

Leadership, Democracy, and Local Government

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<http://home.uchicago.edu/~rmyerson/bridges.pdf>

Overview

An economic theorist formulates logical models to understand the foundations of successful societies.

These models must fit broad patterns of world history.

Great differences in wealth of nations depend on political foundations.

To understand economic development, we need to understand how effective states are built by political leaders.

Investment is protected locally, but trade must be protected nationally, and so development depends on both local and national politics.

A general political theory based on leadership and trust

The state is a network of agents who enforce laws and sustain property rights.

Agents of the state could profit from abuse of power, and so must be motivated by expected rewards for good service: "*agency rents*".

Any political leader needs a reputation for reliably rewarding the service of his active supporters and agents.

The state must protect supporters' rights to these rewards.

Are **property rights protected** only for a small elite who support the national ruler, or does the circle of trust extend to all citizens?

Membership in the securely protected group requires some political power against a leader who fails to protect their rights.

But people in this circle of trust can invest in the state, driving growth.

Local democracy for wide protection of property rights

Economic development depends on allocation of local political power, which is vital for enforcement of property rights.

"In England, a lease for life of forty shillings a-year value is a freehold, and entitles the lessee to vote for a member of parliament. As a great part of the yeomanry have such freeholds, the whole order becomes respectable to their landlords, on account of the political consideration which this gives them.

There is nowhere except in England, any instance of a tenant building upon the land of which he had no lease, and trusting that his landlord would take no advantage of so important an improvement. Those law and customs, so favorable to the yeomanry, have perhaps contributed more to the present grandeur of England, than all their boasted regulations of commerce taken together."

Adam Smith, *Wealth of Nations* (1776).

Feudalism: local autonomy without democracy

**Feudalism can help to establish a stable political regime,
but it can also have serious long-term economics costs.**

In early colonial India, the British granted local power as property to local *zamindars*, who then had a vested interest in the regime.

The effectiveness of their feudal power proved remarkably durable. Long after independence, Banerjee-Iyer (2005) find lower agricultural productivity and higher infant mortality in zamindar regions.

How much global poverty has resulted from such strategies of traditional and colonial state-building?

Analysis of economic development is incomplete without considering local politics.

Birth of the Industrial Revolution in Parliamentary England

In 1700s, turnpike trusts gave England the world's best transportation, setting the stage for the industrial revolution.

These toll roads were managed by local leaders but had to be nationally regulated as part of a national transportation network.

The national government's dependence on local elites in Parliament made such local investments secure against central expropriation.

Parliament made it possible to hold local leaders accountable under national law without threatening local privileges.

With representation in Parliament, English towns could become secure open markets to attract elastic investment (compare Poland, Spain).

Unsuccessful industrialization in Imperial China

In late 1800s China, provincial governors sponsored new corporations for modern shipping, telegraphs, and railroads (Feuerwerker, 1958).

But the Imperial government could not restrain itself from expropriating their profits. (Nationalization of railroads in 1911.)

Market-preserving federalism (Weingast, 1995): Economic growth requires central leadership that can reduce local monopolies but cannot violate profit-sharing deals with local leaders.

Key constitutional question: how are governors chosen

A key point of any political system is how are governors are chosen: by central appointment, or by decentralized local election?

Central appointment allows national leaders to use these offices as rewards for central supporters, who do not need local trust.

Such centralization of the profits of local government weakens the state outside the capital. (Bates, *When things fell apart*, 2008.)

The alternative: constitutional power-sharing with autonomous local leaders (decentralized democracy or feudalism).

In a federal system, national leaders' reputations for respecting local privileges become essential for building strong political coalitions.

Democratic decentralization gives more people the political standing to invest securely in the state. (Adam Smith's yeomen.)

Can democratic elections improve public services?

Rights to vote were steadily extended to more of the population in England and America from the 18th to 20th centuries.

Promises of public goods and services should appeal to large voting populations more effectively than promises of special favors. But even with free elections, a corrupt leader can retain power if the voters believe that other candidates would not be any better.

Successful democracy requires more than just competitive elections. It requires a **large supply of candidates with reputations for using public resources responsibly** to provide public goods and services.

Local governments provide more opportunities to develop this supply.

Federal democracy in American history

England's 13 colonies in America each had a provincial assembly of representatives from each town or county, like the Parliament. These provincial assemblies united together with a national Congress to form the government of the United States (1776).

Federal democracy made the nation rich in *leaders with reputations for using public resources responsibly for public services.*

Seeking better candidates with federal democracy

Democracy denotes any system in which leaders can get greater responsibility when they earn trust and approval of more citizens. The performance of democracy depends on interactions between the different levels of local and national politics.

Democracy at higher levels becomes more competitive when challengers can show records of good public service at lower levels. The possibility of **democratic advancement** to higher office can give officials more incentive to provide good public service.

Local democracy becomes more competitive when different groups in the national assembly can sponsor alternative local candidates.

*The value of federal democracy is manifested in the history of the United States, but not always in its recent policies:
Contrast centralized presidential state-building in Afghanistan.*

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