

Good Governance and its Enemies

Jan-Erik Lane



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Preface

This book delves into the intricate relationship between legislative power, and public policy efficiency, exploring their impact on the formulation and implementation of public policies in Brazil. The book adopts a mixed-method approach, combining descriptive statistics and qualitative content analysis, to shed light on this less-explored aspect of legislative functioning, investigating whether the Legislative Power in Brazil uses its competence to vote on matters of a specialized nature or delegates the rule to the Executive Power. The legislative process analyzed in this thesis is one of a Provisional Measure. This process is the most appropriate because it involves both houses of Congress and begins with the Executive branch enacting the rule. Descriptive statistics show correlations between key variables, while qualitative content analysis revealed a preference for the Legislative Power to regulate matters of technical nature rather than delegating them to specialized bodies. The book's findings underscore the importance of public trust in government actions, as both the Executive and Legislative

branches need to prioritize transparency, accountability, and responsiveness to maintain public confidence in the regulatory process. Policymakers must carefully assess the context and objectives of each regulatory proposal to make informed decisions about delegation that best serve the public's interests and the government's effective functioning.

J.E. Lane

Geneva

2023

1

Introduction

The increase in political instability as well as anarchy and anomie in the world is a prominent feature of politics in the 21st century.

It has dire consequences for the population in the country torn apart by civil war or anarchy.

It consequences for the handling of the climate change question and the general problem of environmental degradation. Global ecology coordination can only work if the participating governments lead strong states. The more governments have to concentrate upon anarchy or civil wars, the less the time and resources would be available for environmental policy-making and ecological protection. And environmental destruction tends to worsen in countries that are not “well-ordered” (Rawls), as ecological laws are disobeyed and natural resources dissipated until exhaustion or annihilation.

Thomas Hobbes focussed upon political stability in his masterpiece *Leviathan* from 1651. To him the worst thing for men and women was to live in a so-called state of nature, according to *Leviathan* from 1651:

“In such condition there is no place for industry, because the fruit thereof is uncertain, and consequently, not culture of the earth, no navigation, nor the use of commodities that may be imported by sea, no commodious building, no instruments of moving and removing such things as require much force, no knowledge of the face of the earth, no account of time, no arts, no letters, no society, and which is worst of all, continual fear and danger of violent death, and the life of man, solitary, poor, nasty, brutish, and short.”

This concentration upon anarchy and anomie has received much new relevance with the many failed states in the early 21st century, falling into the vicious trap of civil war from which it is very difficult to escape.

Hobbes put his hope upon political authority as the antidote to the anarchic state of nature. But an authoritarian state leads also to human misery in the form of lack of political freedom. When authoritarian rule collapses, it often is followed by anarchy, like in Syria and Libya. Moving from authoritarianism to democracy has proven hard for Muslim countries, as the so-called Arab Spring only succeeded in Tunisia. What is vital for many countries in Asia, Africa and Latin America is first and foremost peace, law and order, i.e. getting out of the Hobbesian predicament of anarchy and anomie. Often the problem is the reverse of the Hobbesian predicament, namely authoritarian misrule and political exploitation by the leaders or personnel in power, viz the principal-agent problematic in politics that Hobbes completely neglected or failed to recognize, which explains his strage preference for absolute monarchy.

On the contrary, rule of law is a global necessity for humanity, because it is the best mechanism against both authoritarian rule and political anarchy. I will try to give arguments for good governance as the rule of law in this treatise.

2

Friends of Good Governance: Rule of Law

Introduction

One may look upon the now unfolding events in Burkina Faso from the point of view of rule of law, interpreted with the so-called principal-agent model in the social sciences. Why, then, do many countries in Africa and Asia score low on rule of law, not resolving the principal-agent problematic successfully? Is this a legacy from Western colonialism or oriental despotism and tribal forms of power? The principal-agent problem in politics and public administration refers to how the people as principal – empower the political leaders and their bureaucrats to govern the country. The principal-agent contract consists of promises about what these agents will do as well as what they may expect in remuneration. The mutual understanding between the principal and the agents – political consideration – tend to become institutionalised. Thus, constitutional and administrative law and praxis makes up political consideration.

Rule of law is the regime that offers the best guarantee against political agents dominating the principal, or even worse, exploiting the principal. It is a question of constraining agents, i.e. the principal would want the political agents to be powerful enough to safeguard the state or nation, but he or she would also want to constrain the agents so that abuse of power becomes less likely, such as embezzlement of public money or torture and sudden disappearances of opponents.

However, one must make a distinction between rule of law on the one hand and democracy on the other hand. Countries that are not likely to endorse Western style democracy may still cherish rule of law. Let us start by mapping the spread of rule of law in Africa and Asia by comparative scores and then interpret the findings in terms of more often used principal-agent framework from advanced game theory.

The principal-agent framework has enjoyed far reaching success in modelling interaction between persons where one works for the other. This interaction is to be found in many settings, such as agriculture, health care, insurance and client-lawyer (Rees, 1985; Laffont & Martimort, 2002). As a matter of fact, the principal-agent problematic is inherent in any employment relationship where one person works for another, who pays this person by means of the value of the output.

Whenever people contract with others about getting something done, there arise the typical principal-agent questions:

1. What is the quid pro quo between the principal and the agent?
2. How can the principal check the agent with regard to their agreement?
3. Who benefits the most from the interaction between principal and agent?

These questions concerning principal-agent interacting arise whenever there is a long-term contract between two groups of people, involving the delivery of an output against remuneration as well as a time span between the making of the contract and the ending of the relationship with the

delivery of the output. One finds this type of interaction in the client-lawyer relationship in the legal context, in the owner-tenant interaction in sharecropping as well as in the asset holder-broker relation in financial markets.

Concepts

The concept of good governance has no standard definition in the dictionaries. Instead, I will rely upon the approach of the World Bank Project to governance. The World Bank (WB) states:

"Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them." [Retrieved from].

The World Bank's Worldwide Governance project, mapping good or bad governance around the globe during the last decade, identifies six dimensions in of the concept introduced in the quotation above.

In the World Bank Governance project, one encounters the following definition of "rule of law":

Rule of Law (RL) = capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (Kaufmann, Kraay, & Mastruzzi, 2010: 4).

Rule of law (RL) is explicitly separated from voice and accountability (VA), which is defined as follows in the World Bank project thusly:

Voice and Accountability (VA) = capturing perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of

expression, freedom of association, and a free media (Kaufmann, Kraay, & Mastruzzi, 2010: 4).

The World Bank Governance project suggests four additional dimensions of good governance (political stability, government effectiveness, regulatory quality, and the control of corruption). The World Bank Governance project employs a host of indicators in order to measure the occurrence of rule of law RL around the globe, which results in a scale from -3 to + 3.

In a constitutional democracy, there is a combination of both rule of law (RL) and voice and accountability (VA). But rule of law was conceived already in the Ancient and medieval periods, whereas Western type democracy belongs to the 20th century. Thus, I will separate between a narrow concept of rule of law (RL), corresponding to the World Bank's terminology, and rule of law in a broad concept, as including voice and accountability (VA). Several countries have or may introduce rule of law I without accepting rule of law II, i.e. party competitive democracy.

Rule of law principles offer mechanisms that restrain behaviour. We distinguish between rule of law in a narrow sense (legality, due process) – RULE OF LAW I – and in a broad sense – RULE OF LAW II (constitutional democracy). Some countries practice only rule of law I, whereas other countries harbour both mechanisms. A few countries have neither rule of law I or rule of law II, especially failed or rogue states or states in anarchy or anomie. Figure 1 shows the overall global picture with Rule of Law II on the x-axis (voice and accountability) and Rule of Law I on the y-axis (legality and judicial autonomy).

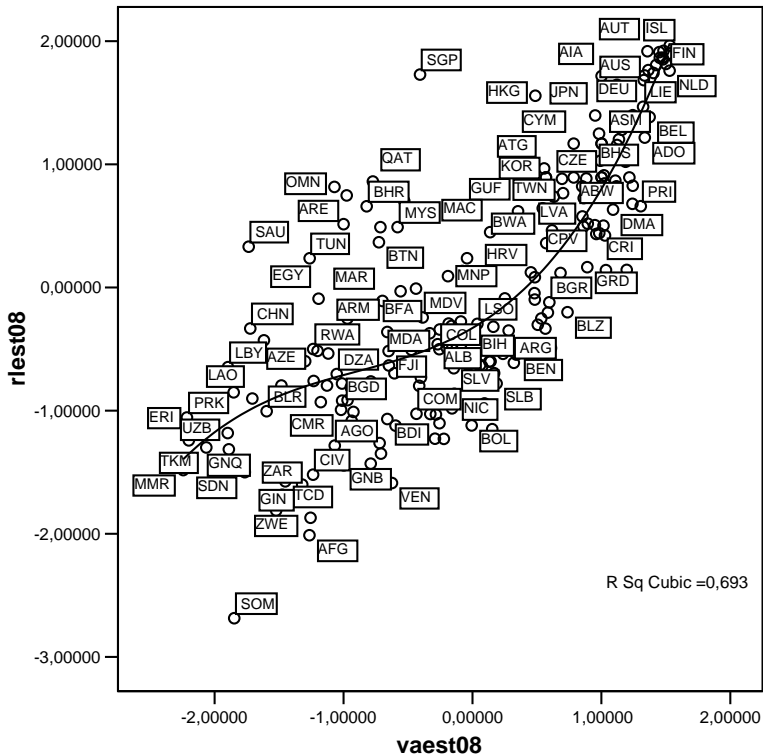


Figure 1. Rule of Law I (rlest08) and Rule of Law II (vaesto8)

Source: Governance Matters 2009. Worldwide Governance Indicators 1996-2008: vaesto8, rlest08.

On may divide Figure 1 into four boxes with the countries scoring negative on rule of law I and rule of law II in the left bottom box. They are mostly African and Asian countries. A few African and Asian states are to be found in the upper left box, meaning they score zero or medium positive on rule of law I but negative on rule of law II. Why is this global pattern so strong and persistent? For the populations in these African and Asian countries with a lack of rule of law, especially rule of law I (legal integrity and judicial autonomy), it is a dismal predicament, especially when analysed from a principal-agent perspective.

The agents – politicians and public officials - and the principal – demos - are the two key components of political

interaction that run through all political systems, whatever their nature may be. The problem of institutionalising the polity originates in this opposition between agents and the principal.

The strength of the principal-agent model is that it bridges rational choice and neo-institutionalism, as its model takes into account three basic elements in interaction, namely rules, incentives and information besides underlining reciprocity. The model is open to the occurrence of opportunistic behaviour, even with guile. When a player has information advantage, then this will be transformed into some form of cash premium. The principal may diminish the information advantage of the agent as specialists by framing the rules of the game such that he/she may have the option of counter-play or replay as well as complaint and judicial redress.

Constitutional principles of good governance

The doctrine of constitutionalism entails the idea of limited government. Moreover, limited government in relation to civil society implies a state that operates under certain key rules ([Bradley & Ewing, 2010](#)):

1. Legality: government is exercised by means of laws, enforced ultimately by an independent judiciary;
2. Lex superior: there is a higher law – the constitution – that guarantees certain rights for the citizens, like e.g. equality under the law, due process of law and habeas corpus;
3. Trias politica: executive, legislative and judicial powers are to be separated;
4. Accountability: Governments can be held responsible for their actions and non-actions through various established procedures of criticism and complaint, enquiry and removal from office as well as redress;
5. Representation: The people have a SAY somehow in government through representative institutions.

These principles above emerged hundreds of years ago, long before democracy was introduced in many countries at the end of the First World War in Europe and America ([Lloyd,](#)

1991; McIlwain, 1958; Neumann, 1986). Today all existing democracies endorse these constitutional principles: constitutional democracies. But several non-democratic countries honour principles of the rule of law without accepting Western style democracy. Thus, rule of law I is relevant to both democratic and non-democratic regimes.

Constitutional government embodies institutions or rules that constrain those active in domestic or international politics today. Thus, the meaning of “constitution” is a set of principles or rules that constrain rulers, politicians, governments or states. But there can be constitutional government without Western democracy, based upon competitive elections among political parties.

The spread of rule of law II (democracy) seems to be culture bound, as countries with an Islamic (The Koran as constitution) or Buddhist tradition (Asian values, Singapore) hesitate to adopt fully Western democracy as competitive party government. However, the introduction and enforcement of rule of law I is an entirely different matter. Due process of law is relevant for all states in the world. Where it is lacking, we find arbitrary government, embezzlement of public money and the unpredictable seizure and violent treatment of persons.

Consider Figure 2, constructed with the WB Governance Project data. It links the control of corruption on the y-axis – state transparency – with the rule of law I on the x-axis.

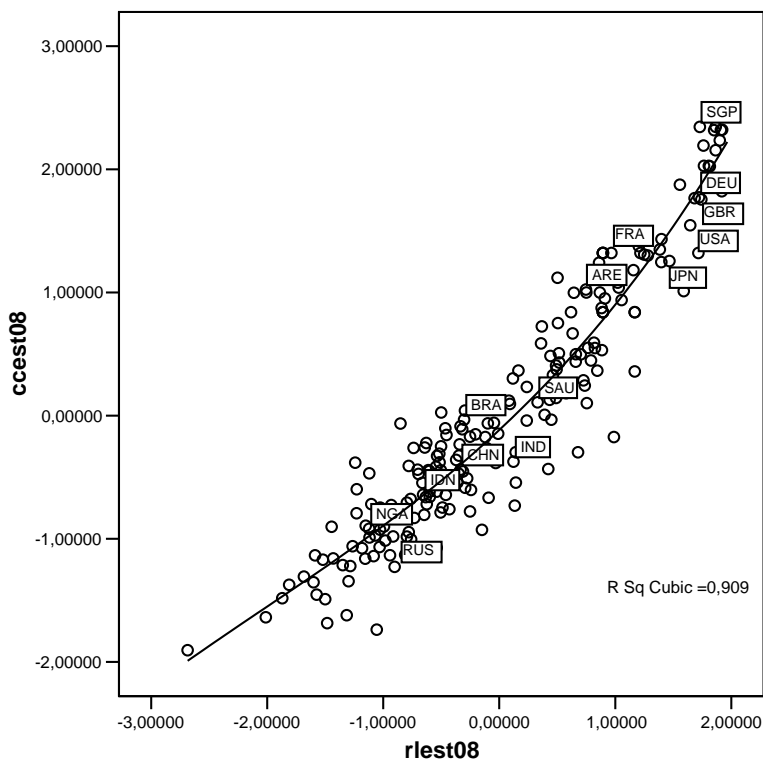


Figure 2. *Rule of Law I and Tranparency*

Source: Governance Matters 2009. Worldwide Governance Indicators 1996-2008: rlest08, ccest08.

Rule of law I can be promoted by institutional policy-making by the political elites in a country. A key institution is the Ombudsman, checking the legality of public administration. Rule of law I is highly relevant for the state, also the countries that are non-democracies: military government, charismatic rule, kingdoms, sultanates, failed states, one-party states. It is the best antidote against much long-lived presidents (Burkina Faso, Malawi), arbitrary court rulings (Egypt, China), kleptocracy (Mobutu, Ben Ali), torture (Idi Amin), terrorist attacks (Kenya, Pakistan), civil war (Iraq, Syria), violent civil protests (Bangladesh, Thailand), patronage or favouritism (Saud family, Jacob Suma) and religious judicialisation (Iran, Afghanistan).

Why rule of law: What is the basic rationale?

There is a form of interaction that tends to be long-term between individuals, which involves a hiatus between the agreement about what is to be done against remuneration (ex ante) and the later in time fulfilment of this contract (ex post). This time interval, lasting often more than several months or years, sets up the monitoring problem: Has the agreement been fulfilled in accordance with the considerations when the contract was made? This type of interaction does not take place in the various market forms, but constitutes a problem of analysis in itself (Arrow, 1963). The more this special type of contracting was analysed, between a principal asking for a service or job on the one hand and a set of knowable agents delivering this service or job on a long-term contract, the more often it was found in various important sectors (Ross, 1973; Grossman & Hart, 1983; Sappington, 1991; White, 1992; Ackere, 1993; Althaus, 1997). What came to be known as “the principal’s problem” was found in lengthy interactions within legal affairs, psychiatry, stock-market trading and agricultural production (sharecropping).

Two basic aspects of long-term contracting are transaction costs and asymmetric information, which never entered in the standard assumptions of the neo-classical decision model in mainstream economics. Since the agent(s) is supposed to have much more knowledge about the service or job to be done, the principal needs to diminish this advantage, but without running up too heavy transaction costs, through costly monitoring or litigation. The agent(s) wants remuneration, which has to come from the value of the service or job delivered. Thus, there is both cooperation and conflict.

The theory of transaction costs stimulated this way of looking at long-term contracting (Rao, 2002). It was also furthered by insights into the nature of institutions, where rules could be employed to prop up the position of the principal (Furubotn & Richter, 2005; Weingast, 1989; Persson & Tabellini, 2003). Now, rule of law is nothing less than the

regime that hands down institutions that counter-act agent opportunism, bolstering the principal.

Opportunism of Politicians and Bureaucrats

Political agents are no different from any other human beings. They are driven by the same mixture of egoism and altruism as the average person. Sometimes political agents may be completely obsessed by protecting their own self-interests, as with cruel personalities like Genghis-Khan, Tamerlane, Hitler and Stalin. Sometimes political agents display great generosity and forgiveness towards their opponents, like Gandhi and Mandela. But on average political agents – politicians and public officials – would be self-seeking, often with guile – the opportunism assumption.

The implications of assuming opportunism on the part of agents are strengthened in terms of importance when one adds the basic fact about long-term interaction of the principal-agent type, namely asymmetric information. It is the agent who delivers the output who knows the most about all things relevant to the interaction. And the agent will use this information advantage to capture a rent, or a set of benefits.

Strategy is a pervasive trait of human interaction, both in the micro setting and in the macro setting. Taking strategic considerations into account goes well in hand with opportunism and asymmetric information. The same applies to tactics. What, then, is the basic issue of contention in the principal-agent interaction? Answer: the division of advantages, given a certain size of the mutual gains to be had.

The state helps the population produce an output, a set of goods and services, to be denoted here with “ V ”, meaning value. By providing peace and stability, the population may engage in productive labour, resulting in an output of increasing value year after year. The political agents will claim a part of this value V for their contributions. It is the principal who ultimately has to pay the agents out of the total value V in society.

The agreement about what the agents are to contribute with as well as what they are to be paid may be only a tacit one. It may not even be a voluntary one, as the political agents

may force the principal to accept an agreement by the employment of force.

Two things are of great concern to the principal:

1. The maximisation of V: If the political agents act in such a manner as to reduce V, then this is not in the interest of the principal.
2. Reasonable agent remuneration R: If the agents manage to capture a considerable portion of V for themselves, then that would be counterproductive to the principal.

It follows from these two principles that principals would be very unhappy with a situation where their political agents contribute to a low output V, while at the same time providing them with a considerable share of V by maximising R.

What is included in the output V? One may confine V to the set of public or semi-public goods. The country contracts with a set of agents in order to protect V, but the country must remunerate the agents (R) from V. How can the country select and monitor its agents so that V is maximised, given the constraint that the set of agents must be compensated for their effort R, from V? One may offer a most comprehensive definition of R, denoting both tangible assets and intangible ones? R includes all things that are valuable: goods, premises, services, assets, perks, prestige, esteem, etc.

The interaction between political leaders and the population is omnipresent. Whatever the leaders are called and whichever rules apply for their behaviour, human societies have not been leaderless. Even among groups with a highly egalitarian culture, political leaders somehow emerge. This sets up the principal-agent problematic inherent in the state.

When two people or sets of people interact, they may arrive at a mutual understanding of the terms of interaction. These expectations may be enshrined in a contract, written or verbal. Yet, even when the expectations governing the

interaction between the political agents and the principal are not codified somehow, there is still consideration.

Consideration is at the core of human exchange and contracting: Something of value is given for getting something from another person. Consideration is the inducement, price or motive that causes a party to enter into an agreement or contract. In politics, the leaders receive ample consideration for governing the country. They take a part of total value V for their needs. And they are expected to deliver services to the political club, first and foremost maintain the peace, deliver public goods and enhance the GDP.

Since the consideration must be some benefit to the party by whom the promise is made, or to a third person at his instance, or some detriment sustained at the instance of the party promising by the party in whose favour the promise is made, politics is replete with consideration. The agents of the state employ a variety of techniques to raise value to themselves as consideration for their governance activities.

Political Monopoly

The external costs to the state may be very high, if there is political monopoly. What the principal would not want to have, all other things equal, is a situation where the political agents not only take a huge remuneration R for their work but also accomplish mediocre or straightforward disastrous outcomes, reducing the value of society V . In the principal-agent literature, excessive remuneration on the part of the agent is referred to as “rent-seeking”, whereas the failure of the agents to deliver on what they have promised is called “dissonant” actions. The important point here is that political agents may disappoint their principal on two grounds: (1) Dissipation of value V , meaning underperformance as measured by outcomes; (2) Looting, i.e. engaging in excessive remuneration R .

A virtue of the principal-agent perspective is that it alerts people to the possibility of large-scale looting in politics and public administration. The worst case scenario for the principal is the combination of bad outcomes in politics and

excessive remuneration for agents responsible for the results. This happens often when there is looting.

“Looting” refers to any form of taking of value that amounts to an un-proportional compensation in relation to the effort exerted. It may be illegal, as when soldiers go on a rampage. But political looting is often more refined than populist looting when law and order breaks down. The appropriation of the resources of the administrative apparatus (“slack”) is a typical form of political looting, much emphasized by Weber for his comparative institutional analyses (Weber, 1978). The concept of political looting is broader than the notion of corruption or embezzlement, which are strictly illegal phenomena.

Looting may occur with or without value dissipation. Political agents may successfully claim a huge portion of the value in society without at the same time reducing the total size of value. In many Third World countries, political looting goes hand in hand with value dissipation though. An extreme case is that of present day Zimbabwe, which country according to its president “is mine”.

Sophisticated forms of looting may occur in constitutional democracy, as when the executive allows itself to be surrounded by vast staff of advisors, experts and the like. Or political agents in the legislature manage to provide themselves with excessive budgets and perks. The fact that corruption allegation is an almost constant theme in public debate indicates how sensitive the principal is to the risk of looting. One form of political looting is of course nepotism or favouritism with regard to family members or cliques of friends when conducted by a president or premier for instance. Petty forms of looting involve negligence about the line of separation between private and public expenditures.

The rule of law regime is highly aware of the risk of looting, offering restraining rules about taxation, budgeting and financial accountability. It also aims at counteracting the dissipation of social value through representation, election and re-election. The dissipation of value is a problem of aggregation in society (size of the cake), whereas the risk of

political looting presents a distributional problem (who gets what).

Value Dissipation

The constant focus of policy-makers upon economic growth shows how aware the principal is today about the risk of value dissipation. The population worries not only about various forms of looting but also about the risk of unfortunate or disastrous policy-making that reduce aggregate income or wealth. A set of political agents may be extremely costly to the country because they are incompetent although honest. Political consideration as defining the quid pro quo relation underneath political leadership would comprise some mechanism for replacing one set of agents with another, especially in a rule of law regime.

