

## **Which comes first in constitutional democracy: laws or leaders?**

Bremer (2003): no elections in occupied Iraq without a constitution;

Al-Sistani: a constitution must be written by elected leaders.

(The chicken-egg question of constitutional democracy.)

*Thesis:* Political institutions are established by recognized leaders who can motivate a faction of active supporters.

A leader needs a reputation for reliably distributing patronage benefits to his loyal supporters (*fundamental political law*).

To establish a state, political factions must develop networks of patronage and power that reach into every community.

Bremer's theory of the primacy of written constitutions would make it difficult to understand how they ever evolved in the first place.

A complex system can be spontaneously self-organizing when it has many opportunities to start locally and then grow larger.

This is true of leader-follower networks, but a constitutional system of government must be enforced nationally or not at all.

## **Distribution of moral-hazard rents in high offices (governors)**

Moral hazard problems are fundamental to the state.

Legal and constitutional rules of government are effective only when enforced by actions of individual agents of government.

Powerful government agents could profit from abusing power, and so they must expect greater long-run rewards from good service.

Candidates would be willing to pay for such highly rewarded offices.  
(Becker-Stigler, *J Legal Studies* 1974. My *Econometrica* 2012.)

Agents' rewards must depend on judgments of their superiors in the network, and so incentives ultimately depend on top leaders.

Promises of back-loaded rewards become a debt owed by the state, which leaders could be tempted to repudiate (by false accusations).

To build a state, a leader must solve this central moral-hazard problem of binding himself credibly to reward past service.

Solution: organize high agents in a court or council where they monitor his distribution of rewards and offices, as they serve him.

The leader's personal constitution: keep the courtiers' collective trust.

## **Basic unit of political mobilization: the leader with his faction**

Any political leader needs support to compete for power.

Supporters' efforts must be motivated by promises of rewards if win.

So a successful leader must have a reputation for reliably rewarding the loyal supporters in his faction (captains).

My *APSR* '08: In equilibria of competition for power, a leader cannot get any support unless he can assure his supporters that he would risk losing power if he cheated any of them.

Political debts are converted into moral-hazard rents by appointing key supporters to high office. (captains to governors)

Then key supporters join a high council that monitors the leader's distribution of rewards and offices when he wins power.

The norms of behavior that a faction expects of their leader are his fundamental political law or personal constitution.

The state's constitutional rules can be enforced on its top leaders when the rules are consistent with the leaders' personal constitutions.

## **Vital agency problem: political control of local government heads**

Mayors and governors inevitably face great moral-hazard temptations to abuse their power over the people in their jurisdiction.

So these powerful local offices must be associated with substantial moral-hazard rents, and their rewards must be political.

National leaders may be tempted to centralize the moral-hazard rents of local officials, by granting these offices to central supporters.

Appointing governors whom the president owes a debt, not those whom locals would trust for protection.

Such centralization of local-government agency rents weakens the state outside the capital.

In communities where the state cannot provide protection, people must turn elsewhere for it, and insurgencies can take root.

President's incentive to centralize is increased by inefficient taxation, and by foreign counterinsurgency support.

Remedy: constitutional requirements to share power with autonomous local leaders (decentralized democracy or feudalism).

## **To build a democracy, democratic leaders are needed**

We see leaders' political reputations as social capital of state-building. A democratic state needs candidates with good democratic reputations for using public funds responsibly in the public interest, not merely to reward loyal supporters.

Voters would not reject a corrupt incumbent unless they could expect better from another candidate.

Federal decentralization creates more opportunities for politicians to begin developing good democratic reputations.

(My *QJPS* '06: small transition costs, uncertain virtue; frustration of democracy is equilibrium in a unitary state but not a federal state.)

Autonomous local governments can reduce barriers against new political entry into national democratic competition, which established national leaders may naturally resist.

Democratic decentralization also helps to guarantee that the state's political networks reach into every community.

## **An example worth remembering**

America Articles of Confederation (1776-1788) distributed power broadly to 13 locally-elected provincial assemblies.

Such decentralization may have often seemed inconvenient to foreign supporters of the regime.

Every community had at least one elected local leader with a substantial stake in the new regime, which made it unbeatable.

The contrast is stark with the centralized regime of Afghanistan 2004. Narrow centralization might seem convenient for those at the pinnacle of power, but it increases demands on foreign supporters.

## **Xenophon's "Education of Cyrus"**

*Cyrus the Great founded the Persian Empire with one essential quality of leadership: a reputation for generously rewarding service.*

When at dinner with his daughter and [her son] Cyrus, Astyages [King of Media] wished the boy to dine as pleasantly as possible. He thus put before him fancy side dishes and all sorts of sauces and meats.

Astyages said, "Does it not seem to you that this dinner is much finer than among the Persians?"

To this Cyrus answered, "No, grandfather, for the road to satisfaction is much more simple and direct among us [Persians] than among you [Medes]."

Astyages said, "Feast at least upon these meats, so that you may go home a vigorous youth."

Cyrus said, "Are you giving me all this meat, grandfather, to use however I want?" "Yes, my child, by Zeus I am," he said.

Then Cyrus, taking the meat, distributed it to his grandfather's servants and said to each, "This is for you, because you teach me to ride with enthusiasm; for you, because you gave me a javelin; for you, because you serve my grandfather nobly; for you, because you honor my mother."

He proceeded like this until he had distributed all the meat that he received.

**Court of the Exchequer: vital institution of English government  
 Richard FitzNigel's Dialogue of the Exchequer (c. 1180):**

*Why is the Exchequer so called? ...Because the table resembles a checker board...  
 Moreover, just as a battle between two sides takes place on a checker board,  
 so here too a struggle takes place, and battle is joined chiefly between two persons,  
 namely the Treasurer and the Sheriff who sits to render account,  
 while the other officials sit by to watch and judge the proceedings.*

