Principled Agents? The Political Economy of Good Government. TIMOTHY BESLEY. Oxford, UK: Oxford University Press, 2006. pp. xi, 266. $45.00

Individuals unite to form governments to protect their personal and property rights from usurpation by bigger and stronger entities. Easing these Darwinian fears entails an opportunity cost of reduced personal utility when that government exercises its sovereign powers in order to enhance the common good. So long as the benefits of government exceed the costs, government is likely to expand – particularly if rising GDP facilitates it. A comparison of government spending to Gross Domestic Product (GDP) is an indicator of a nation's progress in economic development.

Once formed, a government can either be benevolent, acting in *loco parentis* to do what it thinks is best for the governed – or, it can be used by those governing to extract rents for favored groups or themselves; that is, good government/bad government. Besley's text details the polarity and adopts a Madisonian or *Publius* approach; that is, government is well intended, in terms of wanting to improve the lot of the citizenry, but it can go astray, with serious deviations from efficiency and equity considerations. As a major architect of the United States Constitution, James Madison recognized that good government required the proper institutional framework in order to create the incentives to govern well. It also required good political leaders, and each was a necessary although insufficient condition for success.

Principled Agents contains four segments. The first examines government as a political economy; it takes the traditional public finance approach to analysis of the proper role of government. The first essay also studies the incentives to govern well and their dispersion throughout the global economy. The second chapter considers the causes of government failure, a necessary corollary to market failure. The third essay looks at political agency – the relationship between voters and their elected representative agents and how imperfect information contributes to suboptimal government. The text also examines the concept of political accountability and how the necessity of maintaining voter approval acts as an effective, but by no means perfect, constraint on political agency. The fourth essay takes the model of political agency and examines the necessary functions of taxation, debt finance, and spending on public goods within the framework of the model of a democratically selected government.

Besley notes, in chapter two, that government failure comes in two variants. In the first, government fails because it wields too much power relative to other sectors of the economy and forces citizens to act in a manner at odds with maximum social welfare. *Political failure* is a sub-group where the democratic process of elected representatives fails to achieve efficient solutions. Regarding the outcomes of democratic government policy, the author specifies "three notions of government failure." The first is Pareto inefficiency, or the failure to achieve a tangency solution of the societal welfare function with the utility possibilities frontier (UPF) – with the economy functioning inside its UPF. A second source of government failure stems from distributional inefficiencies where some members of society receive too little in transfers and others (affluent farmers in developed economies) receive too much. A third brand of government failure is captured in the theories of Knut Wicksell: Policies of government, to be legitimate, must result in Pareto optimal solutions that would not result in the absence of government.

Market failure provides the wellspring for government intervention in the economy. However, government failure is more difficult to pinpoint – for failure to exist, there must be some better state of nature. James Buchanan and other proponents of the Public Choice approach use government failure as the catalyst for constitutional re-construction. Buchanan envisions a two-pronged constitution: the first is procedural; spelling out the institutions, separations of power, voting process (essentially the Constitution we have); the second branch might be termed the fiscal or procedural constitution, which spells out the rules of political maneuver – before policy is initiated and resources allocated to public projects.

The principle-agent problem arises in the public sector when political representatives do not act in the manner voters expected, or, more generally, when representatives do not act in the public interest but, rather, engage in rent-seeking behavior or skew their policy decisions in favor of a special interest group. One restraint on such maverick behavior might be a procedural constitution which limits the size of government by limiting taxes. A smaller government limits the amount of rents that less scrupulous politicians might extract – and, in fact, would reduce the entrance of "bad" candidates into the political marketplace.

Another means of restraining government is direct citizen voting on policy initiatives through referenda. Citizen initiatives are a means of taking back some of the political power accorded representatives by the constitutions. Referenda are also a means of indirectly disciplining representatives who choose not to act in the public interest – by taking policy issues out of agents' hands. The electoral process may be viewed as insufficient in punishing agents whose actions run counter to the public interest (particularly because many agents must agree in order to pass an initiative). Ironically, Besley cites one study of state expenditures that found in states where citizens had the power of referenda, government expenditures were higher than in states where referenda were not allowed.

The quest for good government and good politicians goes back a millennium. Besley notes that elections were not always viewed as the source of good politics. The Athens of old elected its citizen representatives by lottery, where each citizen served a year's tour of duty and was restricted to two terms during a lifetime. The inference was that civic responsibility was broadly distributed across the population. Random selection was viewed as preferable to an electoral process for three reasons. First, rotation of officials was guaranteed as was the reality that political leaders were drawn from everyday life. Second, virtually all citizens would serve; guaranteeing a shared burden and experience which tightened the social fabric. Third, elections, rather than choice by lottery, are more apt to segment the populace into political factions with resulting conflict.

During the 1780s, leaders in the newly formed United States of America reached a different conclusion. Influenced by French thinkers such as Jean-Jacques Rousseau, American leaders, including Thomas Jefferson and Madison, thought that the fledgling nation should be led by a "natural aristocracy" of the learned and enlightened who, by disposition and virtue, would do most to advance the public interest.

Overall, an interesting tome and an insightful read. Some of the mathematics could be omitted with no loss of gravitas.

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