Review of Timothy Besley's *Principled Agents?: The Political Economy of Good Government*[1]

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Timothy Besley's *Principled Agents?: The Political Economy of Good Government* provides synthetic treatments of two issues: the efficiency of policymaking and political agency. Each is of first-order importance for understanding the delegation relationship between citizens and their governors.

The book, a revised version of Besley's 2002 Lindahl lectures, opens by distinguishing rival views of policy-making: the normative tradition of welfare economics and the public choice critique of that tradition. Besley wants to chart a middle course, seeing government intervention in the economy as potentially beneficial, but only with proper incentives schemes in place and only with proper attention paid to selecting the best candidate.

The public choice school's original motivation was to show that real governments, like real markets, could fail to implement efficient outcomes. While this observation is old, there remains much scope for conceptual clarification. This is just what Besley provides in chapter 2. He distinguishes failures of Pareto optimality, distributional failures relative to a social welfare function, and Wicksellian failures, in which a new policy does not Pareto dominate the status quo. He also distinguishes government failure and political failure, defined as "problems that arise... in *democratic* political systems" [p. 46, emphasis in original].

Government might fail because of ignorance, influence (corruption and rent seeking), and the quality of leaders; upping the ante to political failure, problems could arise from voting or logrolling. Besley finds little reason to expect Pareto inefficiency from these mechanisms. Voting, for example, leads to a political failure only in a distributional or Wicksellian sense, not in a Pareto sense. Bergstrom's classic work on majority voting over public goods shows that the median voter typically chooses an allocation that does not satisfy the Samuelson condition, which characterizes Pareto optimality with individualized lump-sum transfers. But to ensure that there is a Condorcet winner, Bergstrom restricts attention to linear taxes. And subject to this constraint, the outcome is Pareto optimal, since it the best policy for the median voter.

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It might seem this argument can be generalized to a kind of "first welfare theorem" of political economy, but this is not so. There can be robust political failures in dynamic models, where the current policy affects not only today's payoff but also the identity or preferences of future policymakers. Here we might quibble over terminology. Besley defines political failure as government failure due to democracy. But that definition rules out much politics, and the idea that rulers might choose inefficient policies to entrench themselves surely applies as much to dictatorship as to democracy.

The second half of the book brings the interaction of incentives and selection to the forefront. We might characterize democracy as a political system that formally creates political accountability, defined as "tying the performance of politicians to what they do in office" [p. 101]. There are two wedges between this formal ideal and the real accountability provided by democracy. First, citizens cannot hold an incumbent to such a strict standard that she prefers to give up on retaining office and misbehave. Second, citizens who learn about the type of an incumbent by observing her performance in office cannot commit to reelection rules that call for punishing incumbents whose performance is below some standard, if that performance is enough to indicate an above average type.

Chapter 3 is a masterful overview of the literature on this "political agency" problem. It begins with a baseline model that illustrates the roles of both discipline and selection, and with some empirical analysis showing that both are important in actual elections. It then considers extensions, asking how both discipline and selection are affected by the degree of competition, the quality of voter information, the media, incentives to "pander", and opportunities for targeted policies. Chapter 4, written with Michael Smart, revisits many of these same issues in the context of a specific application to taxation and public goods. They extend the model to study the desirability of restraints on actions by incumbents, the impact of debt on incentives, and to compare NGOs to government provision. The most striking finding here is that better information can decrease voter welfare. The information compromises discipline while enhancing selection, and either effect can dominate.

Much remains to be done in studying political agency and efficiency. Most fundamentally, are elections, with the costs and benefits Besley outlines, a second-best institution? How do collective reputations (e.g., political parties) affect the agency relationship? Finally, how do leaders interact, say in international affairs, when they both face agency relationships? *Principled Agents* will be an essential resource for scholars attempting to answer these questions.