

agents and patients: the principal-agent perspective

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Book reviewed:

Comparative Politics: The Principal-Agent Perspective

Jan-Erik Lane (London, Routledge, 2007), 336pp., ISBN: 978 0415432061

When an agent and patient are contiguous to one another, their action and passion are then said to be immediate, otherwise, mediate. And when another body, lying betwixt the agent and patient, is contiguous to them both, it is then itself both an agent and a patient; an agent in respect of the body next after it, upon which it works, and a patient in respect of the body next before it, from which it suffers. Also, if many bodies be so ordered that every two which are next to one another be contiguous, then all those that are betwixt the first and the last are both agents and patients, and the first is an agent only, and the last a patient only. (Thomas Hobbes, Elements of Philosophy, chapter 9, Sect 2 Of Cause and Effect)

one of those books. Jan-Erik Lane has written a volume that has vast temporal and geographic scope. In essence, it attempts to cover all polities, and illuminate them by way of what Lane calls the principal-agent perspective. We, the population, are the principal; and we are governed by our agents under better or worse contractual terms.

Most of this review deals with the wisdom of using this perspective to analyse politics at all times and places. Nevertheless, it is worthwhile prescinding from theory in order to emphasise just how broad in scope this book is. I feel safe in saying that the chronological span of the book is unparalleled: Lane certainly merits extra geek kudos for citing, *inter alia*, a paper on fossilised algae microbes in the Archaean eon. Discussions of polities as diverse as the Han Empire and the Mayan civilisation take up much of the second part of the book. Indeed, although Lane's ambitions are clearly very different, many parts of the book bear strong resemblances (nourished by frequent citations) to S.E.

Q5

There are many books on comparative politics. Most of these books limit themselves to comparing established democracies during the past sixty years. The title under review is not

Finer's histories of government (Finer, 1997).

This scope is evident from the very beginning of the book. Chapters 1 and 2 discuss the idea of the state, and how to count this most basic unit in politics. The discussion is sprinkled with tables giving details on dates of state formation and constitutional longevity. Many of these tables are group means: throughout, Lane seeks to render the scope of the analysis comprehensible by making (quantitative and qualitative) comparisons across eleven civilisational groupings – Arab countries, Western Europe, Eastern Europe, other western countries, South Asia, Sub-Saharan Africa, Muslim non-Arab countries, Latin America, Turkish countries, Asean + 3, and Pacific countries.

Having dealt with the state, Lane turns to the establishment of the rule of law. The rule of law is an important analytical construct (at least when considered within Lane's principal-agent perspective), for it represents that situation where the collective principal (the population of a given polity) has succeeded in binding its agents, and preventing the latter from expropriating society's surplus value. Chapters 3 and 4 therefore discuss the environmental and institutional factors that favour the development of the rule of law. Much of this discussion, however, is somewhat idiosyncratic. Throughout the book, Lane finesses the idea of the rule of law so that by the end, instead of resembling the situation where society is exclusively governed by public, general, and universally applicable rules that are adjudicated in an orderly fashion by an adequately equipped legal system, the rule of law becomes something akin to Robert Dahl's polyarchy – a reconceptualisation of democracy with all the edges sawed off. This perception is strengthened by Lane's unconvincing refusal to use the World Bank's indicator of the rule of law and

preferring instead to use Freedom House scores, which carry known methodological issues.

Lane's conclusions about the rule of law are optimistic from the point of view of the institutional engineer: rule of law is

strongly conditioned by the enforcement of institutions such as the electoral system, the executive (parliamentarism/presidentialism), and the legal system (the ombudsman office). Yet rule of law is also conditioned by the general level of economic development (HDI) and culture (i.e., the spread of Islam). (p. 151)

Yet if what Lane is offering us an explanation of the emergence of the rule of law, one wonders why it appears in a book about the principal-agent perspective on politics. Much of the book seems to employ the principal-agent perspective only indirectly. Once we get past the main insight – that all of politics can be conceived of as a relationship between principals and agents, with the most important relationship being the relationship between the population as collective principal, and those who govern, as multiple, collective agents – the reader has to work moderately hard to relate the empirical chapters to the perspective. Thus, environmental or societal factors such as population and ethno-linguistic fractionalisation can be turned into theoretical statements about the internal heterogeneity of the collective principal. Statements about institutions can be turned into nothing more than specifications of the number of agents, sub-agents, and their respective contractual relations. Voting, and electoral volatility in particular, is just a means of reducing agency-shirking by threatening to switch to other parties, and so on.

