

Ideology

A Principal-Agent Framework

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PRINCETON
POLICY
ADVISORS



- Historically, ideology has been sorted into three camps
 - **Liberty**
relating to individual freedom
 - **Equality**
relating to the levelling of rights, opportunity, and ultimately wealth and income in society
 - **Community**
relating to society and social obligations
- The first two – liberty and equality – are well understood, both in theory and practice
 - Liberalism underpins modern economics
 - Egalitarianism underpins social democracy and socialism; theory from Marx
- Community – *conservatism* – has no theoretical underpinnings beyond a veneration of tradition, respect for customs and established institutions, and a resistance to change



In this analysis, we seek to

- Articulate a coherent and defensible definition of conservatism
- Put the three ideologies into a common framework using principal-agent theory
- Construct the bridge representing the ‘missing link’ between political economy and economics
- Expand the vocabulary of mathematical economics to encompass not only liberal and egalitarian, but also conservative, concepts as part of the standard lexicon
- Create an approach to ideology that functions as a technology
- Bring a portfolio management mindset to governance using all three ideological approaches to achieve better societal outcomes



Political Orientation

Left

Liberal

Individual

Principal

Market

Up-Down

Right

Conservative

Group

Agent

Social (Non-market)

Inside-Outside

Ideology

Unit of Analysis

Principal-Agent Theory

Type of Transaction

Axis of Interaction

Elites Ideology

Social Responsibility

**Fiscal
Conservatives
(Intelligentsia)**

- *Individual freedom*
- *“Freedom to”*
- *Fiscal sustainability*
- *Money has value*

**Conservatives
(Aristocracy,
Inherited Elites)**

- *Group over individual*
- *Hierarchy*
- *Societal responsibility*
- *Order, strength, tradition*

Mass Ideology

Egalitarian

(Bottom-up or Top-Down)

**Social democrats,
progressives**

- *“Freedom from”*
- *Level social welfare near median*
- *Transfers top to bottom via taxation*

**Social
Conservatives**

- *Social obligation*
- *Universal rules*
- *Duty to obey*
- *Protect the weak*

Virulent Manifestation

**Socialists,
Communists**

- *Class warfare*
- *Wealthy as enemy*
- *Punitive taxation*
- *Anti-business*
- *Conflict as inherent*
- *Principal prevented from transacting*

Fascists

- *Foreigners, aliens as enemy*
- *Discrimination based on race and religion*
- *Conflict as inherent*
- *Agent prevented from interacting*

The Left – Liberal – ‘Pertaining to the Individual’

- Underlying concept: liberty
- Unit of analysis: the individual
 - Interactions viewed from the individual’s perspective
 - Property rights vest in the individual: “freedom” means doing what the individual wants
 - Primacy of individual desires and wants as defined by the individual themselves
 - Goal of policy: to maximize the individual’s utility

The Right – Conservative – ‘Pertaining to the Group’

- Underlying concept: social rights and obligations
- Unit of analysis: the group
 - Interactions viewed from the group’s perspective
 - Property rights vest in the group
 - Primacy of group viability
 - Goal of policy: to maximize the group’s utility

Principal-Agent Theory

- [Jensen and Meckling](#) (1976).
- Traditionally applied in the corporate context, notably to the challenges of company owners in motivating their employees work to the owners' benefit, rather than for the benefit of the employees themselves.
- Expanded in this context to apply to the tension between the individual placing primacy on his own priorities and desires ('freedom') versus complying with obligations to act in accordance with accepted roles for the benefit to the group ('duty')
- In our framework, liberal corresponds to 'principal', conservative corresponds to 'agent'
 - Principal means 'acting on one's own behalf' using one's own name. Maria buying groceries.
 - Agent means 'acting in accordance with an accepted role' using a title. Mom making dinner.
- *Example: Individual versus Team*
 - Football player individual statistics – pay, league rank, completions / interceptions for quarterbacks – are from the perspective of the individual and count as 'liberal'
 - Team statistics – wins / losses, championships – are from the perspective of the group and count as 'conservative'
 - Both perspectives are legitimate: to be the highest paid player in the league, but on a losing team, is a success. A low paid player on a championship team is also a success – but by different metrics, one liberal and one conservative

