Jan-Erik Lane

Critical Essays on Politics

Vol.1

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Critical Essays on Politics Vol.1
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Dedication

To

Arild Underdal

University of Oslo

Foreword

It is possible to present a brief summary of the subjects that the chapters in this book focus on.

Ch 1. The 21st century will most probably be the last one for mankind. First, the threat of nuclear confrontation is imminently present in the Ukraine war, where with escalation, it becomes global. Second, global warming will make life unbearable. There is no strategically viable way out of the heating up of the planet, as every state cheats. Now, we have 425 ppm.

Ch 2. Professor M. Sandel argues in the book Justice: What is the Right Thing to do, that virtue and the common good capture the essence of morality as well as that justice is dependent upon morality. These two arguments come from his well-known lectures with Harvard University. But can they be upheld? Or are these words -"virtue" and "common good"- building stones of morality?

Ch 3. Global attention is now very much directed onto questions of war and military armaments. In a long run perspective on humankind in the 21st century, global warming raises an even more fundamental problem of human survival. By heating the planet through greenhouse gases, especially

CO_2 and methane, rich countries risk their affluence and poor countries will be even worse.

Ch 4. Today there is a set of well-ordered countries to which many people would like to move. What is their advantage? Reply: they are well-ordered im the public and private sectors adhering to the Keynesian model of a mixed economy.

Ch 5. Russia is a peculiar country. The Russian people is governed by a president who violates the constitution of the country, embezzling enormous sums of money and has begun a war with big losses. How did it then come to all of this?

Ch 6. New Labour came close to changing the political economy of the UK. There were 3 leading personalities that time has treated somewhat grimly. They have rendered account of their doings. In fact, New Labour was a necessity, if there would be a shift of power to the Left. It signalled the necessary ideological transition from ownership focus towards sustainability and equality. There will be more "new", if French developments are to be avoided for "socialism". This article concludes that to avoid the disaster of the French socialist party, New Labour needs rethinking away from Marxism's ownership focus towards sustainability and equality.

Ch 7. The economic impact of the war in Ukraine becomes more and more costly. The destruction of capital in a [5]sizeable part of the Ukraine I is immense. And the expenditures on war materials keep augmenting, not only for the belligerent parties but also for Western governments aiding Ukraine. The Russian president promises to fight mistakenly approaching the war as sunk costs.

Ch 8. In the world today –the real world and not merely a possible world –we have some 200 states, butonly a handful of regimetypes. The essence of these few types is to be found in their meaning –in Max Weber's use of "sinn" (1978). Instead of aninquiry into institutional variation, we will ask what their meaning is. Keywords: regimetypes, spread of dictatorship, crisis of democracy, principal-agent problematic.

Ch 9. We suggest that not only that the P-A framework is applicable onto public organization but also that it is highly suitable for analyzing relations involving accountability. The two main phenomena in principal-agent interaction – hidden action and hidden knowledge – may be identified in public

organization. In addition, one may speak of transaction costs which the principal incurs when he/she attempts to handle asymmetric information. We show what is involved by four essential Diagrams.

Ch 10. Does federalism matter for democratic longevity? Most scholars would reply first 'yes', and then most probably add 'very positively'. We show in this article that one should not take for granted that federalism constitutes a positive for democratic stability. This surprising result, derived from a regression approach where the impact of federalism is tapped while controlling for other factors constituting embeddedness, explains why many federal states have authoritarian regimes or unstable governments. More research on federalism is needed without harbouring preconceptions about the outcomes of this kind of political decentralization. One must separate between formal and real federalism as well as between various forms of political decentralization. The findings of this article tend to support the sceptical appreciation of federalism in the literature on political institutions.

Ch 11. Despite the popularity of federalism as a discourse, it is difficult to pin down what real federalism amounts to. Equating federalism with decentralization, democracy or consen sus political culture is more rhetoric than observation upon the countries with a federal dispensation. A federal constitution introduces a duality between the nation-state and the provincial states, which comes with a cost in the form of increasing transaction costs, compared with a unitary framework. Supporting increasing political transaction costs necessary in very large countries in order to arrive at political stability. But it may also result in stalemate and policy failure.

J.E. Lane
Switzerland
June 28, 2023

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1 A philosophy of pessimism

Introduction

In the standard historical narrative of philosophy, the philosopher of pessimism is A. Schopenhauer. Let us consult his *The World as Will and Representation from 1858*.

As a matter of fact, this book is not very pessimistic, as typically claimed. By the German "Wille" Schopenhauer means volition in general or will to survival in particular. His book has been misunderstood, because it is not about pessimism in general, but contains Kantian type epistemology and an anticipation of elements of Darwinism. Schopenhauer constructed a most complex metaphysical system. He had much positive to say about art, architecture and poetry.

It is true that Schopenhauer is again read with great interest, as "Wille" is interpreted as energy. But his basic subjectivist standpoint is difficult to accept. Not only are time, space and causation merely faculties of the mind, but behind all the Kantian phenomena there is just one thing in itself—namely "Wille" or energy.

Yet, there are other and more relevant sources of pessimism than Schopenhauer's thesis that will restrain intellect.

Pessimism 1

In the commentaries to the Ukrainian war, the possibility of nuclear warfare is discussed.

Nuclear warfare has again become a topic of urgent debate (Kaplan 2022). The interest in nuclear warfare concerns both strategic and tactical issues. Strategic use of nukes lies behind the present realignment of powers and coalitions like the expansion of the NATO. What, moreover, is tactical nuclear warfare?

Putin and Russia

President Putin is waging an invasion war against the Ukraine. In reality he is putting his power at issue and perhaps the future survival of Russia, if not mankind.

The sudden invasion has turned into an attrition war, hugely costly for the two countries. Putin maintains before his Kremlin entourage that Russia will prevail. This is improbable, given the support by Western countries to Ukraine. But can Putin take a defeat? Or will he use the huge arsenal of nuclear weapons somehow? It is difficult to see Putin stepping down orderly.

The official argument for the annexation of Crimea and the attack on Ukraine is that West threatened Russian existence. The events in Kiev 2014 would constitute causa belli.

Putin is often said to aiming at some enlargement of Russia, like under the Soviet period. This is simply impossible, as the former Soviet republics guard their newly won independence. What Putin wants is to deal with like-minded in the countries bordering Russia.

What has replaced the Soviet republics is dictatorships with exception for the Baltic. Government is in the hands of a "click" of people, who enrich themselves and their cronies. There is only one threat, namely democracy. If democracy survives in Ukraine, it would seriously affect the stability of not only Belarus and Kazakhstan but also Russia itself. Hitherto, Putin has clambered down on all opposition by increasingly drastic

measures. The Ukrainian war is as much about territory as about regime.

One may add that the ambition of Ukraine to become member of the EU and the NATO is a consequence of the Russian will to control. Can Russia come to accept a democratic Ukraine?

Nuclear Warfare

Is a turn to nuclear weapons possible from Putin's Russia? One often encounters the idea of tactical nuclear warfare, but it is not clear what this amounts to.

Thinking about nuclear warfare in the Ukraine forces one to consider the distinction between strategic and tactical nuclear war. In one version tactical nukes could be handled by individual soldiers attacking a small target. The strategic employment of nukes now includes many hydrogen bombs and a set of carriers and rockets. Putin himself has on various occasion hinted at the possible use of nukes, if Russia's territory is invaded including the land areas occupied in eastern Ukraine.

Logic of Nuclear Warfare

In his general theory of war (1832), Clausewitz argued that war is the fight with violence between the wills— the will of the attacker to have his/her will obeyed. The violent confrontation between two or more parties or armies has been theorized, based on huge date information. Thus, we know much about strategy and tactics with, e.g., Alexander, Caesar, and Napoleon. More important, we know the real outcomes. Not so with regard to nuclear warfare.

Now, which principles could one deduce about nuclear war on the basis of two real events and some experiments? By following the American debate, one arrives at:

1. First strike capability: No one has this.

2. Second strike capability: USA, Russia, and China have this. North Korea has neither against USA.

3. Escalation instantaneously: Inexorably expanding of nuclear warfare: Only by striking out the centre of every nuclear site can a state prevail.

Russia will not likely take a defeat in the Ukraine. Putin is probably going to play his last and most powerful card releasing perhaps a global catastrophe.

Zaporizhzhia

The Russian performance in the Ukraine war may release a nuclear disaster at the largest atomic power plant. It would kill and harm a large number of people through radioactive contamination. The damage could not be compared with the catastrophe of nuclear warfare in one form or another. But it would hurt the Ukraine badly.

A nuclear disaster at the largest plant in Ukraine would not only cut electricity to Kiev but also carry contamination risks for both parties. Hitherto the Russian army has erased lots of infrastructure, but the four reactors at Zaporizhzhia still operates. Perhaps the Russians hope to capture it for own use.

Pessimism 2

The distinction between verbiage and practical action is telling when it comes to the second globally looming catastrophe. There is no new equilibrium in sight, as global warming does not release any counter forces. We can only wait for the tipping points to set in. Global warming is a cumulative process where all consequences have one direction. Figure 1 shows developments since 1990.

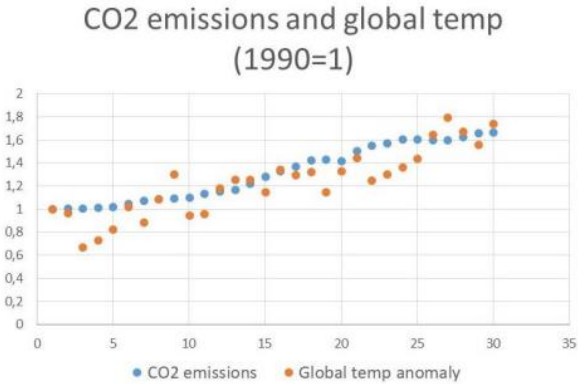

Figure 1. *CO2 emissions and global temp.*

Although the phenomena of climate change had been known for 200 years, the key text was published in 1989: S. Schneider's Global Warming: Are We Heating up the Planet? Yes, our constantly increasing need for energy leads to higher CO_2 levels.

The link between global warming and energy makes it very difficult to combat climate change. Every state seeks to avoid energy shortage. If necessary, coal or natural gas will be used. In several countries wood is burnt. All advanced countries cheat in their own way.

In the developing countries the forests are cut down for a variety of selfish purposes: agriculture, charcoal, house building, and decorative goals. Poor and landless people figure prominently when the rainforest is invaded.

The energy shortages are augmented by the premature shutdown of nuclear stations. Nuclear power is a source of energy that is both valued and frightening.

Source of Pessimism: State Egoism

States guard their sovereignty jealously. States are prepared to act when vital interests are at stake, including opportunism, cheating, and violence. Energy is high on the list of state priorities.

State egoism does not exclude intergovernmental cooperation and states' coordination. But when vital interests

are concerned, states will renege. They may sign international treaties but refrain from implementing.

Hobbes following the Epicurean tradition predicted the war of all against all as well as total chaos in Parliament from his egoism axiom. He therefore preferred kingship—one will. But surely kings or autocrats can be incredibly selfish! It seems that Putin has managed to lay his private hands on some of the assets of Yukos and Gazprom. Embezzlement and autocracy hit Russia with a vengeance.

State egoism is of another order. When energy is lacking, even red-green governments look for fossils. The CO_2s will continue rising.

The Present Rules over the Future

When states act, their decision making is characterized by: Myopia, Opportunism, Status quo, Reneging.

If there is an energy crisis, states go back to fossils. If some states offer much green policy-making, then others may offer little when states coordinate. If there is a threat to state existence or longevity, the money goes to weapon procurement. If states promise too much, they can always repent. As the greatest ever political philosopher expressed it (Leviathan): covenants without the sword are but words.

Conclusion

The 21st century looks gloomy. The optimism that Elinor Ostrom (1990) expounded about voluntary cooperation in relation to commons appears undone by state egoism and opportunism.

Most states are much too much arming, although climate change will be lethal.

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2 Why is moral theory so vague?

Introduction

The publication of A Theory of Justice in 1971 marked the much growing interest in moral questions like justice in the scientific community. In the first half of the 20th century the meta-ethical discourse dominated.

Various arguments were voiced against the possibility of moral theory. Moral disagreement was typical and could not be decided by reason alone, because emotion was involved in ethical decisions.

A number of philosophers in various countries turned to meta-ethics, or the theory about the nature of ethics, to argue the impossibility of a science of morality: Weber, Kelsen, Haegerstròm and Ayer e.g. They focused on the distinction between IS and OUGHT and argued that morality was based upon ultimate ends, norms, and moral words were used for expressing emotions and recommending (Sayre, 2023).

Rawls, however, proposed that reason could deliver morality. He focused on justice in a well-ordered society. A person in a veil of ignorance would reasonably choose human

rights that promote freedom, impartiality and equality. In a later revision, Rawls appears to have dropped his minimax rule, or feasible equality. Now, is this a proper or correct theory of justice?

Sandel's Argument Against Rawls

In the book Justice, Professor Sandel claims that Rawls is wrong or defective somehow:

1) Justice as rights separates wrongly justice from the good;
2) Justice is virtue;
3) Justice entails the common good.

It may be emphasized that arguments 2) and 3) are normative, whereas 1) is empirical.

Professor Sandel shows many justice issues where indeed peoples' images of the good life play a major j tool for justice. And he concludes that justice "depends" upon the good life.

We must stop here and reflect upon the meaning of dependence. People have a variety of moral beliefs which are not always coherent of integrated logically. Persons may share the same conception of just as fairness even when they adhere to different ethnies, religions or ideologies harbouring alternative definitions of the good. Surely this holds for many citizens in relation to the US constitution. This is all weak dependency.

Yet, it is true that some persons display a tight association between the good and justice. Thus, for instance in Cultural Theory there are four IDEAL-TYPES of beliefs combining the good with different concepts of justice (Wildavsky, 1996). Typically, various justice conceptions aim at legitimacy for the specific good of a person or group.

Argument 1) about justice dependent upon the good seems wrong in relation to Rawls and his idea of a veil of ignorance.

Virtue

Argument 2) brings forward the term "virtues" as key for justice concepts. As a matter of fact, it is somewhat surprising that professor Sandel makes so much use of this very old conception from the Ancients and medieval thought - see

Cicero and Lepsius. Who is virtuous when and how? Professor Sandel mentions Robert Kennedy, but what about his brothers?

The Common Good

Argument 3) is very weak. It alludes to the Rousseau tradition of some conception of the best interests of a group. Maybe climate policy-making would constitute a common good for America or the entire planet?

There are several versions of this common good: commons, public goods, nation's best etc. But it remains a hollow term. In a democracy, government and opposition present alternatives of what is best for the country.

It may be pointed out that some regard finding "the rational thing to do" as easy. But it is not question of professor Sandel's problem: what is the thing one ought to do.

Von Wright's Thing to Do

In his book Explanation and Understanding (1973) G. von Wright, well-known professor of philosophy, analyses two basic modes of explanation: nomothetic and teleological. The former employs Hempal's well-known law like generalizing, while the latter points at motive and intention. This distinction between Galilean model and Aristotelian model is developed by means of von Wright's insights into deontic logic—the logic of norms or what one *OUGHT* to do. Understanding the behaviour of humans one must take mind into account: the perception of the situation and the incentives. Von Wright argues that teleological explanations are logical and not caussl in the empirical meaning of "causality". This amounts to very strange claim about human actions. Consider the following syllogiam:

X Intends to Bring Abbot P:

X CONSIDERS THAT HE CANNOT BRING ABOUT P UNLESS HE DOES A; Therefore X sets himself to do A.

This typical Wright explanation model is incorrect, as it does not explain the actual action A, but the intention of doing

A. The relationship between the intention to do A and actually doing A is fully probabilistic.

Professor Sandel Bypasses the just Distribution of Income and Wealth, Whereas Rawls Had the Audacity to Propose Msximin, from the Veil of Ignorance

6. Professor Sandel Bypasses the just Distribution of Income and Wealth, Whereas Rawls Had the Audacity to Propose Maximin, from the Veil of Ignorance.

Veil of Ignorance

Professor Sandel requires no veil of ignorance for identifying justice. Here he deviates from theories of justice as implying impartiality (Barry, 1995). Barry regards impartiality as a necessary and sufficient condition for justice.

Conclusion

Ulpian suggested that the precepts of law are:
1) Live honorable
2) Hurt nobody
3) Give each and everyone his/her due.

One would wish to extend the Ulpian notion of justice to the whole mankind so as to exclude all forms of slavery—impartiality. It is up to policymaking in an open society to decide what is due to various groups as well as the environment. What is virtuosic or in the common good will be a matter of contention.

Professor Sandel bypassing metaethics and social choice theory concentrates upon "virtue" and the "common good". Can they be defined without a concept of justice? (Circulatory). Social choice theory shows that it is problematic to add each individual good into a common good. Professor von Wright explains an action by referring to what the person thinks he/she ought to do rationally. But the person may not actually do that (Is-ought confusion).

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3 The global *Crisis* with states incapable of *Minimax*

Introduction

The states of the have operated the UN COP approach to global warming and climate change for more than 20 years. Facing no success, there is yet no agreement about what to do and how to stop the warming of the planet. One finds that the ambition to deal with problem sadly varies much among the states. This is the real cause—the inactivity of many of the states.

It is an uncomfortable fact that several recently published question global warming and its probable consequences.

The literature in question denies both the occurrence of the typical climate change phenomena and as well the causal theory of global warming, i.e., the greenhouse gases (Lomborg, 2020).

On the one hand we have the literature on a coming global "untergang". But on the other hand, there is the books ridiculing this prediction as unscientific. When turning to physics, the mechanism of global warning is validate—see L.M. Krauss' Physics of Climate Change (2021).

The Keeling curve is available day after day for all globally. It should become the global policy measure each and every day and year.

Global Warming Phenomena

The climate change theory is no longer called ridiculously "green" exaggeration. And the suggestion that we should focus more on daily pressing problems seems irrelevant, when the dangers to the planet are clearly understood

- Desertification
- Shortage of fresh water
- Loss of land and islands
- Difficult atmosphere for work
- Migratory flows of people
- Stats conflicts and war.

These consequences are externalities for all countries on the planet, as they cannot be avoided by any separate country. And they come with extremely high costs. Why, then, are not the key firms and the businesses more concerned?

The distinction between verbiage and practical action is glaring when it comes to the globally looming environmental catastrophe. There is no new equilibrium in sight, as global warming does not release any counter forces. We can only wait for the tipping points to set in. Global warming is a cumulative process where all are affected.

Diagram 1 shows developments since 1990 relating temperature rises to CO_2 emission expansion.

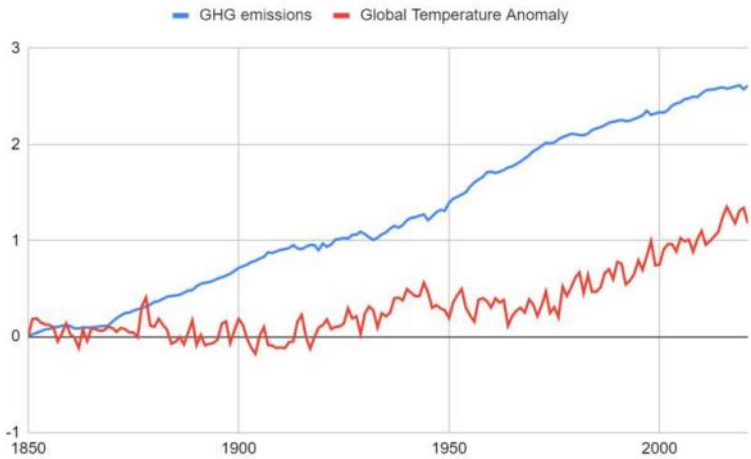

Diagram 1. *Natural logarithm of Greenhouse gas (GHG emissions) and Global Temperature Anomaly 1850-2021* (Our World in Data). Although the phenomena of climate change have been known for 200 years, the key text was published in 1989: S. Schneider's Global Warming (Schneider, 1989). Are we heating up the planet? Yes, our constantly increasing need for energy leads to higher CO_2 levels.

