they are confronted by such predatory capture of V by the agents that their survival level is threatened, then uproar would be a rational strategy to pursue in order to push back the share $V(A)$ of V . The principal may wish to limit the time that agents can enjoy the full value of government, opening up these tasks to competition. The principal will attempt to institutionalise the remuneration $V(A)$.

One may conceive of alternative outcomes of the interaction between the