There is the possibility of a dramatic effect from the combination of looting and dissipation of value, like for instance as matters now stand in countries like Myanmar, Zimbabwe and North Korea. One should not, however, assume that the risk of value dissipation is unique to Third World countries. On the contrary, value dissipation occurs also in First World countries, where the 2003 American led invasion of Iraq offers a telling example, resulting in so huge costs – human and economic – and so little. And even a country like the UK with its rule of law tradition does not appear to be immune from various looting strategies on the part of parliamentarians, definitely immoral but not always illegal. Consider Figure 3 depicting the relationship between rule of law I and the level of human development.

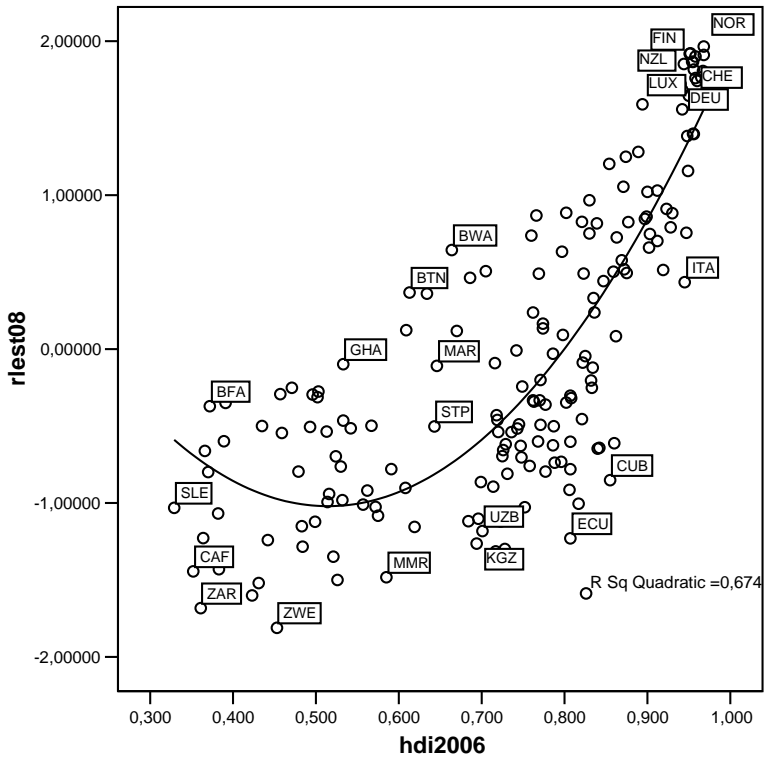


Figure 3. Human Development Index 2008 and Rule of Law I
Sources: Governance Matters 2009. Worldwide Governance Indicators 1996-2008: RLEST 2008; UNDP (2008): HDI 2006.

The theory of good governance entails that a government adhering to rule of law precepts will tend to be more successful in enhancing socio-economic development than a government that fails to respect them. Thus, economic activity will be stimulated by legal predictability, the protection of property, and the autonomy of judges when testing cases for assumed violations of law (Cooter & Ulen, 2010).

Rule of law in politics and public administration

Rule of law institutions constrain the political agents – politicians at various levels of governments, political parties, rulers, bureaucrats, agencies, etc. – to the advantage of the demos, i.e. the population in a country. Only rule of law institutions can restrain political agents from engaging in opportunistic behaviour, like e.g. corruption, favouritism, embezzlement or patronage.

Within a country normally the constitution outlines a set of constraints upon the political agents, when it is enforced. Internationally, states accept to participate in regional and international organisations that also may restrain the political agents. The process of globalisation has reinforced the regional and international bodies, constraining more and more the states of the world.

One may view the structure of political agents as a nexus of principal-agent relationships. Thus, groups choose their political parties, who when elected to the national assembly in turn select government officials. The population as the principal may wish to have a set of different types of agents, confronting and controlling each other – separation of powers. Competition among agents in elections is one mechanism for restraining political agents, counter-veiling agents like judges constituting another mechanism.

The principal would, one may imagine, support the recruiting of agents in the regional and international bodies, as they offer further restrictions upon the governments of states. Public international law offers some important protections for the country population against abuse of power by their own governments.

The idea of a principal-agent relationship is simple when one person hires another to do work for him against compensation in a contract with a long-term duration – consideration. Typical of political institutionalisation is that there are several principal-agent relationships and they are not all of the same kind.

First, one may distinguish between executive, legislative and judicial agents – the classical doctrine of three political in

constitutionalism. The interaction between executive and legislative agents may be structured alternatively, like in parliamentarism or presidentialism. What is crucial with the judiciary, whether structured as in the Common Law tradition or as in the Civil Law tradition, is the political independence of the judges from the executive and legislative agents.

Second, a state may be organised on a territorial basis with communes, regions and the national government under alternative institutional arrangements. With federalism, there is a complete replica of the trias politica at each level in the complex system, each province being organised as a state. In a unitary state, the nation-state prevails over the regional and local governments in a single dispensation.

The principal of the state – the citizenry or population – club may fear two kinds of external costs, namely the costs imposed by intruders from outside or troublemakers from inside on the one hand, as well as the costs stemming from the actions of the political agents. The principal would be willing to empower the political club in order to reduce the first type of cost. But strengthening the political club leads to the risk that the political agents become so powerful that they abuse the strength of the state for their aggrandizement.

The domination of the agents over the principal may take many forms in politics. Most of them involve political monopoly, meaning that a subset of agents eliminate all other contending agents. Political monopoly may take a few institutional expressions: a) Hereditary monarchy; b) Gerontocracy, c) Aristocracy, d) Racial or ethnic domination; and e) the one-party state.

Political monopoly allows the agents to engage in looting, meaning that the agents take a huge part of the total value V in society for covering their own needs. Looting is an agent strategy that may take different forms. One may point at the revenue system of the Mughal emperors in India, which degenerated slowly into oppressive forms, impoverishing the population, as different agents one after the other squeezed out their "bonuses" from the peasants' V (Keay, 2001). Looting as e.g. tax farming or sharecropping definitely leads to the

dissipation of value also in Imperial China (Keay, 2008) and in the later Ottoman Empire (Darling, 1996: Inalcik *et al*, 1997).

A third form of agent domination is when agents ravage the country, rendering havoc and promoting anarchy. In civil war and anomie, opposing subsets of agents fight each other, while making the life of ordinary people miserable and often short. Civil war entails that the political club no longer exists, or operates in accordance with the original political consideration. It is a marginal case of agent domination, but it is not infrequent.

The mechanism of political monopoly involves exclusion, perpetuation and concentration. Thus, only one subset of agents is tolerated. This subset attempts to prolong its grip on power using various strategies. Finally, advantages – economic or other – are concentrated in this subset of agents.

Relevance of the principal-agent model

Under any political or in any state, the citizens hire and instruct a set of agents – politicians and officials – to work for them against remuneration to be taken out of the value that the agent contributes to. The agents can put in high effort or low effort, schematically speaking, which has an impact upon the value that is created. The factor “effort” captures all that lead an agent to be either highly or poorly performing. Both parties are assumed to maximise their utility, which for the agents involves compensation for the disutility that high effort imposes upon him/her. Thus, there arises a gaming situation where the agent wants to maximise his/her compensation while the principal wants to maximise the value that the agent helps producing minus the remuneration of the agent. All kinds of solutions to this game are conceivable, depending upon contingencies such as the availability of agents as well as the existence of asymmetric information. In politics, it is the agents who know the most.

The principal would wish to maximise the contribution of the agents to total value and its fair distribution in society, subject to the restriction that the agents need to be remunerated for their effort. Thus, we have the two key

equations: (1) Principal: Max total value or income subject to fairness in distribution; and (2) Agent: Max remuneration covering both salary and perquisites. Given perfect information, there is a first best solution to the problem, namely: that the principal installs the most efficient agents, taking (1) and (2) into account. However, given asymmetric information the principal is forced to look for second best solutions that all will involve a better deal for the agents.

In well-ordered societies, the political agents in government operate the set of governance mechanisms that we call “state” (Kelsen, 1961; 1967). It claims sovereignty over its country, but it enters into a web of relationships with other states, governed by the rule of law principles of the international society, namely the so-called public international law (Schwobel, 2011).

A state may be seen as flowing from an agreement among the members about helping each other in securing peace and stability. A body of rules would codify this mutual agreement. A state quickly develops a division of labour between leaders and followers, the subgroup who implements the rules and the subgroup who follow the rules in their behaviour. I will call the followers the “principal” of the political club and the leaders the “agents”. Thus, the political club will be modelled as confronted by the principal-agent problematic, comprising inter alia:

- Who are the political agents?
- How are these agents selected?
- Can agent power be laid down formally?
- Are there restraints on the power of the agents?

In politics, transaction costs are minimised by handing over the responsibility for the tasks of the state to a set of people, called the leaders and their public servants. I will employ the word: “agents”. The agents provide the members of the state – the citizenry or the principal – with the chief goods and services of this type of community, when they are successful that is.

Conclusion

The principal-agent model is especially valuable when understanding interaction that takes some time to evolve from ex ante to ex post, involving moves and countermoves on the part of both parties. Politicians and bureaucrats versus the population (demos) is an example of such interaction that has a longer time span, as the principal will evaluate whether the agents perform well or not at distinct points in time

When governance is modelled as a principal-agent game, then it is not merely a matter of the interaction between two or more persons. The agent(s) is hired to accomplish an output or outcome, to be paid for his/her effort to do so. Here we have the two key foci in a principal-agent evaluation of governance: (1) the achievements or V – good or bad performance; (2) the remuneration or R – high or low.

In the literature, these two aspects – performance and remuneration – are not always kept separate. Thus, one speaks of bad performances when there is only high remuneration like in “corruption” or “rent-seeking”. Moreover, bad performance is sometimes equated merely with a failure to live up to promises made. The principal-agent framework is applicable to governance and public administration even when there is no form of embezzlement by the agents, but merely reneging on lofty promises.

A state that runs according to rule of law would satisfy a few conditions that constrain the exercise of political power (Vile, 1967; Tierney, 1982). Rule of law entails that power is exercised according to the following precepts concerning due legal process and judicial accountability:

1. Legality (nullum crimen sine lege);
2. Constitutionality (lex superior);
3. Rights and duties: negative human rights (habeas corpus);
4. Judicial independence: complaint, appeal, compensation.

From the rule of law perspective, two unresolved questions are central in political agency, whatever the political regime may be:

(1) What is the proper remuneration of the agents, both salary and perks - R?

(2) Do agents really deliver, i.e. how can agent performance be evaluated systematically in terms of outcome data - V?

The remuneration of political agents, whether in legal or illegal forms, has not been much researched, not even in democracies where information is in principle available. For countries where the state controls such information not much is known, for instance about China or the Gulf monarchies. And political agents may destroy much value V in society - see Meredith on Africa (1997).

3

Entry and Exit in Politics

Introduction

Membership in a political club is vital to people, as the status of citizen or permanent resident brings many advantages. When countries lack a political club, supplying public or semi-public goods and services, it is in a state of anarchy: where the life of man is solitary, poor, nasty, brutish and short. Political clubs always involves a principal-agent problematic: population against leaders. Two central aspects of this interaction between political elites and ordinary people are the remuneration R of the leaders for their service to the club as well as the value V of the output of the leaders to society. Politics is about the entry to and exit from leadership positions as well as the relation between R and V .

One interpretation of the concept of homo politicus (zoon politicon) with Aristotle is that human beings evolve political organisation in the course of the evolution of civilisation. Political organisation comes in different forms of types of clubs of members and leaders: city-states, empires, oriental

despotism, and feudal structure of authority, republics, monarchies, democracies and the authoritarian or totalitarian state. The common core of all forms of political systems is the relationships between leaders on the hand and followers – the members on the other hand (Weber, 1978). From a legal point of view, political clubs may constitute states, but political sociology would speak about political communities, or nations. A neutral term is “government”.

Given that government or the state can be modelled as a political club, government or the state is a collective endeavour by its club members. Political clubs can be small like islands states in the Pacific or Caribbean, and they can include a million or more of people, like India and China. Political clubs are defined by their membership rules that organise persons to participate in the pursuit of collective goals. Persons do not need government for their own individual objectives that they can pursue in markets. Collective goals are lumpy goods and services that require human collaboration to secure on a large scale: infrastructure, education and health care, defence and crime. To allocate these bulky things, the political club amasses resources. Thus, the following question of governance arises: Who is going to decide over the employment of these collective resources? Political club have members as well as leaders.

The entry and exist problematic has been meticulously analysed only in relation to ne social system, namely the market. In the theory of monopoly and anti-trust regulation, great emphasis is placed upon the conditions of entry and exit, as openness of the market to all potential contenders is considered essential to market efficiency, a version of this theme is the “creative destruction” theory of Schumpeter. For losers in market games, there seems to be little comfort except bankruptcy protection? How about the losers in political competition? If the only alternative in exit is personal defeat as bankruptcy, then maybe they will do anything to stay on, once they gained the entry into the political game?

Clubs and the principal-agent problematic

According to Rasmusen (2006), the principal-agent model includes a principal searching to maximise the value V of some output(s) by means of contracting with a set of agents, remunerating them, R for their efforts in producing the output. The payments of the agents derive from the value of the output of the agents, meaning that the principal-agent contract must involve considerations covering the *ex ante* to the *ex post* stages.

Political clubs are powerful in proportion to the resources they can muster and control. When they are capable of taking action, the entry to leadership of the club becomes attractive. Clubs are stable when the actions and decisions of its leadership are accepted and obeyed by the members. When the likelihood of obeying is considerably reduced, the club risks disintegration or disappearance.

Leadership in political clubs are sought after, because of two things basically:

R = remuneration from work done for the club;

V = influence directly over the value of the output that the club produces as well as indirectly over the entire economy (GDP).

Although this distinction has often been confused, a major institutional development of political clubs is the separation of R from V , making appropriation of public assets impossible, or at least more difficult.

Both R and V are highly important to political elites, as R may give them a decent standard of living, whereas control over parts of V presents them with opportunities for rewarding the people who work for them or support them, i.e. the followers of the leaders.

The principal-agent framework has enjoyed far reaching success in modelling interaction between persons where one works for the other. This interaction is to be found in many settings, such as agriculture, health care, insurance and client-lawyer (Ross, 1973; Rees, 1985; Laffont & Martimort, 2002). As

a matter of fact, the principal-agent problematic is inherent in any employment relationship where one person works for another, who pays this person by means of the value of the output. Whenever people contract with others about getting something done, there arise the typical principal-agent questions:

1. What is the quid pro quo between the principal and the agent?
2. How can the principal check the agent with regard to their agreement – the monitoring problem?
3. Who benefits the most from the interaction between principal and agent – who takes the surplus?

These questions concerning principal-agent interacting arise whenever there is a long-term contract between two groups of people, involving the delivery of an output against remuneration as well as a time span between the making of the contract and the ending of the relationship with the delivery of the output. One finds this type of interaction in the client-lawyer relationship in the legal context, in the owner-tenant interaction in sharecropping as well as in the asset holder-broker relation in financial markets.

In politics, transaction costs are minimised by handing over the responsibility for the tasks of the political club to a set of people, called the leaders, or “agents”. The agents provide the members of the political club – the principal – with the chief goods and services of this type of community, when they are successful that is.

The agents and the principal are the two key components of political interaction that run through all political systems, whatever their nature may be. The problem of institutionalising the polity originates in this opposition between agents and the principal while taking transaction costs into account (Barro, 1973; Ferejohn, 1986; Weingast, 1989; Rao, 2002; Besley, 2006; Helland & Sørensen, 2009).

When governance is modelled as a principal-agent game, then it is not merely a matter of the interaction between two or more persons. The agent(s) is hired to accomplish an

output or outcome, to be paid for his/her effort to do so. Here we have the two key foci in a principal-agent evaluation of governance: (1) the achievements or V – good or bad performance in producing outputs; (2) the remuneration R of the agents or leaders – high or low.

The output of goods and services is the value that governments bring to the affluence of the country, its GDP. It may consist of allocative programs or re-distributive ones. It can be positive, as when government succeeds in harbouring a period of economic growth and a mixture of public services. But it can also be negative, for instance when leaders use part of the country resources to remunerate themselves. Political leaders want access to both R and V . Thus, entry to the leadership of the political club is a necessity.

Entry

Entry can be open or closed. Openness of political entry as against closed leadership access is a most determining aspect of a political club in the sense that it is linked with many characteristics of a political club. What counts is *de facto* open entry, but *de jure* openness is not merely legal formalism. Constitutional regulation of entry is often a first step towards real openness, but it may also be a façade.

Closed Entry

Many kinds of restrictions upon open entry into the leadership of a political club are conceivable. In traditional societies, the ascriptive criteria of ethnicity and religion constitute barriers, while in modern societies political party adherence tends to be the major stumbling block, as in authoritarian and totalitarian clubs. In democratic clubs, there is firstly formal openness of entry and secondly real openness, to some extent. Finally, we have the clubs of warriors who try to take over leadership if a club. They are characterised by tight relations between leaders, i.e. maximum closeness in often charismatic bounds to one of the leaders.

Thus, openness of political entry is a most important feature of a political club. By means of open entry, old leaders may be challenged by new ones, having a different idea about the objectives of the political club. It is also the means with which new elite may secure its financial basis, providing them with R. One may distinguish between different types of political clubs on the basis of the openness of political entry:

- Closed political clubs: clans, tribes, kingdoms, sultanates, juntas, one-party states, hierocracies;
- Open political clubs: constitutional monarchies, republics, democracies.

Biological heritage or lineage constitutes a powerful mechanism for recruitment in closed political clubs. Closing the political club to the family or the wider clan is a tool to control R and V. Interestingly, one form of entry in Islam was adherence to the family of the prophet, i.e. the clan Quraysh, but it was overrun by oriental despotism, meaning a family dynasty for the ruler who happens to be in power.

The closure of political entry always involves violence, or the threat thereof. Political violence is the use of violence against persons for political reasons, i.e. relating to the goals and means of the political club. In a closed political club, political violence may be employed to back up the sitting leaders. Or it may be resorted to by revolutionary new elite, attempting to crush the established one.

In order to uphold dominance in a closed political club, leaders are willing to engage in all forms of political violence, from stabbing contenders, even children in their entourage – “palace politics” – to large scale military manoeuvres, like for instance genocide towards minorities perceived as threats.

Political clubs operating with closed entry are fundamentally instable. The only exception to this generalisation is the set of Gulf monarchies, where tradition, religion, wealth and naked power combine to buttress the ruling elite, although infighting has not been absent, including assassinations.

Closed political clubs in the form of military juntas or one-party regimes display few restrictions upon the use of political violence to control entry, from faked legal proceedings to underground hidden operation, outside the law. In addition to external opposition, closed political clubs face the possibility of secret internal factions, plotting against the ruling elite. Or such perceived, imagined or constructed threats may be employed for ruthless repression inside the ranks of club leadership.

Closed entry provokes resistance from excluded groups, which sometimes may be handled through co-optation on a limit scale. When political violence occurs, it may remove one elite only to be replaced by other elite. Or rebellion may replace closed entry with openness of entry.

Revolutions, especially the great ones, constitute reactions to closed entry. They may result in more of openness of entry, like the American or French revolutions for a time, or they may end in closed entry again, like the Russian and Chinese revolutions. The closed club of Lenin is especially calamitous, as it preserved the tsarist characteristics of the country, to some extent even up to today. The second American revolution of Lincoln consolidated the open club, inviting a rapid economic development in contrast to the decline of Russia during totalitarianism.

Open Entry

The central question about political clubs with open entry concerns how much openness there is. It has often been the case that open entry was restricted to some groups of club members but denied other groups, who sometimes were not even regarded as “members” although living within the borders of the club. Various exclusion criteria have been employed:

- Race
- Income and wealth
- Age
- Religion
- Social strata.

Open entry entices fierce competition, focussing upon the electoral mechanism. Elections in closed political clubs have entirely different functions than channelling competition into peaceful channels. It no doubt requires a structure of institutions.

Yet, open entry is never completely free in the sense that anybody could enter politics just as he or she wishes. The typical manner in which free entry is played out is the competition among the groups of leaders we call “political party”.

The political party tends to be the key actor in open entry. Its rationale is to gather individual forces into a collective effort to win the elections, opening the road to the leadership positions. Leadership in a political club offers not only remuneration R but also some control over the value V in society.

Political parties are nothing but coalitions among individuals who wish to compete in open entry. Together they stand a better chance of gaining than going along alone. To act as a collective unit, they need some coherence of commitments – the ideology. The party program or platform makes it possible for the coalition of party members to campaign with a reasonably clear message that has some coherence in the views of supporters. On the other hand, the necessity of a political party for competing successfully constitutes a real hindrance for loners who would wish to enter but lacks a party affiliation.

Not even a charismatic person can in open entry alone. Some form of political party is necessary. To distinguish one group of political from another, these coalitions we can “parties” employ a variety of tools: ideology, slogans, labels, logos, etc. The coherence of a party is never 100 per cent, as infighting and factions often occur. Politicians interpret the vocabulary of the party differently.

The prevalence of political parties in open entry implies that party organisations with huge staff and resources enter the basic equation of R and V . One could argue that the remuneration of the party staff should be the burden of the political elite or its followers, but one often encounters public

mechanisms for the reimbursement of the costs of political parties, i.e. their R is taken from V . The political party may be inclined to use whatever command it has over V to benefit especially themselves – see the literature on the political business cycle.

Partitocrazia involves a fierce struggle among various elite groups for remuneration and access to leadership position. It may degenerate into infighting to such an extent that the party in question cannot operate adequately. And it may make a political club ungovernable with huge costs for society.

In open entry political clubs, political parties or coalitions among leadership groups compete on the basis of promises and blame. The first strategy is basically what the parties claim they can do for the size of V :

- Higher economic growth;
- Investments in infrastructure;
- Improvements in public services;
- Better control of violence and crime, including terrorism now;
- More of income and wealth redistribution.

Are these promises credible? Could not the leadership of a club result in losses in V ? Here is where the logic of political competition comes in. The second strategy is the blame, with a strong call for change. In open entry clubs, political competition should in principle be conducive to the maximisation of V , given a modest R . However, the parties in competition may promise too much and blame unreasonable.

The principle of spoils (*spolia*) is essential to party government in open entry clubs. By winning an election, the party(ies) may employ state resources (jobs, contracts, assignments, etc.) to remunerate the party leaders for their effort to secure victory. In some countries, the costs of the political parties have been more or less entirely transferred to the state coffers by means of public support for them. Spoils, however, require electoral success.

Exit

The exit problematic in political club is of great importance, as it reveals essential aspects of the club. Exit can be chaotic or violent on the one hand, as in closed political clubs. Or exist can follow ordinary patterns, like retirement at old age, electoral loss, transition to other roles in the political club, etc. Also the open access political clubs can experience violent forms of exist, as when leaders are assassinated. However, the unpredictable forms of exit are typical of the closed political clubs.