The link between global warming and energy makes it very difficult to combat climate change. Every state seeks to avoid energy shortage. If necessary, coal or natural gas will be used. In several countries wood is burnt. All advanced countries cheat in their own way. In developing countries the forests are cut down for a variety of selfish purposes: agriculture, charcoal, house building and decorative goals. Poor and landless people figure prominently when the rainforest is invaded.

The energy shortages are augmented by the premature shutdown of nuclear stations. Nuclear power is a source of energy that is both valued and frightening.

Source: State Egoism and Opporunism

States guard their sovereignty jealously. They are prepared to act when vital interests are at stake, including opportunism,

cheating and violence. Energy is high on the list of state priorities. State egoism does not exclude intergovernmental cooperation and states' coordination. But when vital interests are concerned, states renege. They may sign international treaties but lack implementation.

Hobbes following the Epicurean tradition predicted the war of all against all as well as total chaos in Parliament from his egoism axiom. He therefore preferred kingship—one will. But surely kings or autocrats can be incredibly selfish! It seems that Putin has managed to lay his private hands on some of the assets of Yukos and Gazprom. Embezzlement and autocracy hit Russia with a vengeance.

State egoism is of another order. When energy is lacking, even red-green governments look for fossils. The CO_2 levels will continue rising. When states act, their decision making is characterized by:

- Myopia
- Opportunism
- Status quo
- Reneging

If there is an energy crisis, states go back to fossils. If some states offer much green policy-making, then others may offer little when states coordinate. If there is a threat to state existence or longevity, the money goes to weapon procurement. If states promise too much, they can always repent. As the greatest ever political philosopher expressed it (Leviathan): "...covenants without the sword are but words..." The COP approach of the UN suffers badly from Hobbes' weakness of international agreements: enforcement.

Strategic Action

According to the dominant theory of the organisation, the goal function is complex and the knowledge of the means to these ends uncertain. Thus, organisations may fail their objectives and deliver outcomes that are suboptimal or even counterproductive. The management problem is actually simple, namely changing the Keeling curve. The Keeling curve can be likened to the heath measurement rod of the planet—

one scale decides our fate. It adds up the yearly CO_2 emissions globally standing now at 425 ppm. It must NOT be allowed to rise over 500 or 600—a death knell to humankind. The global strategic management task is to halt the Keeling curve. It calls upon the big polluters to stop burning fossil fuels:

Table 1. *Big Polluters 2021*

Country	Share of world emissions
China	30,9%
United States	13,5%
India	7,3%
Russia	4,7%
Japan	2,9%
Iran	2%
Germany	1,8%
Saudi Arabia	1,8%
Indonesia	1,7%

It also calls upon small polluters to go Green as soon as possible. The model example is Denmark where wind and solar power accounts for 60 percent of the electricity For strategic management to work with saving the planet, there must be INCENTIVES to employ. Thus we return to Paris 2015. How to get the big polluters interested in the future 2050 and onwards of the Earth (Wallace-Wells, 2019).

Two Hurdles of COP

The COP organisation is strong on information gathering but weak on policy-making and implementation. It has to reduce its transaction costs and create a mechanism for control of promises made.

Following March's theory of organisational behaviour, they tend to focus on "standard operating procedures". Thus, the COP meets often and the states make their speeches. But the Keeling curve keeps rising. The COP must be much more innovative.

Second, the COP must somehow overcome the PD game strategy of some states, especially the big polluters. These states must sign up to a global policy that changes the Keeling

curve as we enforce such measures. The policy technology of such an active COP is not difficult from all we know about the Keeling curve:

1) Close down coal power;
2) Replace oil and gas power with green power;
3) Do not close down nuclear power prematurely.

The problem is how to get the big polluters on-board on such a global policy journey saving the only planet humans have. And as soon as the Keeling curve changes direction, we will be on the way to restore equilibrium.

Conclusion

The optimism that Elinor Ostrom (1990) expounded about voluntary cooperation in relation to commons -externalities- appears undone by state egoism and opportunism. The way the UN COP needs urgent reform is in the interest of states, big or small.

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4 The well-ordered countries

Introduction

In chiliastic theory like Marxism and Anarchism or anarcho-syndicaliem re is the idea of an end-stste of hunan history where liberty and equality would be both realizable. The state as regulator would cease to exist and society flurish unoppressed by institutions that constrain frefreedom.

The principal-agent model from the economics of information entails that egoism and asymmetrical knowledge make such an end state impossible. Only a country with institutions that restrain opportunistic behaviour can be a happy country.

Rawls: TTe well-ordered country

In A Theory òf Justice Rawls pictured the necessary background to the implementation of his principles of justice, namely the well-ordered society. Here there was actually a tautology, as Rawls used his 3 rules of justice to construct this well-ordered society. To be more precise, a well-ordered

society fulfills two of his justice notions: freedom and impartiality.

What caused much attention was Rawls' third principle: *maximin* derived from a veil of ignorance. As a matter of fact, this is socialist equality involving considerable transfer payments and free public services. No country has ever tried the maximin strategy for social justice – to maximize the share of the least favoured. This amounts to feasible equality, given losses from taxing the more favoured.

In his later writings, Rawls never returned to socialist equality but emphasized political liberalism.

Freedom, impartiality and equality are focused upon in theories of justice. In the well-ordered countries around the world it is freedom and impartiality that counts.

Barry claims that justice is impartiality but this seems to hold for legal justice much more tthan for social justice. For instance, how about progressive taxation, central to

social justice? Sen argues that Rawls' notion of a state of the veil of ignorance entails transcendentalism, but it merely posits a game where a player does not know whether he happens to be or become rich or poor.

Now, how then to tell whether a country is well-ordered or not? Can one speak about degrees of well-ordered countries? Yes, by linking it up with the concept of rule of law.

Rule of Law

There is no neat and tidy definition of the expression "rule of law". The Oxford English Dictionary offers the following entry:

> "[t]he authority and influence of law in society, especially when viewed as a constraint on individual and institutional behavior; (hence) the principle whereby all members of a society (including those in government) are considered equally subject to publicly disclosed legal codes and processes."

One may deconstruct this concept with other concepts or criteria like:

1) Strong legal formalism promoting equality under the laws;

2) Individual rights covering contract, free labour and private property as well as the joint stock company with *bourses*.

3) Checks and balances, i.e. institutionalized mixed government with countervailing competences between executive, legislature and judiciary.

The World Justice project (WJP) maps the existence of rule of law, unpacking a rule of law regime as follows:

a) Constraints on Government Powers
b) Absence of Corruption
c) Open Government
d) Fundamental Rights
e) Order and Security
f) Regulatory Enforcement
g) Civil Justice
h) Criminal Justice.

The WJP underlines accountability, judicial independence, legal formalism and balance of power between executive and legislature.

Table 1 presents results of the most recent survey of the RL Index for 138 countries around the world, presenting the mean value by region.

Table 1. *Average RL index by world region by 2021.*

Region	Min	Average	Max
East Asia & Pacific	0,32	0,60	0,83
Eastern Europe & Central Asia	0,42	0,50	0,61
EU + EFTA + North America	0,52	0,74	0,90
Latin America & Caribbean	0,27	0,52	0,71
Middle East & North Africa	0,35	0,49	0,64
South Asia	0,35	0,44	0,52
Sub-Saharan Africa	0,35	0,46	0,62

Source: WJP 2021.

The scores above are the results of numerous computations. For each aspect of rule of law a country is scored between 0 and 1, allowing a conclusion about more or less, which scores are then aggregated.

Most Well-Ordered

Here we find countries scoring between 0.9 and .75. The top well-ordered countries are all Nordic countries and the US comes lower at .69. Why? It may be pointed out that Western Europe, Australia, Canada and Uruguay come in between the Nordicsand USA. What is the secret behind Scandinavian well-orderedness?

Perhaps the comparison of the US with small Nordic countries is misplaced. All the large countries of the world perform worse than USA. The large West-European countries score above the US except Italy.

The WJP index mentions a large number of countries that score below 5. They are deficient in terms of:

I) Accountability
II) Just law
III) Open government
IV) Accessibility and impartial ity.

One observes that the majority[1] of mankind lives ìn ill-ordered counties like Uzbekistan at .5, China at 0.47, and Venezuela at very low 0.27.

Many of the countries that are ill-ordered are Hobbesian, i.e. they are plagued by chaos or tribal conflicts. On the other hand, we also find firm dictatorships.

In the set of ill-ordered countries we have dictatorships of all kinds. Today it is actually difficult to distinguish between ring-wing and left-wing authoritarian regimes. Take the case of Burma!

The ill-ordered countries are to be found in Latin America, Africa, Middle East and Asia as well as the Caribbean and the Pacific. However, there are clear exceptions: Costa Rica and Chile, Botswana and Namibia, Japan and South Korea for example.

Dictatorship

The road to ill-orneriness in suvsaharan Africa has been the making of coups. Once a country is the victim of a coup, this often happens repeatedly. There is no counterweighing force in African countries, except in a few well-ordered ones.

Military coups is one plague, and the other one is long-term mismagemrnt by a too long sitting president, like in Congo, Zimbabwe 'and Sudan

Modern dictatorships have a conspicuous economic face. It is driven by the search for material advantages like luxury lifestyle and the accumulation of wealth and properties. Nowhere is this motivation more apparent than in the former USSR and the Gulf monarchies.

Let me call this human drive "*looting*". It is closely connected with the orientation of dictators sand their entourage towards the family and kin.

Max Weber writes in his famous article "Politics as a vocation" that politics is all about power. No, I would say. In dictatorships economic benefits is the end and policy the means, whereas in political life economic policies are the means and power the end.

The Weber focus is power, as ends and means. Nowhere does he talk about economic motives. Instead he opposes the ethics of *righteousness* with that of *realism*.

Latin American *Violenza*

Few countries jn Meso America or South America score as well-ordered. On the contrary, they mostly come in at around .5 or lower. In fact, LA political history is much characterized by instability and outright violence, between counties or within them. Chile ranks high although the memory of Pinochet is still fresh.

LA countries have a form of instability and disorder at the basic social level among the interactions of people. A few are drowning in gangster or mob violence, often relented to drug battles. It should be pointed out that the Caribbean has both well-ordered and ill-ordered countries. The slaughter of the rain forest and indigenous cultures is heart-breaking.

Kadi-Justiz

None of the Muslim countries score as well-ordered; except the UAE? It is the quality of the legal system in Dubai that renders such a high evaluation. Yet; the WJP puts open

government at UAE to .65 – hardly correct. That Muslim countries are ranked often as ill-ordered reflects the strong position of Sharia Law or Shia legal institutions. Law is what the Kadi and the Mufti arrive at in court, even when deviating from just law and impartiality.

Muslim countries are mostly either dictatorships or in Hobbesian strife between Sunnis and Shias. Several regimes are patrimonial and resources belong to a ruling dynasty. A few Muslim states use the Koran as the Basic Law that is outside of principal-agent modelling of politics and administration. Malaysia and Indonesia sre promisingly innovative.

Leninism

No political theorist has had a practical influence as Lenin. Writing dogmatic elaborations of Marx, he confronted the question of what could be done in a backward society to enhance socialism. Lenin focused on Marx' idea of the dictatorship of the protestant that had not been spelled out in detail.

Lenin outlined the L*eftist State* with total *control* ıhat would assist *economic* development in its path towards its rnd state- from each according to capacity, to each sccotdong to need. It was a one pastry state dictatorships of the proletariat. This was the centralised Soviet Union, adopted in one form or another in the countries where the Communist Party took power. Millions of people live under Leninism as polity which has no foundation in principal-agent theory.

The dictatorial state that Communism ushered in is ranked by the WJP as ill-ordered but because of its instability. The crux of the master is the political control of the judiciary. Socialist law is not guided by considerations of justice like Common Law and Civil Law.

Conclusion: Politics, Economics and the Law

Well-ordered countries are affluent meaning gdp per capita. Buy not all countries that ate not part of the set of wrll-ordered countries are to be found in the Hobbesian condition of povert4 and conflict. It is true that a few are in dire straits but

several outside the set of well-ordered countries are neither poor nor instable. Diagram 1 shows the relationship between the WJP index amd GDP per capita.

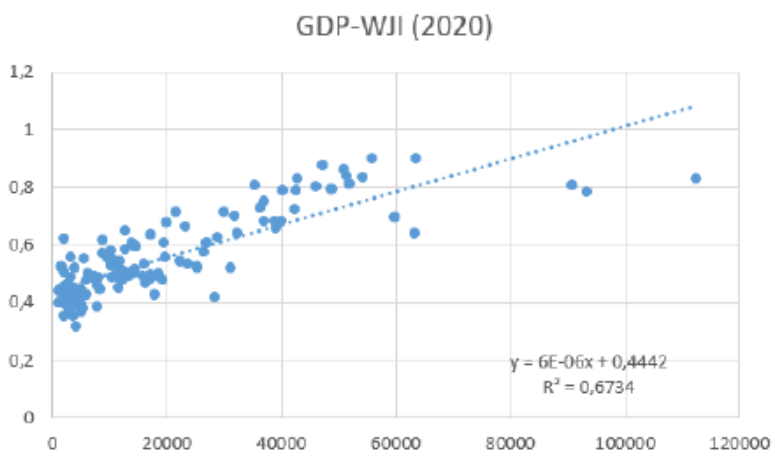

Diagram 1. *GDP per capita and WJP index (World Bank 2022; WJP 2021).*

Affluence seems to be a necessary but not sufficient condition for well-orderedness. Culture also matters: the legal system of the country must be either Common Law or Civil Law. Still; the most well-ordered countries in the world employ Scandinavian Law. It has not been exported except its *Ombudsman*.

Much of human suffering is due to a life under injustice or institutions which do not restrain opportunistic behaviour like e.g. looting. In the ill-ordered country without rule of law: accountability, just law, open government and impartiality people are oppressed. The Nordic model goes beyond Nozick's justice solution.

We may add that well-orderedness promotes trust – see Diagram 2.

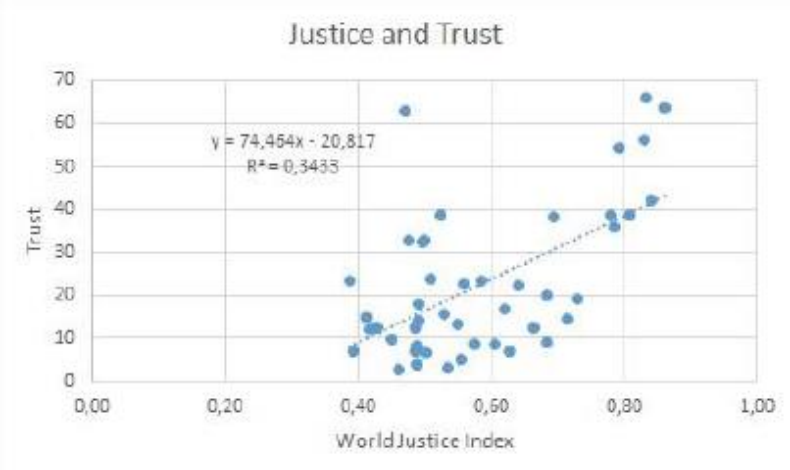

Diagram 2. *Connection justice and trust (WJP 2021; Ortiz-Ospina & Troser, 2016)*

Well-*ordered* countries face abrupt climate change *which* requires cooperation with the **ill**-ordered countries and **it** may not be forthcoming **in** time**.** The shape **of** Law shapes the country - both publicly **and** privately**.**

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5 Why is Russia backward?

Introduction

Tocqueville, the greatest of French sociologists, made several predictions that have become well known. One states that America and Russia will be the most powerful nations in the 20th century. If true of America and the Soviet Union, it does not hold today. Why? Russia is a third world country with nukes.

Communism and Fascism

Suppose we call China "communist" and the US and UK "liberal". How, then, to characterize today's Russia? The regime that Putin has created is not easily identified. It is not communist, although of course an autocracy. Actually, it is astonishing that China and North Korea aligns itself behind Russia, as the latter has no longer a communist dispensation or policy. Putin rules the country through a hierarchy of his own making. Instead of referring to Lenin's dictatorship of the proletariat, Putin looks for religious support as well Stalinist nationalism.

One often encounters the thesis that Putin's regime is an example of fascism, which appears counterintuitive, given his

relations with China. The common element is dictatorship. Putin's autocracy is personal, whereas fascism targeted groups positively or negatively.

The Horseshoe Model

One can employ a horseshoe to picture the various positions from Right to Left so that "les extremes se touchent", due to the rejection of individualism by both fascism and communism. Putin's regime is definitely to the Right, given the alliance with the Orthodox Church. But it differs from European fascism.

Already in 1936 did Swedish political scientist H. Tingsten identify the core of fascism and Nazism, namely the cult of physical strength and racial dominance. In a multicultural Russia such a Nietzschean message is impossible. The brutal methods in Putin's domination stem more from his KGB time than from a wish to create a new great Russia, which the former Soviet Republics will never accept. How come that there is no organised resistance to Putin?

Tocqueville

I would suggest an answer to this question of Russian misfortune by looking at Russian history through Tocqueville's "De la democratie en Amerique", published in 2 volumes in the 1840s. Tocqueville travelled the US under Jackson's democracy. He predicted the civil war, the end of slave aristocracy and the terrible destiny of the Indians. The North of America was the viable future—the first democracy in the world.

The Free Associations

Democracy in the industrial North was founded upon individual formal equality and free association. Tocqueville hypothesized that the free associations—religious, economic, educational, political or generally mundane—were "schools of democracy" as well as the bulwark against state interference. The institutions reinforced the basic role of free association in political and economic freedom.

Russia: Czar and Serfdom

Russian history is the tales of the Czar and serfdom. From about 1650 there was no free peasantry, but serf is not slave like in the South of USA. The serf was tied to the manor and worked for the landlord, who decided in all matters, also law and punishment. Although serfdom was abolished in 1861, it left a mark of heteronomy on Russian people, much spoken of in novels. In western Europe, free peasantry replaced serfdom, whereas in eastern Europe serfdom drove out peasantry. The czar institution -autocracy- grew out of the Grand Duchy of Moscow, defeating the Mongols and subduing the Cossacks. The czars expanded Russia considerably up until the defeat against Japan. The first Duma 1905 led to intense politics like agrarian reform, but ended in the fall of czardom in 1917 with two revolutions.

Bolshevism

Lenin and the Bolsheviks had a political theory in Marx' idea of the dictatorship of the proletariat, but no economic theory. On the one hand, big capitalism was restrained, like for instance the expulsion of Alfred Nobel's brother Ludvig from Baku. Ludvìg and Robert Nobel had created the huge oil industry by the Caspian Sea with modern decent management. On the other hand, Lenin's new economic policy, NEP brought in market incentives like supporting free peasantry, as Stolypin had done. Lenin, however, also complained about the role of big peasants called "kulaghs". Thus, there was economic freedom, but no political freedom under Lenin. He shaped the future of Russia's 20th century by the Soviet Union: one party state with a powerful secret police, viz. Tjeka. Russia and the Soviet Republics were to be governed by a small Communist Party—the nomenclatura or avant garde of the proletariat.

Political freedom

Lenin abolished political competition and free speech immediately. Whereas the czar often placed opponents in Siberian confinement for some time with freedom to study,

Lenin opted for the elimination of opposition somehow once and for all.