Agency driven by Evolutionary Economics

- Agency arises from increasing economies of scale
 - Individuals acting in groups can achieve more than the sum of the efforts of those same individuals acting on their own – this is the literal definition of increasing economies of scale
 - The individual cedes freedom for a share of the current or promised joint rewards of the group
 - Acting in groups implies coordination of effort, assumed roles, communication and allocation of rewards of the group to its members – evolutionary pressures drive in this direction
 - Agency encompasses the rights, rewards, responsibilities and risks associated with given role
- Groups imply
 - Hierarchy
 - Leadership to decide a common direction and allocate roles
 - Followership to implement leadership's plans
 - Specialization
- Groups must be defined and delineated
 - Membership: entry, continued membership, expulsion
 - Determination of group leadership
 - Determination of issues within the group's purview
 - Allocation of rights, rewards, obligations and risk from the group to the individual ('corporate culture')
 - Determination of standards of behavior, social and cultural norms, eg, language, religion, culinary and social practice (societal norms)

- A principal implies no relational role
 - Hunter: Could be a hunter alone or one hunting in a group
 - Scholar: Could be in a university or devoted to self-study
 - Man: Does not imply a relationship to any other person
- Agency will always imply a relationship to another individual or group
 - Wife implies husband
 - Father implies child
 - Manager implies subordinates
 - Professor implies students
 - Doctor implies patients

In liberal economics, transactions are generally considered to be in cash, but people often exchange services or goods of value for no monetary compensation

- **Principal transactions – Market transactions**

- Paid in cash or kind
- Valued exchanged at the time of the transaction
 - *Example:* A customer purchases vegetables from a farmer

- **Agent transactions – Non-market transactions**

- Typically, not conducted in cash
 - A policeman catching a speeder will ordinarily not take cash on the spot
- Value may be indefinite
 - An individual lends a book to a friend: “Just give it back when you are done.”
- Value may be unspoken
 - Doing a favor for a colleague
- Counterparty may not be the person with whom the interaction occurred
 - The young man who gives up his seat on the subway will not be paid by the elderly women to whom he ceded it
 - ‘Payment’ as such results from the rights the young man will have in society at some other point in time, for example, when he is old
- The transaction may be involuntary and result in an explicit loss to one of the participants
 - Soldier gives his life for his squad (not altruism, but evolved social obligation)

Liberal contracts are explicit between the parties; agent contracts refer to the role

- **A principal / liberal contract**

- Bilateral and bespoke to the individual
- Explicit with fleshed out terms and conditions
- Drafted without respect to others in the organization

- **An agent / conservative contract**

- Applies to agent, and through that, to the individual
 - “All salesmen are paid a 12% commission of their sales revenues”
 - “All cabin crew will wear official airline uniforms”
- Agency can apply to non-market transactions
 - A mother is responsible for taking care of her children
 - A young man is responsible to give up his seat to the elderly on the subway
 - A soldier is responsible for protecting his squad members from death

- **Agency is flexible and often non-definite**

- Agency can be – and often is – defined by commonly accepted norms and observed behaviors
- Agency allows flexible interpretations
 - Expectations for a mother for taking care of her children may vary by household or situation

- **Agency can affect all the similar agents**

- A given agency – e.g., salesman – applies to all those individuals qualifying for the role
- Changing the definition of agent therefore changes the roles of potentially large numbers of people
- Change often involves risk, and therefore changes in agency roles will often be resisted and may be possible only gradually or through coercion
- Agency is conservative in this traditional sense, because change affects large numbers of people at the same time and therefore involves systemic considerations

- **Agency is relational and has network implications**

- Because all agent roles imply third parties – ‘mother’ implies ‘child’ – changing a given agency implies changing networks of established roles
 - If the implied attributes of ‘mother’ change, so will those of ‘father’ and child’
- For this reason, too, agency is conservative and resists change in the traditional sense
 - Reliance on human nature and established traditions are justified because agency roles have network implications and therefore, once again, considerations are systemic

- **Conservatism is conservative**

- Conservatism defined as ‘pertaining to the group’ is thus conservative in the conventional sense: slow to change, backward-looking, and risk averse to changing established roles and institutions
- But the typical descriptors associated with conservatism – traditional, backwards-looking, illiberal – are characteristics, rather than a definition, of the ideology

For any decision involving an agency role, the individual will generally face two separate decisions:

- **A principal decision**
 - Is this good for me personally? How do I feel about this as an individual?
- **An agent decision**
 - In my capacity as agent, what is the appropriate posture?
- *Example: Making the kids eat vegetables*
 - Liberal response: “They can eat what they like”
 - Assumes individual choice is dominant
 - Assumes competence of individuals to make their own choices
 - Relieves agent of responsibility for outcome
 - Everyone is equal
 - Conservative response: “They should eat what is good for them”
 - Assumes individual choice is subordinate to group leadership
 - Assumes individuals may not be competent to make their own choices
 - Agent retains fiduciary responsibility for outcome
 - Everyone is not equal