The exit question is how to induce leaders to step down or end their power position. In closed political clubs, all forms of sorties are possible:

- Natural death: Some leaders are so firm in control of events in closed political clubs that only death from age or illness can eliminate them: Stalin, North Korean leaders, Mao, etc;
- Unnatural death: leaders are from time to time murdered, either by a secret plot from their inner circles or through a popular uprising: Ceausescu or Mussolini for instance as examples of the latter:
- Suicide: The most spectacular case is of course that of Adolf Hitler;
- Escape: A convenient form of exit is the chosen exile, like Ben Ali managed when Tunisia turned against his dictatorship;
- Expatriation: When a long-lasting figure is thrown out of his/her position, sending him or her far away constitutes a form of exit: the Shah of Persia would be an example;
- Confinement: the forceful removal of a leader can place him/her in an involuntary confinement within the country. It could be an imposed retirement (Chrustschow) or house arrest, as with Aung San Suu Kyi in Myanmar;
- Imprisonment: in order to exile leaders, they may simply be put in prison (Mubarak) or sent to labour camps, as in Soviet Union and Nazi-Germany.

- Foreign invasion: one cannot neglect the relations to other countries when leaders engage in major atrocities; the falls of Pol Pot or Mobutu are examples.

The unpredictability of exit appears starkly when leaders attempt to stay on longer than agreed upon from the start of their rule. In the grey zone between a closed club or an open club, leaders often fall for the temptation to prolong their period in power, stopping the expected exit from the scene. Many leaders in Africa have secured long time power holdings simply by changing the constitution to allow for unlimited re-election, or having no elections at all ([Meredith, 1997](#)).

Open entry can be undone by several means of the coup d'état, which leads to a shorter or longer closed political club when successful. It may of course fail, sometimes resulting in anarchy.

Asymmetric information

The two essential parameters in a political club is the remuneration R of the leaders or the political elite as well as the value of the output that the leadership produces, V . The information about R and V is known to the “agents”, but not to the principal – asymmetric information. The members of a political club seldom know the full range of remuneration R to the political leaders: salaries, pensions, perks, etc. And they get to know the entire situation of the public sector and the whole economy much later than the political elite. In closed political clubs, they may never know much about R and V . In open political clubs, competition among leaders may reduce the amount of asymmetric information about R and especially V .

Closed political clubs are characterized by massive amounts of asymmetric information. The members of the club know little about the key parameters, R and V . They are left with assurances, i.e. cheap talk and promise never to be kept. Let me give two drastic examples:

Nazi-Germany: Hitler made himself the “Fuehrer” of the German people, with the promises of a thousand years Reich,

but assembled a great personal fortune by various tricks, only to leave the country with almost no value left at his suicide;

Sierra Leon became independent from the British with flourishing public and private sectors. The political runs down all value in their chase for “blood diamonds”, in order to augment their personal remuneration.

This conflict between R and V often occurs in closed political clubs. In Africa after independence, one leader after the other fell for the temptation to increase remuneration R at the cost of the value of output, through embezzlement, patronage and conspicuous consumption in the entourage of the political elite. As R went up, V stagnated or declined.

The tension between R and V are certainly not absent in open political clubs. The full range of R for political leaders is hardly known even in competitive political clubs, where sometimes leadership creates disastrous outcomes with value losses. One example is the Operation Cobra II (Iraqi Freedom), masterminded with little transparency by president Bush, vice-president Cheney and defence secretary Rumsfeld, resulting in enormous costs for the US, both personnel and resources, while this leader trio somehow ended up as millionaires or billionaires, partly due to relationships with the defence industry.

Yet, open clubs do try to reduce the amount of asymmetric information between leaders and members, partly through competing elites (counter-veiling agents) and partly through the institutions of constitutionalism (Furubotn & Richter, 1991, 2005; McIlwain, 1958; Neumann, 1986; Vile, 1967; Weingast, 1989).

Conclusion

The state forms a political club, comprising as members the people of the country in question and the political elite as its leaders. Due to transactions, leadership is a necessity for delivering a public sector as well as promoting a thriving private sector (Rao, 2002). In this human organisation, two parameters are central: the remuneration of the political elite R , and the value V of the output, directly and indirectly that

the leadership accomplishes. The parameter R targets the motivation of leaders, whereas the parameter V examines their performance.

Approaching the state or government as a political club with leadership and membership entails an analysis of entry and exit in both open and closed political systems. The members would prefer low remuneration and high performance, but it does not always occur. On the contrary, in closed or semi-open political clubs, we find excessive remuneration and negative performance. In marginal cases of political exploitation, R may go as high as V .

How turbulent entry into and exit from political clubs can be appears from the lives of Boukassa (Central African Republic) or Sankara (Burkina Faso) or Nkrumah and Ali and Benazir Butto (Pakistan). Predictable and peaceful avenues of exit from the political club stabilises also the entry into it.

Political instability is not absent from “well-ordered societies” (Rawls), but it takes another form than coup d’état, embezzlement and states of emergency.

4

Enemies of Good Governance: Islamic Fundamentalism

Introduction

To understand the 20th century emergence of radical Islamic fundamentalism and its doctrines about Jahiliyyah, Caliphate and Jihad, I will look at the three key personalities behind the ideology or religion of radical Islam movements: Mawdudi, Qutb and Faraj. The ISIS leader Abu Bakr al-Baghdadi knows their lethal message in and out, as is true of Al Qaeda leader al-Zawahiri and its now dead warriors in Iraq al-Zarqawi and al-Masri. Modern Islamic fundamentalism was to a significant extent conceived in the Indian Deobandi movement, from which comes Mawdudi, the Pakistani who inspired the Egyptians: Qutb and Faraj. Their ideas about islamisation, caliphate and jihad constitute the very theoretical legitimisation of terrorist events, such as the Paris events or other bombings almost everywhere in the Middle East, Pakistan and Afghanistan.

The civil wars, insurgencies and terrorist attacks linked with developments in Muslim countries have now taken on such a scale globally as well as brutality and ferocity that one

must ask what the beliefs are that drive radical Sunni fundamentalism. It is a coherent set of three ideas linked with three scholars: Islamisation (Mawdudi), Caliphate (Qutb) and Jihad (Faraj). When put into practice by the terrorist groupings, it brings untold misery to Muslim men, women and children.

When searching for the roots of radical Islam, one cannot bypass Muslim thought in greater India under British rule. Several non-Arab scholars had a profound influence on Islam in Arabia, such as for instance Mawdudi, theorising not only islamisation but also the relevance of the now blossoming Islamic finance. More research is needed to uncover the influence of Muslim thought in India before partition on the Koranic civilisation, especially the Deobandi School.

Islam: The chronic civilisation

Radical Islamic fundamentalism has as its main objective to guard the borders of the Koranic civilisation to other religions. Thus, they fear proselytise or mission or conversion campaigns by other religions, the occurrence of apostasy among their own adherents as well as the emergence of schisms or dogmatic splits within their own ranks. All the world religions have reacted with violence against these three threats. Perhaps the posture of Islam is the least open or tolerant in these matters. In the Muslim civilisation marriage, for instance, entails that a woman adhering to another religion than Islam converts to the same religion as her husband. It is not difficult to find within the Koran very strong admonitions against proselytism, apostasy and schisms.

Global radical Islamic terrorism has a disastrous impact not only upon the groups targeted but also upon the Muslim countries themselves, setting in motion millions fleeing. In his comparative religion studies, Max Weber put the concept of jihad at the centre of Islam – “a religion of warriors” - in his short historical analysis of the fate of this religion with the Prophet and after him. Several Muslim scholars would sharply deny the correctness of Weber’s theory of Islam as a religion

of warriors, pointing to the fundamental fact that Islam has just five fundamental duties, which do not include jihad (Huff & Schluchter, 1999).

The world religions have often in history been conducive to the occurrence of large scale political conflict. And all of them have developed some form or other of fundamentalism that are violent in the twentieth century (Juergensmeyer, 2001).

Yet, two things should be underlined when speaking about the concept of jihad in the Muslim civilisation: first, Jihad as a core element in Islam is a concept that was launched in the twentieth century; second, legitimate Jihad within Islamic fundamentalism presents mainly two different aspects: (i) violence against foreign intrusion into the Muslim countries, the heartland of Islam; and (ii) violence towards internal sources of secularisation within the Muslim societies.

The new concept of jihad together with the new caliphate, based upon the notion of “pagan ignorance” (jahiliyyah) constitute the core of the radical transformation of Islam in the 20th century by three men. But it has not brought happiness and prosperity to Moslems in general.

Mawdudi: “Islamisation”

Mawdudi, Abul ‘Ala’ (1903–1979) has been considered as the architect of contemporary Islamic revival. He is considered by many to be the most outstanding Islamic thinker of the 20th century. Mawdudi was influenced by Hasan al-Banna and the Egyptian Muslim Brotherhood. He founded the Jama’at-i-Islami movement in 1941 in the Indian sub-continent, an extremely well-organised association committed to the establishment of an Islamic world order that has played an important role in the politics of Pakistan, India, Bangladesh and other South-East Asian countries.

The Muslim community in India responded to the British destruction of the Mogul Empire in 1859 with a seminary in Deobandi in 1866 by former students of the Delhi madrassa, destroyed after the “Revolt of 1857”. The new seminary in Deobandi aimed at (1) indoctrinating Muslim youth with

Islamic values, and (2) cultivating intense hatred towards the British and all foreign (i.e. non-Islamic) influences. The seminary exposed their students only to the spiritual and philosophical traditions of Islam with the goal of islamisation of state and society in view.

However, the Aligarh movement would serve Moslems better than the Deobandi School. Aligarh became famous as a centre for various movements that shaped India with the start of the Mohammedan Anglo Oriental College by Sir Syed Ahmed Khan in 1875. This College became Aligarh Muslim University – a hub for bridging the gulf between Islamic and Western cultures. For Mawdudi the Jama'at was an elite vanguard of the Islamic revival and revolution, working for a gradual appropriation of power in the state. Mawdudi produced 73 books, written more than 120 books and pamphlets, and delivered some 1000 speeches and press statements. He worked 30 years on a translation (tafsir) in Urdu of the Qur'an, Tafhim ul-Qur'an (The Meaning of the Qur'an). It became widely read throughout the South Asia and has been translated into several languages. Mawdudi's six-volume Tafhimul Qur'an, published in 1972, impacted upon Muslims all over the world. Other books include for instance: Fundamentals of Islam, Let Us be Muslims and Four Key Concepts of Islam, read almost like pamphlets all over the Muslim world, where the non-Arab part is larger than the Arab one in terms of population.

Mawdudi was born in Aurangabad in south India studied traditional Islam as a young man, and then acquired a Western modern education on his own. He was involved in the Khilafat movement 1921-1924 that hoped to preserve the Ottoman Caliphate (abolished 1924). Later he tried to revive Islam as the sole answer to the Muslim communal problem in India. Mawdudi began his public career as a journalist, where he stayed for many years. He left journalism in 1927 for literary and historical pursuits. In 1933 he assumed editorship of Tarjuman al-Quran, which became a vehicle for the propagation of his new ideas. In the early 1920s, he studied with Abdusallam Niyazi in Delhi and later with the Deobandi ulema at Fatihpuri mosque's seminary, also in Delhi. He

moved to Hyderabad, a Muslim enclave in India, in 1928 to lead the Muslim community there.

Mawdudi opposed to the secularist nationalist Muslim League led by Jinnah, but on the formation of independent Pakistan he emigrated there, hoping to influence a change from being merely a state for Muslims to an Islamic state. His political involvement and criticism of government policies, as well as his anti-Ahmadiya agitation, led to his imprisonment in 1953, but the death sentence passed was never carried out.

Mawdudi saw Islam as threatened by a wave of Westernisation. He criticised the West and the Westernised Muslim elites as degenerate, and he called for a renewal and purification of Islam. He conceived of true Islam as a total comprehensive system and ideology, incorporating society, politics and the state. Mawdudi differentiated sharply between jahiliyyah, which included most contemporary Muslim societies and true Islam. His goal was an ideological Islamic state based on God's sovereignty (hakimiyya) and on Sharia. As an explanation for the decline of Muslim power, Mawdudi concluded that diversity was the culprit: the centuries old practice of interfaith mixing had weakened and watered down Muslim thought and practice in that region of India. In his reinterpretation of Islam, he suggested the following:

(Q1) "Islam is a revolutionary faith that comes to destroy any government made by man. Islam doesn't look for a nation to be in better condition than another nation. Islam doesn't care about the land or who own the land. The goal of Islam is to rule the entire world and submit all of mankind to the faith of Islam. Any nation or power in this world that tries to get in the way of that goal, Islam will fight and destroy."

(Q2) "It [Jamaat-e-Islami] is not a missionary organisation or a body of preachers or evangelists, but an organisation of God's troopers."

(Q3) "In our domain we neither allow any Muslim to change his religion nor allow any other religion to propagate its faith."

(Q4) "Leaves no room of human legislation in an Islamic state, because herein all legislative functions vest in God and

the only function left for Muslims lies in their observance of the God-made law.”

Thus, Mawdudi sought to purge Islam of what he looked upon as alien elements. Moreover, the social and political ties with Hindus must be severed. Non-Muslims, for Mawdudi, constituted a threat to Muslims and to Islam and must be contained by restricting their rights. Mawdudi and others founded the Jama'at al-Islami Party in Lahore, Pakistan in 1941. Mawdudi based his call to arms against those who reject Islam on Sura 2: 190–193 from the Koran and on the Hadith, “I have been ordered to fight people (al-nas) until they say ‘There is no God but God’. If they say it, they have protected their blood, their wealth from me. Their recompense is with God”.

Mawdudi envisioned a particular set of institutions for his ideal Islamic state. An Islamic state will have a President, an elected shura council (consisting only of Muslims who have been elected solely by Muslim suffrage), an independent judiciary and a cabinet formed by a Prime Minister. Dhimmis (non-Muslims living under Muslim protection) would have the right to vote in lower-level (i.e. municipal) elections as well as the right to serve on municipal councils and in other local organisations. Mawdudi's objective was jihad until the whole natural universe has been brought under the rule of Islam, as he states, quoted here from *Jihad in Classical and Modern Islam* (1996):

(Q5) “Islam wants the whole earth and does not content itself with only a part thereof. It wants and requires the entire inhabited world. It does not want this in order that one nation dominates the earth and monopolizes its sources of wealth, after having taken them away from one or more other nations. Islam requires the earth in order that the human race altogether can enjoy the concept and practical program of human happiness, by means of which God has honoured Islam and put it above the other religions and laws. In order to realize this lofty desire, Islam employs all forces and means that can be employed for bringing about a universal all-embracing revolution sparing no efforts for the achievement of his supreme objective. This far-reaching struggle that

continuously exhausts all forces and this employment of all possible means are called Jihad.” (Peters, 1996: 128).

The idea of islamisation wreaks havoc in Muslim countries. Since he included the Shias in the set of non-believers, he bears responsibility for the tragic civil war in the Koranic civilisation:

(Q6) Mawdudi wrote regarding the Imami Ja'fari Shia, "despite their moderate views (relative to other Shia sects), they are swimming in disbelief like white blood cells in blood or like fish in water."

Mawdudi's thought shows without doubt that non-Arabs have played a major role in Islamic religion and philosophy. His ideas were taken up by two important Arab scholars, thus continuing the very important and dire Deobandi link in present Islam.

Qutb: "Re-inventing the caliphate"

Radical Islamic societies (jama'at) have emerged out of the Muslim Brotherhood founded 1928, but drawing mainly on the thought of its main ideologue, Sayyid Qutb (1906-1966). Qutb's reinterpretation of several key Islamic concepts inspired some to split off from the Brotherhood and use his writings to legitimise violence against the regime. He argued that the existing society and government were not Muslim but rather dominated by "pagan ignorance" (jahiliyyah). The duty of righteous Muslims was to bring about God's sovereignty (hakimmiyya) over society, denounce the unbelief (takfir) of the current national leaders, and carry out a holy struggle (jihad) against them.

The Saudi Arabian city of Medina is known in the Muslim world as Dar al-hijra, the first place of refuge. In Islamic teachings, Medina is traditionally where the persecuted of Islam withdraw to begin again and return in triumph to the unbelieving lands through jihad. The Muslim calendar begins with the hijra, Mohammed's flight from Mecca to Medina in 622 AD to avoid death at the hands of "infidels" who denounced his teachings. The word hijra literally represents the emigration of a Muslim from hostile surroundings to a

supportive population from which a mujahidin will then plan and regroup to launch jihad. It is Mohammed's hijra to Medina that is considered the pivotal event in Islamic history.

For instance, al-Qaeda placed large emphasis on the importance of the hijra component to a jihad. Al-Qaeda transplanting itself from the "hostile" lands of its origin to the supportive confines of Taliban Afghanistan was clearly a form of hijra. Allowing al-Qaeda terrorists to return to Medina, Mohammed's chosen place of refuge provides a close parallel between their lives and that of Mohammed. Such a vital symbolic connection has enabled a new generation of fundamentalists to validate their claim to leadership of the Umma.

Qutb was an Egyptian and a member of the Muslim Brotherhood, whose career spanned the middle decades of the 20th century. His thought, deeply influenced by Mawdudi's revolutionary radicalism, falls into two distinct periods: that which occurred before President Nasser detained him in a concentration camp for political enemies.

The first excerpt below comes from an early work, *Social Justice in Islam*, which he wrote in 1949. Qutb builds on the Islamic idea of tawheed (the singularity of God and, therefore, of the universe):

(Q1) "So all creation issuing as it does from one absolute, universal, and active Will, forms an all-embracing unity in which each individual part is in harmonious order with the remainder ... Thus, then, all creation is a unity comprising different parts; it has a common origin, a common providence and purpose, because it was produced by a single, absolute, and comprehensive Will ... So the universe cannot be hostile to life, or to man; nor can "Nature" in our modern phrase be held to be antagonistic to man, opposed to him, or striving against him. Rather she is a friend whose purposes are one with those of life and of mankind. And the task of living beings is not to contend with Nature, for they have grown up in her bosom, and she and they together form a part of the single universe which proceeds from the single will." (*Social Justice in Islam*)

In 1964, Qutb, having suffered torture as well as 10 years of incarceration in Nasser's concentration camps, published perhaps his best known work, *Milestones* (Ma'alim fi'l Tariq), a work that has inspired some of the more extreme expressions of Islamic revivalism, such as Islamic Jihad and Takfir wa-l Hijra. Qutb's concept of jahiliyyah ("pagan ignorance") was deeply influenced by his unpleasant experience when living in the United States from 1948 until 1951. He had been sent to the United States to study American educational institutions. Qutb was deeply offended by the racism he observed (and experienced first-hand) and was scandalised by the openness between the sexes in American society. In *Milestones* he wrote (Beirut: The Holy Koran Publishing House, 1980: 7-15, 286):

"If we look at the sources and foundations of modern ways of living, it becomes clear that the whole world is steeped in Jahiliyyah (pagan ignorance of divine guidance), and all the marvellous material comforts and high-level inventions do not diminish this Ignorance. This Jahiliyyah is based on rebellion against God's sovereignty on earth: It transfers to man one of the greatest attributes of God, namely sovereignty, and makes some men lords over others. It is now not in that simple and primitive form of the ancient Jahiliyyah, but takes the form of claiming that the right to create values, to legislate rules of collective behaviour, and to choose any way of life rests with men, without regard to what God has prescribed. The result of this rebellion against the authority of God is the oppression of His creatures."

Qutb rejected all forms of study of religions, or a faculty of religion at Western universities. There is only ONE true religion in the world! His most important achievements to Moslems were his reinterpretation of traditional concepts such as hakimiyya, jahiliyyah and takfir as well as the caliphate, turning them into contemporary revolutionary concepts in his Islamic ideological system.

(Q2) “The Islamic civilisation can take various forms in its material and organisational structure, but the principles and values on which it is based are eternal and unchangeable. These are: the worship of God alone, the foundation of human relationships on the belief in the Unity of God, the supremacy of the humanity of man over material things, the development of human values and the control of animalistic desires, respect for the family, the assumption of the vice regency of God on earth according to His guidance and instruction, and in all affairs of this vice-regency, the rule of God’s law (Sharia) and the way of life prescribed by Him.”

Qutb is one of the most widely read Islamic writers whose works have been translated from Arabic into many other languages. Qutb was born in the village of Musha near Asyut in Upper Egypt, into a family of rural nobles. His father was a delegate of Mustafa Kamil’s National Party. Qutb went to the state school in the village and had memorised the Koran on his own by the time he was 10 years old. In 1921 Qutb moved to Cairo. In 1933 he graduated from Dar al-Ulum teacher training college with a B.A. in Arts Education. Qutb was then employed as a teacher by the Ministry of Public Instruction, starting his career in the provinces, and was later transferred to Helwan, a suburb of Cairo. From 1940 to 1948 he served as an inspector for the Ministry.

During that time Qutb had a liberal worldview influenced by Abbas Mahmud al-Aqqad and Taha Hussein, and wrote literary criticism as well as poetry, short stories and articles for newspapers and journals. Following a visit to the United States from 1948 to 1951 he turned to fundamentalist Islam, joined the Muslim Brotherhood, was soon elected to their leadership council and became their chief spokesman in the 1950s and 1960s. During the short honeymoon between the Free Officers and the Muslim Brotherhood, Qutb served for a short time as the only civilian on the Revolutionary Council. With the crackdown on the Muslim

Brotherhood following the 1954 assassination attempt on Nasser, Qutb was arrested and spent 10 years in prison. He was freed in 1964, but re-arrested in 1965, tortured and executed in 1966. While in prison he wrote his greatest work,

an eight-volume tafsir of the Koran, *Fi Zilal al-Quran*. Towards the end of his imprisonment he wrote *Milestones* (*Ma'alim fil-Tariq*) that has become the key manifesto of radical Islamic groups. Qutb endorses Mawdudi's idea of islamisation and applies it in the union of secular and religious power, the old caliphate notion:

(Q3) "Humanity will see no tranquillity or accord, no peace, progress or material and spiritual advances without total recourse to Allāh. This, from the Qur'ānic point of view, can mean only one thing: the organisation of all aspects of human life in the Qur'ān. The alternative would be corruption, regression and misery."

"Qutubism" stands for the core of radical Sunni fundamentalism. Qutb is most widely read in the Koranic civilisation – especially his *Milestones*, but also feared for his violent message. If the idea of islamisation is combined with the notion of the caliphate, the third logical element in the new Islamic terrorism is the re-interpretation of the idea of jihad.

Faraj: "Offensive Jihad"

Faraj, an electrical engineer who worked at Cairo University, was born into a devout Muslim family, his father a member of the Muslim Brotherhood. Faraj, however, became disillusioned by the passivity and gradualism of the Muslim Brotherhood and he joined activist radical groups, finally founding al-Jihad in 1979.

Faraj recruited for his organisation mainly in ahli (independent) mosques in the poor quarters of Cairo, where he delivered Friday sermons. He succeeded in recruiting members of the presidential guard, military intelligence and civil bureaucracy, as well as university students. Faraj's short book *Al-Farida al-Gha'iba* (*The Neglected Duty*) had an immense impact on all radical Islamic movements. Following Sadat's assassination, Faraj was executed in 1982.

Whereas Mawdudi was a learned theologian writing massively on The Koran and its interpretations, delivering a long list of books and pamphlets, Faraj only published one

text. But its message about jihad added the explosive fuse to the ideas of Mawdudi and Qutb concerning islamisation and unification of religious and secular leadership. Faraj was read among the radicals, in seminaries or in prison, who later went on to set up terrorist groups, in and outside of Egypt. It should be emphasized that the many well-known leaders of these groups had known each other, reading and discussing Qutb and Faraj.