The powers were concentrated to the Politbureau, which faced no restraints. During the Soviet era constitutional documents were enacted by the Supreme Soviet, but they were facade constitutions. Imagine a country with over 200 million inhabitants governed by a 24 member body! Policy implementation was left to the wide range of Peoples' Commissariats or ministries, mimicked in the Soviet republics.

The nature of the justice system was revealed to the world in the "Moscow trials" in 1936. A long row of old Bolsheviks and high army officers were sentenced to long punishments, based on confession to heinous crimes that must have been fabricated by torture or family threats. Justice knew not the presumption of innocence

Economic freedom

The NEP did not last long and the Russian peasantry was liquidated as "kulaks". Stalin decided to put the entire economy on the Barone model of planning and 5-year plans. The rigid economic system was reformed somewhat after Stalin, but the market economy reappeared only with Jeltsin.

The 1993 Constitution

The efforts at perestroika and glasnost resulted in the dissolution of the Lenin-Stalin dispensation. The 1993 Constitution provided Russia with political and economic freedom as well as rule of law for the first time in its 1,000 years history.

Constitutional rule is one thing, constitutional praxis another. According to expert analyses by Anders Aslund it was really a revolution, as Jeltsin introduced true political and economic freedom, including peasant reform. Thus, some 100 years later than the US, Russia could start building the democratic society a la Tocqueville.

The Putin Regime

Putin has created a new political economy: crony capitalism. Political freedom is gone, but not economic freedom. Of the 1993 Constitution only the economic institutions are enforced. Yet, Russian economy is called state capitalism with corruption. Putin is a major player, as president and as private investor, accumulating an immense fortune. Active in both the real and financial economies, he is estimated as richest in the world. Add then all the presidential palaces home and abroad.

One can analyse the recent developments in Russia as a principal-agent game, where the agent-presìdent cheats the people-principal. In fact, Putin embezzles the Russian people. This is the politics of looting, bought to a new level. Slowly but consistently Putin and his entourage have made the liberal 1993 dispensation obsolete. It would have given Russia the following:

1) Strong legal formalism promoting equality under the laws;

2) Individual rights covering contract, free labour and property;

3) Checks and balances, i.e., institutionalized mixed government with countervailing competences: executive, legislature, and judiciary.

Conclusion

With his unique power of foresight, Tocqueville wrote around 1840: “There are at the present time two great nations in the world, which started from different points, but seem to tend towards the same end... Their starting-point is different, and their courses are not the same; yet each of them seems marked out by the will of Heaven to sway the destinies of half the globe”.

The road to world dominant position was indeed very different, especially political and economic freedom. The global superpower position of Russia is now in its twilight. Putin has gambled all on the Ukraine invasion. He and his politics of looting will not survive a defeat.

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6 3 British politicians: The dreamer, the manager and the broker

Introduction

The public choice model of the politician in a competitive rule of law system was best captured in the Peltzman article from 1976. Starting from rational choice assumptions, the model politician would behave so as to maximize benefits to him/her over his/her costs. In short, the politician would incur costs and energy in order to acquire benefits like status and power. This model is contested but attractively simple. The evidence from the US is no doubt positive. How about the UK?

New Labour Era

UK politics between 1997 and 2010 is very interesting from a public choice perspective involving new policy making. The 3 leading politicians have given their own account of events and motives behind a remarkable series of events.

We thus have 3 sources about motives for each one participating in the same game: rise and fall of New Labour. It should be emphasized that these memories are very different,

reflecting much personalities. But taken together they shed light upon political motives. The style of writing is also very different in a manner relevant to the question of a model politician as conceived by public choice scholars. Since both Blair's and Brown' writing is highly personal, one needs Mandelson' more neutral account to follow what was going on.

No attempt to describe the history of New Labour will be made here – only the motives of the key persons are looked at. New Labour exists hardly any longer and the party is not close to government. Was there a model politician behind the success of New Labour?

Blair

Although hardly a heavyweight politician, Tony Blair saw early the possibility of Labour replacing Thatcher and her government. But a transition of power requires a new Labour, argued Blair forcefully. He was not alone, but perhaps he was the visionary. Only a radical break with its socialist past (paragraph 4) could make Labour "regierungsfaehig". His views on party reform was shared by others in the party, but the fervour was his. The 1997 election victory proved him right. And Blair realised that that the swing was so strong that it would last long. The British electorate had become fed up with Thatcherism and New Labour promised better public services, more to NHS, fairer taxation and positive attitude towards European integration. Austerity was no longer the option for the majority.

Coincidentally, the party leadership become open due to premature death meaning that the new party leader would also be Premier. "This is mine", declared Blair. He could achieve two goals: reform the party and govern the UK simultaneously.

Yet, there was a serious problem in that the Second Man – Gordon Brown – wanted to candidate too. Instead of a fierce leadership fight, one devised the peculiar solution that Blair will be Number One, but would later step down and let Brown take over, also as premier, if Labour stayed in power. "When would this occur?", became a poisoned question for the Labour government, the longer it stayed in power.

Finally, Brown forced Blair out. The construction was very unfortunate, no doubt conceived by the Third Man. Brown wanted the premiership as badly as Blair, who was defeated by various tricks.

Blair first period fulfilled Peltzman model well. His second period failed in this respect, as he had ventured into foreign policy. Blair's memoirs deal much with the Iraq invasion where he comes down justifying his stances.

Blair lost much aura and the only positive outcomes were two great speeches, that of Tony Benn and that of French Villepan. Blair talked about "shoulder to shoulder", but this was not with British people but the Bush people. When the casualties came, Blair had no Peltzman defence. Both the Afghan and the Iraqi developments showed that the UK had stepped into a quagmire. Perhaps Blair has not fully yet recognised the folly. The Al Queda attacks followed Deobandi teachings from the Indian Sepoy 1858 uproar. The Afghan invasion favoured the Tadjik's, but the majority of the population were Pashtuns. The costs became enormous, but real outcomes few, except for gender equality.

In any case, Blair tried New Labour policies but was blocked by chancellor Brown. To manager Brown the UK were mislead by the reports of WMDs. For visionary Blair the damage was irreparable.

The question of WMDs have been much debated, as none were found. However, it is well-known that mustard gas was used against Kurdish villages in the 1980s.

Brown

Gordon Brown's memoirs are hardly original, telling us about the enormous amount of policymaking he initiated or was party to. His life was one long policymaking – very impressive. During the global financial crisis Brown turned into a world leader. He does not speak about Peltzman's vote winning strategy but offers support for his clients: those who were left behind. Brown was more of a true socialist than Blair but Brown linked up with New Labour as he witnessed deindustralization in Scotland. There was not a policy Brown

would consider if relevant. His intelligence compensated for partial blindness. In the final 2010 Brown missed the vote winning message, namely deficit reduction.

Despite his managerial skills, Brown was not a Peltzman model politician. He failed to attract the Lìbdems for a coalition that would bring PR to Great Britain. Unintelligibly, Nick Clegg chose Cameron. Maybe Brown was too demanding a person? The realisation never occurred to Brown that he might have had more impact if he had accepted Blair as leader.

Mandelson

Peter Mandelson served both Blair and Brown, even they could not collaborate. Like Brown he came from a traditional Labour background. Very radical as young, he mastered organisation needs of his masters, for which he was roundly awarded. Mandelson has been portrayed as the Machiavelli behind two charismatic politicians. This is an exaggeration. Often Figure in the media, he was the advisor who sometimes came up with Peltzman model solutions. He seems to have been the fixer and the comforting man. In 2010, he could not broker a deal with the Libdems that would have saved the UK from Cameron and Johnson.

Relevance of New Labour

One may contrast the early success of New Labour with the downfall of French socialist party, no doubt due to elite egoism. Socialism is and will always be a myth. It can be employed at mass rallies, but not in policy-making.

Just as Marx was wrong about the cohesiveness of the working class facing dismal pauperization he believed, so Schumpeter failed to see that intellectuals might work for capitalism. In fact, French sociologist Tocqueville already before The Communist Manifesto pointed out that real wages would go up in the market economy. The chief protagonists of capitalism after the Second World War were intellectuals at universities like Chicago, Virginia and Freiburg.

In any case, no socialism has been forthcoming. China today is hardly a socialist country like the USSR once were. And

North Korea is not what Schumpeter dreamt about as replacing capitalism. However, today's global market economy faces the very same problem that occupied Marx and Schumpeter, namely the enormously skewed distribution of income and wealth. Look at the following Diagram.

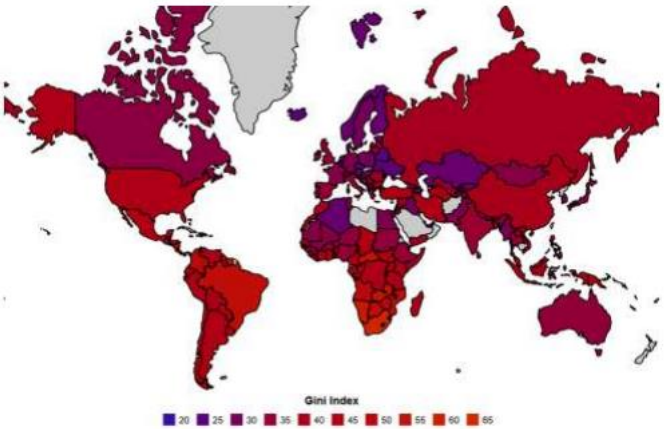

Figure 1. *Gini Index by country 2022 (World Bank)*

The skewed income and wealth distribution impacts upon global warming politics in two ways. First we have the argument that capitalist greed is a major cause of global warming. Second, we hear that climate policies must take into account the rich-poor cleavage, between countries as well as within.

The global market economy comprises a number of capitalist economies. Each of them faces a set of commons problems.

The only countries that came close to democratic socialism were the Scandinavian welfare states. Here, public sector spending and taxation were increased to around 50 per cent of GDP, offering a number of merit goods and services impartiality, like health, social, old age care free university training as well as various transfer payments. The mixed economy was created partly under influences from Keynesian economics. However, recently the Swedish or Scandinavian model – "folkhemmet" – has lost its redistribution edge,

allowing some privatisation as well as less progressive taxation. Several EU countries have some welfare state programs, but socialism is no longer on the political agenda with EU.

French economist Piketty advocates the relevance of a major system transformation to a socialist economy now. He argues that most of the time capital owners take a larger share of national income per year than labour. It seems that Tocqueville already in 1840 was right when he underlined that capitalism might benefit also labour. In any case, the future of the global market economy appears not in doubt, at least not the more institutional version.

It has been argued the capitalism is the root cause of the ecological crises. However, the capitalists would suffer or perish too, if advanced life becomes impossible. One can separate between institutional capitalism a la Williamson (1985) and criminal capitalism. Illegal capitalism no doubt hurts Mother Earth.

Today socialism or the welfare state is not the priority in British politics. Instead, the UK must fulfil its promise to global warming cooperation as listed in Table 1 below.

Country	CO_2 emissions 2019 / Gigatonnes	GDP 2019 / Billion USD
China	10,7	14280
United States	4,8	21373
India	2,5	2832
Russia Federation	1,7	1693
Japan	1,1	5123
Germany	0,7	3888
Iran, Islamic Rep.	0,6	291
Indonesia	0,6	1119
Korea, Rep.	0,6	1651
Canada	0,6	1742
Saudi Arabia	0,5	804
Mexico	0,4	1269
South Africa	0,4	388
Brazil	0,4	14280
Turkey	0,4	21373

Conclusion

New Labour was the attempt to give the UK Scandinavian type socialism – the only form of socialism worth trying. It did not succeed due to competition between Blair and Brown, two exceptional politicians that not even the Third Man could master. To avoid the disaster of the French socialist party, New Labour needs rethinking away from Marxism's ownership focus towards sustainability and equality.

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7 An economic burden too heavy: The Nefarious attrition warfare

Introduction

The war that Russia began against the Ukraine was and remains very threatening to the entire world. Besides the human casualties on both sides, there are the economic costs.

Direct costs

The war has broken the economy of Ukraine and reduced economic growth in Russia. The destruction in the eastern Ukraine is complete and the losses of war materials of the Red Army immense. The reduction in Russian energy has fuelled inflation all over the world, reaching about 5 percent or more in electricity and food prices. It remains to be seen how long the involved parties can afford this high tech war. They are not rich. Consider Figure 1.

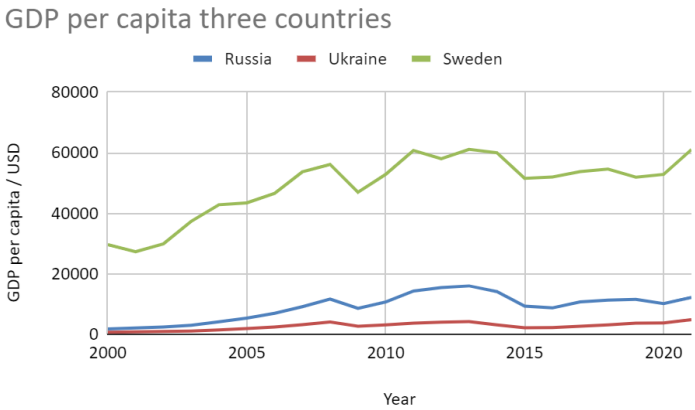

Figure 1. *GDP per capita for Russia, Ukraine and Sweden.*

Indirect costs

As expected, the Ukraine war has unleashed a global frenzy for defence expenditure. The planned increase in spending on expensive war materials will drive out green policies. The much needed reduction in fossils seem to have been abandoned in several ccountries.

Future costs

There is not only the immensely costly rebuild of Ukraine. Russia has to handle its many wounded soldiers. A lack of workers will hamper economic output, already restrained by brain drain.

The Conduct of the War

Russia now gambles on an *attrition* war, aiming at the destruction of physical capital. At first, Russia wanted *Blixtkrieg,* but failed. The underperformance of the Red army has not lowered the aspirations of Putin, whose discourse is more and more unrealistic. Why, then, attack the Ukraine?

Official reason: According to the entourage of Putin, the developments in Ukraine threaten the survival of Russia. Thus, the turn to democracy in Kiev is said to be a Western *coup d'etat,* constituting an attack on Russia.

Unofficial reason: The regime in Moscow that Putin heads in an authoritarian fashion, if not fascist, wants the same kind of state control in all ex-Soviet republics. Otherwise, democracy will spread also to Russia. The longer the war, the more the costs will be unsupportable, especially if Belarus and China enter somehow.

Just War?

There are two ways to explain the Russian attacks on Ukraine, using concepts from international law:

Casus belli: Russia reacts to the willingness of Ukraine to enter the EU and the NATO, arguing that the dissolution of the Soviet Union was based on a promise by western powers not to invite the Ukraine.

Unjust war: this is basically Putin' war against democracy to protect his own regime. And the war is conducted in a manner that violates gravely just war *doctrine*.

In short, *just war theory* hands down a *casus belli* to Russia but the conduct of the attacks makes Putin a war criminal. Why was the annexation of Crimea not enough? It is not easy to understand the policies of Russia towards the Ukraine, besides the NATO fear. It is maintained by Putin that the Ukraine somehow "belongs" to Russia, a position buttressed by history or culture. However, both the historical reference and the cultural commonality misses the fundamental political fact of the *undisputable* independence of the Ukraine since the dissolution of Soviet Union. When Putin speaks about Ukraine, he always omits the sovereignty of this state, according to international law. Why war?

War as Rational *Choice*

For a government to start an attack on another state, it must hold:

1) The probability of victory is larger than 5;
2) The victory must involve more gains than *status quo*.

Probabilities, gains and losses constitute the planning of an attack, and the expectations may be horribly wrong.

Warfare involves luck and misfortune, i.e. chance. Foolishness occurs when a government gambles too much on luck. War foolishness is a major cause of defeat, as with Hitler's hubris, starting attacks all over Europe and in northern Africa. Putin's war is characterised by foolishness, as the Russian forces are ill equipped and coordinated. Russian panzers are too weak. The danger of a Pyrrhus's victory hangs over every war project such as Napoleon's.

Clausewitz' Insights

Clausewitz' definitions of war and its conduct are still valid, but Putin's war efforts appear to lack relevant knowledge, preferring instead to bomb everything, military or not.

Look at Clausewitz' principles:

P1. War and politics: "war is just the continuation of politics with other means". True, Putin first controlled Ukraine via the president, but then came Zelenskjy along. Clausewitz looked upon the world as zero sum, but this excludes cooperation or coordination. Surely both countries would have gained from peace, striking a bargain instead of all casualties and destruction.

P2. "War has only one aim: to impose your will upon the other". This amounts to a mentalist approach: will against will. Clausewitz wrote about crushing the enemy's will. This worked in the 1920s for Stalin against Ukraine – not now.

P3. "Recourse to physical violence until the opponent does as he is told". Clausewitz drew his lessons much from the Napoleonic wars. They were not *total wars*, but Clausewitz is said to have endorsed the idea of total war – questionable.

P4. Enmity, hatred and primordial violence. Here we have an essential difference from Clausewitz. The Ukraine and Russia are or were not viewed as France and Germany or Prussia and Austria in the 19th century, locked in animosity.

Ukrainian history is replete with wars with neighbours, but it is not a matter of people hatred between Russians and Ukrainians. These people adhere to the Slavic culture. Even by appeasing the present government in Kiev, Russia would have been better off than today's *pariah* predicament.

Clausewitz has of course a large number of ideas on strategy and tactics, but they are often old fashion, focusing on *die Schlact* (decisive battle).

He states as a conclusion that a golden opportunity to conquer must not be missed. Perhaps exactly this admonition misled the Russians? Clausewitz underlined uncertainty, devotion and genius. Now things are more brutal with rockets and grenades - endless bombing of whatever.

Conclusion

We see only destruction, people fleeing and deaths. War is meaningless today, since it becomes *total* and often takes the form of attrition. War is mental, governed by *ex ante* beliefs. *Ex post,* Putin is wrong Outcomes are worse now than in the past. Thus far, the NATO countries have helped Ukraine in various ways, not least with state of the art weaponry. The group has been united as never before and Sweden and Finland are prepared to join. Russia can not take on the US. Geopolitically, Germany has decided to arm forcefully—all three countries setting new courses compared with the experience of 1945. The US pays the Ukraine. It is clear that Putin planned this war poorly. He bad8 overestimated the forces of Russia and underestimated the help for Ukraine.

Now, global output is falling, hurting much needed social expenditure and green policyq. Maybe Russian ruthlessness is a reminder of the danger of naked power (Lenin, 1971; Weber, 1978).

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8 Political systems: parsimonious classification

Introduction

Screening planet Earth today, one is forced to admit that we have dictatorship on all continents. Do people really want to live under such political dispensation? Dictatorship Includes old monarchy, the authoritarian rule as well as the totalitarian regime. The opposite is rule of law. However we focus here upon the reason of a regime.

Regimes

D. Easton (1965) argued that a political system not only changes, but may go down under. Its equilibrium may be lost due to stress or lack of resources. The key actors would defend the equilibrium as much as possible by various support as well as policies, including military effort. According to Easton's theory, every society needs a political system. This implies that when a regime goes down, a new one will be forthcoming somehow.

One may regard Easton's system theory as early socio-biology. But the idea of political system evolution and change

is promising. Each political system faces a survival challenge as to its regime.

Dictatorship

I will talk about thè problematics of regime legitimacy in relation to two kinds of political systems: dictatorship and democracy.

Lenin: Dictatorship of the Proletariat

Here we have two examples in the world: namely China and North Korea. The latter includes a huge role for kinship relations, looking like a bizarre kind of hereditary monarchy

The dictatorship of the proletariat made its historical appearance in the new state organized by Lenin. Due to the civil wars the USSR became much bigger than Russia today. The USSR included all areas where the Red Army won, from the Black Sea to Vladivostok.

Lenin constructed a dictatorship based on the principles of debate exante and absolute obedience expost.