- **Allocation is a central feature of conservatism**
 - The ultimate unit of analysis in society remains the individual
 - Consequently, the allocation of rights, rewards, obligations, effort and risk from the group to the individual is a central issue
- **Allocations may be liberal: objective, deterministic and explicit**
 - Income is a percent of booked revenue: “Eat what you kill.”
- **Conservative allocations usually contain subjective, flexible and unspoken conditions**
 - Interactions are complex and multifaceted; not every aspect of a contract can be recorded, measured or rewarded explicitly
- **Conservative allocations will be influenced by**
 - Objective merit
 - Perceived merit of the act
 - Perceived merit of the individual
 - Visibility / awareness of the individual and his achievements to leadership
 - Relationship to decision-makers and affiliation with particular factions or camps
 - Impact of allocation on allocations of others (eg, splitting up the bonus pool)
- **In other words, allocation is politics.**
 - Politics is itself a conservative function

Ideologies are essentially allocation rules

- **Conservative**

- Allocation based traditional agency
 - “All third-year associates receive a bonus of 15% of base salary”
 - Tends to drive towards consistency and mediocrity
- Allocation is based on the discretion of leadership
 - “Bob’s our best salesman, so we gave him a special bonus of 80%.”
 - Can result in favoritism or ‘crony capitalism’, but allows proper recognition and compensation in complex and subjective situations if management is fair and competent

- **Liberal**

- Allocation based on explicitly agreed, bespoke contracts
 - “Your agreed bonus ratio is 22%, so that’s what you’ll get.”
- Assumes similar sophistication and strength of both contracting parties, measurable inputs and outputs, and an ability to enforce contractual terms by weaker party

- **Egalitarian**

- Those below median have an incentive to attempt to redistribute the rewards of those above the median downward
- Allocation based on fairness, compassion, equality, social justice, social insurance
 - “Fight for \$15”, even if the market only values unskilled labor at \$10 / hour
- May maximize short-term aggregate social utility but has many undesirable side-effects

- **Conservatism implies that groups are competitive units in evolutionary terms**
 - Not just individuals, but teams, tribes and nations can win and lose collectively in achieving a common objective like hunting or war
 - Evolutionary pressures will therefore incentivize the development of intra-group capabilities, including communication, subordination and delayed gratification of individual desires, and specialization to provide a portfolio of capabilities to handle group challenges
 - By implication, evolutionary pressures appear therefore not only on the individual level, but on the group level, and through that, back to the individual level
 - Metrics for success include
 - Degree of commitment to group: identification
 - Specialization within the group
 - Brains versus brawn, scholars vs politicians, builders vs destroyers

- **Specialization implies contextual inequality**
 - In a group, specialization will create both leadership and followership: management and labor (elites versus masses), for example.
 - Both are critical to the prosperity of the group
 - Typically, management will occupy a structurally superior position to labor in terms of decision-making over the allocation of resources in society
 - In certain situations and outside the group, however, subordinate / superior roles may be reversed
 - On a football team, the coach is superior to the quarterback; in civilian life, the quarterback will likely be more famous, popular and have greater income and wealth than the coach

Principal-Agent Problems

- Agency always involves two decisions and two competing constituents: the individual in
 - own capacity as principal and
 - capacity as agent
- In a governance setting like leading a country, the leader is assumed to maximize public welfare over his own
- However, the ultimate unit of analysis remains the individual, and over time, many leaders come to prioritize their own utility over that of their constituents—and this remains an enduring challenge of conservatism
- Principal-agent analysis allows us to categorize, diagnose, and in some cases, treat such problems.

		Shows Agent
Acts	Principal	<p>Corrupt Official</p> <ul style="list-style-type: none"> • Official claims to act in public interest but uses position to advance personal goals, wealth • Ex: Many dictators in poor countries • Difficult to resist the temptations of power
	Agent	<p>Statesman / Leader</p> <ul style="list-style-type: none"> • Holds faith with obligations to stakeholders, the public or other group members • Ex: Lee Kew Yuan, Eisenhower, most good CEOs

- Conservatism as an ideology lacks a coherent definition today
- Our approach articulates a coherent and defensible definition of conservatism and ties it to both the other ideologies and economic theory in a unified framework.
- This framework can be used to diagnose and treat issues related to governance and create a portfolio approach to addressing ideologies as manifested in public policy.