Let me take a few quotations (Q) from Faraj:

(Q1) "Hence the implementation of Islamic law is incumbent upon the Muslims. Therefore establishing the Islamic State is obligatory upon them because the means by which the obligation is fulfilled becomes obligatory itself. By the same token, if the state can only be established by fighting, then it is compulsory on us to fight. Besides the Muslims were agreed upon the obligation of establishing the Khilaafah, the declaration of which depends on the existence of the core, which is the Islamic State" (page 20).

(Q2) "So fighting in Islam is to raise Allah's word highest, either offensively or defensively. Also, Islam was spread by the sword, but only against the leaders of kufr, who veiled it from reaching the people, and after that no one was forced to embrace it. It is obligatory upon the Muslims to raise their swords against the rulers who are hiding the truth and manifesting falsehood, otherwise the truth will never reach the hearts of the people" (page 51-52).

(Q3) "As for the Muslim lands, the enemy resides in their countries. In fact the enemy is controlling everything. The enemies are these rulers who have snatched the leadership of the Muslims. Thence Jihad against them is fardh 'ayn. Besides, the Islamic Jihad is now in need of the effort of every Muslim. And it should be borne in mind that when Jihad is fardh 'ayn (an individual obligation), it is not required to seek permission from one's parents for the to march forth as scholars said: 'it becomes like praying and fasting'" (page 61).

(Q4) "And what if the scholars of the Salaf saw our scholars of today - except those upon whom Allah has shown Mercy - who have inclined to these tyrants, beautified their actions to them, made fair their murders of the Muslims, the

mujahedeen (upholders of Tawheed - Oneness of Allah), weakening their honour by issuing fatwa (legal verdicts) after fatwa to make their thrones firm, and safeguard their kingdoms, by labelling everyone opposed to them as a rebel or khaariji (one of the extreme deviant sect of the khawaarij)? Such that some of them have titled the Nusayri (worshippers of 'Ali r - we seek refuge in Allah!) ruler (previous) of Syria as the Ameer ulMu'mineen (chief believer). They covered the deen for the people until they turned a blind eye to the tyrants; the exchangers of Allah's law, those who govern the slaves of Allah with that which Allah did not reveal- what if the scholars of the salaf saw this group which has sold its deen for worldly gains which will disappear, makes fair seeming for them what they do, and permits the murder of every truthful Muslim and the murders of Sayyid Qutb, Khalid allslaambouli, and his brave associates are not far from us" (p. 108).

"Holy terror" is a term for "holy assassination" and was propagated by Muhammad Abd al Salam Faraj (1954-1982) in his booklet, *The Neglected or Absent Duty*. Faraj arrived at this jihad (holy war) duty by considering and rejecting non-violent options: participation in benevolent societies; obedience to God, education, abundance of acts of devotion, and occupation with the quest of knowledge; exerting oneself in order to obtain an important position; and democratic options such as engaging in civil liberties such as freedom of speech, the founding of a political party to compete freely with other parties in elections, and the creation of a broad base of support resulting in majority rule. Faraj believed that none of these would lead to the messianic goal of establishing of an Islamic state and ultimately reintroducing the caliphate.

Thus, the main ideologue of jihad was Faraj, a former Muslim Brotherhood member, who was disillusioned by its passivity. But al-Jihad did not restrict itself to theory alone. It quickly became involved in sectarian conflicts and disturbances in Upper Egypt and Cairo. After the assassination of Sadat at a military parade, al-Jihad supporters fought a three-day revolt in Asyut, seeking to spark a revolution, before being defeated. In contrast to Takfir, al-

Jihad was not led by one charismatic leader but by a collective leadership. It built up a sophisticated organisation run by a leadership apparatus in charge of overall strategy, as well as a 10-member consultation committee headed by Sheikh Umar'Abd al-Rahman. Everyday operations were run by a three-department supervisory apparatus. Members were organised in small semi-autonomous groups and cells. There were two distinct branches, one in Cairo and the other in Upper Egypt. In recruiting, both Takfir and al-Jihad relied heavily on kinship and friendship ties, recruiting predominantly students from rural areas and from lower-middleclass backgrounds who had recently migrated to the big cities and were alienated and disoriented in their new environment. Most members were well educated, particularly in technology and the sciences.

Both groups agreed that authentic Islam had existed only in the “golden age” of the Prophet’s original state in Medina and under the “rightly guided” first four Caliphs (622–661). Muslims must rediscover its principles, free them from innovations and actively implement them in the present society. This was in line with revivalist (salafi) views, and contradicted the traditionalist view of Islam as the total of the sacred source texts of Koran and the Prophet’s example and traditions (Sunna), plus all scholarly interpretation and consensus over the ages. The ultimate goal for both groups was the establishment of a renewed universal Islamic nation (Umma) under a true caliph, fully implementing Islamic sacred law (Sharia) as God’s ideal form of Islamic government. Until the establishment of this caliphate (khilafa), the Islamic societies would form the embryo and vanguard of the true Islamic nation in its struggle against internal and external enemies. The takeover of power in individual Muslim states would be a necessary first step toward the ultimate goal.

The views of al-Jihad were roughly parallel: true Muslims must wage war against the infidel rulers of all states, including Muslim states. In contrast to the traditional religious scholars, who proclaimed the necessity of submission to any ruler claiming to be a Muslim, they insisted that acceptance of a government was only possible when the Islamic legal system

is fully implemented. Implementation of Sharia becomes the criterion of the legitimacy of regimes. Traditional scholars viewed the concept of the “age of ignorance” or paganism (jahiliyyah) as an historic condition in pre-Islamic Arabia. However, “ignorance” (jahiliyyah) is a present condition of a society which is not properly Islamic because it does not implement the full Sharia and hence is rebelling against God’s sovereignty. All the regimes currently in power in Muslim countries are thus not acceptably Islamic and it is both right and necessary to rebel against them. The two radical groups Takfir and al-Jihad differed.

Takfir claimed that both the regime and all of society were pagan and true Muslims must separate from them. Takfir included in this condemnation all four traditional schools of Islam (madhabs) and all traditional commentators. It labelled these schools puppets of rulers who used them to monopolise Koranic interpretation to their own advantage. They had closed the door of creative interpretation (ijtihad) and set themselves up as idols (tawaghit), serving as mediators between God and believers.

The radical group Al-Jihad, in contrast, selected certain commentators it favoured, including the famous Hanbali medieval scholar, Ibn Taymiyya. His writings were interpreted as showing that societies were partly Muslim even when the rulers are pagans who legislate according to their own whims. Al-Jihad accepted the four traditional legal schools of Islam (madhabs), much of scholarly consensus and some later commentators. Consequently, it would be much easier for a Muslim to join al-Jihad or find some truth in its teachings. While traditional scholars and the Muslim Brotherhood would not denounce a Muslim as an infidel – accepting his claim to be Muslim at face value and leaving the judgement of his intention to God – both groups denounced Muslims as infidels, which could imply a willingness to attack or kill them.

Since Egypt’s failure to implement Sharia made it an infidel pagan state placed under excommunication (Takfir), all true Muslims were duty-bound to wage holy struggle (jihad) against the regime, an idea alien to traditional Islam. Takfir

and al-Jihad agreed on the emphasis on a national revolution first: only when the infidel regimes of Muslim countries were overthrown and replaced by true Islamic states could the caliphate be restored, occupied Muslim territories liberated and Sharia rule established throughout the world.

Al-Jihad argued that killing Muslims and overthrowing a Muslim-led government was the correct interpretation of Islam. While al-Jihad enthusiastically endorsed this position, its leaders knew that theirs was a distinctly minority view. Faraj criticised other groups – most importantly, the Muslim Brotherhood – for their gradualist strategy and involvement in the political system. Such behaviour, he insisted, only strengthened the regime. He also rejected widely accepted arguments that jihad should be postponed (as Takfir claimed) or that this concept required only defensive or non-violent struggle (a widely held Muslim position). In response, Faraj insisted that active, immediate jihad would be the only strategy for achieving an Islamic state. Instead of seeing Jews and Christians as protected communities (*dhimmis*) and “People of the Book”, the two groups viewed them as infidels both because they had deliberately rejected the truth and because of their connections to colonialism and Zionism.

Despite the imprisonment and execution of al-Jihad’s leaders following Sadat’s assassination, offshoots managed to regroup, declaring jihad against Mubarak’s regime. Al-Jihad has continued to be linked to terrorist incidents and outbreaks of communal violence ever since. One wing seems to be loyal to Abbud al-Zammur, one of the original founders, now imprisoned in Egypt. Another wing is called Vanguard of the Conquest or The New Jihad Group led by al-Qaeda’s Ayman al-Zawahiri.

Al-Qaeda, ISIS, Boko Haram, Al Shabaab and the Talibans are Sunni Muslim terrorist groups that consider Shias to be heretics. Osama Bin Laden, al-Zarqawi and al-Zawahiri are close to either Salafi, or Deobandi or Wahhabi brands of Sunni Islam. And the leading thinkers behind modern Islamist movements such as al-Qaeda are all Sunnis: Abul-Ala Mawdudi, Sayyid Qutb and Muhammad Faraj. Their ideas are

communicated daily in the schools, madrasas as well as in the religious faculties at universities.

ISIS replacing Al-Qaeda

How the ISIS group related to Al Qaeda in Iraq is not fully known. The key person was Abū Muṣ‘ab az-Zarqāwī, who was a leader of the insurgence against the Allied invasion of Iraq. He was not only violently anti-Western but also a sworn enemy of Shiism. He was so bloody in his strategy and tactics – suicide and car bombs – that al-Zawahiri objected, leading to a split from Al Qaeda by az-Zarqāwī. After his death, his main ideas inspired the creation of ISIS. These are the basic ideas of the man called “AMZ”:

“i. Remove the aggressor from Iraq. ii. Affirm tawhid, oneness of God among Muslims. iii. Propagate the message that “there is no god but God”, to all the countries in which Islam is absent. iv. Wage jihad to liberate Muslim territories from infidels and apostates. v. Fight the taghut ruling Muslim lands. vi. “Establish a wise Caliphate” in which the Sharia rules supreme as it did during the time of Prophet Mohammad. vii. “Spread monotheism on earth, cleanse it of polytheism, to govern according to the laws of God...” (Hashim, 2014).

When Al Qaeda asked AMZ not to target ordinary Moslems, especially Shias, the reply was in the style of future ISIS (Hashim, 2014):

“We did not initiate fighting with them, nor did we point our slings at them. It was they who started liquidating the cadres of the Sunni people, rendering them homeless, and usurping their mosques and houses.”

Thus, AMZ or az-Zarqāwī is much more to be seen as the forerunner of ISIS than al-Zawahiri. But his ideology or

religion is the radical Sunni fundamentalism, created by the three: Mawdudi, Qutb and Faraj.

It is true that al-Zawahiri is a key personality of global jihad together with ISIS leader Abu Bakr al-Baghdadi. Ayman al-Zawahiri joined the Muslim Brotherhood at age 15, was caught in the Nasser dragnet after the 1965 assassination attempt on the Egyptian leader and was thrown into jail. An April 1968 amnesty freed most of the Brotherhood, and Ayman, in that regard following in his father's footsteps, went on to Cairo University to become a physician. Faraj, like al-Zawahiri, argued along the familiar lines that acceptance of a government was only possible and legitimate when that government fully implemented Sharia, or Islamic law. Contemporary Egypt had not done so, and was thus suffering from jahiliyyah. Jihad to rectify this, was not only the "neglected obligation" of Muslims, but in fact their most important duty.

Al-Zawahiri wrote several books on Islamic movements, the best known of which is *The Bitter Harvest* (1991/1992), a critical assessment of the failings of the Muslim Brotherhood. In it, he draws not only on the writings of Qutb to justify murder and terrorism, but prominently references Pakistani Jamaat-i-Islami founder and ideologue Mawdudi on the global mission of Islamic jihad. Global jihad as Mawdudi had prescribed became al-Zawahiri's obsession. However, the ISIS is now calling the shots and they employ the ruthless tactics of AMZ or az-Zarqāwī.

Rejecting radical Sunni fundamentalism

As fundamentalism with this new doctrine of Islamic terrorism becomes more wide spread within the Muslim civilisation in the early twenty-first century (Roy, 2004; Kepel, 2005), Weber's perspective – Islam as a religion of warriors – is more relevant than it was hundred years ago. It could be more vindicated by the new Salafists than he ever imagined himself. His concept of Islam as a religion of warriors would be verified with a terrible vengeance by the combination of Salafism and jihad. According to Mawdudi the new theory of jihad entails: "Islam is a revolutionary doctrine and system

that overturns governments. It seeks to overturn the whole universal social order ... and establish its structure a new ... Islam seeks the world. It is not satisfied by a piece of land but demands the whole universe ... Islamic Jihad is at the same time offensive and defensive

... The Islamic party does not hesitate to utilize the means of war to implement its goal.”

Yet, the truth is that the religious community of Muslims (umma) has always been heterogeneous and the fusion of secular and religious power is not viable in Muslim countries (caliphate, immature). A Muslim state can only be stable and prosperous if these two facts are acknowledged by the key religious groups, the ulema or muftis, who must accept the secular nature of a modern state in the Muslim civilisation.

Islam must be interpreted in such a way that it accepts the basic principles of humanity. We believe that such an interpretation is not only possible, but also that there are Arab scholars who attempted this a long time ago, starting with the great philosophers of medieval Islam. Thus, rationalism and Islam are not irreconcilable and people who adhere to the message of the Koran can at the same time fully accept the requirements of rule of law and universal human rights. We predict that Arab societies will in this century accept a trade-off between Islam and democracy just as they accepted the market economy in the late nineteenth and early twentieth centuries.

The war by and against the ISIS with massive bombings in Syria and Iraq is just a continuation of the struggle against Radical or Fundamentalist Islam with its three scholars or ideologues – Mawdudi, Qutb and Faraj. It will only bring incredible misery to ordinary people, in the West and in the Middle East, especially Muslims themselves. Islamisation is not feasible in a globalised Muslim country, as Egyptian writer Naguib Mahfouz testified in his many Nobel prize winning books. In 1994 Islamic extremists almost succeeded in assassinating him. He survived until 2006, permanently affected by damage to nerves in his right hand. Mahfouz could no longer write for more than a few minutes a day, delivering fewer and fewer works.

Conclusion

The message of radical Islamic fundamentalism (Mawdudi, Qutb, Faraj) conflicts not only with the main values in the other global civilisations, viz the RULE OF LAW (RECHSTAAT). It also promotes conflicts within the Koranic civilisation, as the Sunni-Shia civil war, which can only lead to one thing: misery for not only religious or ethnic minorities in the Middle East but for all Moslems themselves, whether Sunnis or Shias. Finally, it is completely out of line with Islam during the Golden Age, characterised by prosperity, tolerance and openness of mind, in short Islamic rationalism, which made European rationalism possible.

Moreover, the new Sunni fanaticism acts like the scourge of Islam for the Middle East, leaving behind immense human and capital destruction. How can ecological policy-making be feasible in so-called “failed states”? The Muslim countries and communities are confronted with handling major environmental resources, like water, forest, sewage, waste, oil and gas, etc. What can a government do if confronted by the “religion of warriors” (Weber). Global ecological coordination will also be hampered by the lack of rule of law in many African and Asian countries – no doubt a legacy of oriental despotism, colonialism and widespread corruption.

5

Culture and Good Governance

Introduction

Max Weber wrote path breaking inquiries into both philosophy and history, especially economic history. Today, we remember his comparative studies of the world religions and his analysis of political regimes. They are highly relevant for understanding religion and politics around the globe. It has been argued that Moslem terrorists are driven by mental instability or sickness (Kepel) or relative deprivation (Roy). A better approach to the implosion of the Islamic civilization in daily acts of political violence massively is to turn to Weber and find inspiration in his theory of religion and politics: "Islam as a religion of warriors" (Weber, 1978). With so much written about the genius from Freiburg or Heidelberg, one may employ two distinctions in relation to Weber's thesis about modern capitalism and religion: - Genetic against systematic theme: Weber's thesis may be about the origins or the pervasive traits of social systems; - Religion against civilization theme: Weber's thesis may deal with the outcomes of religious beliefs specifically, or target the rationality differences between the cultures of the world.

Actually one finds these four themes in the various books by Weber himself, as he wrote in an almost encyclopedic fashion about the history of political, economic and social systems. He singled out “modern” capitalism as his dependent variable, which would give the following list of themes: - Modern capitalism arose in the West due to Protestantism (I); - Modern capitalism arose in Western rationality (II); Modern capitalism has an affinity with Protestant ethics (III); - Modern capitalism is an expression of Western rationality (IV). I cannot present a summary of the huge debate about these Weberian themes (Albert & Bienfait, 2007). Nor shall I enter any polemics against the critique of Weber from various scholars, economic historians and sociologists for example (Samuelson, 1964; Rodinson, 2009; Tawney, 2016). Instead I focus on his unfinished analysis of Islam – “religion of warriors” – with a few original remarks (hopefully) and its implications for the theme IV above.

Capitalism

As his dependent variable, Weber had chosen capitalism. It is quite understandable, given that several scholars in German Academia dealt with the subject. And the ascending Arbeiterbewegung promised another and better economic system, socialism. Yet, it was hardly a fertile choice, as the concept of capitalism is amorphous and the word itself highly value-loaded. Two meanings should be sharply separated: (i) Capitalistic spirit, or the acquisitive endeavor: (ii) Systems of capitalism, i.e. the institutional setup: Weber obviously used the word “capitalism” in both the micro sense (incentives) and the macro sense (systems of norms). Perhaps he argued that the micro attitudes of the great Protestant leaders and personalities were different enough compared with the Catholic Church fathers to pave the way for “modern” macro capitalism: “It is only in the modern Western world that rational capitalistic enterprises with fixed capital, free labor, the rational specialization and combination of functions, and the allocation of productive functions on the basis of capitalistic enterprises, bound together in a market economy,

are to be found.” (Weber, 1978: 165) But the institutions of modern capitalism can be exported and adopted by other civilisations, learned and refined, which is exactly what occurred in the 20th century. Thus, even if Protestantism, or the Protestant ethics denying the possibility of magic and accepting rents had something to do with the origins of modern capitalism in the West – i.e. economic rationality or even overall rationality (“Entzauberung der Welt”), which though remains an essentially contested issue, it could never guarantee any persisting advantage. It is difficult to chisel out an interesting hypothesis about “modern” capitalism and the world religions that would have much relevance today. Today, modern capitalism, at least when measured in terms of output, is perhaps stronger in South, East and South East Asia, with a few strongholds also within Islam, like for instance the UEL, Kuwait and Qatar. If “capitalism” stands for a set of institutions, or rules, then one may wish to enumerate a number of different types of capitalisms during known history: ancient, state, feudal, prebendal, modern, oriental, financial, etc. Weber displayed in his historical books that he mastered all these types of capitalism as well as that his emphasis upon mundane incentives meant that he always counted upon the role of the acquisitive spirit. Perhaps Weber neglected the huge pottery factories, driven capitalistically, during various dynasties in China (Glahn, 2016), just as Sombart in his effort to link “modern” capitalism with the finance capitalism of the new merchant class around 1500 (Sombart, 2001) bypassed the Indian Ocean trade. The Arab merchants on the Indian Sea were no less capitalistic in spirit or rational in performance! (Kumar, & Desai, 1983; Chaudury, 2010). “Modern” capitalism was not as exclusively European as some authors have claimed, following Weber (Beaud, 2006; Neal & Williamson, 2015; Kocka, 2016).

Weber’s analysis of religion

Inner worldly against other worldly As his independent variable, Weber chose religion. The first step was to detail the link between Protestantism and capitalism. The second step

involved a huge comparative enquiry into the economic spirit or ethics of several world religions in order to show that his thesis received negative corroboration in Hinduism, Buddhism, Taoism and Confucianism. It enhanced the study of comparative religion tremendously beyond what Marx and Durkheim accomplished with their simplistic models of “opium of the people” and “mechanic solidarity. But there is a conceptual paradox in Weber’s typology of the world religions. He employed two conceptual pairs: - Salvation: Inner or other worldly religion; - Asceticism: Inner or other worldly asceticism.

A religion that is other worldly has an eschatology outlining the real world to come on judgement Day, whereas an inner worldly religion promises redemption within existing universe ([Glasenapp, 1951-52](#)). Asceticism or the perfection of the conduct of performance according to an ideal can be inner worldly here and now or outer worldly as in mysticism. Weber finds the drive for capitalism in the mundanely daily and secular (inner worldly) asceticism of the believers in other worldly religion – category II! No doubt a complex motivation (“sinnsuzammenhaege”)! Where does Islam fit in? The Koran is eschatological, promising the Paradise to its true believers when this world crumbles. But who are the ascetics? Weber replies: “Islam is a religion of warriors”. And warfare and capitalism cannot co-exist for long.

The Islamin revolution in the 20th century

Weber employed his model of the ascetics in Islam – the warriors – to account for the incredibly quick spread of Islam, from Spain to India within a century after 632. Moslem scholars never accepted his model, because the Islamic civilisation stabilised into a fixed patterns that lasted up until after the Second World War: (1) Sunni majority with the 5 peaceful rules of behaviour; (2) The many Shia sects with one dominance in Iran; (3) Saudi Arabic Wahhabism, not accepted outside. What has given Weber’s model of Islam renewed relevance is the rise of fundamentalism ([Davidson, 2013](#)), especially Sunni fundamentalism with three scholars, namely

Maududi, Qutb and Faraj (Calvert, 2010; Jackson, 2010; Manne, 2016) – Salafi Jihadism.

As thousands of young Muslims are attracted to their teachings in madrasa, schools and colleges or even universities but also prisons, the Koranic civilisation faces a dire warfare, resulting in so many deaths from political violence, both inside and outside of Arabia. Al – Zawahiri created Al Qaeda writing a book about the “Knights of the Prophet” and al-Zarqawi put the ISIS into action in US and UK occupied Iraq. Moslem theologian and philosophers have yet to come up with a strong rebuttal of the gang of three (it can be done to save Islam from disintegration): -Maududi: completely comprehensive Islamisation; - Qutb: re-invention of the caliphate; - Faraj: total jihad – the real hidden duty of Islam.

Much has written about Weber’s negative evaluation of Islam and also Muhammed personally. The leading scholar Schluchter (1999) has even ventured to outline how a complete Weberian book on Islam would look like. Some say he was too dependent on the Orientalist literature at that time, missing out on a proper evaluation of Arab science and philosophy (Huff & Schluchter, 1999; Rodinson, 1993, 1994).