Lenìn immediately introduced a spy and surveillance agency to eliminate opposition. Hehad to improvise as Marx wrote little about this type of dictatorship besides that it was "necessary".

The Bolsheviks secured complete power by the mechanism of parallelism between state and party. To every state power there corresponded a party power with decisiveness. Thus Stalin was general secretary of the party and Politburo. Formally the USSR was a federation of Republics with state competences and individual rights. In reality, ìt was a totalitarian state that Stalin made into autocracy.

After Stalin's death in 1953 collective power was tried involving state and party until the USSR was dissolved. The totalitarian nature of the state was abandoned in a search of liberal presidentislism where state-party parallelism had been severed. However, presidentislism was soon replaced by autocracy by Putin, reinstating also totalitarian forms of ruling.

Lenin's Soviet Union by and by led to a series of regimes, where a few elderly men controlled everything and did not hesitate to use force against fellow countrymen, questioning their embezzling.

In China the Communist party hegemony type of Marxist dictatorship of the proletariat has bern uphold. Xi Jinping is the head of both state and party. The dictatorship of the proletariat is stIll a viable myth in China, although Han nationalism is very relevant.

Yet, in the former USSR where autocracy is combined with corruption to result in the omnipotence of so-called oligarchs favoured by the state. We could hardly be further away from the Lenin regime type: all over former USSR bunches of elderly men looting for their families amidst propagating myths.

The link between China and Russia is no longer based upon Marxism-Leninism. Putin plays on the Russian destiny and religious orthodoxy.

Pareto and Mosca: Elite versus people

Although the theory of political elites was developed over time, it always lacked sufficient empirical evidence. Elites have different areas of competence and they hardly make up a consolidated group of people. Remember that elites are heterogeneous. One may at least distinguish between military, party politicians, economic and religious or cultural elites.

Latin American politics in the 20th century wasmuch about which of these elites would prevail besides Marxist guerrillas.

The meaning of a Latin American elite regime is to control society to their own benefits. If necessary, physical force will be exerted against opponents. A caudillo may emerge on the Mussolini model. However, the Latin American elite regime was Íess nationalist and violent than the European examples. Massive repression occurred in Chile and Argentina, besides omnipresent racism against aboriginal people. This type of elitist regime is basically a status quo system.

A separate type of elitism is constituted by the real monarchies in the Muslim world. Emir or sultan is not within the rule of law regimes, as such regimes are legitimated by the Koran. Indonesia and Malaysia are promising exceptions.

Nietzsche: External and Internal Enemies

A political regime amounts to a state, if it can exercise monopoly on physical force continuously over a territorial space. In a second kind of elitist regime, the meaning is to emphasize physical strength and force both nationally and individually. Thus, therefore it faces enemies both external and internal in Schmitt's sense (1922). The sense of the political systems in Germany ane Italy was to eliminate these enemies by force.

The core of German nazism and Italian fascism was the cult of violence as well as the belief in the myth of racism. These regimes not only practiced cruelty but also made it into a duty. The philosopher who turned all values upside down was Friedrich Nietzsche. Philosophy since Ancient times praised rationality and modesty, although disagreeing about theology. Sympathy and duty were emphasized by the philosophers who started from the axiom of egoism, like for example Adam Smith. However, Nietzsche made mockery of all forms of hypocrisy, underlining the will to power.

Postmodernists see Nietzsche as a philosopher of liberation from the Jewish and Christian straightjacket, but his admiration for "Great Men" e.g. Napoleon, reveals a cult of cruelty: so many battles, so many dead youngsters.

The meaning of the German and Italian regimes was to put this cruelty into systematic practice, resulting in horrendous costs.

Ad Hoc Dictatorship

In Africa and Asia one encounters the ad hoc dictatorship that presents a short term solution to crisis or chaos. Conceivably, dictatorship is introduced as a temporary solution to be replaced by democratic reforms later on. The problem is WHEN? It often times happens that such temporary

dictatorships find ways to survive as one party states or military dictatorship with looting. Cui bono?

Some countries are in rollercoaster ride between democracy and dictatorship. Only rule of law would help.

To Sum Up

Why is dictatorship despicable? Because it entails a wrong solution to the ever present principalagent problem in government. Sooner or later the agent will carry through his own agenda, even against the principal. The dictator and his entourage starts embezzling the nation or its people, even sacrificing their lives in meaningless warfare.

Democracy

From Herbert Tingsten (the greatest political scientist in Sweden) I take the idea that democracy is a political regime. Two key requirements on such regimes include: (a) rule of law; (b) popular participation in government. A few models suggest how the two outcomes can be provided by political institutions.

There is no neat and tidy definition of the expression "rule of law". The Oxford English Dictionary offers the following entry:

> "[t]he authority and influence of law in society, especially when viewed as a constraint on individual and institutional behavior; (hence) the principle whereby all members of a society (including those in government) are considered equally subject to publicly disclosed legal codes and processes."

Now, this sounds rather complicated as well as somewhat legalistic: how to measure it in order to compare states?

One may deconstruct this concept with other concepts or criteria like:

1) Strong legal formalism promoting equality under the laws;

2) Individual rights covering contract, free labour and property;

3) Checks and balances, i.e. institutionalized mixed government with countervailing competences between executive, legislature and judiciary.

A political regime characterized by limited government and countervailing competences may satisfy a few different models.

Westminster: B-model

The classic model of democracy was outlined by Englishman Walter Bagehot (1867). He claimed that the American civil war showed the superiority of British parliamentarism over American presidentialism and federalism. Politics could change rapidly in the B-model with less risk for deep seated animosity. The ultra vires principle hindered blocking by minority. The majoritarian election in Great Briton secured better "Regierungsfaehigkeit". Bagehort wrote his essays shortly after the American bloody war. The meaning of the B-model is policy responsiveness to the people.

Polyarchy: D-model

To some political theorists democracy has been seen as impossible. The idea that the people could decide all issues wisely was not feasible, given transaction costs. Dahl sided with this opinion reserving the word "polyarchy" for a regime that was only second best (1956).

The second best nature of polyarchy derives from its elitism. Actually, Dahĺ argued like Pareto and Mosça. Thus, the US political system was characterized by a deep tension between the rìch ruling class and the lesser weĺl off "people". One may observe that the theme of Polyarchy is close to American elitest theory that Dahl criticized much (Mills, 1956).

Anyhow, polyarchy would be a form of representative democracy with competition among elite groupings (Schumpeter, 1943). Participatory democracy may be combined with representation like in Switzerland. Too much of referenda is conducive to transaction costs and voter indifference.

Democracy is a regime with rule of law and popular anchors. Democracy as only participation or deliberation is merely a myth. Too little participation entails a crisis for democracy m though.

Consociationalism: Lijphart

Consociatìonalism: Lijphart After the WW1 the democratization wave lead to a host of new democracies. With PR election techniques, they deviated from the Anglo-Saxon model above. It was up to t Arend Lijphart to theorize them.

Lijpbart started from a small set of democracies: the Netherlands, Belgium, Austria and Switzerland. Looking at their 20th century history, Lijphart identified another aspect of democracy, namely peaceful conflict resolution through elite accommodation. At crucial points in time the PR election technique provided policy influence to all major political elites ìn order to bargain a peaceful solution to otherwise lethal conflict. The meaning of a democratic polity is to overcome deep seated conflicts in plural societies by means of mechanisms of cooperation or "consociational" devices and institutions. (Lijphart, 1999).

Lijphart stated a democracy model based upon PR and oversized coalitions – to bring all major parties on board. He called it power sharing, i.e. the very opposite to Westminster.

Democracy may need a consent government to stabilise the regime. This theme could be generalised in two ways that Lijphart tried himself. Firstly, he searched (in vain) for other high conflict societies where consociationalism may work: Lebanon, Rwanda-Burundi, Sri Lanka and South Africa. Secondly, he suggested a more general model covering both Westminster and consociational democracy.

If we take the majoritarian election technique and centralization from the model B as well as PR and decentralization or federalism from the model L, we arrive at Diagram 1.

A	B
C	D

Dìagram 1. *The L-model – election system (majoritarian-PR) against power concentration -decentralisation).*

Lijphart no doubt would hold that of these four types of democratic regimes, D is preferable.

Equality: R-model

In the theory of social democracy it is not enough that the regime satisfies rule of law and people participation. Social Democrats or social liberals add a third goal in order for democracy to make sense, i.e. equality as real social justice.

Public policy should favour by different means the least affluent half of the population, until such policy become counterproductive – see Rawls' Theory of justice from 1971 (Rawls, 1971).

The Swedish or Scandinavian regime had this meaning up until neoliberalism. Redistribution comprised both money and services in Sweden and it worked. The Swedish model is still intact but it has lost its meaning of reducing social and economic inequality. Thus, schools and health care have been partly privatised to some extent and transfer payments are subjected to incentive compatibility. Progressive taxation has been scaled back, but the unique Swedish integration of elderly care with health care remains a policy success.

Of course, the mainstream Anglo-Saxon concept of democracy today is not Rawlsan. But the affluent EU states have several welfare programs type R-model like for instance free higher education. Left intellectuals (Piketty, Stieglitz, Krugman, Rothstein) are all for the R-model but in vain. Inequality of wealth and income is rising everywhere.

Rarticipation

In democracy today the ideal of participation has been subjected to that of representation. There is only one referendum democracy in the world. Besides Switzerland, countries like Austria, Denmark, Italy, Sweden employ the referendum although sparsely.

As a matter fact, election participation is not impressive in modern democracy. Civil society displays more vitality. The ideal of participatory democracy still attracts intellectuals. Yet, high levels of electoral participation are hard to come by.

Rule of Law

Representative democracy and not participative is the realistic alternative. Transaction costs and principal-agent deliberations give this conclusion. How then are representatives as agents to be controlled in order that they work for the principal? Reply: rule of law.

Spreading democracy around the globe is tantamount to inserting rule of law. The world justice project (WJP) measures today the existence of rule of law. The WJP unpacks a rule of law regime as follows:

a) Constraints on Government Powers
b) Absence of Corruption
c) Open Government
d) Fundamental Rights
e) Order and Security
f) Regulatory Enforcement
g) Civil Justice
h) Criminal Justice.

The WJP underlines accountability, judicial independence, legal formalism and balance of power between executive and legislature. It is worth pointing out that democracy is not here mentioned. Rule of law was conceptualized before the advent of democracy after the Great War. Rule of law as legality, rights and countervailing rule may be combined with democracy as popular rule, but it has not always been so.

Table 1 presents the results of the most recent survey of the RL Index for 128 countries around the world, presenting the mean value by region.

Table 1. *Average RL index by world region by 2020.*

Region	Min	Average	Max	Number of countries
East Asia & Pacific	0.33	0.60	0.83	15
Eastern Europe & Central Asia	0.43	0.51	0.60	14
EU + EFTA + North America	0.53	0.74	0.90	24
Latin America & Caribbean	0.27	0.53	0.71	30
Middle East & North Africa	0.36	0.50	0.65	8
South Asia	0.36	0.45	0.53	6
Sub-Saharan Africa	0.34	0.47	0.63	31

Source: (WJP, 2020)

Not merely Western countries score above 0.6on this scale. Rule of law countries include: Japan, South Korea, Singapore, Chile, Costa Rica, Uruguay, United Arab Emirates, Mauritius and Namibia as well as Rwanda. Hong Kong is also given a high grade by the WJP, but that must be in the past now.

Conclusion

Dictatorships are more numerous than democracies. Why? Because it is feasible to subjugate a whole people by means of naked power. It all depends upon the solution to the political agency question. Sed quis custodiet ipsos custodes? The response to roman Juvenal's question is: rule of law and citizen or people responsiveness. When Madison wrote the American constitution, he targeted rule of làw but missed out on people participation – an omission never fully undone. For Trump, rule of law was negotiable.

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9 The mathematics of management and public organization: The principal-agent framework

Introduction

The principal-agent approach (P-A) models the interaction between two sets of people, the principal on the one hand and the agent on the other hand (Ricketts, 2002). The interaction is supposed to take some time involving multiple moves and frequent interplay. Thus, it is a game with many moves which can take a considerable time to be played. To analyse such a complicated game and derive strategic solutions the P-A model assumes that the agent works for the principal against remuneration to be paid by means of the value of the output that the agent produces.

The agent is assumed to maximize his/her utility, which depends upon the remuneration and the disutility of his/effort in connection with the production of the output that the principal wants the agent to provide. The principal is maximizing his/her utility in relation to the value of the output minus the remuneration of the agent. The agent is risk/avert whereas the principal is risk neutral. These assumptions set up a game of long duration under which there is both cooperation

and conflict. Thus, both the principal and the agent want an output that has value marketwise or otherwise, as they both get utility from it. What is conflictual concerns the split of the gain from the output where the principal and the agent have opposing interests. The key question is whether the two actors can coordinate upon Pareto optimal outcomes, or whether there is a loss of output due to the strategies of the two players.

The P-A model would not have received so much attention in economics if it had not added one critical assumption to the framework, namely asymmetric information. Given full information the game has the depend upon the type of the market, i.e. the availability of agents resulting in perfect competition or monopoly. With asymmetric information the determinate solutions are more difficult to come by and the game has several interesting applications, as analysed in the economics of information. Asymmetric information games cover insurance, sharecropping, CEO:s and stock brokers (Ricketts, 2002). Can the P-A model also be applied upon government and its provision of services through teams?

Public Organisation from a Principal-Agent Approach

The employees in the public sector may be seen as a collection of teams, headed by a chief or two or more chiefs. Government employs these teams to fulfil their electoral promises concerning the public sector and its services or money contributions. The problem in public organization is to choose the mechanism of structuring these teams so that they operate both efficiently and in an accountable manner. All the experiments in public sector reform show that there is no standard solution to the problem of organizing public teams so that they achieve policy objectives. Let us pin down where the difficulties lie with the help of the principal-agent model.

a) *No transaction costs, perfect information*

The problem of hiring and instructing the agent to provide an output of services in the public sector would be trivial if the principal knows the technology to be used and can hire agents that are either low effort or high effort agents. Diagram 1 shows

the two contracts that the principal will offer these two sets of agents, including the wages w1 and w2 corresponding to the effort levels e1 and e2 which result in different outputs, O1 and O2. The solutions are Pareto-optimal and both players maximize their utility.

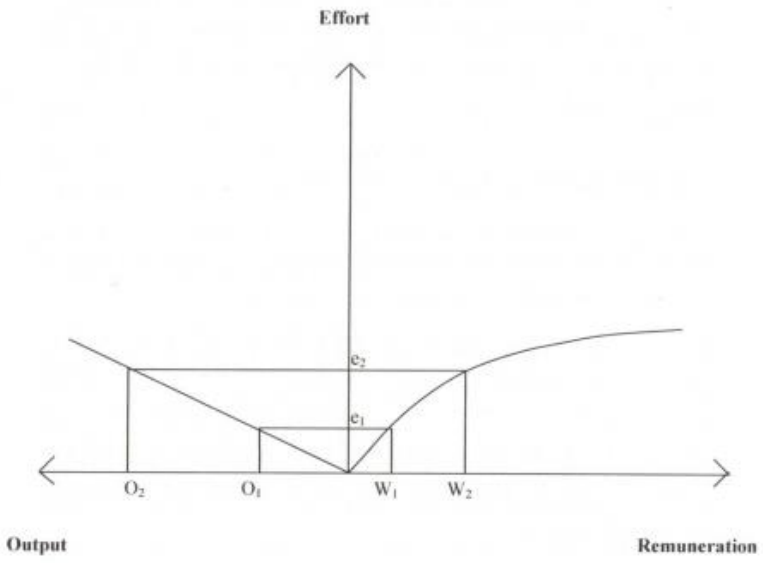

Diagram 1. *Principal-agent interaction I*

The solutions will vary depending upon the number of agents competing for the contracts. The agent may capture the entire gain is he/she is the sole agent. But this is not a likely outcome in the public sector where teams are often abundant.

Diagram 1 offers a naïve solution to the problem of implementing public policies. Since government has set the objectives and knows the technology, it hires the agents it needs, offering w1 to a low effort agent and w2 to a high effort agent. Both contracts maximize the gain for the principal and they are Nash equilibria. Matters become different when the assumption about perfect information is replaced by the asymmetric knowledge assumption (Rasmusen, 1994).

Equations:

Let w=w(e), which corresponds to e=e(w). Let o=o(e), then we will have: o=o(e(w)). Application: Let:

and

o(e)=b.e

Thus, in Diagram 1, w1 corresponds to which corresponds to.

In the same way, w2 in Diagram 1 corresponds to which corresponds to.

Thus, the lower the value of b the more efficient is the agent whereas the higher the value of a the less expensive is the agent. All other things equal, the principal prefers low b and high a while the agent prefers low a. This sets up the conflict in the game between the principal and the agent.

Condition for an increase in profit:

The principal wants the profit P to increase, from situation (1) to situation (2), that is to say P2>P1. We shall see for which values of the parameter "a" we have this condition. Let us take a numerical example, which is easy to generalise to any function of the same shape.

P2-P1=O2-W2-(O1-P1)=b.e2-a.e22-b.e1+a.e12=(e2-e1).(b-a.(e2+e1))
As e2>e1, we shall have P2>P1 for b-a.(e2+e1)>0, that is to say: a<b/(e1+e2)

Numerical values: Let b=4000, O1=8000, O2=12000, e1=2, e2=3. Then the principal wants a<800, that is to say a utility function for the agent that gives low salaries.

Conclusion: the principal can give w2 to the high effort agent, and w1 to the low effort agent, if the principal can separate between two kinds of agents, one with low effort and another with high effort, and write enforceable contracts with the different agents.

b) *Hidden action, no transaction costs*

In the principal-agent framework, the principal cannot observe the effort put in by the agent. He/she can only verify output in the court. But since output depends upon both effort and the situation including randomness, it is impossible for the principal to control post-contractual opportunism on the part

of the agent. Thus, it is probable that the agent will shirt, meaning take one wage according to an agreement about effort but put in another and lower level of effort. Diagram 2 shows this.

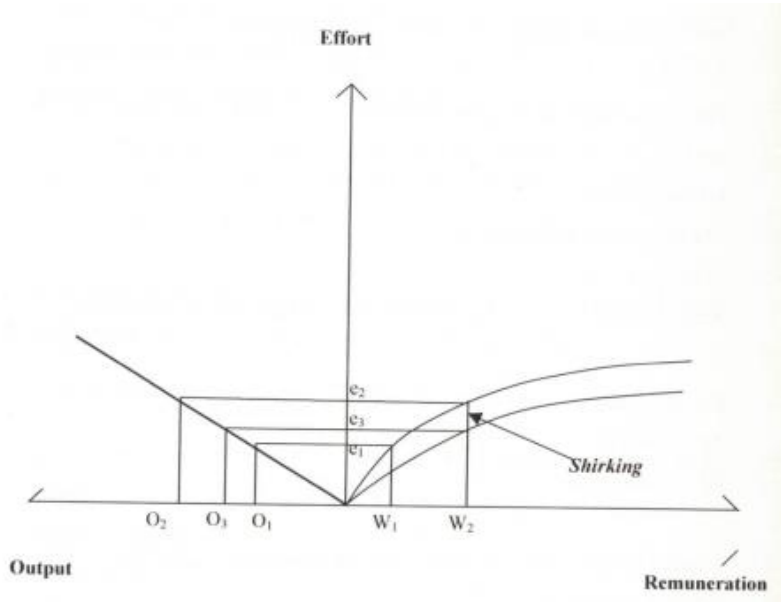

Diagram 2. *Principal-Agent Interaction II*

Shirking may be so costly to the principal that he/she loses all the gain from interaction. The agent increases utility by moving to lower indifference curves in the Diagram 2 according to the trade-off between salary and effort. However, a lower effort translates into a lower output, which hurts the principal.