TAKING PRINCIPALS AND AGENTS SERIOUSLY

It is important to treat Lane's perspective on politics seriously. However, this review suggests that it is misguided to believe that all of politics can be explained or interpreted as a relationship between principals and agents. There are six reasons why this perspective is misguided, many of which might seem to be nit-picking, but which may nevertheless be convincing when considered together. First, it is not true that a contractual relationship existed in the historical regimes to which Lane applies it; and it is only true in present democratic regimes when treated as a metaphor. Second, the nature of the political contract is far too simplistic to be comparable to the type of contract discussed in principal-agent theory. Third, there is no role in the principal-agent framework for agent selection, but this is an important part of democracy. Fourth, and consequently, there is no place in Lane's framework for representation, only accountability. Fifth, the principal-agent framework assumes a necessary antagonism of interests between principals and agents, and we often believe otherwise. Sixth, the principal agent framework does not offer clear hypotheses concerning institutional or demographic variation. None of these arguments is particularly original. I have relied greatly on two excellent working papers by Iannis Karagiannis (Karagiannis, 2007a,b), which deal with the most common application of principal-agent theories, namely the study of public administration. However, many of Karagiannis's points apply *a fortiori* to Lane's employment of the principal-agent perspective.

Consider first the application of Lane's perspective. He claims that his perspective can explain all of politics. This is not an idle claim. Four chapters discuss regime types – the city-state, the

patrimonial state, feudal regimes, and colonial empires – which are of marginal interest to political scientists rather than historians. This is an unusual choice, even without considering the particular aspects of Lane's framework. *Prima facie*, there seem to be few reasons to believe that the same framework can explain politics in both representative democracies and feudal regimes, or in Westphalian states and their precursors. Indeed, there seem to be strong reasons to suppose the contrary. The choice to focus on these regime types is even more surprising when one considers the content of Lane's framework. The idea of a principal and an agent engaging in a contractual relationship is a very modern idea. It presupposes independent dispute resolvers of the kind found in modern states governed by the rule of law and equipped with a functioning judicial system (Laffont and Martimort, 2002: 32). It implies that inequalities prior to contract result only from the resources available to each actor and the value of their 'exit option' – that is, their non-contractual alternative. It is surprising to suppose that either of these conditions is true in the kind of patrimonial states that Lane discusses, such as the Egyptian kingdom, or the Mongol empire. Nor can it even be considered as a useful metaphor in these circumstances. Strictly speaking, they are also false in modern democracies, although some enterprising types have tried to enforce the provisions of various 'contracts' offered by electioneering politicians. The idea of contract is therefore a metaphor that is at the heart of Lane's framework. This is very different from principal-agent theory as applied in economics, where contractual relations are common. This criticism may seem overly literal or pedantic. The social contract metaphor has been repeatedly employed by political theorists as a justification of the modern state, despite the fact that no such contract has ever been ratified, and

empirical challenges to such arguments seem to miss the point. In a different field, Milton Friedman has argued that the truth of assumptions in social sciences is irrelevant, as long as individuals, on aggregate, act as if their behaviour was governed by such assumptions (Friedman, 1953). Thus, Lane's framework cannot rest on the truth of its assumptions, and must therefore rest on a metaphor. This metaphor may still be productive, or useful in accounting for political phenomena, but at the same time it must be admitted that applying this metaphor makes less sense in politics than in economics or even in the study of bureaucrats.

The idea of contract is crucial in economic applications of the principal-agent framework, since it is contract design, and the incentives and sanctions contained therein, which ensures that both agent and principal benefit. In its original application, principals do not select against bad agents; instead, they design contracts with incentive structures such that 'bad' agents would choose not to contract. The contracts that are designed are therefore complex and typically conditional on certain levels of output. This leads me to a second criticism of applying a principal-agent framework to politics: political contracts, even understood as metaphors, are never this complex. The most common quasi-contractual relationship found in politics (excluding for the moment the study of the bureaucracy) is the exchange of office for votes. There is absolutely no conditionality in this relationship, nor are there any restrictions. One cannot cast a vote and add an explanatory rider to it; nor can one withdraw one's vote if politicians do not meet initial expectations. The only element of conditionality comes from the repeated nature of elections, and the principals' collective decision to renew the contract with their agent(s), or to sign a new contract with an alternate set of agents. But even this limited element of

conditionality falls away in certain situations. Where office holders face term limits, there is no conditionality attached to their last term in office. Put simply, there are no (quasi-)contractual reasons why they should not shirk for the entirety of their tenure.

In reality, this does not happen. Tenure-limited office holders at least claim to work during their term in office. Intuitively, we know that this is because office holders often care for co-partisans, whose electoral interests would be damaged by their shirking, or because office-holders care for policy, or because office holders dislike looking idle. We might also say that we do not see this kind of shirking because the electorate selects against the kind of politicians who would shirk their way through their last term (Fearon, 1999, makes this point best). Electoral studies show that selection on the basis of perceived candidate quality is an important determinant of vote choice. But selecting agents does not make sense within the principal-agent framework. Lane suggests that agent selection falls within his framework – but this is incoherent if he is using the same framework developed by economists. Recall that the central problem of the principal-agent framework is to design a contract to ensure that the principal benefits from contracting with the agent, given the existence of 'bad' agents. If there were a way, in theory, to against bad agents, then contract design would be completely redundant. Consequently, Lane's framework either cannot account for agent selection, or can account for agent selection, but only in ways that are not explained by either this book or by the whole edifice of principal-agent theory.