Legal-rational authority

Let us begin by stating the definition of “legal authority” from Weber: “The validity of the claims to legitimacy may be based on: 1. Rational grounds – resting on a belief in the legitimacy of enacted rules and the rights of those elevated to authority under such rules to issue commands (legal authority).” (Weber, 1978: 215) The key terms in this general definition is rules or institutions. “Today the most usual basis of legitimacy is the belief in legality, the readiness to conform with rules which are formally correct and have been imposed by accepted procedure. The distinction between an order derived from voluntary agreement and one which has been imposed is only relative.” The talk about “voluntary agreement” hints at the democratic regime just as the requirement of “accepted procedure”. Yet, as is well-known,

Weber moves on to equate legal-rational authority with bureaucracy: “The purest type of exercise of legal authority is that which employs a bureaucratic administrative staff.” (Weber, 1978: 220). Yet, bureaucracy, as a mechanism for carrying out the policies of rulers has, historically speaking, never operated according to the Weberian ideal-type. Bureaucracies have been invaded by affective ties, embezzlement, tribal loyalties and opportunistic selfishness in search of turf. 20th century research into the bureaucratic phenomenon has resulted in numerous findings that question the applicability of Weber’s bureaucracy model. As a matter of fact, bureaucracies can support traditional domination, as within Chinese Empires or Ottoman Rulership. It may also figure prominently in charismatic rulership, as with The Third Reich or the Soviet State. Weber recognized a fourth kind of political regime that he simply regarded as marginal, namely total authority based on naked power, because it could not last. The question then becomes whether legal-rational authority entails a legitimation rendering it stable over time as rule of law or whether it is enough with rule by law. I find no answer with Weber. The interpretation that Weber was some kind of “fore-runner” to the development of a unique nationalist ideology in Germany in the 1930s, founding a state upon the exercise of naked power, is, in my view, questionable (Mommensen, 2004). Legal-rational authority implies a constitutional state respecting Kant’s “Rechtsstaat.” As a matter of fact, rule of law trumps democracy, especially plebiscitary democracy.

Civilisations today: Rule of law

The Governance Project of the World Bank has made a tremendous effort at quantifying the occurrence of rule of law, employing all the indices in the literature – see Appendix in Governance project (Kaufmann *et al.*, 1980). The findings are summarized in a scale ranging from +2 to -2 that is a ratio scale. Table 1 presents the aggregated scores for the civilisations, introduced above.

Table 1. *Civilisations and Rule of Law*

	Mean	Std. Dev.	Freq.
Communist	-.75477454	.38326537	6
Hindu	-.53253257	.64282829	2
Muslem NONARAB	-.72383263	.65613238	21
Africa	-.8007729	.62152836	38
Arab	-.30380348	.71516745	18
Asia	.47479719	.96324657	9
Latin America	-.18484119	.78842261	34
Orthodox	-.50737586	.35506152	8
Pacific	-.18705963	.63026857	16
Western	1.1971701	.66793566	38
Total	-.10664712	.98442144	190

One may employ Diagram 1 to portray the same findings as in Table 1. It should perhaps be pointed out that poverty accounts to some extent for the disrespect for due process of law – see Diagram 1.

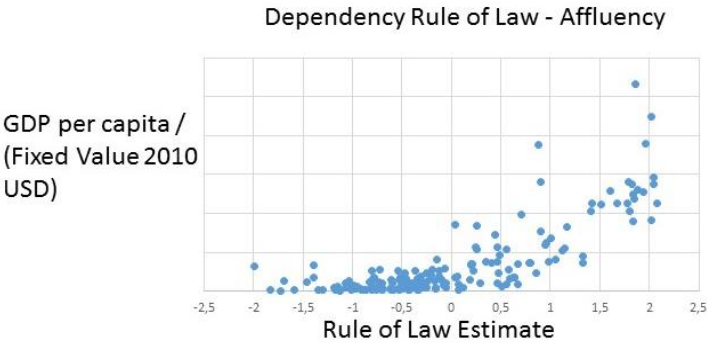


Figure 1. *Rule of law index (RL) against GDP 2015 (N=167, $R^2 = 0,62$)*
Note: WB: Worldwide Governance Indicators, 2016; See Kaufmann, D., A. Kraay & M. Mastruzzi (2010). "The Worldwide Governance Indicators: Methodology and Analytical Issues". World Bank Policy Research Working Paper No. 5430; World Bank national accounts data; OECD National Accounts data files.

However, culture also matters in the form of civilisations, especially Islam and Buddhism, and Orthodoxy – negatively – as well as Calvinism and Lutheranism – positively. RL cannot be introduced or upheld in a country with considerable tribalism and clan structures. Similarly, RL is not feasible in a country where Sharia has constitutional status. In many countries in the African and Asian civilisations there is both ethnic diversity and Islam. One may employ the regression technique in order to examine the impact of these factors upon RL: - Ethnicity: The fragmentation of a country into different ethnic groups (language, race); - Religion: The proportion of Muslims in country population; the proportion of Buddhist/Confucians in the country population; - Affluence: GDP in 2010. Table 2 displays the findings from an estimation of a regression equation.

Table 2. *Regression model for rule of law (RL) (N = 162)*

	Unstandardized	Coefficients		Standard	Coefficients	
	B		Std. Error	Beta	t	Sig.
(Constant)	-4,216		,471		-8,948	,000
ln2010	,507	,047	,657		10,847	,000
Ethnic	-,474	,222	-,126		-2,139	,034
Muslim	-,003	,002	-,118		-2,192	,030
budd2000	-,002	,003	-,027		-,517	,606
R		Adjusted R			Std. Error of	
,771	R Square	Square			the Estimate	
	,595	,584			,621331	

Sources: Kaufmann, D.A. Kraal & M. Mastruzzi (2012) Worldwide Governance Indicators; Pew Forum (2009) Mapping the Global Muslim Population; World Bank (2012) World Bank Databank; Barrett, D.B. *et al.* (2001) World Christian Encyclopaedia.

The civilisation that deviates the most from the “Rechtsstaat” is the Moslem one. This is due to the unrecognised and not fully understood revolution in the mind sets that we call Sunni fundamentalism or radical Islam. It now has started to appear in many Western countries with dire effects. Yet, rule of law is weakly enforced in the Latin American civilisation, nonexistent in the Sub-Saharan civilisation and not very frequently occurring in the Buddhist one with its legacy of Oriental despotism (Weber, 2001, 2003), occurring also in the Moslem civilisation as Sultanismus, although not always with a hydraulic foundation (Wittfogel,

1957). Even in Japan and South Korea like in Taiwan and Singapore, rule of a law is not complete, and in the former Soviet republics, the situation could not be worse. Looking at the map of the spread of RL today, one observes the on lingering tradition of the political regime of oriental despotism. Too little research has been devoted to this phenomenon that one still encounters in Arabia, several non-Arab Moslem countries, the Khanates, Russia, China and South East Asia. Oriental despotism seems to attract even Erdogan and was brutally exercised by African dictators after Independence Day. Marx called it the Asian system, whereas Weber (2001) suggested its hydraulic (water, irrigation) conditions. Perhaps Wittfogel (1957) followed suit too much, being a pupil of the second and an adherer of the first. Wittfogel found oriental despotism outside of Asia, in Africa as well as the Americas. Maybe one should mention Nazi Germany and Stalin-Soviet as late examples of an extreme form of oriental despotism. If legal-rational authority implies rule of law in Weber's famous typology of "Herrschaft", then he could have looked for one religion supporting RL, namely his candidate for modern capitalism. Protestantism never married itself with total political power, like Islam, Buddhism and Catholicism under certain periods only though.

Rule of law

Rule of law, whether combined with any form of democracy – referendum type, parliamentary type, presidential dispensation – or not, as in semi-democratic countries that are one party states, comprises (Raz, 2009): Predictability: Public law when properly implemented makes it possible for people to increase the rationality of behaviour. They know what rules apply, how they read as well as how they are applied consistently. This is very important for the making of strategies over a set of alternatives of action. Transparency: Societies operate on the basis of norms prohibiting, obligating or permitting certain actions in specific situations. Rule of law entails that these norms are common knowledge as well as that they are not sidestepped

by other implicit or tacit norms, known only to certain actors. Due Process of Law: When conflicts occur either between individuals or between persons and the state, then certain procedures are to be followed concerning the prosecution, litigation and sentencing/incarceration. Thus, the police forces and the army are strictly regulated under the supervision of courts with rules about investigations, seizure, detainment and prison sentencing. No one person or agency can take the law into their own hands. Fairness: Rule of law establishes a number of mechanisms that promote not only the legal order, or the law, but also justice, or the right. For ordinary citizens, the principle of complaint and redress is vital, providing them with an avenue to test each and every decision by government, in both high and low politics. Here one may emphasize the existence of the Ombudsman, as the access to fairness for simple people. People have certain minimum rights against the state, meaning that government respects obligations concerning the protection of life and personal integrity. Thus, when there is due process of law – procedural or substantive – one finds e.g. the habeas corpus rights.

Conclusion

I would dare suggest that most people in the world would want to live in a country where these precepts are respected. Only human sufferings result when they are not. Even people who adhere to a religion that rejects rule of law regret their absence when trouble starts and anarchy or even warfare comes. Rule of law I the greatest idea in the history of political thought, from Cicero (very underestimated) to Kant.

6

Good Governance: Two Meanings of “Rule of Law”

Introduction

In continental political theory, rule of law tends to be equated with the German conception of a Rechtsstaat in its classical interpretation by Kant (Reiss, 2005). It signifies government under the laws, i.e. legality, lex superior and judicial autonomy (rule of law I). In Anglo-Saxon political thought, however, rule of law takes on a wider meaning, encompassing in addition also non-judicial institutions such as political representation, separation of powers and accountability (rule of law II). In general, the occurrence of rule of law II is a sufficient condition for the existence of rule of law I. But rule of law I – legality and judicial independence – is only a necessary condition for rule of law II – constitutionalism as voice and accountability.

Rule of law 1: Legality and judicial independence

According to the narrow conception of rule of law, it is merely the principle of legality that matters. Government is in accordance with rule of law when it is conducted by means of

law, enforced by independent courts. The law does not need to contain all the institutional paraphernalia of the democratic regime like separation of powers and a bill of rights. The legal order may simply express the authority of the state to engage in legislation, as expounded by legal positivists like e.g. Kelsen (2009) in his pure theory of law. The basic norm implies legislation that in turn entails regulations that implies instructions and commands. However, whatever the nature of the legal order may be, the principle of legality restricts governments and forces it to accept the verdicts of autonomous judges. 2 Countries that lack the narrow conception of rule of law tend to have judges who adjudicate on the basis of short-term political considerations, twisting the letter of the law to please the rulers. Thus, law does not restrain the political agents of the country, employing the principal-agent perspective upon politics (Besley, 2006).

One observes a connection between socio-economic development and judicial autonomy. Poor and medium affluent countries are not characterized by judicial independence. Yet, besides socio-economic development many other factors impinge upon the institutionalisation of judicial independence like inherited legal system, religion and the party system. When judges are not independent they change their verdicts in accordance with the political climate of the country. Whatever protection the constitution or the law offers in writing for citizens or foreigners visiting a country becomes negotiable when a case is handled by the police. Even if a country does not possess a real constitution with protection of a set of inalienable rights, it still makes a huge difference whether the courts constitute an independent arm of government. Thus, also in countries with semi-democracy or with dictatorship, matters become much worse when judges cannot enforce whatever restrictions are laid down in law upon the political elite. The independence of courts is a heavily institutionalised aspect of a mechanism that takes years to put in place. Judges are paid by the state by means of taxation, but the formula of “He who pays the piper calls the tune” does not hold. In order to secure judicial independence from politics and the rulers an elaborate system

of appeal has to be erected, meaning that the behaviour of lower court judges will be checked by higher court judges. The standard institutional solution is the three partite division of the legal system with a supreme court at the apex. However, countries may have one than one hierarchy of courts making the judicial system complex. An independent judiciary secures a fair trial under the laws. From the point of view of politics this is important in order to avoid that accusations for any kind of wrong doing is used for political purposes. When there is an autonomous legal machinery in a country, then also politicians or rulers may be held accountable for their actions or non-actions – under the law. This is of vital importance for restricting corrupt practices of various kinds.

Rule of law 2: Constitutional Democracy

Legality and judicial independence are not enough to secure rule of law in the broad sense of the term. Broad rule of law involves much more than government under the laws, as it calls for inter alia: separation of powers, elections, representation and decentralisation of some sort. In the WB governance project the broad conception of rule of law is measured by means of the indicator “voice and accountability”. Since rule of law II regimes are invariably rule of law I regimes, but not the other way around, countries that score high on voice (of the principal) and accountability (of the agents) can be designated as constitutional states.

There is a positive relationship between socio-economic development and the constitutional state, albeit not as strong as in the classical studies on democracy and affluence (Diamond, 1999). There is a set of countries that deviate from this pattern. On the one hand, a number of countries have reached a high level of socio-economic development without institutionalising the mechanisms of the constitutional state: the Gulf monarchies and the Asian tigers. On the other hand, a set of countries with the constitutional state are to be found at a low level of socio-economic development, mainly India, Botswana and Mauritius. In some Latin American

countries there is a medium level of socio-economic development and a medium degree of rule of law institutionalisation. This association between affluence on the one hand and democracy on the other hand has been much researched and various explanations have been adduced about what is cause and what is effect. Here, we note that there are quite a few countries that have reached a rather high level of human development due to economic advances in GDP but they have not established a full rule of law regime, comprising of both rule of law I and rule of law II. Finally, one may enquire into the empirical association between rule of law I and rule of law II. It holds generally that countries that institutionalise the constitutional state also respects judicial independence, but the converse does not hold. Some countries only honour one form of rule of law, namely legality. Numerous countries have neither rule of law I nor rule of law II.

Some 50 per cent of the world cherish rule of law in the strong or thick meaning – rule of law II. Its spread is linked with the level of human development, which is a function of economic output to a considerable extent. However, as shown in the analysis above countries that implement rule of law II also establish rule of law I. It is the opposite that does not hold, meaning that several countries honour rule of law I but not rule of law II. In countries where neither rule of law I nor rule of law II exists, political agents face almost no restrictions upon what they may wish to do.

Rule of law and the market economy

The set of economic rules is one thing and real economic output another. Neo-institutionalist or new institutionalist economists claim that the economic regime has a long lasting impact upon the level of economic development, as measured by GDP. They do not deny that inflation as well as the business cycle with regard to aggregate output. But besides 7 macroeconomic policy-making, getting the economic rules correct is considered a major determinant of output or affluence. In the literature on economic systems there are

indices, such as e.g. the annual surveys Economic Freedom of the World (EFW) and Index of Economic Freedom (IEF) that attempt to measure the degree of economic freedom in the world's nations. The EFW index was developed by the Fraser Institute (Gwantney & Lawson, 2008), but one should point out that these indices have been criticized. They may not measure all aspects of economic freedom from the micro standpoint, but they do differentiate between economic regimes on the macro level. We will also employ the operationalization of the concept of a market economy, suggested in the recent literature on economic freedom (Miller & Holmes, 2009). This indicator on the institutionalisation of the institutions of capitalism today bypasses any simplistic notion of capitalism as merely economic greed and it gives a few indices that are helpful in empirical enquiry.

One sees that economic freedom, as guaranteed by the economic institutions of a country, is clearly associated with economic affluence. Countries with a large GDP per capita tend to have a high level of economic freedom. The institutions of the market economy constitute a necessary condition for country affluence. Yet, it is hardly a necessary one. How, then is this relationship to be interpreted? There are two questions involved in clarifying this association between the market economy and economic output. First, one would like to theorize what is the common core of these two entities, economic output on the one hand and economic freedom through institutions on the other hand? Second, one may speculate about what is cause and what is effect in this clear association?

The market economy can only achieve optimal resource allocations if property rights are comprehensive as well as truly enforced. This occurs under rule of law I, where independent judicial systems operate. Moreover, efficiency in resource allocation is only feasible where transaction costs are minimised. The institutions with rule of law I make their contribution to that by enhancing predictability of legal judgements and neutrality with courts. The association between rule of law I and affluence in Figure 4 is a very strong

one, validating the basic tenet in neo-institutional economics that forms a core belief in Law and Economics: the size of the market is only limited by the range and scope of the legal order. Rule of law I accounts for the connection between economic institutions and economic development.

Economic freedom tends to make affluence possible, as most countries with little economic freedom have low or medium GDP per capita. As economic freedom is increased in an economy, so its affluence tends to rise. Singapore is the superb example of the combination of economic freedom and affluence, whereas Qatar deviates from the relationship in Figure 5. One could argue for the opposite interpretation, especially with regard to the economic miracle in East and South-East Asia. After a successful period of state intervention, these tiger economies have endorsed more or less the institutions of the market economy.

It is impossible for a country to reach a high level of economic development without economic freedom, as institutionalised in the rules of the market economy. However, it also shows that economic freedom is a necessary but not sufficient condition for affluence.

Political freedom and economic freedom

Milton Freedman argued over a long career for his basic idea that capitalism and democracy are closely related. The argument hinges upon an intimate connexion between economic and political freedom (Freedman, 2002, 2008). However, the empirical evidence does not vindicate this argument. The empirical analysis has also shown that a set of countries deviates from this interaction, managing to reach both affluence and state firmness without institutionalising rule of law II.

In several countries economic freedom tends to be higher than political freedom like for instance China. The association between the market economy and democracy is weaker than the connection between judicial independence and economic freedom. This confirms the relevance of distinguishing clearly between the two conceptions of rule of law, rule of law I and

rule of law II. It is rule of law I that explains the link between economic institutions and economic development.

Rule of law: Thin and thick constitutionalism

A constitutional state affords two kinds of mechanisms that enhance stability in political decision-making, one creating so-called immunities or rights that cannot be changed and the other introducing inertia in the decision-making processes. Immunities and so-called veto players would reduce the consequences of cycling, strategic voting and log-rolling. The critical question in relation to the constitutional state is not whether immunities and veto players per se are acceptable, but how much of these two entities are recommendable? Given the extent to which a state entrenches immunities and veto players, one may distinguish between thin constitutionalism versus thick constitutionalism. In a strong constitutional state there would be many immunities, surrounding in particular private property. In addition, there would be a constitution institutionalized as a *Lex Superior*, which would be difficult to change and which would be protected by strong judicial review either by a supreme court or a special constitutional court. Would not such a strong constitutional state set up too many barriers for political decision-making? In a thin constitutional state, there would be less of immunities and not much of constitutional inertia in combination with only weak judicial review. Such a weak constitutional state would safeguard the classical negative liberties by designating them freedom of thought, religion and association with the possible exception of private property, which would only be regulated by ordinary statute law. There would be constitutional inertia, but not in the form of qualified majority rules and the legal control of public administration would be important but judicial review would not take the form of a power of a court to invalidate legislation. The problem with a thick constitutional state is that it may bolster the status quo to such an extent that democracy is hurt. These mechanisms that thick constitutionalism involve - immunities, qualified

majorities, judicial review - all come into conflict with desirable properties identified above in relation to the making of social decisions: neutrality, anonymity and monotonicity or positive responsiveness. Ultimately, strong constitutionalism runs into conflict¹³ with the egalitarian stand in the concept of democracy, viz that any alternative should be relevant for social decision, that each and every person should have the same say. A thick constitutional state may enhance political stability but be difficult to bring into agreement with the notion of populist democracy (Tsebelis, 2002). There would simply be too many immunities and too much of inertia for democracy to be able to allow the people to rule. However, it is difficult to see how a thin constitutional state could present a threat to democratic institutions. On the contrary, the institutions of a thin constitutional state could complement the institutions of a democratic state by making social decisions more stable. A constitutional state may be erected by means of a minimum set of institutions or a maximum set. In the minimum set up there would have to be institutions that safeguard the following: (1) legality; (2) representation; (3) separation of powers; (4) control of the use of public competencies and the possibility of remedies. It is difficult to understand that such a minimum set of institutions would threaten democracy. When there is a maximum set of institutions in a constitutional state involving numerous checks and balances, then there is a potential collision no doubt.

Institutions and rule of law 1 and 2

One of the key issues in neo-institutionalist research is the comparison between two basic executive models: parliamentarism with the Premier and presidentialism with the President. Which executive model is to be preferred or performs the best? Examining data on the advantages or disadvantages of alternative structuring of the executive, one is confronted by the problematic of the presidential regime. It comes in several forms: pure presidentialism, mixed presidentialism and formal presidentialism. In the empirical

enquiry below, pure and mixed presidentialism is displayed against rule of law I and rule of law II, with the following scoring: 0 = parliamentarism, 1 = mixed presidentialism, and 2 = pure presidentialism. Formal presidentialism as in some parliamentary regimes or as in the Communist dictatorships will not be included in this enquiry. Also in this somewhat different classification of executives, one receives the finding that pure and strong presidentialism tends to be a negative for rule of law I or II. Election Techniques I would be inclined to argue that multi-partism is better than two-partism from the standpoint of principal-agent theory, but it is not easy to prove. In general, having several agents working in the interests of the principal is a conclusion from this theory. However, in a two-party system changes in government tend to be more clearcut and effective than in a multi-party system. The danger with a two-party system is that it develops into a one-party system in disguise. And the main disadvantage of the multipartism is the risk of complete fragmentation of the electorate with more than 10 parties getting seats in the national assembly, creating problems to form a stable government. The distinction between two-partism and multi-partism is closely connected with electoral institutions, although not in a perfect manner. The effective number of parties is lower with majoritarian election formulas (e.g. plurality, run-offs and alternative vote) than with PR schemes (e.g. D'Hondt, St Lague, STV).

It seems that the excellent performance of the institutions of the Washington model is more of an American exception than the general rule. Presidentialism and a majoritarian election formula tend to be negatively related to both kinds of rule of law (I and II). How, then, about a federal dispensation for government? State Format Federalism in a narrow sense is an institutional theory about the structure of any state, democratic or authoritarian. Thus, India and Switzerland are federal but so are the United Arab Emirates and Pakistan. Federalism in a broad meaning is an institutional theory about constitutional democracy, claiming that the federal dispensation works better than a unitary for all constitutional democracies. It is easy to mix up federalism I with federalism

II above. Here we only deal with federalism I. Does a mere federal dispensation enhance the probability of rule of law? In a federal state format the provinces would ideally constitute states with a constitutional framework, they are represented in a federal chamber in the capital and they engage in legislation supervised nationally by a constitutional court or supreme court. Why would such a dispensation promote rule of law better than the more simple unitary state format?

Federalism scores better than unitary states on both judicial independence (rule of law I) and democratic constitutionalism (rule of law II). But they also show that this is mainly due to the low number of federal state and the high number of unitary states. Empirically, federalism has only a weak relationship to judicial independence or constitutional democracy. This comes as no surprise as several unitary countries are deeply committed to the autonomy of judges. The next piece of evidence concerning federalism and rule of law shows the lack of a strong relationship between this state format and constitutionalism. Again, this was to be expected, given that federalism is defined narrowly as a mere state format that is just a self-designation by the country in question (Kavalski, & Zolkos, 2008). Legal Review The legal system in some countries offer the ordinary courts or a special constitutional court has the privilege of testing the constitutionality of the laws of the legislative assembly or the acts of the executive. This form of political judicilisation – judicial review – is to be found in all countries that emulated the American constitutional tradition (supreme court) as well as in European or Asian 18 countries that adopted the Kelsen model of a constitutional guardian (constitutional court). Although legal review when exercised properly tends to result in spectacular decisions with great political relevance, one may still ask whether legal review matters generally speaking. Countries may endorse judicial review in its written constitution but fail miserably to employment it in the real constitution. Again, the lack of any clear association between legal review and rule of law I or rule of law II respectively is not difficult to explain. On the one hand, also several countries that have institutionalised a profound respect for

judicial independence and the constitutional state reject the relevance of legal review. This is most explicit in countries adhering to the Westminster legacy, in which judges apply the law but do not make it. On the other hand, some countries that adhere to legal review in their constitutional documents have a shaky record in achieving the institutionalisation of either judicial independence or the constitutional state in general. Thin constitutionalism may actually perform better than strong constitutionalism, especially when combined with the Ombudsman institution.