Bureaucracy is the institution which is most vulnerable to shirking. Using long-term contracts with bureaucrats in order to enable them to develop policy expertise, government opens itself up for post contractual opportunism. As a response government prefers the solution w1 and O1, which is a Nash equilibrium that is not Pareto optimal.

Equations: Explicit function: Let w=w(e), which corresponds to e=e(w), for the non shirking, and w=w*(e), which correspond to e=e*(w) for the shirking.

The decrease in effort will be:

=e*(w)-e(w)

And, if we have o=b.e, the decrease in output will be: ,

For an infinitesimal shirking, the infinitesimal decrease in effort will be:

de=de/da*da

do=b. de/da*da

Explicit function: We take wns=a.e2 for the non-shirk, and ws=ã.e2 for the shirk, with ã>a.

Therefore, we have for the non-shirk, and for the shirk.

The decrease in effort due to the shirking will be:

Condition for an increase in profit:

The principal wants the profit P to increase, from situation (3) to situation (1), that is to say P1>P3. Here, it is evident that P2>P3 We shall see for which values of the parameter "a" we have this condition. Let us take a numerical example, based on a parabola as above, which is easy to generalise to any function of the same shape.

P1-P3=O1-W1-(O3-W3)=b.e1-a.e12-b.e3+ã.e32=b(e1-e3)-ae12+ãe32

The principal will have his condition P1>P3 if:

-ae12+be1-be3+ãe32>0 eq.(1)

It is realised if the principal choses an intermediate pay, not too big and not too low, as we shall see now with a numerical example:

Numerical values:

Let b=4000, O2=12000, e2=3, a=1000, w2=9000, e3=2, O3=8000, therefore ã=4400/4=1100. Hence eq.(1) becomes:

-1000.e12+4000.e1-3600=0

which gives:

1870.18<w1<6929.82
and
1.37<e1<2.63

As we want e1<e2, the inequality is restricted to:

1.37<e1<2
and
1870.18<w1<4000

The principal also wants P1>0. In our example, P1=be1-ae12>0 if :

0<e1<b/a

which corresponds to

0<w1<b2/a

In our numerical example:

0<w1<16000

which does not change our previous condition.

Conclusion: the principal would when faced with moral hazard offer the agent a lower wage than the optimal one. The wage has also to be above a minimum.

c) *Hidden knowledge, no transaction costs*

The principal wants to offer a low effort agent one wage and the high effort agent another wage. What happens if he/she cannot separate the two kinds of agents when contracting with the agent? The problem is not moral hazard as in Diagram 2, but adverse selection. The agent will pretend. Its logic appears from Diagram 3.

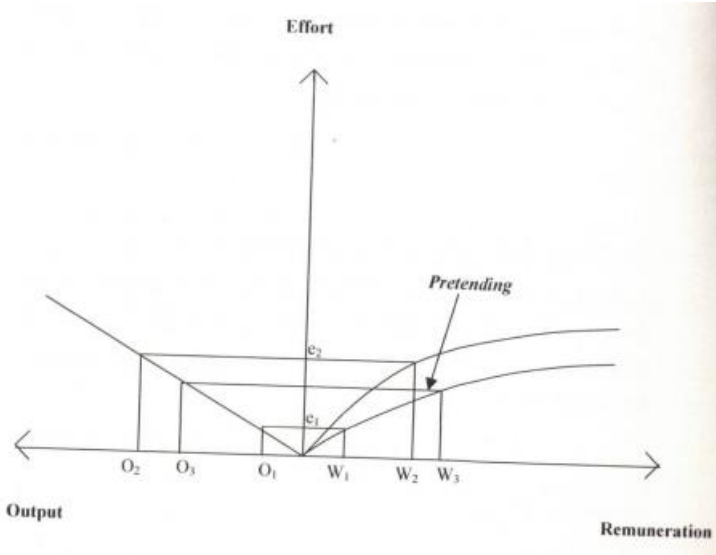

Diagram 3. *Principal-Agent Interaction III*

The principal would like to offer the low effort agent w1 and the high effort agent w2. Both contracts may fulfil the agent's reservation utility, but they are not incentive compatible. The high effort agent will pretend he/she is a low effort agent, which forces the principal to offer this agent contract w3, where there is again a loss of output. Pretending leads to informational rents.

When government employs short-term contracting to buy services from various teams, then it opens itself up for the risk of pre contractual opportunism. It cannot separate the agents into low and high effort agents when arranging for tournaments or auctions. Thus, contract w2 and O2 that is Pareto optimal is not enforceable.

Equations:

The change comes from two factors: a change in the parameter, from b to a, and a change in the wage, from w2 to w3. We can consider e as a function of the two variables a and w: e(w,a). We can therefore write an infinitesimal change in effort as the sum of two terms:

de= de/dw.dw+de/da.da

Numerical application:

W1=a.e12,
w2=b.e22, where b<a,
w3=a.e32,

For the high effort agent, the wage varies from w2 to w3, and we have:

Reciprocally, we have:
de= de/dw.dw+de/da.da,

hence:
Condition for an increase in profit:
The principal wants the profit P to increase, from situation (3) to situation (1), that is to say P1>P3. Here, it is again evident that P2>P3 We shall see for which values of the parameter "a" we have this condition. Let us take a numerical example, based on a parabola as above, which is easy to generalise to any function of the same shape.

P1-P3=O1-W1-(O3-W3)=b.e1-ã.e12-b.e3+ã.e32=(e1-e3)(b-ã(e1+e3))

The first member is negative, therefore the principal will have his condition P1>P3 if:

b-ã(e1+e3)<0
or:
e1>b/ã-e3
which gives:
ã(b/ã-sqrt(w3/ã)) 2<w1<w3 eq.(2)

Numerical example:
Let b=8000, O2=24000, e2=3, a=1000, w2=9000, e3=2, O3=16000, ã=2500, w3=10000

Hence eq.(2) becomes:

2500(8/2.5-sqrt(10000/2500)) 2<w1<10000
3600<w1<10000

The principal also wants P1>0

be1-ãe12>0
which gives a second condition:

0<w1<b2/ã
0<w1<6400

Taking both conditions in account gives us

3600<w1<6400
1.2<e1<1.6

Conclusion: the principal would when faced with adverse selection offer the agent a lower salary than the efficient one, and above a minimum.

d) *Transaction costs*

When the principal would like to undo asymmetric knowledge by investing in monitoring, then he/she has to pay transaction costs. They may be heavy – see Diagram 4.

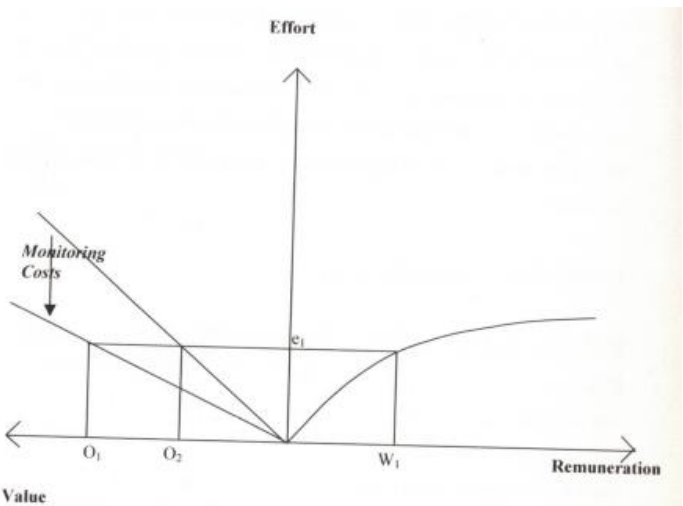

Diagram 4. *Transaction costs*

Evaluating the agent to find out his/her effort level is costly to the principal, especially if the agent acts strategically or if agents collude among each other. Monitoring costs have to be covered by the principal from his revenue connected with the output. Thus, they reduce the value of the output – see Diagram 4. Monitoring costs can go so high that there is no gain from the provision of the services to the principal.

Transaction costs are difficult to identify fully and measure. They do not play the same dominating role in public organization as within private organization though. Public organization has one principal – the government or the state – which is under an accountability norm in relation to its principal, the body politic, the nation or the population as it were. Public organizations cannot minimize transactions no matter what, since they must maximize accountability, given certain restrictions such as efficiency.

Condition for an increase in profit:

Monitoring costs corresponds to a decrease in the value of b, towards $b'<b$.

The principal wants $P_2>0$
Let us take $P_2=b'e_1-ae_{12}$
Then $P_2>0$ corresponds to $b'>ae_1$, or $e_1<b'/a$, or $w_1<b'_2/a$
Numerical example:

$O_1=8000$, $b=4000$, $e_1=2$, $w_1=4000$, $a=1000$

The principal wants:
$b'>2000$
or $O_1=8000$, $b=4000$, $e_1=2$, $b'=2000$, $a=1000$
$w_1<4000$

Regaining the profit:

In this case, the principal may want to decrease a, therefore to decrease the wage, to compensate the decrease in profit due to monitoring costs:

$P_2-P_1=e_1 (b'-b)$

Let us see what is the corresponding change for "a":

$w_1-w_2=ae_{12}-w_2=P_2-P_1$

which gives us:

$w_2=ae_{12}-e_1(b'-b)=a'e_{12}$
$a'=a-(b'-b)/e_1$

Conclusion: The principal would always want to limit the monitoring costs, by imposing a limiting value to b'.

Conclusion

The principal-agent framework was developed for modelling long-term interaction between two persons, where one knows more than the other. Such interaction was not easily put into the categories of classical game theory. Principal-agent relationships were identified in the private sector, especially where risk was to be allocated between the parties in a joint venture (Rasmusen, 1994).

If the principal knows how to produce an output and he is risk neutral, then he can just employ an agent and instruct him/her what to do. However, if the agent knows more

about the output and the agent is risk averse, then the principal may contract with the agent about some risk sharing arrangement under which both benefit. There are no determinate solutions to the ensuing game, where the principal and the agent fight about the split of the mutual gain. Given hidden knowledge or hidden action, the solutions may not be Pareto optimal.

This kind if thinking is applicable to the public sector, especially the provision of services. Bureaucracy poses the problem of hidden action whereas New Public Management entails the difficulty of hidden knowledge.

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10 The riddle of federalism: does federalism impact on democracy?

Introduction

Following institutional theory, one may expect that political institutions impact on economic and political outcomes (March & Olsen, 1989; North, 1990; Weaver & Rockman, 1992; Peters, 1999). The available evidence from testing institutional models indicates that the design of constitutions as well as the regulations of political institutions do matter for social and political outcomes in various ways (Dahl, 1998; Lijhart, 1999; Crepaz & Wilsford, 2000; Reynolds, 2001). What, then, are the outcomes of federalism?

Federalism is a set of political institutions that, it is suggested, offers solutions for political systems facing problems in the era of increasing globalization stemming from the need for closer integration of political units that are organized as nation-states (Elazar, 1987; 1991; 1995; Watts, 1998; 1999). Also federalism would continue to be the most appropriate method of handling ethnic and religious heterogeneity. These claims about the institutional importance of federalism have resulted in a number of studies analysing the empirical impact of

federalism (Lijphart, 1999; Tsebelis, 2002; Benz & Lehmbruch, 2002; Wachendorfer-Schmidt, 2000).

The argument that says federalism as a political regime or state format is of crucial importance for outcomes can be outlined in two very different ways. First, there is the *cautious* position arguing that a federal state performs well when there are certain exceptional circumstances. Federalism would not in general be the most suitable institutional framework for the modern state, but it would deliver good outcomes when exceptional conditions are at hand (Stephan, 1999). Second, there is the *daring* hypothesis that federalism has an intrinsic value, meaning that any regime could employ this state format with an expectation of achieving very good outcomes (Elazar, 1999; Ostrom, 1991). There are also studies reporting a positive impact of federalism on economic as well as political outcomes (Weingast, 1995; Pierson, 1995; Boix, 2002).

There is also the *sceptical* argument that claims one would expect federalism to have no special impact at all. This is based on a rejection of the belief that federalism has any intrinsic value as such (Neumann, 1964). More important, however, is the claim that there is no empirical evidence vindicating a superiority of federal institutions per se. Thus William Riker has said:

> Does federalism make any difference in the way people are governed? And the answer appears to be: Hardly any at all (Riker, 1969; 1975).
>
> Even a very causal glance at the administrative world should convince one that contemporary federal and unitary governments and their public policy are more like each other than are the federal governments and policy of today like the federal governments and policy of the nineteenth century. This fact strongly suggests that federalism makes no particular difference for public policy (Castles, 1980; 2000; Wachendorfer-Schmidt, 2000; Keman, 2000; Wibbels, 2000; Rodden, 2002; Rodden & Wibbels, 2002).

A number of empirical studies seem to support the sceptical view (Elezar, 1999). All in all, then, there is no clear-cut established view on the importance of federalism as a political institution per se.

The research problem that is addressed in this article is the impact of federalism as an institution on the cross-national variation in democracy. Is it the case that federal-ism – be it in the form of a formal ('true') federalism or in the form of a real decen- tralized federalism – is conducive for democracy? Or is it rather that federalism per se does not matter for the cross-national variation in democracy?

The article starts by reviewing where the research literature stands on the issue of federalism's impact on democracy. Important for solving this issue is, of course, how to understand what federalism and democracy stand for. After identifying relevant properties for measuring the crucial variables of federalism and democracy, the study proceeds to map the cross-national variation for these variables, before going on to estimate a number of models. The article concludes with a discus-sion of some implications of the findings for the design of macro political organizations.

Federalism and Democracy: Impact or Not?

The favourable argument about a generally close relation between federalism and democracy has been well stated by Elazar:

> Conceived in the broadest sense, federalism looks to the linkage of people and politics in lasting yet limited union by mutual consent, without the sacrifice of their respective integrities. Federalism must be considered a 'mother' form of democracy like parliamentary democracy or direct democracy (Chryssochoou, 1998).

There are also other scholars who argue that federalism is analytically a part of democracy:

> It is thus possible to consider federalism as a particular type of democracy: a pluralist democracy based on a constitutional system of delegated, reserved and/or shared powers between relatively autonomous, yet interrelated, struc- tures of government, whose multiple interactions aim to serve the sovereign will of the federal demos (Boehm, 1932).

Pluralism and decentralization feature as the mechanisms linking federalism and democracy. Federalism, when it works

properly, would promote values like freedom and pluralism and these values would then be conducive for democracy, general links already suggested by Alexis de Tocqueville in the nineteenth century. This idea is now expressed in many versions, for example: 'The basic aspect of federalism is pluralistic, its fundamental tendency is harmonization and its regulative principle is solidarity' (Elazar, 1999). Elazar too subscribes to this argument about federalism and pluralism: 'Federalism, whether by name or in reality, is an extraordinarily important element for the maintenance and the containment of pluralism' (Elazar, 1999). He goes on to say:

> Not only do all modern federal systems claim to be democratic and seek democratic legitimacy, but there is likely to be general agreement among true democrats that the great majority of those polities held up as models of democ- racy (France is the great and important exception) are either federal in form or extensively use federal principles (Elazar, 1999).

Similarly, Vincent Ostrom states that 'the thrust of the argument in this volume pertains to the conceptions and structural characteristics of a federal system ofgovernance as a particular regime-type that is highly pluralistic in its structure' (Ostrom, 2000). And he links federalism with democracy through pluralism and decentralization specifically: 'Democracy depends upon multitudinous communities operating as self-governing collectivities having recourse to overlapping and concurrent instru- mentalities of government' (Ostrom, 2000).

In his later writings Riker also endorsed the connection between federalism and democracy. Riker's position was more refined than the others, allowing for a positive association between federalism and democracy when there was 'true federalism':

> A dictatorship really cannot be a federation. When the central government denies omnipotence and guarantees constituent governments unique functions, then groups that lose nationally have a chance to win locally. With such com- pensation for national losers, the society as a whole is not zero-sum. In that sense, federalism does promote individual freedom (Riker, 1993).

Riker at the end of his life reached the following cautious conclusion: 'Taking together all federations in the world at all times, I believe that federalism has been a significant force for limited government and hence for personal freedom' (Riker, 1993).

In sum, the thesis proposing that federalism positively impacts on democracy suggests that (a) federalism is analytically a part of democracy and (b) that there are links like pluralism and decentralization that connect federalism and democracy.

Following this thesis we should expect a positive relationship between the degree of (true) federalism and the degree of democracy (Laporta, 2002)[1].

The sceptical thesis, however, sees no link between federalism and democracy. The division of constitutional powers need not be the best guarantee of political freedom. As formulated by Robert Dahl, 'By purely theoretical reasoning from demo- cratic principles it appears to be impossible to establish that the city-state, the country, a transnational system, or any other unit is inherently more democratic or otherwise more desirable than others' (Dahl, 1983). The most trenchant anti-federalist position maintains that the strong claims about associations between federalist arrangements, pluralism, decentralization and democracy simply are not borne out empirically in any compara-tive analysis of political institutions and their outcomes. The following statements amplify this position:

> For in the present world, and even more surely in the future, *Democratic goalsconflict, and no single unit or kind of unit can best serve these goals.* (Dahl & Tufte, 1974).
>
> It should be abundantly clear, just from looking at the list of federal govern- ments, that not all of them are democracies or even pretend to be democracies,

[1] Laporta (2002) finds in Table 9 a positive relation between freedom and federalism. However they only employ a small sample of countries (N 71) and do not include countries like India, Pakistan, Malaysia, Mexico, Venezuela, Nigeria and Austria in the category of federal states.

> although their claim to be federations is indisputable (Riker, 1975).
>
> To choose either the unitary or federal state therefore, is not a choice between democracy and nondemocracy. Although there are writers who suggest so, federal states are not necessarily more democratic. To federalize might or might not be a step in the direction of democracy (Linz, 1999).

The sceptical thesis would thus suggest that the degree of (true) federalism does not matter for any variation in the degree of democracy.

So, there are two opposing theses about the general impact of federalism on democracy, one daringly positive and one cautious. How can these be tested empiri- cally? To do so requires us to identify how to measure federalism and democracy, as a first step.

Federalism and Democracy: Concepts and Measurements

Crucial for the possibility of estimating the impact of federalism on democracy is to clarify what federalism, or true federalism, stands for. From the literature we may crudely distinguish between those accounts that stress federalism as formal rules and those that identify federalism as a set of real rules as they are actually applied in the political system (Filippov *et al.*, 2004). It is obvious that Elazar is aware of different meanings of federalism (Elazar, 1968), but when forced to state what federalism is, he tends to adhere to a formal version of federalism:

> Federalism is based on a particular kind of constitutional framework. The framework is most immediately and easily visible in the division of power among a general, or federal, government on one hand and the constituent gov- ernments on the other (Elazar, 1968).

And he adds that a 'first test of the existence of federalism is the desire or will to be federal on the part of the polity involved. Adopting and maintaining a federal constitution is perhaps the first and foremost means of expressing that will' (Elazar, 1968).

In contrast, when defining federalism Riker tends to stress that federalism means the existence of different levels of governments within a political system. In 1964 he wrote

> The essential institutions of federalism are... a government of the federation and a set of governments of the member units, in which both kinds of governments rule over the same territory and people and each kind has the authority to make some decisions independently of the other (Riker, 1964).

He also added that a state is federal in which:

> (1) two levels of government rule the same land and people, (2) each level has atleast one area of action in which it is autonomous, and (3) there is some [constitutional] guarantee... of the autonomy of each government in its own sphere (Riker, 1964).

In his text from 1975 he defined federalism in a similar way:

> Federalism is a political organization in which the activities of government are divided between regional governments and a central government in such a way that each kind of government has some activities on which it makes final decisions (Riker, 1964).