ACCOUNTABILITY AND REPRESENTATION

This point is related to a fourth difficulty with using the principal-agent framework

to account for politics. The primary relationship between principal and agent, in Lane's version of the theory, is one of accountability. Yet, this is only one side of the electoral coin. Representation is also an important part of many theories of democracy. Politicians often implement policies not just because they believe that implementing those policies will maximise chances of re-election, but because they believe they have been given a mandate to do so, and that this mandate constitutes a continuing moral reason to act in a certain way, a reason that does not disappear the day after the election. In fairness to Lane, this criticism applies to all minimal or elitist theories of democracy, and Lane seems to ally himself with Pareto and Schumpeter in the beginning of his book. However, Pareto and Schumpeter were making a partially normative, partially empirical argument; their comparative neglect of representation may therefore be motivated either by empirical or normative concerns. Lane cannot make this argument, and so those who believe that representation is of equal or greater importance than accountability will find the principal-agent framework unappealing.

Q2

The principal agent also finds it difficult to deal with representation for an additional and separate reason. In Western Europe, most representation is of a given socio-economic, religious, or ethnic group by a party that claims to share the interests of that group. Therefore, the working class is still notionally represented by social democratic and labour parties; Christians are still notionally represented by Christian Democratic parties, and so on. But the claims made by these parties to share the interests of these different groups could only ever be regarded as cheap talk by one who believed in principal-agent theory as originally expounded. To repeat, principal-agent theory assumes a necessary antagonism of interest between principal

and agent. Otherwise, the central problem that the theory deals with – structuring a contract so as to deploy the right incentives and sanctions – evaporates. Now, one might believe in a necessary antagonism between the interests of politicians and the wider electorate. This is common in popular discourse, at least in English-speaking majoritarian democracies, where an assumption of venality is widespread. It is also common in political science, where legislators, and in particular legislators in the United States, are assumed only to care about re-election, and suborn all other goals to achieve this objective. Many (Müller and Strøm, 1999) insist on a richer typology of objectives pursued by politicians, but the assumption of a necessary antagonism of interests is still widespread, and would be defended by a number of political scientists (probably in the name of theoretical parsimony). Like the preceding objection, this is a criticism that Lane has probably anticipated, but those who believe that politicians are maximising something other than their own self-interest, narrowly construed, will find the principal-agent framework unappealing for this reason.

Thus far, I have criticised the use of a principal-agent framework to account for politics for having faulty assumptions or for neglecting certain aspects of politics – representation and sincerity – which many find important. These types of criticism might be ignored if one believes that assumptions are purely instrumental, or that the kinds of issues which are neglected by the principal-agent framework are not significant – or at least not significant compared to the array of issues that can be explained or accounted for by a principal-agent framework. A better test of a theory, or framework, is the power of the hypotheses it suggests. Yet here – in part because Lane equivocates between principal-agent framework as a theory, and principal-agent

framework as a framework – there are few clear hypotheses. In the chapter on electoral behaviour, Lane does imply one hypothesis, namely that the volatility of the collective principal (the electorate) ought to reduce agency shirking, and that as a result the increased electoral volatility seen in Europe over the past thirty years is normatively desirable, rather than a threat. But elsewhere, Lane seems to suggest certain hypotheses that are not tested, and that seem to be easily falsifiable, or at least exposed to considerable counter-examples. One such case is Lane's suggestion that multiple agents also reduce agency shirking. While this is true in many instances, there are, at the same time, numerous examples of multiple agents colluding in order to evade control by a collective principal.

Given the paucity of explicitly stated hypotheses, the claim Lane is making seems to be not of the kind, 'the principal-agent framework can account for politics insofar as it entails hypotheses which enjoy strong empirical support' (which would, in truth, be a very strong claim), but rather a claim of the kind, 'the principal-agent framework can account for politics, insofar as many political institutions and behaviours can be subsumed under theoretical claims about the nature of principals, the nature of agents, or the nature of the contract relating the two'. Thus, electoral volatility is reinterpreted as a fact about the collective principal; or to say that a system is federal or to say that it has a

division of powers, is to make a claim about the number of agents. While some students of politics (and Lane suggests the text would be suitable for graduate students) may find this approach helpful, it is not clear to me how this framework better accounts for politics compared to, say, the literature on veto players, or the literature on chains of accountability. A principal-agent relationship could be cast as a nested game involving p principals as the veto players in the first game, and a agents in the nested game. A principal-agent relationship could equally well be cast as a relationship of accountability (Strøm *et al*, 2006), and thus bring exactly the same conceptual clarity without importing the (considerable) baggage of principal-agent theory. Indeed, the comparison makes explicit some of the features of principal-agent framework that I have tried to elucidate in this review, such as the exclusive emphasis on accountability rather than representation, in electoral politics.

Jan-Erik Lane has thus written a book that, while it may offer a fruitful metaphor for understanding much of politics, does not fully convince this reviewer that all of politics should be reinterpreted as a battle between principals and agents. This is not a particularly good time for grand theory, and therefore Lane should be commended for proposing a single unified interpretation of politics. Were this book to prompt other attempts at unifying the empirical study of politics, it would be a welcome and salutary effect.

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