The ombudsman office

In thin constitutionalism, there is less emphasis upon veto players like for instance the Supreme Court or the Constitutional Court. In stead, thin constitutionalism attempts to combine political flexibility with judicial independence and constitutionalism. Typical of thin constitutionalism is the strong position of the Ombudsman, as the legal guarantor of the national assembly.

Conclusion

A state that implements thin constitutionalism would have little difficulties in accomodating democratic institutions. Actually, thin constitutionalism would complement democracy by bringing to it more of stability in social decisions. Thick constitutionalism (Tsebelis, 2002) wits its veto players – president, two symmetrical chambers, legal review and federalism - may run into conflict with democracy. There could be too many immunities and too much of inertia for social decisions to simply reflect the preferences of the citizens, according to the requirements of anonymity, neutrality and positive responsiveness with collective decisions in relation to citizen preferences. A set of thin constitutionalist instituties promote rule of law, both I and II, as well as a set of thick constitutionalist institutions. It is enough with parliamentarism, PR, unitarism and an Ombudsman for a country to have a good chance to succeed in introducing and maintaining constitutional democracy.

7

The Twilight of the Scandinavian Model

Introduction

The basic interpretation of politics in 'Norden' (Denmark, Finland, Norway, Sweden) has been that of the so-called Scandinavian model (Kuhnle, 1990). Nordic politics and economics impressed an international audience because it seemed so successful in terms of resolving political issues in Parliament as well as stimulating a high rate of growth in the economy. Political consensus was paralleled by a social consensus between the trade unions and the employers' associations to avoid industrial conflict and jointly reap the benefits from sustained economic growth (Rostow, 1995; Almond, 1986; Eckstein, 1966; Lijphart, 1984; Ender *et al.*, 1988).

Herbert Tingsten claimed that 'Norden' hosted 'happy democracies', combining a stable party system representing a wide range of interests with an extensive welfare state that appeared to be capable of achieving a considerable amount of equality (Tingsten, 1955; 1966). To Mancur Olson, Scandinavian exceptionalism could be retrieved also in the economy where corporatist interest intermediation and policy

consultation solved the collective action problems, securing rapid economic growth - the bright Northern lights (Olson, 1990).

This is only history now. The major signs of instability already showing up in Western Europe at the end of the 1970s, finally reached stable Scandinavia during the 1980s. Volatility is increasing, transforming the party system and the welfare state is being reconsidered. How are these profound political changes dealt with in the academic literature by Nordic political science scholars?

Voter volatility

The analysis of voting behaviour has had strongholds in Nordic political science since the 1950s, providing much relevant and reliable information about the fragmentation of the party systems and the increase in issue voting. Scandinavian politics used to reflect the class divisions in industrial society, sweeping into the Nordic countries quickly at the end of the nineteenth century. The emergence of a post-industrial society has created a new middle class that lacks the traditional attachments of industrial society. The median vote, decisive for the victory or defeat of political parties, is a volatile one. It forces the parties to move towards the centre and take a stand on the issues that are important to new groups of voters. The increasing voter volatility is conducive to the attempt at catch-all strategies, a temptation checked by lingering groups of ideologically conscious voters, with net volatility around 20 per cent and gross at 30 per cent.

Studies of voting behaviour reveal the strong increase in voter volatility. Volatility or shifts between parties may be measured on an aggregate level (net) or on the level of individuals (gross). The net volatility index is obtained by adding the losses and the gains for each party from one election to another. On an individual level, gross volatility is measured by the number of the voters who shift among parties between elections. Since voters tend to shift in all directions, the gross volatility scores are higher than the aggregated net scores.

As shown by Soren Holmberg and associates in several publications, the Swedish electorate has become increasingly mobile as well as issue and person orientated, which has resulted in the decline of political party loyalty and relevance (Gilljam & Holmberg, 1990; 1993). The erosion of the classical tie between the social groups of industrial society and the structure of the party system appears in data about class voting. The Gothenburg analysis of each Swedish election dates back to the 1950s but it was expanded considerably in the 1980s.

Henry Valen and his co-workers in Oslo reach the same findings, supported by a continuous analysis of national elections over a long time period (Valen, 1992; 1992; Valen *et al.*, 1990). Norway has experienced considerable turbulence in the electorate during the past two decades. There is a decline in party identification, driving up gross volatility sharply. The party system has not managed to adapt to the electoral dealignment without major changes, such as the rise of new parties both on the left and the right.

Danish studies reveal that the breaking up of the frozen party systems in the Nordic countries first began in the earthquake election of 1973 (Damgaard, 1974; 1990; Borre, 1974; 1990; Pedersen, 1987; Svensson & Togeby, 1986; 1991; Andersen, 1992). The creation of the huge public sector after the second world war loomed large in Danish society's transformation from an agricultural and industrial society to a post-industrial society comprising a large number of public employees but also a rising level of taxation that as early as 1973 caused the first welfare state backlash in the Nordic countries as argued by Palle Svensson.

Broad social structure transformation led to the slow erosion of the foundation of the class-based party system, Social Democrats being the party of the workers, the Liberals the party of the farmers and the Conservatives the party of urban business. Even though the social cleavages did not determine political party orientation, the tie between social groups and party has been lessened considerably during the last decades. Danish turbulence since the early 1970s stemmed from the lack of correspondance between the economic and

social transformation and the classical party system and the traditional lines of cleavage.

In Finland, Tuomo Martikainen has shown not only that volatility is increasing but also that passivity and abstention have grown to such an extent that they play a significant role in the power game. Abstention from voting among the young, particularly in urban areas has become an accepted pattern of behaviour (Martikainen & Yrjönen, 1991). The instability of Finnish politics is first and foremost expressed in voter disengagement. Participation culminated at 85.1 per cent in the 1962 general election and since then there has been continuous decline, the lowest figure in the parliamentary election of 1991 being 72 per cent.

Gross and net volatility have increased in Finland to almost the same extent as in the other Scandinavian countries. It was estimated on the basis of panel surveys that 25 per cent of the voters changed their party preference in 1991. In the later 1950s and early 1960s, the corresponding figure in 'normal elections' was in the neighbourhood of 11 per cent (Pesonen & Berglund, 1991; Berglund, *et al.*, 1991).

In the Nordic context electoral behaviour is now markedly different. Party loyalty has crumbled as fewer and fewer voters support the same party as in the previous election. Political mobility among the electorate is now so large that the model of a simple and stable relationship between social group adherence and party choice is no longer true.

Government instability

The gist of the Scandinavian model was stable party government operating efficiently in a nexus of neo-corporatist institutions within a mixed economy with a pragmatic trade-off between capitalism and socialism. A number of recent studies shows that three elements of the model — efficient party government, corporatist interest articulation, and interest intermediation as well as piecemeal social engineering by means of public policy-making — no longer operate as they used to (Ruin, 1982; Elvander, 1988; 1992; Lewin, 1988; Rothstein, 1992; Pedersen, 1988). Gone are

distinctive characteristics such as compromise politics, social consensus expressed in corporatist interest articulation and interest inter-mediation. It has been claimed that the Scandinavian model expressed social democratic hegemony, implying that the labour movement has had to face increasing difficulties, which is true. To other observers it was the unintended but balanced outcome of the clash between the socialist camp and the so-called bourgeois camp (Helco & Madsen, 1987; Tilton, 1990; Milner, 1990).

During the 1980s a general swing towards market values has taken place in Scandinavian societies. There is hardly any support for more public sector solutions to social problems. At the same time, parties have emerged that question the size of the welfare state in the Nordic countries. One set of major empirical studies revealing the other side of the Scandinavian model is the Swedish power study conducted between 1985-1990. Olof Petersson not only managed the investigation but also delivered its main report, where the overall characterization of the interaction between citizens and elites in Sweden came as a surprise to those with a firm belief in the Swedish model's idealistic conceptions.

A major finding of the Swedish power investigation is that there are two distinct elite groups. Not only are they adherents of different political ideologies but there is also a sharply different organizational affiliation. The first elite dominates the public sector, whereas the second prevails in the private sector. Elite persons with a socialist creed are to be found in the centrally placed institutions of the interest organizations, cultural organizations and public administration. As much as 70 per cent of the sample that belongs to these institutions states an ideological preference for socialism. The bourgeoisie predominate among key persons in the private sector, in military and legal institutions as well as the press. It used to be stated that the Swedish political system comprised a socialist government but a non-socialist administration. This is no longer true. The extensive period in power for the SAP has meant that gradually people with socialist views have been recruited into the central bureaucracy in Stockholm.

Socialist Sweden is portrayed as a colossus with feet of clay. Involvement in broad citizens' organizations was high in terms of formal membership (94 per cent of a national sample) but the real level of participation by ordinary people was very low. The headquarters of the trade unions and the interest organizations in Stockholm are heavily staffed and these officials have extensive contacts with key government people in Stockholm. Although participation is still at a high level of 90 per cent among those entitled to vote, actual participation indicates apathy as only 15 per cent of the sample stated that they were members of a political party and a mere 10 per cent stated that they had participated in a political meeting for a long period of time. Substantial citizen groups reveal that they lack the ability to interact with government on a formal basis in a society dominated by a large public sector.

The Swedish power elite consists of people having top level positions within either the private sector or the public sector. In order to occupy an elite position in Sweden, one usually has to be a male middle-aged person, as only 13% are women and 80% are between 44 to 64 years of age. Part of the Swedish political elite has a working class background. There is also a group of rural origin. Although a blue-collar background is more characteristic of the Swedish political elite than of elites in other comparable nations, it should be emphasized that a majority of the Swedish political elite originates from a white-collar background as well as from an urban setting. The elite tends to be more positive than the population at large towards government actions that help people in various disadvantageous positions, whereas the opposite is true when it comes to the size of health care and environmental protection programmes. This confirms the observation in Swedish electoral studies that the representatives of the political parties tend to be more left-wing than the population in general.

The Danish voters have consistently elected a Parliament that is evenly divided between the socialist and the bourgeois bloc, making it difficult to arrive at stable governments. Since 1971 Denmark has had new elections almost every second

year. In 1982 the Social Democratic leader, Anker Jorgensen, resigned without calling an election, because new elections only six months after the last election in December 1981 could not be held. However, 1982 marked a major change in Danish politics, because a bourgeois Coalition Government was formed between Conservatives, Liberals, Centre Democrats and the Christian Peoples' Party. The Conservative party chairman Poul Schluter became the first Conservative Prime Minister this century and he remained in power until January 1993, although the coalition did not have an overall majority. The Radical Liberals supported the Conservative Government in its economic policies, as the Progress Party often did (the protest party led by Mogens Glistrup). Denmark was always a little different from Sweden and Norway, reflecting the weaker position of the labour movement.

Government instability and overload were made worse by the economic crisis that hit the Nordic countries with a vengeance in 1990. It is fair to say that it came as a surprise to several admirers of the special combination of the private and the public that characterized the Nordic 'neo-corporatist' model of democracy when, for the first time after the second world war, it ran into a deep economic slump. Finland was hit first and hardest, which increased the political problems. By the end of the 1980s, tensions in the Finnish economy had developed. The reversal of the steady economic growth since 1950 shattered the ideological foundations of the egalitarian welfare state. Corporatist decision-making, all-pervasive consensus, stability and continuity of political life revealed themselves, more or less, as products of 'good times'. Building up the welfare state from the mid-1950s onwards integrated decision-making partners and brought about structural stability and policy continuity. The inflationary economy of the late 1980s has led to a lack of trust in its economic institutions. Even the prospects of EC membership have not improved economic development. Lack of confidence in institutions and leadership has accumulated. Finland's political parties and leading politicians are distrusted, as the proportion that replies that; 'Parties are interested in people's votes, not their opinions' rose from 52 per cent to 72 per cent

from 1983 to 1991. The proportion who believed that, 'There is at least one party to stand for my cause' decreased from 68 per cent to 44 per cent in the same the public are extremely high, hesitancy and uncertainty among the public have increased, allowing for the fact that after the 'Kekkonen era' -strong presidential rule for a quarter of a century (1956-1981) - the change in leadership style was inevitable as shown by Martikainen.

In Norway only two kinds of governments can be formed: either a minority Labour government based upon a socialist majority or a bourgeois coalition. These blocks, reflecting the cleavages of industrial society, broke down during the EC debate in 197@72, but were restored a few years later, Despite great electoral changes, Labour as well as the non-socialist coalitions managed to provide the country with relatively viable government. However in the election of 1985 and again in 1989, the coalition parties as well as the parties on the left failed to obtain a majority. The right-wing Progress Party became pivotal. Government crises have become frequent, but most of the time a minority Labour government has been in power. As the non-socialist parties hold a majority in the Storting, the parliamentary situation has been characterized by numerous compromises. Since the EC issue has cropped up on the agenda for the 1990s, the non-socialist parties are split, so that there is no alternative to the minority Labour government.

Summing up, the tendency among the electorate to disengage from politics is evident from a decreasing level of voter participation, fragmentation of the party system, increasing political mobility, increasing attitudes of political cynicism and distrust and lack of faith in leadership.

The welfare state reconsidered

The Scandinavian model faces an institutional crisis to which there is no straightforward alternative solution. The general shift away from a collectivist policy model towards individualist values has to be made within existing institutions displaying inertia. The typical policy-making style

conducive to organized complexity has more and more been replaced by crisis management. There are now three main interpretations of the Nordic welfare state: new institutionalism, the public choice approach and the traditional public administration perspective, more or less modified.

The theory of institutional change launched by Johan P. Olsen (with T. G. March) seems to be particularly illuminating for Nordic politics (Olsen, 1988; 1990). Olsen argues that change processes in institutions are inherently of a political nature. Rejecting the idea that organizations can be restructured according to formulae by means of policy fiat, Olsen questions the basics of the Nordic welfare state. The new search for institutional reform has to recognize that organizational change is a contested process involving accidental outcomes and random activity, meaning that results cannot be predicted and change cannot be controlled by command. Olsen underlines sluggishness, resistance to change, randomness, surprise and unintentionality, that is exactly what countries which traditionally have relied on top-down implementation as well as on planning models did not take into account. The attempt to find new institutions means that the interpretation of the welfare state has become a most difficult problem. What kind of state is feasible in a capitalist democracy? Olsen presents four model alternatives: the sovereign state, the moral state community, the classical liberal or guardian state and the segmented state.

The sustained process of public sector growth since the end of the second world war has meant that the segmented negotiation state has become the prevalent model in Norden. It was first presented by Gudmud Hennes and Leif Johanansen (Johanansen, 1979; Hennes, 1978). The segmented state is different from the sovereign state as there is no one single centre of control and no uniform channels of authority, meaning that parliamentary power has been reduced. The segmented state is separated from the state as a moral community, because interaction takes place between organized interests and not individual citizens and it is determined by the logic of collective action and not by moral

appeal. The segmented state is very different from the guardian state as market processes are continuously interfered with by negotiations between monopolists and oligopolists within both the public and private sector. The era of big government is also the time of weak government, the segmentation of power and authority within public and private organizations.

In the Nordic countries, the 1980s have seen a reappraisal of state models, their pros and cons. The adherents of the sovereignty model want to see more democratic decision-making in representative assemblies, as well as more political leadership; those that speak for the guardian state wish to replace budget allocation with market allocation; and the believers in the community model look for morally attractive ways of life which promote individual rights and ecological balance.

The public choice school is represented by scholars at Aarhus University. Starting with Ole P. Kristensen (1987), the most recent book is that of Jorgen Gronnegird (1991).⁷ Kristensen claimed that the so-called asymmetry model offers an explanation of public sector growth: the forces that have an interest in and promote public sector expansion are stronger than the forces that have an interest in and wish to strengthen the private sector. The fundamental asymmetry operates at three levels of the public sector: decision-making, production and financing. The first refers to the lack of balance between collective decisions that are valid for the whole population and the benefits from collective action that are private in the sense that they are better for some special interest groups than for the general interests of citizens. The second occurs in public resource allocation proper, due to the absence of efficiency criteria guiding the interaction between the interests of various producer groups like bureaucrats or professionals on the one hand and consumer groups. Finally, the third stands for the gulf between the consumption of goods and services in the public sector and the decision to pay for this consumption. Whereas consumption of particular goods and services is mostly free of virtually any charges, the public sector is paid for by means of general taxes and

charges. This fosters the asymmetry between those that benefit from the public sector and those that pay for its goods and services.

According to economic organization theory, the Nordic state rests upon a confusion of two basic functions: resource allocation and redistribution. The welfare state and its programmes have little basis in the rationales for the use of the budget instrument, that is provision of public goods to handle market failures. Welfare spending results in big government because it attempts redistribution in kind, not in terms of money. Choice means government choice, so that each and everyone gets the same service for the same price.

Gronnegird unravels the operation of the invisible state or the regulatory branch of government. Deregulation was a popular policy theme during the 1980s. The Danish Government under Schliiter embarked on a very ambitious reform of the public sector, involving rolling back the regulatory state.

Gronnegird explains the failure of the Danish regulation policy by focussing on the interests of the major actors, stated in terms of the public choice emphasis on self-interest, personal ones or collective ones. Out of some 3,000 proposals for regulatory reform, only a tiny fraction were implemented. Why?

Government rules are often introduced by reference to the public interest but once enacted they attract various kinds of special interest groups. Not only do government ministries and bureaux fight for their own regulatory schemes; strong interest organizations among both employees and employers find opportunities to turn the application of laws to their own advantage. Whereas the citizen or the consumer could benefit from deregulation by increased competition and less expensive products, the public sector works with a basic asymmetry, favouring narrow interest groups ahead of large and hidden interest groups.

The dominant mode of conducting research on the welfare state is still the public administration approach. In Norway there is the focus on local government finances ([Dente & Kjellberg, 1988](#); [Kjellberg, 1985](#); [Fevolden et al., 1992](#)) as well as

on the organizational structure of the state and local government, concentrated now at the “LoS”-centre in Bergen (Baldersheim *at al.*, 1993). In Sweden public policy-making is stressed in Stockholm, whereas Gothenburg focuses on local government (Wittrock & Lindstrom, 1984; Premfors, 1989; Strömberg & Westerstahl, 1984). Some scholars in Denmark (Mauritzon) concentrate on local government and others look at crisis management (Jorgensen) and institution revival (Bogason & Pedersen, 1988). The research cooperation between Lund and Åbo should be mentioned when public administration is considered (Lundquist & Stahlberg, 1983). Lennart Lundquist has published a number of works, from basic text-books to pure research studies on implementation, bureaucracy and norms, whereas Krister Stihlberg is more down to earth, identifying trends in the development of Nordic welfare state before anyone else (Lundquist, 1987; 1988; 1991; Stahlberg, 1990; Sjöblom & Stahlberg, 1989).

Theory: Public interests and institutions

Political theory has never been strong in ‘Norden’ for reasons that are not clear. A few scholars at Oslo University (Rasch, 1992) have tried social choice analysis with good results, as well as R. Malnes and K. Midgaard (1983) in the history of political theory. Another major stronghold of Nordic political theory is Åbo, where Hannu Nurmi (1987) and Dag Anckar (1984) are active in this field. Finally, there is Skytteanum at Uppsala with several studies, notably by Hermansson. One may get a feeling for the kinds of difficulties that political theory faces in ‘Norden’ by examining Leif Lewin’s claim to have empirical evidence which once and for all demolishes the public choice school, in particular the basic axiom of rational selfinterest maximization (Hermansson, 1990; Lewin, 1991).

As a matter of fact, the public interest is often referred to when defending the Scandinavian model, but it is not an entity easily observed in the world of social phenomena. People tend to have different conceptions of the public interest(s) and it is hard to say which one corresponds to the

public interest. Examining Nordic political rhetoric alerts us to the crucial difference between the interests that actors have in their own minds and the interests which they state explicitly. Defending the large public sector in the Nordic countries by referring to the public interest, one has to remember that to be a public interest it is certainly not enough simply to claim it to be such. Could the public interest be the same as that which electors, politicians and bureaucracies state is the best for others or the community as a whole. If so, anything would count; the public interest requires more. Lewin reaches his conclusion that Nordic homo politicus is motivated by public interests and not by self-interests, by considering survey data about voters, politicians and bureaucrats. When asked whether they are influenced by their perception of their personal and selfish interests or their perception of public interests, voters, politicians and bureaucrats in the Nordic countries refer to the latter. Is that adequate evidence? Looking at real electoral outcomes and the rentseeking activities of the immensely strong Nordic interest organization (Micheletti, 1985; 1991) it seems capricious to deny the relevance of self-interests, (narrow selfish, and broad collective ones), in the distributional coalitions in Copenhagen, Helsinki, Oslo and Stockholm. Populist personalities and fluctuating trends in the electorate dominate the climate, where volatility, unpredictability and the myopic sensibility of voters are the new elements of instability in Nordic politics, which are conducive to vacillating policy-making and the lack of effective leadership. The public choice approach seems highly relevant to understanding the fading of the Northern lights, as the access of the distributional coalitions to state power hampers economic efficiency. The interests of the major actors are no longer in harmony with the institutions of the Scandinavian model.

Conclusion

The frustration with the Scandinavian model has called forth a search for new approaches to the Nordic welfare state.

Some scholars emphasize the new institutionalist framework (Pedersen, 1989; Laegreid, 1990; Dyrberg & Torfing, 1992). Others underline the potential fertility of the cultural approach (Berntzen & Selle, 1990). Yet, it will probably be necessary to find some combination of a focus on the interests of the major actors and a recognition of the special features of the Nordic political system institutions. What the Scandinavian model bypasses was the importance of the incentives of the electorate, the politicians, the bureaucrats and the trade unions. Implicit in the model was the benevolent principal-agent perspective where each and everyone strived for optimal solutions. The role of opportunistic behaviour, strategic gaming and rent-seeking was totally neglected. Sweden seems to face the gravest difficulties among the three Scandinavian countries. The harsh realities of Finland stem at least to some extent from the drastic changes in its relations economically to Russia. For the first time since 1945 the Swedish economy is in terrible shape. The reform of the welfare state has been initiated first and foremost in Sweden where dramatic changes have already been made and more will come. The target of the reforms is to make the much too large welfare programmes incentive-compatible. Similar policies are being contemplated in the other Nordic states.

The Northern lights no longer shine as they used to do. Nordic economies are characterized by increasing institutional sclerosis. The internationally highly visible Scandinavian welfare state has run into mounting problems in the early 1990s, calling for a re-evaluation of the place of market values in an advanced economy. Various cut-back and privatization strategies have been tried in almost every part of the public sector, but the rates of economic growth remain exceptionally weak or may even be negative for several years. The consequences of these developments have not as yet yielded a new Scandinavian model.