The differences between Elazar and Riker should not be exaggerated, but these definitions suggest the possibility for measuring federalism in different ways. We may define a federal state as in the research literature – a formal measure distinguish-ing between federal and non-federal states (World Bank, 2001; Schneider, 2003) – or alternatively distinguish between states with respect to their degree of decentralization – a real measure differentiating between decentralized and non-decentralized states, as measured by standard indicators of decentralization.

The concept of democracy is also a contested concept (Naess, 1965); here we make use of empirical measures of democracy that cross-nationally differentiate between more or less democratic states. From among the available measures (Munck & Verkuilen, 2002; Lane & Ersson, 2000) we employ an indi- cator measuring the degree of democracy ranging from a low of 1 to a high of 10, for the period 1995–2003, which is based

on the scores reported by Freedom House (Freedom House, 2002).[2]

Method

To estimate the impact of federalism on democracy we employ the regression approach. The design is cross-sectional containing data for at the most 144 countries worldwide, for the period around year 2000. The regression approach allows us to draw certain inferences about how federalism co-varies with democracy under varying contexts. These varying contexts are covered by a set of contextual variables that might be expected to have an impact on the variation in the democracy scores. In short the models estimated include variables that the literature suggests will have an impact on the cross-national variation of the level of democracy (Hadenius, 1992; Lipset, 1994; Burhart & Lewis-Back, 1994; Przeworski *et al.*, 2000; Geddes, 1999; Bermeo, 2003). The variables include socio-economic development, population size, timing of modernization and the presence of certain political institutions (ombudsman), in addition to variables that capture federalism.

We are interested in estimating the impact of federalism on democracy when applying different models, as well as three varying sets of cases included in the analy- sis. The use of different contexts offers a way to systematically test for the possible impact of federalism. The model estimations that are reported in the tables later in the article all contain the OLS estimates. However, to check for the robustness of these estimates a number of estimations using robust regression techniques are carried out as well.[3]

[2] It is well known that the scores on civil liberties and political rights often go together and therefore well could form the basis of a one-dimensional democracy index; see Banks (1989). For any given year the democracy score is arrived at through the following computation: democracy score ¼ ((14 – (political rights score þ civil liberties score)/12) ~ 9) þ 1.

[3] We also employ a number of alternative robust regression techniques so as to arrive at more robust esti- mates of the standard errors; we employ regression with robust standard errors (HC3),

Federalism and Democracy: Some Descriptive data

Federalism in the late twentieth century is captured here by two variables. First, a formal indicator distinguishes between federal and non-federal states as reported in the research literature; second, a number of indicators is employed to measure the degree of decentralization in various ways.

Table 1 lists 30 countries that several sources have classified as federal states, using the formal definition suggested by Elazar. These are the countries that will be submitted as formal federations in the model estimations that follow later.

Table 1. *Federal countries in the 1990s. According to various authors*

Country	WATTS99	BWD99	DD99	ELAZA95	ELAZA91
Argentina	1	1	1	1	1
Australia	1	1	1	1	1
Austria	1	1	1	1	1
Azerbaijan	0	1	0	0	0
Belgium	1	1	1	1	0
Bosnia and Herzegovina	1	1	1	0	0
Brazil	1	1	1	1	1
Canada	1	1	1	1	1
Comoros	1	0	1	1	1
Czech Republic	0	0	0	0	1
Ethiopia	1	0	1	0	0
Germany	1	1	1	1	1
India	1	1	1	1	1
Madagascar	0	1	0	0	0
Malaysia	1	1	1	1	1
Mexico	1	1	1	1	1
Micronesia	1	1	1	0	0
Nigeria	1	1	1	1	1
Pakistan	1	0	1	1	1
Russian Federation	1	1	1	1	1
South Africa	1	0	0	0	0
Spain	1	0	0	1	0
St Kitts and Nevis	1	0	1	0	0
Sudan	0	0	1	0	0
Switzerland	1	1	1	1	1
United Arab Emirates	1	1	1	1	1
United States	1	1	1	1	1
Venezuela	1	1	1	1	1
Yugoslavia, FR	1	1	1	1	1

Notes: WATTS = Watts 1999 (note 3); BWD = Britannica World Data 2000 (see appendix), DD = Derbyshire and Derbyshire 1999 (see appendix), ELAZA = Elazar 1991 and 1995 (note 3); 1 = federal, and 0 = non-federal.

robust regression estimates and median regression; see Long & Ervin, (2000); Fox, (2000). The findings from these estimations are reported in Tables 2 – 4 in a short format.

The list of federations is both truly amorphous and ambiguous, consisting of both giant and tiny states, 'First World' and 'Third World' countries as well as highly stable countries and some in a state of anarchy or civil war. A core of 16 countries appears in all the sources quoted. Some countries are quite recent federations like Belgium and Micronesia, whereas Czechoslovakia was a federal state in 1991 but no longer after the dissolution of the country in 1993. And there are countries that are not strictly federal in a formal legal sense but have been considered by some as real federal states, such as Spain and South Africa.[4] The classification that is relied on primarily is the most recent authoritative one compiled by Watts, although his inclusion of Spain and the Republic of South Africa is highly questionable: a country may have a decentralized political dispensation (devolution, home rule) without employing the legal mechanism typical of federalism.

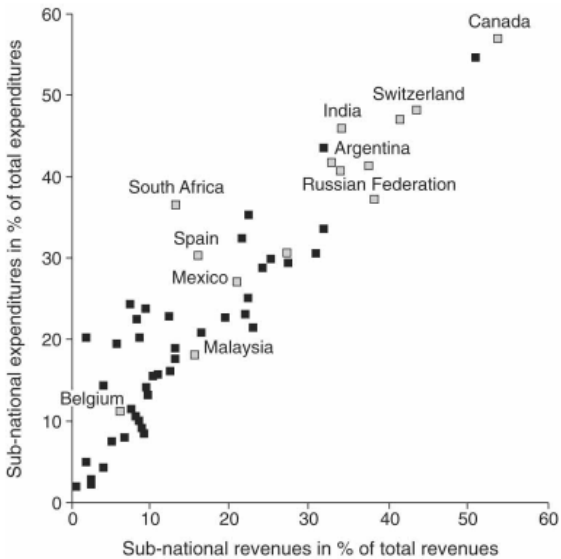
The other variables measuring federalism are indicators capturing the degree of decentralization within a political system. This analysis uses a set of fiscal decentra- lization indicators developed by the World Bank in co-operation with the International Monetary Fund (2001) and a set of decentralization indicators for the year 1996 compiled by Schneider (2003). Decentralization is thus often associated with fiscal decentralization, but Schneider also identifies two further senses: political and admin-istrative decentralization. Political decentralization is measured by the existence of municipal and state/provincial elections; administrative decentralization stands for the relative importance of taxes and transfers in sub-national revenues (Schneider, 2003). These two last indicators on decentralization are less commonly reported on in the research literature.

In respect of fiscal decentralization, we focus on sub-national revenues and expen- ditures as a percentage of total revenues/expenditures: these measures are highly cor-related with the index constructed by Schneider (2003). The expenditure and revenue data are available for the mid-1990s

[4] Other sources too classify South Africa and Spain as federal states, for example Griffiths (2002).

for some 55 countries. Figure 1 displays the degree of decentralization among the set of countries for which data are available. It reports the variation in decentralization as indicated by the percentage of sub- national revenues and expenditures in relation to total expenditures.

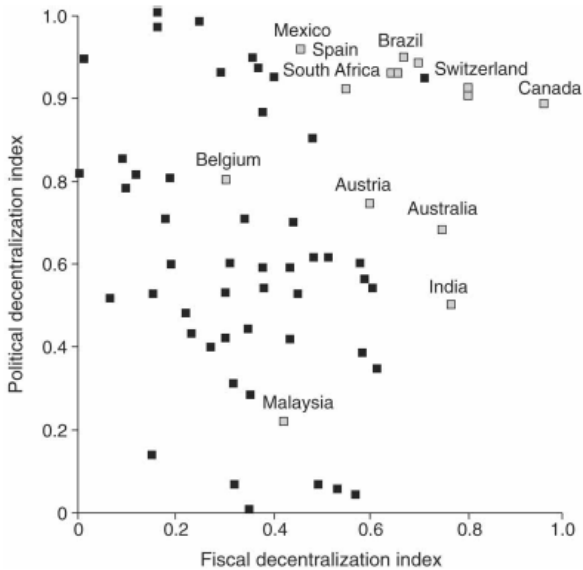
Figure 1 shows a huge variation in the degree of decentralization, ranging from a high of 57 per cent for Canada to a low of 11 per cent for Belgium. Both countries are counted as federal, yet the degree of fiscal decentralization varies sharply. It is also the case that several unitary countries display quite high levels of fiscal decentralization – between 30 and 40 per cent – as among the Nordic countries. Still, the formally defined federal countries are on average more decentralized than the unitary states. The sub-national expenditures in federal countries are around 36 per cent while the rate in the unitary states is around 19 – 20 per cent, and this means that the corresponding eta-scores for federalism and sub-national expenditures are around 0.50.



Note: dark points refer to unitary states whereas light points refer to federal states; only federal states are spelled out by name.
Source: see Appendix.

Figure 1. *Measures of fiscal decentralization among federal and unitary states*

Decentralization has in addition to a fiscal dimension also a political dimension. Figure 2 captures these two dimensions as compiled by Schneider. Due to the fact that the two indexes have been arrived at through a factor analysis it is obvious that the two dimensions do not go together. Yet it is the case that formally federal states have higher scores on both these dimensions, with eta-coefficients ranging from 0.37 (political decentralization) to 0.54 (fiscal decentralization). Decentralization may thus have various dimensions and they seem to correlate with formal federalism. Federalist states are on average more decentralized than unitary states are, and this holds true for fiscal as well as political decentralization.



Note: dark points refer to unitary states whereas light points refer to federal states; only federal states are spelled out by name.
Source: see Appendix.

Figure 2. *Measures of fiscal and political decentralization*

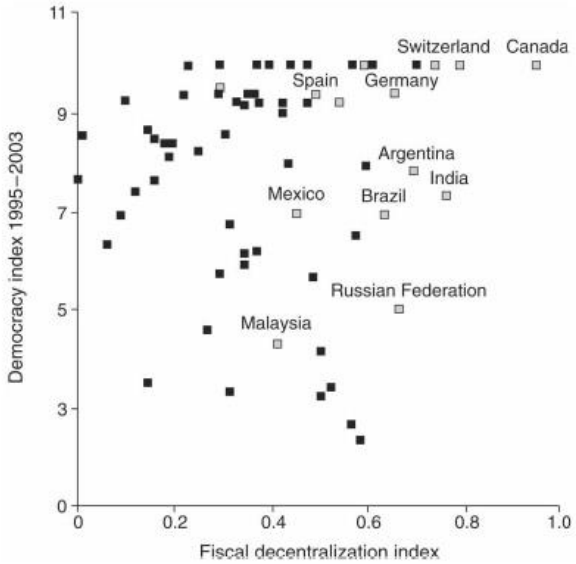
The democracy index that we employ is an average for the period 1995 – 2003. It goes from a high score of 10 (15 countries) to a low score of 1 (3 countries). For the data set containing 144 countries the federal countries scores 7.33 on the index whereas the non-federal ones score 6.01 (eta 0.18; sig. 0.028). Correlating

the decentralization indexes with democracy we find different patterns, depending on whether we look at fiscal or political decentralization. Only fiscal decentralization has a weak non-significant correlation with democracy (Figure 3; r 0.071; sig. 0.572). There is though a significant positive correlation between political decentralization and democracy – see Figure 4 (r 0.533, sig. 0.000).

To sum up: the first descriptive analysis suggests variation in federalism as well as in democracy. Federalism captures both *formal* federalism distinguishing between federal and non-federal states and *real* decentralization, which contains a fiscal as well as a political dimension. Democracy may be somewhat stronger in federal states than in non-federal states, and this is particularly true for politically decentra- lized federal states. But is there really an association between federalism and democ- racy that will hold true when controlling for various background factors or contexts? That issue is investigated in the next section.

Federalism and democracy: Model estimations

To test the impact of federalism on democracy involves a three-step analysis. First, we inquire into how formal federalism impacts on democracy while testing for various model specifications for the broadest set of countries for which we have data (N 144). Second, we analyse the various indicators of formal federalism and their impact on democracy – employing the model identified in the first step – in various contexts as expressed in the number of cases regressed on. Finally we estimate the impact of the decentralization indicators on democracy for two sets of countries, one broad and one narrow. In all three steps the focus is on the parameters estimated for the federalism variables. At issue is whether we can find a significant positive impact of federalism on democracy during the time period studied – the late 1990s.



Note: dark points refer to unitary states whereas light points refer to federal states; only federal states are spelled out by name.
Source: see Appendix.

Figure 3. *Fiscal decentralization and democracy*

The findings from the first step of the analysis are displayed in Table 2 below. In addition to Watts's (1999) indicator of formal federalism the model contains popu- lation size (natural logarithm), the presence of an ombudsman institution, the age of modernized leadership, as well as gross national product per capita (natural logar- ithm). The five models estimated are ordered in a step-wise fashion; models 1 – 3 all show significance for the federal variable, although it is only with the addition of the ombudsman variable that we arrive at a reasonably high adjusted r-square. On adding the modernization and the affluence variables to the model, the predictive power of the model increases at the same time as the federal variable declines in significance. This also holds true for models 4 and 5 when applying alternative robust estimators.

Table 2. *The impact of federalism on democracy: OLS estimates for a board set of countries*

Independent variables	Coeffs	(1)	(2)	(3)	(4)	(5)
WATTS99	B-coeff	1.327	1.578	1.016	0.757	0.571
	t-stats	2.21	2.62	2.07	1.74	1.31
LNPOP	B-coeff	–	−0.308	−0.448	−0.554	−0.446
	t-stats		−2.16	−3.84	−5.33	−4.23
OMBUD	B-coeff	–	–	2.079	1.520	1.411
	t-stats			8.68	6.68	6.14
MODERN	B-coeff	–	–	–	0.019	0.014
	t-stats				6.50	4.10
LNGNPC	B-coeff	–	–		–	0.415
	t-stats					2.21
Constant	Coeff	6.010	6.694	5.514	4.471	1.323
	t-stats	24.58	16.81	15.76	12.89	0.90
Adj r^2		0.027	0.051	0.378	0.520	0.533
N		144	144	144	144	144
Robust t-stat	Min	1.23	1.56	1.99	1.07	0.60
	Max	2.32	2.65	2.52	1.93	1.46

Sources: see Appendix.

When estimating what appears to be a well-specified model, the federal variable is found to be positively related to democracy, but the coefficients estimated do not meet standard criteria for significance.

The second step utilizes model 5 and estimates it with different indicators measur-ing the formal federalism variable; these model estimates are also applied on three varying set of countries ranging from a broad set of countries containing all theones used in Table 2 (N 144), over a data set for which the decentralization measures are available (N 65), to a narrow set of countries containing the set of member countries of the Organization for Economic Co-operation and Development (OECD) for which the decentralization variable (to be estimated later in Table 4) is available (N 24). The reason for varying the number of cases is to enquire into how robust the federalism variable is with respect to changing contexts; this is something we must do if we want to make use of the decentralization indicators.

Table 3 shows that the choice of indicator for formal federalism does not matter much. The coefficients all point in a similar direction, although the size of them may vary somewhat. Not one single significant coefficient has been estimated for the fed-eralism variable. The major variation in the estimates of the federal variable stems from varying the sets

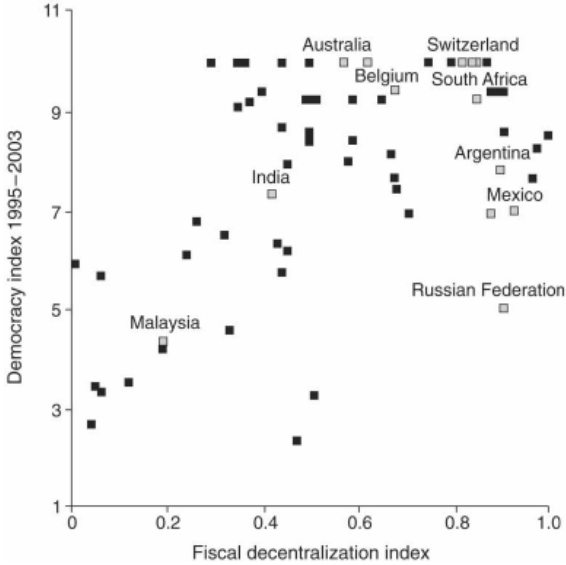
of countries analysed. Within the broad set of countries (N 144) the coefficients in most cases show positive signs, whereas when the number of countries goes down, then it is the case that the sign of the coefficient for the federal variable changes from positive to negative – although all still not sig- nificant. The more narrow the set of countries, the less positive the impact of formal federalism on democracy. These findings also hold true when employing robust regression techniques.

Tablo 3. *The impact of federalism on democracy: OLS estimates for a varying set of countries employing different indicators of formal federalism*

Coefficients	N	ELAZA91	ELAZA95	BWD99	DD99	WATTS99
R	144	0.118	0.141	0.155	0.106	0.183
Beta		0.018	−0.001	0.038	0.021	0.079
B		0.143	−0.008	0.297	0.159	0.571
t-stat		0.29	−0.02	0.62	0.36	1.31
R	65	0.098	0.127	0.024	0.102	0.148
Beta		−0.054	−0.089	−0.129	−0.091	−0.045
B		−0.296	−0.473	−0.686	−0.498	−0.235
t-stat		−0.57	−0.92	−1.43	−0.96	−0.45
R	24	−0.203	−0.194	−0.168	−0.168	−0.194
Beta		−0.062	−0.188	−0.187	−0.187	−0.188
B		−0.083	−0.244	−0.249	−0.249	−0.244
t-stat		−0.37	−1.14	−1.13	−1.13	−1.14
Robust t-stat	Min	0.17	−0.02	0.03	0.03	−0.05
	Max	1.40	−1.09	−1.78	−1.21	1.47

Sources: see Appendix.

The final step is reported in Table 4, which employs all three decentralization indi- cators – fiscal, political and administrative – as measures of real federalism. These indicators are estimated for two separate sets of countries; the first set contains the countries for which data are available (models 1 – 3), and the second set (models 4 – 6) are the OECD countries for which data are available. In addition to the decen - tralization variable the model includes the population, institutional and the affluence control variables.



Note: dark points refer to unitary states whereas light points refer to federal states; only federal states are spelled out by name.
Source: see Appendix.

Figure 4. *Political decentralization and democracy*

The findings from the regression analysis reported in Table 4 suggest that neither fiscal nor administrative administration seems to have any positive impact on democracy, as none of the coefficients associated with these variables shows any significance. The predictive powers of all six models are, however, reasonably high. Political decentralization, though, shows significant parameter estimates. In the larger set of countries (model 3) it is a positive impact on democracy while in the smaller set of countries (model 6) the coefficient changes sign and goes from a significant positive coefficient to a significant negative one; it is the only variable that changes sign when comparing models 3 and 6. These findings also holds true when using robust regression.