8

Nations and Global Economic Competition: Variable and Zero Sum Games

Introduction

In the stylised discourse of the neo-liberal period, starting around 1980 and expressed in the Washington Consensus and the New Public Management (NPM) philosophy for public policy in affluent countries as well as in the Structural Adjustment Policies of the IMF and the WB for developing countries, one encounters the notion that competition among firms, entrepreneurs, bidders, agencies etc. is the most effective mechanism for social interaction, when it comes to the allocation of economic resources and generation of economic value. The endorsement of competition had a strong theoretical underlining in the teachings of the Chicago School Economics as well as in pure mathematical economic modelling, or Walrasian equilibrium theory.

However, the financial crisis starting in 2007 ([Stiglitz, 2010](#)), the re-emergence of Keynesian economics ([Krugman, 2008](#)) together with the difficulty of the austerity approach in Western countries, according to John Cassidy *The Logic of*

Economic Calamities from 2010, have led to a critical enquire into the neo-liberal model of competition, as conducive to social or Pareto optima. One needs to contrast it with the opposite view of competition as involving conflict among nations, or struggles in zero sum games. How, then, to conceptualise competition?

The neo-liberal philosophy of free competition among nations has been enshrined in the dominant discourse in the WTO global competition regime with its principles of mutual reduction of tariffs and quotas, anti-dumping procedures, proportionality and transparency, public procurement, etc. Yet, this free trade philosophy has always been challenged by the opposing theory that claims that governments try to protect national interests and promote favourite firms in the global market place.

The involvement of government in protecting the competitive capacity of the country appears clearly in the recent currency wars, taking the form of the model of “quantitative easing”. QE leads to a strong depreciation of the national currency (US dollar, Japanese Yen, the Euro), which benefits exports and hurts imports a lot. Thus, governments certainly look upon economic competition as a major concern in several ways.

Governments and the markets: Whatt kinds of games?

One may approach competition from two angles, first the domestic market and second the international scene. Typical of globalisation is that the two have become intermingled to a large extent. Already a key institutional theoretician, Torstein Veblen linked around the Great War the fate of firms in the domestic economy with competition in the external, or global market.

The stylised image of politics is that of involving confrontation or often violent conflict (zero sum games), whereas economics tends to modelled as bargaining and cooperation (variable sum games, win-win) ([Riker & Ordeshook, 1973](#)). These standard dichotomies need to be

questioned, both theoretically and practically. Thus, rational choice scholars underline that politics, especially in countries operating on the basis of a set of well-ordered rules, involve lots of bargaining or negotiations: "Politics is deal making", states Shepsle (2010). But can we, then, also say that economics contains a good portion of conflict, perhaps even violent ones in zero sum games.

Generally speaking, looking at the history of economic thought as well as at the theory of political economy, one may argue that economic competition tends to be modelled in two contradictory ways. On the one hand, laissez faire economists view competition as a mechanism for achieving Pareto-optimal outcomes, as the competitive equilibrium renders the lowest price and delivers the maximum production feasible. On the other hand, Marxist, neo-Keynesian and institutional economists view economic competition as a struggle with whatever means available for generating profits, often resulting in zero sum outcomes with monopoly, oligopoly and one-nation dominance in a global sector.

Meanings of "economic competition"

Economic competition can be enquired into through two entirely different perspectives. One approach to economics struggle targets the process of competition, the means employed and the extent of adversity manifested by the participants. The other approach looks at the outcomes, especially whether the consumer benefits from producer competition in the form of lower prices and bigger output. One finds the first perspective with scholars doing empirical research into processes of economic change, often Marxist, radical or institutionalist scholars. The alternative approach is to be found in mainstream economic theory, especially with a neo-liberal bend, using the Walrasian equilibrium model that full competition promotes Pareto improvements. Thus, economic competition has been analysed as either predominantly a zero sum game or as basically a variable sum game.

Dictionary

Consulting a standard dictionary, one may say that the core meaning of “economic competition” is the following according to a dictionary: “Competition” stand for:

a business relation in which two parties compete to gain customers; "business competition can be fiendish at times" business relation - a relation between different business enterprises price competition, price war – intense competition in which competitors cut retail prices to gain business

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Business competition focuses upon sales, profits and market shares. But, theoretically, one speaks of three kinds of competitiveness in the global economy:

- a) Firms or companies: One outperforms another in sales or profits taking perhaps market shares. Example: Which is most competitive, Apple or Samsung, in electronics?
- b) Countries or nations: Entire societies offer a more or less competitive environment or business culture. Example: The Eurozone harbours a competitive rift between Northern countries and Southern ones;
- c) Institutions: Country differences in economic output is said to reflect the set of institutions in the nation, especially in the political economy of the country. Example: Market allocation tends to be superior to budget allocation, or planning.

Thus, for instance one speaks of a set of market institutions (“the institutions of capitalism according to Williamson, (1985) as stimulating towards firm or country competitiveness more than other kinds of institutions, like the planned economy or crony capitalism. Acemoglu & Robinson (2013) identify inclusive institutions in the economy as well as in the polity as especially conducive to country affluence, being superior to exclusive ones.

Perhaps it may be pointed out that one should make a distinction between orderly economic competition and savage forms of competition. The former requires that there is a set of rules that are followed by the contestants and enforced by a Third Party – i.e. we have institutions in place domestically or internationally. On the contrary, naked competition is conducted with whatever means are available in order to prevail, most often illegal ones. Yet, there is ambiguity concerning the rules of competition, as strategies of competition may display opaqueness: What is really free or fair competition? At the end of the day, courts play a major role in deciding about the correctness or fairness of competitive behaviour – consider e.g. the enormous legal processes and litigation concerning monopoly and oligopoly in anti-trust law, or the endeavours of the International Court of Arbitration.

I wish to argue that economic competition can be analysed from two perspectives, namely both as a zero sum game and as a variable sum game. It depends upon the stand-point adopted. Competition between two or more firms is a zero sum game for the competitors, like Nokia against Samsung, but for the market as whole it is a variable sum game, involving increases in total global output. From the point of view of nations, the outcome of giant firm competition may be the loss of an advanced industry, like for Finland.

The standard meanings of “competition” in general – social life, economics, politics – include the following connotations:

- 1) Rivalry, opposition, struggle, contest, contention, strife, one-upmanship (informal) There's been some fierce competition for the title.
- 2) Opposition, field, rivals, challengers In this business you have to stay one step ahead of the competition.
- 3) Contest, event, championship, tournament, quiz, head-to-head He will be banned from international competitions for four years.

Source: Collins Thesaurus of the English Language. 2002
HarperCollins Publishers 2002.

We should find these aspects of confrontation and rivalry also in economic competition.

Game Theory

In economic history, economic competition has sometimes taken on the features of warfare, as when a country exploits another under a colonial regime, for instance India under British rule, favouring British industry ahead of Indian industry. Countries often went to war in order to secure economic interests in trade, agriculture or manufacture. Whether it always paid off is another question, as warfare tends to become very costly on its own terms. Thus, one has asked: Was colonialism profitable at all, globally speaking including the administrative burdens?

The debate between free marketers and Marxists has a long history, dealing with key themes in economic theory, like trade, foreign direct investments, regulation, anti-trust policy and monopoly as well as oligopoly. Here, we shall focus upon the present day situation with free trade and foreign direct investments among nations as the central topic, given that several areas of economic competition have been deregulated globally or regionally. Is global competition fair competition, or is it economic warfare strategy where not only firms but also governments go head to head? Let us first examine the implications of the theory of competitive equilibrium and second look at the risk of industry decline, de-localisation and loss of national economic niches.

Thus, one should question this simple classification of economic life as overwhelmingly win-win situations, and as an implication politics as fundamentally zero sum situations. It may seem somewhat contradictory to examine economic competition from the point of view of conflict, given the established distinction in game theory between variable sum games and zero sum games. As long as economic competition is restrained by rules and effective institutions prohibiting violent behaviour, it would basically adhere to the logic of the variable sum game. Zero sum games would display the logic of adversity or conflict interaction, whether the means employed are peaceful or violent ones (Luce, 1957). But governments or

nations are much aware of what is at stake in global economic competition for domestic firms, employment and innovation.

Neo-liberal model: Variable sum game

Neo-liberalism emerged as a global economic philosophy and policy approach in the 1970s. It is basically a rejuvenated form of old liberalism with Adam Smith and David Ricardo, interpreted in a novel fashion by Hayek and Chicago School economists like Friedman, Stigler, Lucas and Coase. The so-called marketers inspired by these scholars spread neo-liberalism governments and other policy centres, like the WB, IMF and WTO. It favours all forms of free competition in the markets of goods and services, money and financial assets as well as public contracts and welfare provision. Its critique would argue that “free” competition” is not always “fair” competition, especially for economically weak nations (Stiglist, 2007).

There are always two sides of economic competition. On the one hand, the individual firms – the micro perspective – have to approach the struggle for market shares as a battle where competitive edge plays a considerable role, especially in deregulated markets. On the other hand, there is the national or government perspective, focussing upon the competitive macro position of its entire country globally. The process of globalisation presents the individual firms with an integrated market, where it has to compete both domestically and globally. The same process also makes government look for policies that increase the global competitiveness of its own or national enterprises, one reason being the fear of de-localisation and loss of employment / tax revenues. The Porter model portrays a new global situation where countries face the challenge of competitive advantage more than Ricardian comparative advantage.

Porter: Competitive Advantage

In the theory of economic competition launched by Michael Porter, the success or failure of nations is linked to their competitive edge. Let us quote from him:

In the modern global economy, productivity depends less on what industries a nation's firms compete in than on how they compete – that is to say, the nature of their operations and strategies. In today's global economy, firms in virtually any industry can become more productive through more sophisticated strategies and investments in modern technologies [Porter, 1990; p.16].

The Porter theory of competition conforms to the neo-classical theory of economic growth, underlining the fundamental importance of three factors: Labour, capital and technology, especially the latter. It also sits well with new trade theory that underlines the implications of the rise of the global firm with presence in many countries (Krugman *et al.*, 2011). International trade between countries has become intra firm trade to a considerable extent.

Porter develops moreover the notion of a competitive climate in a country, which is to some extent an endogenous variable that can be impacted upon by government policy-making. Decisive for the success or failure of a nation is the amount of domestic competition in the three basic factors promoting economic growth: labour, capital and technology. Yet, Porter's model does not mention competition as a strategy by governments, involved in a struggle head to head with other nations. It entirely rejects the relevance of industrial policy-making by governments.

Consider Diagram 1, which portrays the overall economic advantage – GDP per capita – as a function of the degree of country competitiveness, as measured by the Davos institute index on the competitiveness of a country (GCI).

The finding in Fig. 1 supports the hypothesis that economically successful countries are characterised by high scores on this much debated competitiveness scale. But Porter needs to explain where the climate of competition comes from. He argues that a competitive industry on the global scene is one where there is strong competition domestically among a few producers. Thus, strong internal or domestic competition creates a national competitive edge in the external or global economy. Example: Swiss “horlogerie,” or Swiss pharmaceuticals, the German car industry, manufacture

of clothes in Bangladesh, Silicon Valley electronic technology, French wine or luxury items, Korean high technology production, etc.

But one must pose the question: Can and do governments or policy-making advance the competitive edge of national industries by various means? One could think of a variety of measures that increase the competitive edge of a country: Cheap financing, monetary policy like devaluation, technology transfers, copying, joint ventures, etc. It is true that competition is today supported by both domestic and international institutions. Free market economics usually underline the necessity of external rules and their enforcement for the functioning of the competitive market. But if government is to supply these rules domestically or in collaboration with other states on the global scene, what would stop them from trying to deviate from a strict level playing field approach, if this promotes certain national interests like key industries at home?

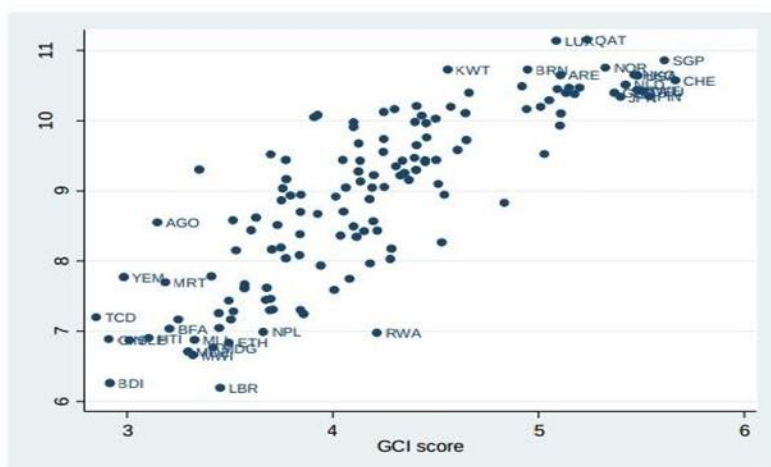


Figure 1. *Country competitiveness and GDP per capita (ln)*
Sources: GCI: [Retrieved from] ,Growth: [Retrieved from];
 GDP/capita: [Retrieved from]. Note: $r = 0.8361$

Emerging economies are not only interested in a level playing field, supported by for instance the WTO. Their

governments are also interested in strategies that help their enterprises win international market shares, invite foreign companies to settle down in their country or help their national favourites expand abroad. Established economies fear first and foremost de-localisation. Economic change may be very rapid when an emerging country can draw upon both strategies: expansion abroad and foreign direct investments at home. These political implications of competition are very important for a country and its government, although they tend to be dismissed in a purely abstract theory of economic competition.

“Law and Economics”

One may consult a blueprint or ideal-typical approach to competition as resulting in Pareto improvements and higher total output with lower prices in the school called Law and Economics. It is a development within up the Chicago School of Economics, spelling out the full implication of bargaining and exchange in all forms of social life, according to Demstet (Demstet, 1990).

The scholars who contributed to the school Law and economics, like e.g. Posner RA., would be inclined to reject the Schumpeter view. According to Law and economics, the market has an inbuilt drive towards the perfectly competitive equilibrium, especially when domestic markets are linked globally in one single market economy. Basically, the size of the market is determined by the law, meaning that global competition is feasible when there is legal order sanctioning a complete level playing field all over the world (Cooter & Ulen, 2011). Neo-liberal economists would argue that only the institutions of free market economics with a neutral state can bring lasting welfare (Friedman, 1962; Stigler, 1977).

This school of neo-liberalism sees restriction upon competition as coming from outside the market, mainly through government interference, often driven by rent-seekers. The importance of regulation derives from the necessity to protect the level playing field from such outside interference. Thus, for instance innovations need to be protected by means of patents, but only for a certain period of

time. Monopoly or oligopoly is only sustainable when supported by forces outside of the market. Thus, there is a need for all the time enlarging the market so that contestability can operate. At the end of the, monopoly and cartels are self-defeating mechanisms, when there is open access to the market. And, states “Law and Economics, the size of the market – domestic, global – is decided by the law, i.e. the enforcement of the rules of the capitalist economy.

The alternative discourse: Zero sum game

Today economic warfare refers primarily to rapid changes in international trade and foreign direct investments, involving the risks of heavy de-industrialisation, de-localisation and losses of economic niches for the mature economies. The Chinese state led penetration in African countries and Pakistan does not amount to the old form of economic colonialism. Strategies of economic competition become indistinguishable from warfare when politics is employed to conquer countries – real colonisation – or when colonial powers employ their domination to subjugate the economy of the colony. Neo-classical economists have always shown little interest in these forms of outright political intervention for economic objectives, but economic historians debate them often without arriving at consensus sometimes.

Take two examples of purported economic warfare: (1) British rule over the Indian economy, forcing India to buy British manufactured goods and sell cheap primary goods. Yet, whether British colonialism was on the whole profitable or not, when all costs are taken into account has been questioned. It is true that there was a long time in the UK a critique against colonialism partly for economic reasons: “Trade not Empire”! At the of the day, the UK could not pay for maintaining its domination, for instance in India or Africa. (2) The operation Iraqi Freedom: Cobra, i.e. the invasion of Iraq in order to purportedly get access to cheap oil. Operation Cobra was a complete failure from all possible angles, except that of removing a brutal dictator.

The US army had to pay market prices for the petrol and gas it used for its war machines in occupied Iraq and the costs for the war in Afghanistan and Iraq amounted to a trillion dollars. Besides, it contributed most significantly to the present total chaos in the Middle East, where life has become brutish, nasty, poor and short.

When the zero sum aspects of economic competition are emphasized, it is rarely a question of colonialism, which is outdated. Thus, the Soviet Union exhausted itself not only in the failed interference in Afghanistan but also in providing more or less free or subsidised resources, energy, arms to its European or African satellites or Cuban allies.

Weber

In *Economy and Society*, Max Weber (1978) underlined that social life is all the time replete with fighting over advantages or opportunities, the struggle resulting in what he called "Auslese" or selection. In all forms of social interaction, there is an element of collision of interests of various kinds. This was the basic insight of Weber's realism, but he was quick to point out that processes of selection did not necessarily involve violent confrontation. His conceptual starting point when outlining a set of key sociological concepts agrees with the standard approach to the semantics of "competition" in dictionaries.

Thus, Weber underlined the dichotomies between cooperation against conflict as well as peaceful versus violent conflict. He counted economic struggle in modern capitalism as a form of conflict between economic agents under the institutions, especially when there was competition with free entry. He no doubt regarded economic competition as peaceful conflict in the normal case, like voting in politics. But as economic historian of both the Ancient period and the Medieval ages (Weber, 2003; 2013), he often underlined forms of oppression in economic structures – agricultural as well as mercantile and industrial, like his compatriot Werner Sombart, separating in his grande theory of capitalism between early, high and late stages or capitalisms (Sombart, 1903; 1991).

Veblen

When one turns to detailed enquiries into industrial change on a global scale, one encounters several examples of competition as economic warfare. Today, major industrial change comes from de-localisation, meaning the transfer of firms or parts of entire industries from one country to another, or from foreign penetration into core industries in a country, or both. De-localisation is hardly a variable sum game, as one country may lose considerable employment without any compensation in sight, at least in the short run perspective. With delocalisation often comes changes in ownership, as firms in dynamic emerging economies take or assume large stakes in enterprises in mature economies. Differences in economic growth leads sooner or later to foreign take-overs.

Institutional economist Veblen in Imperial Germany and the Industrial Revolution (1915) was well aware of the major industrial changes going on around the First World War, looking at the world conflict between nations against that background. If a nation can capture a new industry, it may benefit tremendously at the expense of other nations. Today, the enormous expansion of industrialisation in South, East and Far East Asia has come with heavy losses of industry in both Europe and the USA as well as ownership transitions. Whether government had a big or a small hand in these developments that now result in growing affluence in Asia but austerity and unemployment in the West, can always be debated. The global market forces push themselves for de-localisation. Whether de-localisation is supported by currency depreciations is much debated today, given the quick rise of China as an industrial super power ([Richards, 2012](#)).

Schumpeter

One may approach competition from two different angles, namely that of the firms in the market (micro) and that of the state, supervising the markets (macro). Schumpeter ([1989](#)), rejecting the general equilibrium approach, argued that competition would tend to be fundamentally instable from

both the micro and the macro perspectives. The entrepreneurs or firms in the market place would resort to creative destruction in order to create monopoly or oligopoly, which would allow them to engage in full scale profit maximisation. Innovation upset the competitive equilibrium, allowing for short term excessive profits. Yet, duplication and mimicking with free entry would erase these excessive profits, leading to the economic downturn.

In the long run, government would intervene to stabilise these fluctuations in the business cycle, caused by creative destruction through its “march into socialism”, eliminating the jealousy that capitalist success results in as well as the poverty of economic depressions. On this point Schumpeter shared the pessimistic view of Sombart (1991) about the future of capitalist competition, but Weber on the other hand rejected forcefully such dire predictions about the victory of socialism over capitalism or bureaucracy over the competitive market economy. Also the new Soviet Union would have to rely upon market forces, if it were to survive, Weber predicted (Porter, 1998).

Of Schumpeter’s two ideas on competition, only that of innovation and contestability has survived. Schumpeter definitely modelled the process of competition – whether domestic or international – as a kind of merciless warfare concerning market shares, where an intruder by means of innovative practices could eliminate the established players in a zero sum battle for market shares. The consumers could sit and watch the fight between the major entrepreneurs or firms dinosaurs, but for the employees the predicament could mean too much risk, once monopoly was broken successful invaders, driving prices and profits down.

The neo-liberal critique of Schumpeter would claim that his emphasis upon the capitalist tendency towards monopoly and oligopoly was misplaced. In a general equilibrium perspective, monopoly or oligopoly constitute in reality self-defeating market strategies, when entry is open and the market – huge or small – is basically contestable (Mankiv, 2012). Demsetz would certainly have been critical of the EU anti-trust case against Google, as only market forces, not

government or regulation, can set limits to the market power of giants. Anti-trust policy-making entails punishing the winners for being best in competition, i.e. having the lowest prices for the best products.

One may point out that Schumpeter's model of the instability of economic competition offered a dynamic explanation of the capitalist business cycle. The ferocity of competition would account for the huge swings between boom and bust. As new innovations promoted monopoly and oligopoly, open entry called for intruders to eliminate surplus profits until all competitive advantage had been sucked up, leaving the economy in a state of over production.

Endogenous growth theory has developed the Schumpeter ideas of economic competition as the road from innovation, market power and competitors' copying, to explain the rise and fall of players in the global competitive market (Mankiv, 2012).

Wade and Chang

The industrial policy debate between free market economists and state capitalist theorists never resulted in a conclusive explanation of the Asian miracle, its sources and mechanisms. On the one hand, it was argued that import substitution and export orientation had helped several firms to reach sufficient size. On the other hand, it was counter-argued that a number of firms succeeded despite industrial policies, due to acceptance of market pressures. Only the fully informed market can pick winners, never government or a supra national commission.

The so-called Asian developmental model approached economic growth as a zero sum game, where market shares were up for grabs. Wade (2003) argued forcefully that governments could steer markets to the advantage of national interests, but his thesis has been criticised (Naughton, 2006). Returning to the theme, Wade (2003) insisted on the advantages of a developmental state, supported by Chang (2002; 2008).

Market shares constitute a zero sum game, at least in the short run. Internally, monopolies and oligopolies attempt to

maximise market shares in order to control price and quantities. Globally, the MNCs or TNCs similarly aim at securing market shares in numerous countries in order to exploit the benefits from economies of scale. Yet, the struggle for market shares typically runs into some severe collective action difficulties, especially in the long run. Thus, we have the following arguments for the competitive nature of so-called ocean markets, giving even giant firms only the option of “camping on the seesaws”:

- When one player tries to maximise market shares, this firm will face sooner or later similar tactics from other players – the PD game, or collective foolishness.
- The strategy of maximising market shares is costly, especially when contested by other firms – the so-called Chain store Paradox.
- When the force of the state is employed in these tactics of securing market control, government tends to run up various costs– dead-weight losses and rent-seeking costs.

Yet, these arguments against the governance of the market do not entail that states are not prepared to engage in various strategies and tactics improving competitive edge. There are examples of great success for industrial policies, but also of some dismal failures. One is reminded of the contrast between East and South East Asia on the one hand and Latin America on the other hand where the economic philosophy of Raul Prebisch in the ECLAC (Economic Commission for Latin America and the Caribbean) failed completely as similarly Singer’s policies with the UN. But there is more to be said about industrial policy-making.

The theory that the state can promote capitalist development by means of a set of rational policies did not originate with the so-called Asian Tigers – economic nationalism. On the contrary, it belongs to Western economic thought, constituting one sub-field like Marxism, besides mainstream classical or neo-classical approaches. Thus, one may in this tradition mention the following ideas about state

led or initiated economic development in collaboration with capitalist firms or entrepreneurs:

- List (1841): The German economist List outlined already in 1841 a coherent framework for the national promotion of industrialisation in the country economy, although rejecting the Marxist idea of abolishing private property. List was as a matter of fact quite influential, especially for the emergence of the German historical school in economic theory: Schmoller, Sombart and Weber. With the strong German influence upon the Meiji Restoration, it is plausible that Japan adopted List's framework. However, in Germany and Austria the marginalist framework of Menger proved the strongest in the long run, supported by Swedish economist K. Wicksell.
- Gerschenkron (1962): When explaining the rise of East and South East Asia to world prominence in the global market economy, he resorted to capitalist-statist notions. Gerschenkron argued that young economies can catch-up quicker than the development path of older economies, especially if they can master industrial- policy making, including export promotion, import substitution and direct copying of the technology of more advanced countries – the so-called new comers' advantage.

Johnson (1993) supported the idea that countries can use industrial policies successfully, explaining Japanese economic success as the result of state intervention. The reply from neo-liberal scholars was that Japan and the other Asian Tigers had succeeded despite industrial policy-making by means of access to cheap capital, harsh regimentation of the labour force and lots of copying and little of productivity gains due to internal innovations (Krugman, 2008).

Thurow

This question about the nature of economic competition in the global market has been debated intensely since the publication of *Head to Head* by L. Thurow (1993). The

perspective upon international trade as a conflict between countries - head to head - was sharply rebutted by P. Krugman [[Retrieved from](#)]. Interestingly, Krugman took the classical Ricardian view upon trade as a variable sum game with possible Pareto improvements for all partners, despite his emphasis upon the political elements in other forms of economics, especially macroeconomics.

It should be admitted that Thurow ([1993](#)) received little appreciation in terms of his book on the future competition between on the one hand the US and the EU versus on the other hand Asia: East, South East and South Asia, despite obvious developments indicating this region's rise to economic dominance around 2000. Krugman among others argued with much emphasis that such a perspective upon global trade and market shares for the major country companies entailed too much of a zero sum perspective upon international trade and investments. Global trade and FDIs more resemble variable sum games with feasible coordination successes, China or South Korea investing in Europe due to comparative advantage, the search for new niches, or mainly because of competitive edge. But were really Thurow's predictions or warnings so irrelevant?

Whether economic transaction -domestically or internationally- are seen as constant sum or variable sum games depends upon how the concept of competition is defined or approached, whether it is a matter of competition between firms, countries or even institutions.

Renewed Marxist Analysis

John Bellamy Foster and associates have launched an attempt to renew the Marxist analyses of global capitalism, originating with Hilferding as well as Baron and Sweezy. In terms of the approach here, the neo-Marxist analysis ([Foster, & Clark, 2010](#); [Foster, 2012](#)) looks very much as the global market as a constant sum game.

Firstly, the gains from the global market economy are more and more appropriated by the financial system and its institutions, focusing upon quick profits from managing gigantic transactions in paper assets. Thus, the centre in the

neo-Marxist approach is no longer the accumulation of surplus value in the real economy, the capitalist exploiting the worker. Instead, the current crisis in the EU and the US has to do with a crisis of monopoly-finance capitalism, and the tendency toward secular stagnation in mature capitalist economies. This reduces investment opportunities in the real economy, driving capital to seek other sources of profit through the financial economy. The construction of a "casino" economy built on increasingly complex financial mechanisms is collapsing under its own contradictions. The monopolization of the economy — when a handful of large firms dominate one or several industries — leads to an overabundance of capital and too few profitable investment opportunities. Absent powerful stimuli to investment, modern capitalist economies have become increasingly dependent on the financial sector to realize profits. And while the financial sector may offer a temporary antidote to stagnation, it is a solution that cannot last long.

Secondly, in the neo-Marxist analysis ecological concerns are added to the picture of global competition. Thus, the relationship between the global environmental crisis and the crisis in the capitalist economy is underlined, while also stressing the imperative for a sustainable, socialist alternative. The reinterpretation of Marx on ecology introduced the concept of "metabolic rift" and it was widely influential. Foster stated:

Developing an environmental sociology as an integral part of sociology as a whole thus requires that we reach back into past theories in order to develop the intellectual means for a thoroughgoing analysis of the present. For environmental sociology the crucial issue today is to abandon the "strong constructionism" of most contemporary sociological theory, which tends to view the environment as simply a product of human beings, and to move toward a more "cautious constructionism" that recognizes that there is a complex metabolic relation between human beings and (Foster, 1999).

The neo-Marxist recognition of the relevance of ecological concerns contrasts much with policies of Communist regimes.

However, it represents a most timely acknowledgement that established measures on welfare like yearly rates of economic growth are defective and should be complemented by for instance ecology footprint scores on pollution of various kinds, including emissions of CO₂ equivalents. When environmental costs are added to the calculation of economic growth, numbers become entirely different, i.e. lower figures overall. Yet, one must ask whether the neo-Marxist economic perspective has any plausible approach to ecological policy-making. After all, the planned economies in both Soviet Union and China displayed a shocking neglect of environmental concerns. And China is today the world's largest polluter through its emissions of greenhouse gases.

Now, neo-Marxist analysis of global capitalism is strongly emphasizing its zero sum aspects, economic growth being accomplished with huge environmental costs and what is left to be divided ending up with the people in the financial system to the exclusion of the poor, the unemployed and increasingly the impoverished middle classes. One may point to interesting empirical evidence for this zero sum approach in the new index of economic welfare, taking into account the environmental run down of the globe and in combining economic growth indices with environmental sustainability indices, as well as in the clear evidence of rising inequalities the world over (Stiglist, 2012).

Competition: Three different idea-type games

There is no need for anti-trust policy-making, when there is open access. Governments should never engage in market governance, neither industrial policies not welfare state regulation of minimum wages etc. The market is when left untouched from the outside perfect, i.e. moving towards the Pareto optimal equilibrium, or an optimal outcome, as prices are minimised and quantity maximised. However, its basic institutions – property, contract, theft – must be enforced at all times in an effective manner.

In a global market, no firm can control all the market shares, meaning that intruders will have to be accepted. Firms

that loose out can always change their niche. Or their employees can be rehired by the successful competitors. Thus, a reduction in the volume of cars produced by French car makers domestically will be compensated by an increase in cars produced by foreign competitors, sometimes produced in France, or by cars produced elsewhere by French car makers (Table 1). Global competition is a variable sum game between countries where firm ownership, from the national point of view is not an important consideration.

Table 1. *Competition as variable sum game*

Country 2		
	Global expansion	Domestic concentration
Global expansion	100, 100	120, 40
Country 1		
Domestic concentration	40, 120	50, 50

There is no rationale for industrial policy, as competition leads to the Pareto optimal outcome (100, 100) that is also Nash. Yet, things are of course different in reality where countries fear de-localisation or foreign penetration, especially if it results from unfair competitive strategies. This would amount to the ideal-type situation in neo-liberalism where all the advantages of free trade – comparative advantage, competitive edge, factor endowment differences, economies of scale globally – are conducive to Pareto optimal outcomes. But this is just a blueprint, as economies realities may deviate much from the neo-liberal ideal-type.

First, in a global market economy where the domestic economies have been integrated into global capitalism, nations worry about their competitive edge and the fate of their national industries. They fear that other countries will invade their home markets or capture large parts of their industries as well as force out employment at home in the major process of de- localisation. Thus, nations face the threat of decline from the following developments that hurt employment and innovation:

- a) Industry backbone: Nations may lose their traditional niche by either export competition or de-localisation: How to competitive edge in for instance car construction, pharmaceuticals, financial services, etc;
- b) National research interests: When a country loses its competitive edge, it often implies that its knowledge advantages are also lost. Other countries close the knowledge gap quickly through copying, espionage or research upgrading at schools and universities;
- c) Employment and training: The impact upon employment from decline in competitive edge can only be negative: More unemployment. Although the intruders may pick up some of the work-force from national industries, industrial decline weakens a nation;
- d) Fiscal deficits and debt, less state revenues, more social expenditures, etc; protect the special features of the country
- e) Industrial security: The future capacity to make innovations that lead to major investments in factories and employment.

Given the interest of nations in supporting research endeavours in universities, schools and institutes, it is little wonder that governments conduct so-called research policies long-term and that governments are eager to be present when big industrial projects are contracted in other countries.

When global competition entails only the redistribution of market shares, the game is basically constant sum (Table 2).

Here, there are winners and losers from global competition over market shares. Country 2 would actually be better off, if there was no global expansion and foreign interpenetration (100, 50), but this solution is not stable, as the equilibrium is to be found in the (120, 40) that is Nash.

One may model a third situation where one takes the internal distribution of gains from free trade and foreign direct investment into account, especially the trade with non-renewable resources, like oil and timber. Let us call it the “Bongo game”, after the situation in Gabon, where Chinese companies, supported by the Chinese state, penetrate into the

riches of this small country to the benefit of the presidential family and friends of it.

This game illustrates another and different aspect of government intervention in the economy, namely to further the private interests of political and administrative elites by various corrupt practices, destroying rather than enhancing the national interest. In countries with weak institutionalisation, foreign state led economic penetration is easily combined with clan favouritism, looting, patronage, embezzlement, etc.

Table 2. Competition as constant sum game

Country 2		
	Global expansion	Domestic concentration
Global expansion	120, 30	110, 40
Country 1		
Domestic concentration	90, 60	100, 50

Table 3. Competition as penetration

Gabon		
	Bongo clan looting	Country control
Penetration	60, 40	40, 20
China		
Trade as usual	40, 20	20, 20

When a giant like China enter competition for trade and development of resources in Africa countries with weak political institutions, the gains from international trade may entirely bypass the country population. In Gabon, the profits from global economic competition do not trickle down to the poor population, but ends up with the Bongo clan, for instance in properties in France and a multitude of luxury items of consumption.

Eurozone Loss of Competitive Edge

As globalisation rolls on with massive changes in both economic life and the environment, one observes certain disequilibria. One of them is the decline of Europe economically at the same time as the economic centre of the

world is shifting towards the East, South and South East Asia. Is there a kind of economic warfare going on behind these major developments?

When countries decline economically, they risk losing their niches in the global market economy. Typically, certain key industries or sectors of the economy face grave challenges from competition abroad. Governments step in to help the business community find responses, as a loss in the comparative edge or competitive advantages of a country would have consequences also for the revenues of the state.

Industrial decline raises a number of questions about fair competition in the global market economy as well as calls for strategic responses from both government and the private sector. Actually, processes of competition have more and more been modelled as both zero sum and variable sum games in both the domestic economy – monopoly and anti-trust policy – and the international economy – trade wars. Today, competition is played out in one global market economy. Industrial decline may be looked upon as an external shock to the country in question.

The decline of the EU-land and especially the EU-zone has triggered a debate about free balanced competition at the macro level. It is hardly an exaggeration that the combined outcome of a most severe crisis in the financial economy and the supply chock in the real economy from East Asia has contributed to the emergence of a New Colbertism, i.e. the search for some set of industrial policies in order to:

- (a) Protect national industries or key niches in the global market economy;
- (b) Stimulate innovations that may help the EU countries in a “creative reconstruction”.

Especially, the EU countries with a few exceptions (e.g. Scandinavia, Slovakia, Poland) have cause to reflect over their country competitiveness – see Table 4 with its meagre growth rates for 2007-2012.

Both the US and the EU has for quite some time expressed discontent with the global competition regime, as it is practised through the WTO system. Thus, the massive job

losses in the US and the EU are partly blamed upon East Asian tactics to circumvent basic principles of the global trade and investment regime. However, the resort to trade war and various forms of trade and investment hindrances would offset the counter-criticism of “beggar thy neighbour” approaches. Competitive devaluations (QE) result in a global PD game with all losing out. Yet, holding down the value of the Chinese Yuan (Renminbi) artificially amounts to a form of economic warfare.

France now reflects upon New Cobertism, inspired by its mercantilist past with Jean Colbert, as a method to save its niches and develop hopefully new competitive global industries. But as adherents of Chicago School Economics would counter: How can governments make the right choices when all the available information is present only in the markets? And Chicago School economists would not care too much about dumping from East or South East Asia, as lower prices always benefit the consumers in the short run and exhaust the producers in the long run (Van Overtveldt, 2007).

Competition as State Led Penetration

A new form of economic warfare is the entire economic penetration of one big country of another small country. In China’s broad based economic policies in several African countries, political penetration or neo-colonialism is not in the cards. But the strategic combination of these different policies leads to an undeniable predicament of economic dominance. The great plan for Chinese led mega investments in Pakistan follows the same strategy of business and economic development, not colonialism. But it will promote Chinese enterprises more than firms from other nations (Li *et al.*, 2013; Lin, 2011).

Behind the efforts at establishing and implementation a global competitive regime lies all the time the threat of economic warfare, which when carried to its extreme results in the predicament of the 30s – no trade at all virtually. However, the WTO system is incomplete and opaque as well as operating slowly. It is weak enough to allow for the occurrence of economic competition as zero sum games.

When countries cheat on the basic rules, it is not easy to take action. And complaint at the WTO may just stimulate counter-actions from the other party. Thus, when France accuses East Asian firms of dumping the price of solar energy systems, then China puts in restrictions upon the import of luxury French wines, etc.

Table 4. *Affluence 2007-2012: GDP and GDP Growth (ln)*

Geo	Kod	Loggdpo7	Loggdpi2	Growth
European Union	EU27	7,09	7,11	0,34
Euro area	EA17	6,96	6,98	0,43
Belgium	BE	5,53	5,58	1,00
Bulgaria	BG	4,49	4,60	2,21
Czech Republic	CZ	5,12	5,18	1,28
Denmark	DK	5,36	5,39	0,61
Germany	DE	6,39	6,42	0,74
Estonia	EE	4,21	4,23	0,49
Ireland	IE	5,28	5,21	-1,24
Greece	EL	5,35	5,29	-1,23
Spain	ES	6,02	6,02	-0,03
France	FR	6,28	6,31	0,63
Italy	IT	6,19	6,19	0,07
Cyprus	CY	4,20	4,25	1,02
Latvia	LV	4,32	4,35	0,49
Lithuania	LT	4,46	4,52	1,14
Luxembourg	LU	4,57	4,65	1,47
Hungary	HU	5,00	4,99	-0,15
Malta	MT	3,75	3,83	1,67
Netherlands	NL	5,76	5,78	0,43
Austria	AT	5,44	5,49	1,07
Poland	PL	5,49	5,58	1,77
Portugal	PT	5,23	5,22	-0,20
Romania	RO	5,10	5,12	0,48
Slovenia	SI	4,54	4,55	0,22
Slovakia	SK	4,74	4,85	2,30
Finland	FI	5,25	5,29	0,68
Sweden	SE	5,53	5,61	1,65
United Kingdom	UK	6,31	6,28	-0,71

Source: World Bank (2011) world data bank: World development indicators; data available from: [\[Retrieved from\]](#).

The incredible Chinese economic expansion since 1980 could hardly have been done without Chinese firms – public,

semi-public or private, joint enterprises with the West – defeating competitors in zero sum games all over the globe with tactics that call in question the WTO principles: artificial currency depreciation, dumping, local content, bi-lateralism, infant industries or lack of national treatment, strategic investments, etc. Yet, at the same time complaints against the East Asian dynamic countries have little consequence, as the world economy is heavily dependent upon China and South Korea, Hong Kong and Singapore when they for instance sustain demand for Western products in a variable sum game (Yueh, 2013).

Complaints against China for artificially holding down its currency occur daily (Richards, 2012), but result in very little. The now on-going penetration by China of several country economies in Africa should interest the West more. It is definitely a question of combining strong enterprises with state diplomacy to capture often resources that are in finite supply. There is a whole plethora of mechanisms – concessions, licenses, barter contracts, kick-backs, etc – that may be employed to exclude competitors: e.g. Ethiopia, Sudan, Gabon, Angola, Zimbabwe, Tanzania, Zambia. When natural resources are in finite supply, then pre-emptive strategies may be highly rewarding in the global market place. It does not matter that there in an Ocean Market of suppliers when the resources in question are being used up quickly, as for instance the valuable timber in Gabon (2014).

Government in well-ordered societies are far from inactive when it comes to national interests in the global market economy. They may pay lip service to the level playing field of the WTO regime, but they resort to various strategies and tactics to promote the national firms safeguard or augment their niches. There is a limit to these games, as the spreading of QE shows. If all countries would engage in currency depreciation, then the effects would be nil – a PD game outcome. However, nations may promote national industries in many other ways, like the Chinese penetration of several African and Asian countries as well as plans for Latin America.

Neoliberal credo

The neo-liberal credo has had an enormous impact upon the institutions of the global market economy, especially the basic ideas policy-making in order to enhance open entry, a level playing field, floating currencies and state neutrality visavi the economy. Neo-liberalism received much its strength for advances in economic philosophy and econometric modelling after the Second World War, ending up in the notions of rational expectations with market players and overall market efficiency. However, neo-liberalism badly underestimated the role of governments and the state in looking after national interests in the global market place.

In neo-liberal economic thought, the national identity of an enterprise can be bypassed. Ownership and location is inferior to market performance. And decisive in an ocean market is the management skills of a firm together with its innovative capacity. Realities are of course different. Governments, especially its ministers of finance and employment, follow the developments of the national “favourites” closely, fearing de-localisation and the shrinking of the country niches in the world economy, as well as being prepared to assist in various ways with the promotion of domestic production. In the last resort, when an industrial giant like French AREVA fails, then the government may invite another government to support a joint venture with its leading firms. Governments and national interests have been much neglected in the neo-liberal credo (Lane, 2014).

Conclusion

Firstly, governments view the competitive edge of national firms both domestically and internationally with much interest, as if it were a question of a set of zero sum games. Secondly, when the really big contracts about infrastructure projects, oil- and gas exploration, food and agricultural products are made between firms, the corresponding governments are often present simply in order to look after the interests of their national pride enterprises. Thirdly, governments visit each other with a large entourage of

business leaders in order to sign multi-billion contracts, with sometimes foreign policy goals hidden. Fourthly, it is no small wonder that one sees campaigns like “Buy American”, not only in the US but also in e.g. France, where Chinese capital is playing an increasing role, not only in the car industry but also in the classical wine production. It has been pointed out that Chinese exporters do not hesitate to engage in large scale contraband in Africa, e.g. textiles in Nigeria (Fenby, 2013 – see also *The Looting Machine* by Tom Burgis from 2014).

It is true that officially industrial policy-making is in the West not regarded as a proper response to the declining competitive edge of a nation. It is not in agreement with the policy emphasis upon a global level playing field, where there is fair competition in all countries. The WTO as well as the regional organisations has devoted much attention to enhancing fair competition, supported by means of rules that are more or less institutionalised. Industrial policy-making is completely at odds with neo-liberal philosophy approaching the global market as an ocean market, where countries can develop new niches when they lose their traditional industrial backbone. Thus, competitive games satisfy in principle the notion of Pareto improvements, as theoretically speaking compensation is always possible for the losers. Only single firms face elimination, as countries can seize new opportunities in the unlimited global oceanic market economy.

Yet, it must be emphasized that in reality and unofficially countries do try to protect internally or promote externally their core industries, as they know that the call for a complete level playing field is often hypocritical. Or nations attempt to create new spheres of economic interest, like China with its broad penetration of several African economies, offering for instance infrastructure projects against payment in natural resources (Brautigam, 2011).

In short, competitive edge in the neo-liberal credo is only a necessary condition for successfulness in the global market economy. State support and government sponsored contracting also helps a lot. The neo-liberal blueprint fails on realism, as global market trade and investment may be free

but not fair, trading partners not equal in asymmetrical gaming, and distributional impact bypassed. Nations are not passive in relation to market forces in the Ocean Market. China for instance gains competitive strength by state sponsored building of huge railroads in Third World countries (French, 2015).

9

Commerce and Islamofobia

Introduction

The burning of Koran has occurred a few times in Denmark and Sweden lately. This book fire is done by a small group of persons on a public location, a mosque or embassy or in front of Parliament.

The desecration of the Koran scripture has met with international condemnation and violent protests in the koranic world, including storming of Swedish embassy and consulate. Moreover, some governments in the Moslem world have threatened TRADE WAR against Swedish multinationals.

Commercial interests have provoked very active response from the Swedish government. Yet, it refuses to introduce a ban on Koran burning, which is what the Danish government will try.

Judge made law

One must point out that the Police give the permission to hold a demonstration at a specific time and place. This

decision is to be based upon a consideration of the likelihood of violent consequences. However, when the Police said NO, the decision was appealed to the lowest administrative court who said YES. Burning Koran is thus permitted publicly. The Police appealed the case to the intermediary administrative court, but lost again. The highest administrative court has not ruled on the matter.

Meaning of book fire

To fully understand the attention given to these burnings in Sweden and Denmark, one must grasp the meaning of the event. To some people, tearing Koran into pieces and then set the pages on fire as well as stamping on the ashes is just ridiculous – an event that will go away like the Muhammed cartoons. To others domestically and internationally the entire series of behaviour expresses publicly a deep contempt for the religion of Islam and koranic countries. While the Swedish government holds talks with Islamic groups and governments in order to assume them of its negative attitude to burning Koran, reducing the risk of economic consequences and terror reprisals, the Danish government ponders a statute law prohibition.

Kymlicka model: Swedish multiculturalism

The Muslims in Sweden amount to almost 10 percent, or around 900 000. They have migrated to find work and avoid political instability and repression. Some are Sunnis and others Shias. They come from Turkey, Maghreb, Egypt and the Middle East as well as Iran, Pakistan and India.

The Muslims have in Sweden a carpet of organisations that pursue their interests under the constitution. Although some of these claim links to the Muslim Brotherhood, there is little of DEOBANDI Islam and no personality similar to Muhammad Atta, the Egyptian mastermind of 7/11. The US government spent billions many years to get revenge at Atta, though already in “Paradise”.

Against book fires

I believe the two courts took the wrong decision. Not for fear of trade war or violent consequences in Koranic countries like attacking Swedish embassies or consulates. But because the Muslim minority have the rights of a multicultural society, according to Kymlika's model, which remains relevant despite the critique of philosopher B. Barry.

Conclusion

The meaning of the sequence of behaviour in Koran burning is not in agreement with the rights of Muslims in Sweden to minority protection and group respect as well as religious tolerance. I hope the highest administrative court will find this argument compelling, if the decision is appealed again.

The counter argument that stopping Koran burning is a misplaced concern for Swedish investments and profits, when the decisive issue is the absence of liberty in Koranic civilisation. Stopping Koran burning would constitute an inadmissible concession (Expressen 5-6 August 2023). Yet, accepting domestic inequity is no proper means to make Islamic civilisation less backward. Burning the Koran is bad, stopping it by statute law even worse, says the chief editor of Expressen.

It may be said that the criticism of lack of well-orderedness in the Koranic civilisation is not promoted by Koran desecration. And commercial conflicts or trade war are not Paretian.

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