Table 4. *The impact of federalism measured by indicators of decentralization on democracy: OLS estimates for a more narrow set of countries*

Independent variables	Coeffs	(1)	(2)	(3)	(4)	(5)	(6)
Decentr: admin	B-coeff	0.271	–	–	−0.266	–	–
	t-stat	0.36			−0.54		
Decentr: fiscal	B-coeff	–	−1.342	–	–	0.211	–
	t-stat		−1.55			0.40	
Decentr: political	B-coeff	–	–	2.284	–	–	−1.187
	t-stat			3.43			−2.97
LNPOP	B-coeff	−0.249	−0.196	−0.357	−0.169	−0.172	−0.098
	t-stat	−2.17	−1.66	−3.26	−2.43	−2.41	−1.59
OMBUD	B-coeff	0.735	0.771	0.677	0.333	0.323	0.377
	t-stat	2.64	2.87	2.73	1.95	1.85	2.64
LNGNPC	B-coeff	1.409	1.464	1.118	0.806	0.768	0.936
	t-stat	6.12	6.44	4.92	2.87	2.59	3.93
Constant	Coeff	−5.067	−5.029	−3.279	1.714	1.871	0.862
	t-stat	−2.55	−2.61	−1.76	0.63	0.66	0.38
Adj r^2		0.620	0.634	0.682	0.574	0.571	0.704
N		65	65	65	24	24	24
Robust t-stat	Min	0.45	−1.42	2.15	−0.49	0.45	−1.70
	Max	0.88	−1.54	2.95	0.80	2.78	−3.26

Sources: see Appendix.

When federalism, as is common, is associated with fiscal decentralization, then we find no positive impact of federalism on democracy. It is only when federalism stands for political decentralization that federalism has an impact on democracy. But this impact is not straightforward, since for a broader set of countries the impact is positive, but for a smaller set it is negative. Either the indicator measuring political decentralization lacks validity, or this indicator captures an aspect of decentralization that only in certain contexts is conducive for democracy. This aspect need not be federalism in a formal way, but it may have to do with political aspects of decentra-lization that differ from fiscal decentralization. What this aspect really stands for is a topic that needs further research.

Independent variables	Coeffs	(1)	(2)	(3)	(4)	(5)
WATTS99	B-coeff	1.327	1.578	1.016	0.757	0.571
	t-stats	2.21	2.62	2.07	1.74	1.31
LNPOP	B-coeff	–	−0.308	−0.448	−0.554	−0.446
	t-stats		−2.16	−3.84	−5.33	−4.23
OMBUD	B-coeff	–	–	2.079	1.520	1.411
	t-stats			8.68	6.68	6.14
MODERN	B-coeff	–	–	–	0.019	0.014
	t-stats				6.50	4.10
LNGNPC	B-coeff	–	–		–	0.415
	t-stats					2.21
Constant	Coeff	6.010	6.694	5.514	4.471	1.323
	t-stats	24.58	16.81	15.76	12.89	0.90
Adj r^2		0.027	0.051	0.378	0.520	0.533
N		144	144	144	144	144
Robust t-stat	Min	1.23	1.56	1.99	1.07	0.60
	Max	2.32	2.65	2.52	1.93	1.46

Sources: see Appendix.

Federalism and democracy: Three basic types of macro-polical organization

Political organization tends towards legal-rational authority in the modern or postmo-dern age, according to the classical Weberian analysis of political authority (Weber, 1978). The state is the legal embodiment of legal-rational authority. It has proven to be superior to other forms of authority such as traditional or charismatic authority. Thus, the world harbours a large number of political organizations built up upon the basis of legal-rational authority. Federalism is one of three fundamental types of political organization.

First, there is the set of unitary states. This is a large set of political organizations, comprising more than 100 states, including a few very small ones like Iceland and Luxembourg but also a giant state like mainland China. Unitary states may be either centralized or decentralized, depending upon the structure of competences as well as the allocation of financial powers. Although there is a great emphasis upon equality under the law in unitary states, there are many examples of special adminis-trative decentralization or the devolution of powers to special areas. It has been argued that extensive devolution or regional autonomy within a unitary state implies a federal or semi-federal organization of the state. This is a very questionablethesis, as decentralization regionally or locally is quite in agreement with a unitary framework. The

basic difference with a federal organization is that the status of the regions and the provinces are derived from central government decision and not from a theory of states' rights. The regions and the localities, however much auton- omy they may possess in terms of decisions and finances, derive their existence from the centre.

Second, there is a set of federal states, which may be delineated in somewhat different ways, depending upon how a federation is identified. The federal set of pol- itical organization is also very heterogeneous, consisting of some of the largest states in the world but also a few extremely tiny states. The border between unitary and federal states is clear when legal criteria are employed, but becomes fluid and more imprecise when behavioural criteria are used such as financial or fiscal decen- tralization or the existence of autonomous regions.

It is apparent from the previous analysis that some federal states operate nicely according to standard performance criteria such as democracy or democratic stability. But it is also true that quite a few federal states under-perform or can be regarded as politically unstable or, even, authoritarian. Could one not explain this riddle of federalism – or the finding that federal states perform so extremely differently – by the simple distinction between real federalism (political decentralization) and paper federalism according to constitutions? Yet, federalism outlines a special *discourse*. Thus, its legal discourse consists of a set of distinct notions which mark federal states off from unitary states and confederations, where the crucial question is whether this discourse is merely words or constitutes a political reality.

In the set of federal states the key distinction is between those states which respect their written federal constitution and those states which are merely federalist on paper alone. Paper federalism occurs quite often, as when what Max Weber called the real constitution emerges through a practice that is in flat violation of the written federal framework. The formal constitution may outline a logical distribution of public com- petencies between the federal government and the state governments. Or it may set up a nice scheme for collaboration

between the federal government and the state govern-ments. Yet, the reality may be that power is monopolized in a hidden mechanism that transcends the federal distinction between the federation and the states, such as a single ruling party that dominates the state, or a ruling family, the army or a charismatic leader.

Federalism claims in its most radical version that a federalist framework operates best for any political organization. Thus, it offers a basic explanatory model of how a political organization can work or should operate in an optimal manner. The advantage of federalism is derived from its rational contractual basis, meaning that two or more parties can federate through a pact and define what goals they wish to promote through rational endeavours. Federalism may be a rational choice option solving pro-blems by means of contract-making in regard to decisions about for instance war and peace, or economic integration. Thus, Australia was federated partly as a function of a growing military threat, fear of Asian people in general being part of the motivation behind the Federation of the Australian colonies in 1901. From the 1850s it was largely the Chinese who figured prominently, but with the rising industrial and mili- tary power of Japan in the late nineteenth century, the fear was focused more on the latter. National defence was thus a major plank in the creation of the Commonwealth of Australia (Riker, 2000; Walker, 1999). And Western European federalist efforts have been driven by the promise of economic gains through customs union, the internal market and the mon-etary union (MacKay, 1999). Yet, the disadvantage of a federalist framework derives from the tensions it puts into the political system. At least one of the following three proble- matics tends to be found with the federal discourse:

(1) States' rights: when will the constituent parts of a federation feel that they want it no longer, and what can they do about it?
(2) Cultural heterogeneity: is a federation between two or more communities (nations or people or religious communities) really sustainable in the long run?
(3) Money, benefits and costs: can a union achieve an equitable distribution of benefits and costs, given the ever

mounting pressure from regional inequalities?

Some federal states have shown that they may handle the uncertainties that derive from these tensions. However, other federations have succumbed when confronting these problematics or have responded to the difficulties inherent in (1)–(3) with non-federal practices – sometimes occurring out of public view. We might call this difficulty of really making federalism work – enhancing the rule of law and democracy – the 'Santiago del Estero problem'. Argentina's justice minister in 2004 began work as caretaker governor of the northern Santiago del Estero province, with the priority being to clean up the province's institutions, which though federalist in name had for a long time failed to prevent leaders acting with impunity. The former governor and her husband were arrested over allegations of corruption, abuses of power and possibly murder. The suspended Governor Mercedes 'Nina' Aragones and her husband – former governor Carlos Juarez – were arrested in order that they could be questioned over allegations of fraud involving the province's pension programme (BBC, 2004). That particular illustration aside, we would argue that the above three aspects of federalism constitute true problematics in political organization involving a risk of state failure, in terms of either instability or non-democracy.

Third, there is the set of international organizations, the inter-governmental organizations (IGOs) or confederations. It is highly debatable what kind of political organization these are, but it is clear that they do not qualify as states. Political organ- ization covers a huge number of these inter-governmental bodies, which may be characterized as clubs or as coordination mechanisms. Confederations are often described as less capable of action than states, unitary or federal. However, a few IGOs are very capable of action, as for instance the North Atlantic Treaty Organization, the International Monetary Fund and the World Bank. It is the devel- opment of the European Union that has made the borderline between federations and confederations much less transparent and precise. The concept of flexibility and variable geometry developed with the Union has shown that political organiz- ation may comprise elements from entirely

different logics. Thus, states may set up coordination mechanisms to which they delegate decisions and resources. Some of these coordination mechanisms are global whereas others are regional.

When federalism is said to entail democracy, then the idea is basically the Tocquevellian theory that decentralization makes dictatorship less likely. Yet, even if correct this does not vindicate the claim that federalism is 'a mother of democracy'. Political decentralization is certainly achievable also within a unitary state frame- work, as with various schemes for devolution and home rule. And some formally federal states accomplish very little real decentralization. But is really decentraliza- tion a necessary or sufficient condition for democracy? The analysis in this article of the link between decentralization and democracy suggests that it is weaker than previously thought. The obvious inference is that other political institutions matter more for democratic probability.

Concluding discussion

Federalization has been recommended as a strategy to enhance institutional perform-ance. Federalism is often seen as a basic dimension in constitutional democracy, pro- moting democratic vitality. And future state building may be done on the basis of political unions taking on the characteristics of federations. However, there is the puzzle of federalism: if federal institutions are supposed to improve upon outcomes, then why is the actual performance record of many federal countries so unimpressive? We suggest that democratic stability is fostered by other institutions and factors than federalism. The evidence from regression analysis suggests an entirely new answer, namely that federalism does not constitutes a genuine positive for democracy. Other institutions such as for instance the legal system (Ombudsman) or the executive (parliamentarism) or the electoral system (proporotional representation, for instance) matter more positively for democracy. Thus when analysing data for the post-cold war period the findings corroborate the sceptical view suggesting that federalism has no or little positive impact

on the cross-country variation in constitutional democracy, generally speaking.

Appendix

APPENDIX
VARIABLES, INDICATORS AND SOURCES

Abbreviation	Description	Sources
BWD99	Federalism as a dummy variable where 1 = federalism and 0 = non-federalism	Encyclopædia Britannica, *Britannica World Data* (Chicago, IL: Encyclopædia Britannica, 2000)
DD99	Federalism as a dummy variable where 1 = federalism and 0 = non-federalism	J. Denis Derbyshire and Ian Derbyshire, *Political Systems of the World*, 3rd ed. (Oxford: Helicon, 1999)
Decentr: admin	Decentralization index measuring the relative importance of taxes and transfers in sub-national revenues	Aaron Schneider, 'Decentralization: Conceptualization and Measurement', *Studies in Comparative International Development*, Vol.38, No.3 (2003), pp.32–56
Decentr: fiscal	Decentralization index measuring sub-national expenditures and revenues as a percentage of national expenditures/revenues	Schneider

APPENDIX *CONTINUED*

Abbreviation	Description	Sources
Decentr: political	Decentralization index measuring the existence of municipal and state/provincial elections	Schneider
DEMOCRACY	The democracy score is based on the Freedom House scores where a low degree of democracy scores 1 and a high degree of democracy scores 10.	Freedom House; see also note 37
ELAZA91	Federalism as a dummy variable where 1 = federalism and 0 = non-federalism	Daniel J. Elazar, *Federal Systems of the World: A Handbook of Federal, Confederal and Autonomy Arrangements* (London: Longman, 1991)
ELAZA95	Federalism as a dummy variable where 1 = federalism and 0 = non-federalism	Daniel J. Elazar, 'Federalism', in Seymour Martin Lipset (ed.), *The Encyclopedia of Democracy* (London: Routledge, 1995), Vol.II, pp.474–82
LNGNPC	Natural logarithm of GDP per capita in US $ expressed as purchasing power parities	World Bank, *World Development Indicators 2000* (Washington DC: World Bank)(CD-ROM)
LNPOP	Natural logarithm of population size expressed in number of millions year 2000	US Census Bureau, 'International Data Base', available at <http://www.census.gov/ipc/www/idbprint.html> (March 2004).
MODERN	Number of years since the introduction of modernized leadership	Cyril E. Black, *The Dynamics of Modernization: A Study in Comparative History* (New York: Harper and Row, 1966)
OMBUD	Occurrence of the Ombudsman institution as a trichotomous variable where 2 = early institutionalization, 1 = later institutionalization, and 0 = no institutionalization	International Ombudsman Institute, *International Ombudsman Institute Directory of World-Wide Ombudsman Offices* (Edmonton: International Ombudsman Institute, 1999)
Sub-national expenditures	Sub-national expenditures in % of total revenues 1995	World Bank, 'Fiscal Decentralization Indicators' (2001), available at <http://www1.worldbank.org/publicsector/decentralization/fiscalindicators.htm> (March 2004)
Sub-national revenues	Sub-national revenues in % of total revenues 1995	World Bank, 'Fiscal Decentralization Indicators'
WATTS99	Federalism as a dummy variable where 1 = federalism and 0 = non-federalism	Ronald L. Watts, *Comparing Federal Systems in the 1990s*, 2nd ed. (Montreal: McGill-Queens University Press, 1999)

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11 Federal language and federal realities

Introduction

If it is true, as federalism claims, that federal states are superior to unitary then what could be the reason(s)? Federalism is often spoken about today, interstate arrangements like regionalism are looked upon as federalist institu tions. Thus, Hesse and Wright early raised the question whether Europe the process of federalization, given the development of the European Union the according variety of institutions - economic and otherwise (Hesse, & Wright, 1996).

There exist and have existed a variety of federations or unions, of which can be said to be successful. Scholars who argue the theory of federalism tend focus on the existing big federal states in the world. They see the federal state format as the only feasible arrangement for these big countries, since a unitary dispensation could not work.

The aim of this paper is to examine the differences between a federal state and a unitary one in order to understand the mentioned claim of institutional superior ity. Why would running a federal state result in better outcomes than running a unitary state, all other things being equal?

What is the Essence of a Federal State?

Federalism employs a terminology of its own to identify the dispensation that it favours. Thus, a federal state most often signals that it is a federation and not a unitary republic in the preamble of the country constitution. Its central govern ment is labeled the "federal" government and its provinces or regions are called "states". If the constitutional language is different, can one also conclude that the political realities are different, comparing a federal state with a unitary one?

One may raise the question whether a country can be a real federal state, al though it refrains from employing the federalist language. Two interesting cases are Spain and South Africa. There is no mentioning of key federalist terms in the constitutional documents of these two countries, but scholars have nevertheless included them among the federal states of the world. An explicitly federal dis pensation was among the constitutional alternatives when the Republic of South Africa revised its basic law in the 1990s. Spain has made numerous constitu tional amendments to its unitary framework, which may amount to a real feder alization of the country, depending upon, of course, what a "real federal state" amounts to. Spain does not officially use federalist language, nor does the RSA.

It is also the case that there exist countries that call themselves "federal", but one would hesitate to classify them so objectively. An example is the United Arab Emirates that lack all the kinds of institutions that go with federalism, being merely a union of traditional sheikdoms. Whether one is to call the Soviet Union a "federal" state depends upon what a real federal state is. This question of the essence of federalism has received several tentative answers, inter alia:

• Political decentralization: In a federal state, the provincial governments have list of competences that bolster their position in the political system (Hooghe *et al.,* 2010). Real federalism as decentralization is a hypothesis that from evidence about how federal states operate. granted that they are always less centralized than unitary

• Démocratisation: A federal state tends towards democracy another, as it endorses both self-rule by the provinces the

provinces in decision-making upon national government affairs (Elazar, 1992).

The link between a federal dispensation of some sort gime is a probabilistic one, to be established by means As a matter of fact, several countries that employ the low on standard democracy indices as well as the respect for human rights.

• Consensus mechanism: Federal institutions provide the in national decision-making through a second chamber thus increasing the need for supermajorities (Lijphardt, 1999).

Federal states allow for the representation of their chamber according to various modes of bicameralism. eralism makes decision-making more complicated, may require not only a majority in the lower chamber some sort in the upper chamber. Whether more complex methods enhance political consensus or political stability research.

• Veto players: Federal legislatures tend to have considerable influence in national decision-making, being provided with a veto against either the na tional assembly or the president. The existence of veto players promotes po litical stability by hindering too quick decisions and cycling (Tsebelis, 2002).

Again, this effect of federal institutions will have to be researched. A federal chamber may become so unrepresentative that it merely blocks national pol icy-making, which if lasting long may lead to stalemate and even political instability.

The often cited example of federalism as conducive to stalemate and minority protection of the status quo is federalism in Latin America (Gibson, 2004), especially the case of Brazil with its highly unrepresentative federal chamber (Stepan, 2004).

Two points may be made in relation to the distinction between federal language and federal reality:

• The use of federal language is not always a reliable sign of the occurrence of federalism.

• Real federalism may be conducive to decentralization, democratization, consensus and political stability, but these effects cannot be taken for granted.

Bypassing the use of federal language, one may look for the difference between a federal state and a unitary one in specific federal realities.

Federalism as a discourse in political theory offers a rosy picture of the federal dispensation with its many institutions on the basis of the assumption that they somehow promote positive outcomes. Little is mentioned in this discourse about the Achilles heel of federal political systems, namely the constant risk of sub optimal policy outcomes and potential secession.

Federal Duality

A real federal state has built into it some kind of legal duality, opposing the cen tral government and the provincial governments. Provinces are not merely re gions in the country, but they are constituent parts of the entire political organi zation, meaning they have a say on constitutional changes. Most federal countries handle this duality by calling the provinces "states".

Whether the provinces are named states or not, they may have a variety of state characteristics. There is large variation in the institutional set-up of the provinces under a federal dispensation. However, one characteristic or property is essential, namely the aforementioned say in the process of constitutional amendment. This requires in turn some form of federal legislative chamber.

The states under a federal dispensation may have a variety of competences, as federal institutions vary greatly, although the number of states that call them selves "federal" is not large. Thus, one may analyse at length the complexity of rules pertaining to the following aspects (Watts, 1998):

- Composition of the federal chamber
- Recruitment of federal representatives
- Competences of the federal chamber in legislation and
- Role of the federal chamber in constitutional changes
- Strong role of the provinces in constitutional changes

The federal countries differ considerably in how they have institutional aspects. Moreover, federal institutions vary

institutionalization of the various aspects of the provinces Among them:

- Own private law
- Own public law
- Own court system
- Own police forces
- Own language

Given the large diversity in the institutional set-up among real federal states - USA, Switzerland, Germany, Brazil, Mexico, Argentina, Australia, India, Austria-, it is impossible to formulate an ideal-type of federalism. Each country has its style and format of federalism. But it can only call itself "federal" if it has a federal chamber whose participation is necessary in constitutional changes. The only exception to this rule the author is aware of is Canada.

Comparing the federal states with unitary ones, one finds no similar requirement in any of them. Constitutional changes are handled by the lower chamber with the possibility of a referendum. Unitary states may have a second chamber, but it is not "federal", meaning representing the provinces as such. Instead, the second chamber either represents the people in the province on a proportional basis, or it is an appointed body like in the UK.

Federal Anomalies

Countries that employ the federal language for self-designation do not display coherent set of real federal institutions. On the contrary, we can observe not only institutional variety in real federalism but also some remarkable anomalies, meaning deviations from federal discourse.

Suppose one considers the US and Switzerland as benchmark models of federalism, then some notable deviations may be pointed out:

- Australia: no provincial taxes
- Canada: no federal chamber
- Belgium: no territorial jurisdictions
- Germany: no federal chamber legislators

- UAE: no representative institutions
- Venezuela: no senate
- India: frequent federal emergency intervention
- Brazil: excessive provincial blocking power
- Federated States of Micronesia: unicameral legislature
- Comoros and St Kitts and Nevis: unicameral legislature

It is difficult to comprise this federal variation in a few clear cut distinctions like classical federalism, dualistic federalism, German federalism, etc.(Majeed *et al.*, 2006). Perhaps the small island states do not really constitute federal states at all, as the provinces are not at all "states" in the established sense.

Regions, Provinces and States

In all political systems one can detect a division of competences between gov ernments at various levels: central, regional and local. Unitary states handle this allocation of competences in various ways, sometimes with and sometimes with out the enshrinement of autonomy for lower tiers of government. Unitary states sometimes employ the so-called prefectural model in order to check that compe tencies are executed in accordance with law and central regulations. There may be asymmetric division of competencies, as unitary states engage in home rule for certain regions or provinces.

In federal systems, the provinces constitute states, meaning a stronger protection for their competences and autonomy. Federations vary as to how the competen cies are specified: exclusive, concurrent and remaining competencies. Whereas unitary states may rely heavily upon local governments, federal states give the provincial governments the key role.

It is not true that unitary states are always centralized with few competencies, little autonomy and close surveillance for the lower tiers of government. There may be substantial regional or local government autonomy without any prefec ture. Why, then, opt for federalism?

The Implications of Size

It has been argued that federalism derives its plausibility stances, such as external threat, internal heterogeneity, reasons for turning to the federal alternative instead of unitary framework are sometimes relevant but can hardly one cannot fail to observe when looking at real federal they are large, population wise or in terms of territorial few exceptions, but it holds that most very large states tion. Why?

The operation of federal duality results in considerable costs: multiple constitu tions, several governments, administrative complications etc. Size allows these costs to be spread out either per capita or per square kilometer. These complexity costs may be supportable when compared to the benefits in terms of organiza tional stability at the provincial level.

Unitary states also employ regional or local governments. There are regional or local assemblies, directly elected, resulting in a government of some kind. How ever, these regional or local governments are not clothed in the same strong legal framework as the states in federal countries. Their existence is regulated in the constitution and in ordinary legislation, where these governments enjoy no veto powers. Thus, changes are not difficult to make in their structure or functions, independent of whether they have a say. This low level of entrenchment may be unacceptable for large territories.

Moreover, the unitary language differs from the federal language in a manner that reflects the weaker constitutional recognition of the unitary provinces or regions compared with the federal ones. Thus, the leader of the regional or local government is not typically designated "Premier" or "Governor". However, it would be a mistake to believe that unitary states provide a substantial direct central government administration at the regional or local level. Such forms of so-called déconcentration may occur but they co-exist with various forms of political decentralization in the sense of policy-making by directly elected re gional assemblies.

In the Appendix, the size - population as well as area - of federal states is pre sented. Spain and South Africa are included in the group of federal states due to their regional bodies having a say in constitutional revisions, while the UAE, Sudan, Iraq, Myanmar and Ethiopia as well as Serbia-Montenegro and Bosnia Herzegovina, the rumps of the Yugoslavian federal state, are bypassed.

Looking at a current list of federations, one can observe that most federal states are very large entities. Only a few unitary states show the same immense size measures. The reason of erecting a federal state seems to be more linked with size than to foreign threat or social and cultural diversity.

Relating these federations to standard indices on human rights and democracy after 1945, one may note that a federal dispensation does not guarantee democ racy, as indicated in several countries in Latin America, Africa, Europe and Asia.

Established Explanations of Federalist Institutions

A federation of states is typically constructed when there is a special reason, such as foreign threat or internal division. War, or the threat of war, was underlined by Riker, but this seems more of historical than systematic relevance. Perhaps the military ambitions of Imperial Japan played a role in the making of Australia, but war or military threat has no relevance for understanding the strong support for the maintenance of the Australian federation. The Riker argument seems com pletely out of place for the making of Nigeria and post-apartheid South Africa or recent Spanish developments (Riker, 1975).

The cleavage explanation of federalism targets the implications of severe re gional tensions in the social structure in combination with explicit institutional attempts to deal with them. Thus, ethnic (or perhaps even religious) tensions may be accommodated within a federal dispensation, allowing for a state comprising several nations, such as India, Belgium and Nigeria.

Yet, this argument only begs the question whether social heterogeneity is condu cive to federalism. After all, ethnically or religiously divided societies may opt for the creation of several unitary states, like in Former Yugoslavia and Czecho slovakia. Holding together a federation based upon ethnic or religious cleavages may actually only be possible when there is a one party state that assures uniform direction. Such a party system lacking, as in the Soviet Union, the federation may succumb to secession.

One may expect the federal discourse to become an institutional legacy in a country where federalism works. However, historical evidence indicates that "once federal, always federal" is not a valid rule. Federations solved or undergo slow but distinct institutional change.

The basic reasons for maintaining a federal state are not or internal cleavages but the economic and political implications state size. On the other hand, not all large "unions" constitute federations.

Not all Unions are Federal States

One may discuss whether the European Union is a federation in the same sense as e.g. the USA or Canada. If the EU could be called "federal", then perhaps other forms of regional co-operation would also qualify for this label, such as ASEAN and UNASUR. However, this would blur the distinction between fed erations and confederations, which retains its validity. To capture the distinctive features of a federal state, one must bypass both external forces and internal social cleavages and target costs in political organization.

Federalism and Transaction Costs

When a country is small or medium sized, then the unitary dispensation would the normal case. An exception are the small island countries where only a federa tion could work, since several unitary states would simply be too costly to run cf. the example of Micronesia, the Comoros or Saint-Kitts and Nevis.

When countries are huge - population-wise or in area, then there seems to be choice. A federal constitution outlines a political system with some form of dual ity between the nation-state and the provincial states. This duality may promote the rule of law and democracy, but it may also lead to inertia, deadlock and stalemate.

Federalism increases transaction costs in order to institutionalize this duality between the central government and the provincial states. Whether higher trans action costs promote democratic stability or hinders it is, however, an open ques tion.

Political decision-making may minimize transaction costs by employing a uni tary framework with a one chamber legislature for budgeting, taxation and law making. It may structure the state in two or three levels of government to secure the implementation of national government policies. Federal states increase transaction costs by operating two states: one nation-state and a set of provincial states. Transaction costs will be maximized when the provincial states constitute veto players with a definitive say over all national government policies by means of a Senate, based upon symmetrical bicameralism with equal representation of all provinces, independently of population size.

Advantages and Disadvantages of Higher Transaction Costs

Federalist scholars argue that a federal dispensation is worthwhile, despite the increasing transaction costs. They refer mainly to democratic stability and politi cal decentralization. However, some deplore the inertia that federalism may be conducive to. Thus, Scharpf speaks of a "joint decision trap" that federalist ar rangements create for both the national government and the provincial govern ments - a stalemate in the Senate when the lower chamber adheres to one politi cal will but the upper chamber follows another (Scharpf, 1997). At the same time he speaks about an omnipresent drive towards Politikverflechtung, meaning the unavoid able linking together

of the national government and the provincial governments on many policy issues, not only in federal political systems.

Federal transaction costs seem to make sense in very large countries but hardly elsewhere. In big states there is a need for regions to enjoy political stability in the form of constitutionally protected provincial governments. They may respond to regional political wills, thus making decentralization workable. However, federalism runs the constant danger of regions obstructing the national govern ment and even calling for secession.

What federalist theory claims is that there are limits to economies of scale in political organization. When a country is huge, then making the regions into provincial states may be an attractive option in constitutional design. Yet, as complexity arises with the entrenchment of federalist institutions, so do transac tion costs increase.

The Provincial Veto

The essence of a real federal state is the veto - individual or collective - of the provinces in relation to federal government decision-making, either generally or with regard to constitutional revisions. Federalism implies state duality, as pro vincial states are embedded within a nation-state, thus pitting provincial govern ments against a federal or central government.

State duality may be conducive to decentralization, democracy and political stability. But these outcomes cannot be taken for granted. It depends upon the existing political forces in the country. The shape of the party impact upon how the rules of federalism play out, like zuela (Penfold-Becerra, 2005). If there is a dominant party nationally or regionally, of federalism may not deliver what their adherents hope for.

Conclusion

Federalist theory makes somewhat arrogant claims on behalf of a federal dispen sation, stating that it performs better than a unitary one. Skeptical analysts, such as Riker, pointed out early that the evidence hardly supports such contentious statements (Riker, 1975).

Federalist theory faces some ambiguities. On the one hand there is federal lan guage and on the other hand there are federal realities. They do not always match. Federalism implies the belief that federalist institutions outperform unitary insti tutions. When implemented, however, a federal dispensation does not always deliver outcomes like democratic stability, political decentralization and policy flexibility. One may argue the other way around, namely that unitarism is the normal case (some 180 states of the world), federalism the exception (some 20 states). Federal institutions make sense in larger and often sub-divided countries.

Institutionalists sometimes launch an argument in favour of federalism ahead of unitarism. However, the positive federal outcomes are probabilistic in nature. How real federalism plays out depends not only upon how the federal institutions are framed but also upon how the political preferences of the demos are aggre gated and transformed in the party system. Thus, federalism under one-party dominance is very different from federalism under a competitive party system. The federal discourse certainly holds universal appeal, but real federalism makes sense only in very large countries due to the inherent political organization costs.

Appendix: Federalism, Population and Area

Country	Federation?*	Population (mn.; 2000)	Population ($\log_{10}$; 2000)	Area (km²)	Area ($\log_e$)
India	1	1.008,90	6,92	3.151.251,0	14,96
United States	1	283,20	5,65	9.400.722,0	16,06
Brazil	1	170,40	5,14	8.420.640,0	15,95
Russian Federation	1	145,50	4,98	16.600.000,0	16,62
Pakistan	1	141,30	4,95	871.273,6	13,68
Nigeria	1	113,90	4,74	908.399,1	13,72
Mexico	1	98,90	4,59	1.923.122,0	14,47
Germany	1	82,00	4,41	349.898,0	12,77
Ethiopia	1	62,90	4,14	1.135.775,0	13,94
South Africa	1	43,30	3,77	1.226.429,0	14,02
Spain	1	39,90	3,69	485.472,7	13,09
Argentina	1	37,00	3,61	2.775.401,0	14,84
Canada	1	30,80	3,43	9.590.309,0	16,08
Venezuela, RB	1	24,20	3,19	929.507,1	13,74
Malaysia	1	22,20	3,10	323.151,4	12,69
Australia	1	19,10	2,95	7.662.592,0	15,85
Yugoslavia, FR (Serbia)	1	10,70	2,37	88.010,5	11,39
Belgium	1	10,20	2,32	31.318,3	10,35
Austria	1	8,10	2,09	84.905,6	11,35
Switzerland	1	7,20	1,97	41.452,4	10,63
Bosnia and Herzegovina	1	3,80	1,34	51.385,3	10,85
United Arab Emirates	1	2,60	0,96	102.580,3	11,54
Comoros	1	0,50	-0,69	2.200,0	7,70
Micronesia	1	0,10	-2,30	700,0	6,55
St Kitts and Nevis	1	0,04	-3,22	400,0	5,99
China	0	1.275,10	7,15	9.344.594,0	16,05
Indonesia	0	212,10	5,36	1.697.375,0	14,34
Bangladesh	0	137,40	4,92	135.886,9	11,82
Japan	0	127,10	4,84	358.359,0	12,79
Vietnam	0	78,10	4,36	333.167,8	12,72
Philippines	0	75,70	4,33	232.172,8	12,36
Iran, Islamic Rep.	0	70,30	4,25	1.614.726,0	14,29
Egypt, Arab Rep.	0	67,90	4,22	1.000.480,0	13,82
Turke y	0	66,70	4,20	790.418,8	13,58
Thailand	0	62,80	4,14	506.001,2	13,13
United Kingdom	0	59,40	4,08	219.140,8	12,30
France	0	59,20	4,08	550.787,7	13,22
Italy	0	57,50	4,05	296.127,4	12,60
Congo, Kinshasa	0	50,90	3,93	2.346.334,0	14,67
Ukraine	0	49,60	3,90	586.548,7	13,28
Burma-Myanmar	0	47,70	3,86	656.424,2	13,39
Korea, Rep.	0	46,70	3,84	91.306,0	11,42
Colombia	0	42,10	3,74	1.153.540,0	13,96
Poland	0	38,60	3,65	305.676,3	12,63
Tanzania	0	35,10	3,56	944.552,2	13,76
Sudan	0	31,10	3,44	2.507.269,0	14,73

Country	Federation?*	Population (mn.; 2000)	Population (log_e; 2000)	Area (km^2)	Area (log_e)
Kenya	0	30,70	3,42	597.289,1	13,30
Algeria	0	30,30	3,41	2.309.484,0	14,65
Morocco	0	29,90	3,40	411.474,1	12,93
Afghanistan	0	25,90	3,25	646.212,0	13,38
Peru	0	25,70	3,25	1.302.897,0	14,08
Uzbekistan	0	24,90	3,21	445.830,2	13,01
Uganda	0	23,30	3,15	240.491,6	12,39
Nepal	0	23,00	3,14	147.402,7	11,90
Iraq	0	22,70	3,12	441.138,6	13,00
Romania	0	22,40	3,11	231.660,4	12,35
Taiwan	0	22,20	3,10	32.920,3	10,40
Korea, Dem. Rep.	0	21,60	3,07	126.959,7	11,75
Saudi Arabia	0	20,30	3,01	1.912.761,0	14,46
Ghana	0	19,30	2,96	235.516,0	12,37
Sri Lanka	0	18,90	2,94	61.956,2	11,03
Mozambique	0	18,30	2,91	781.072,6	13,57
Yemen, Rep.	0	18,30	2,91	391.374,2	12,88
Kazakhstan	0	16,20	2,79	2.707.851,0	14,81
Syrian Arab Republic	0	16,20	2,79	193.961,3	12,18
Cote d'Ivoire	0	16,00	2,77	313.565,6	12,66
Madagascar	0	16,00	2,77	579.021,4	13,27
Netherlands	0	15,90	2,77	32.983,4	10,40
Chile	0	15,20	2,72	668.868,7	13,41
Cameroon	0	14,90	2,70	463.006,3	13,05
Angola	0	13,10	2,57	1.235.014,0	14,03
Cambodia	0	13,10	2,57	182.318,4	12,11
Ecuador	0	12,60	2,53	248.705,8	12,42
Zimbabwe	0	12,60	2,53	394.272,1	12,88
Burkina Faso	0	11,50	2,44	276.522,2	12,53
Guatemala	0	11,40	2,43	108.418,3	11,59
Mali	0	11,40	2,43	1.249.355,0	14,04
Malawi	0	11,30	2,42	110.956,3	11,62
Cuba	0	11,20	2,42	100.428,7	11,52
Niger	0	10,80	2,38	1.182.223,0	13,98
Greece	0	10,60	2,36	105.139,9	11,56
Zambia	0	10,40	2,34	760.305,1	13,54
Czech Republic	0	10,30	2,33	80.165,0	11,29
Belarus	0	10,20	2,32	205.718,3	12,23
Hungary	0	10,00	2,30	95.568,6	11,47
Portugal	0	10,00	2,30	93.102,5	11,44
Tunisia	0	9,50	2,25	155.244,6	11,95
Senegal	0	9,40	2,24	211.298,5	12,26
Sweden	0	8,80	2,17	433.618,7	12,98
Dominican Republic	0	8,40	2,13	45.356,8	10,72
Bolivia	0	8,30	2,12	1.090.806,0	13,90
Guinea	0	8,20	2,10	253.825,2	12,44
Haiti	0	8,10	2,09	25.683,4	10,15
Azerbaijan	0	8,00	2,08	87.881,2	11,38
Bulgaria	0	7,90	2,07	119.438,6	11,69
Chad	0	7,90	2,07	1.268.417,0	14,05

Country	Federation?*	Population (mn.; 2000)	Population (log_e; 2000)	Area (km^2)	Area (log_e)
Rwanda	0	7,60	2,03	27.283,8	10,21
Somalia	0	7,30	1,99	639.620,6	13,37
Hong Kong, China	0	6,90	1,93	1.040,0	6,95
Burundi	0	6,40	1,86	28.289,8	10,25
Honduras	0	6,40	1,86	113.208,0	11,64
Benin	0	6,30	1,84	116.045,6	11,66
El Salvador	0	6,30	1,84	20.886,1	9,95
Tajikistan	0	6,10	1,81	146.659,2	11,90
Israel	0	6,00	1,79	31.135,0	10,35
Paraguay	0	5,50	1,70	402.937,7	12,91
Slovak Republic	0	5,40	1,69	47.843,8	10,78
Denmark	0	5,30	1,67	32.407,5	10,39
Georgia	0	5,30	1,67	72.279,4	11,19
Lao PDR	0	5,30	1,67	231.129,8	12,35
Libya	0	5,30	1,67	1.618.321,0	14,30
Finland	0	5,20	1,65	333.517,9	12,72
Nicaragua	0	5,10	1,63	121.810,7	11,71
Jordan	0	4,90	1,59	89.520,5	11,40
Kyrgyz Republic	0	4,90	1,59	196.275,6	12,19
Papua New Guinea	0	4,80	1,57	422.882,3	12,95
Croatia	0	4,70	1,55	53.732,7	10,89
Turkmenistan	0	4,70	1,55	476.077,4	13,07
Norway	0	4,50	1,50	349.504,6	12,76
Togo	0	4,50	1,50	60.296,6	11,01
Sierra Leone	0	4,40	1,48	69.097,9	11,14
Moldova	0	4,30	1,46	32.540,9	10,39
Costa Rica	0	4,00	1,39	50.525,3	10,83
Singapore	0	4,00	1,39	632,6	6,45
Armenia	0	3,80	1,34	30.643,8	10,33
Ireland	0	3,80	1,34	67.816,9	11,12
New Zealand	0	3,80	1,34	249.003,8	12,43
Central African Repu	0	3,70	1,31	631.687,8	13,36
Lithuania	0	3,70	1,31	64.801,6	11,08
Lebanon	0	3,50	1,25	10.254,4	9,24
Uruguay	0	3,30	1,19	175.471,3	12,08
Albania	0	3,10	1,13	27.900,0	10,24
Liberia	0	3,10	1,13	91.042,6	11,42
Congo, Brazza	0	3,00	1,10	329.168,3	12,70
Panama	0	2,90	1,06	73.322,3	11,20
Mauritania	0	2,70	0,99	1.022.853,0	13,84
Jamaica	0	2,60	0,96	9.036,6	9,11
Mongolia	0	2,50	0,92	1.558.417,0	14,26
Oman	0	2,50	0,92	309.426,8	12,64
Latvia	0	2,40	0,88	62.352,9	11,04
Bhutan	0	2,10	0,74	38.303,9	10,55
Lesotho	0	2,00	0,69	30.448,0	10,32
Macedonia, FYR	0	2,00	0,69	25.823,0	10,16
Slovenia	0	2,00	0,69	20.440,8	9,93
Kuwait	0	1,90	0,64	16.132,8	9,69
Namibia	0	1,80	0,59	802.492,1	13,60

Country	Federation?*	Population (mn.; 2000)	Population (log_e; 2000)	Area (km^2)	Area (log_e)
Botswana	0	1,50	0,41	589.403,2	13,29
Estonia	0	1,40	0,34	38.744,7	10,56
Trinidad and Tobago	0	1,30	0,26	4.857,0	8,49
Gabon	0	1,20	0,18	255.991,3	12,45
Mauritius	0	1,20	0,18	1.860,0	7,53
East Timor	0	1,00	0,00	15.000,0	9,62
Bahrain	0	0,70	-0,36	700,0	6,55
Qatar	0	0,60	-0,51	10.104,6	9,22
Luxembourg	0	0,40	-0,92	2.696,4	7,90
Iceland	0	0,30	-1,20	100.376,3	11,52

* Federalism according to *Watts* 1999: Federal = 1, Unitary = 0.

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