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*"Farmers... may sometimes find it for their interest to lay out part of their capital in the further improvement of the farm... The possession... of such farmers, however, was long extremely precarious, and still is so in many parts of Europe... If they were turned out illegally by the violence of their master, the action by which they obtained redress was extremely imperfect... [But in England] the action of ejectment was invented, by which the tenant recovers, not damages only but possession... **In England, therefore, the security of the tenant is equal to that of the proprietor.** In England, besides, a lease for life of forty shillings a year value... entitles the lessee to vote for a member of parliament; and as a great part of the yeomanry have [leases] of this kind, the whole order becomes respectable to their landlords on account of the political consideration which this gives them. **There is, I believe, no-where in Europe, except in England, any instance of the 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 laws and customs so favourable 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, vol. 1, book III, ch. 2, para. 14 (1776).

Governance failures at the root of the poverty trap

In places where scarcity of capital makes small investments very productive, why don't people find it profitable to borrow and invest?

In places where small investments in infrastructure and public health would greatly increase productivity, why can't communities organize to make these investments?

(These questions don't imply that we shouldn't help poor countries; but whatever prevents them from helping themselves may also hinder our efforts to help.)

Failures of development are evidence of failures of governance:

lack of institutional capacity to administer public investments for poor communities, or to protect poor people's rights of ownership and contracting.

Where local people fear that attempts to invest would be diverted or expropriated, the same failures of governance can also undermine our efforts to give aid.

Giving effective aid requires secure channels to get funds to the poor communities. So this theorist believes that institutional development is the essence of the matter.

How can governance be improved?

Literacy and professional training may enable better control of bureaucracy.

But good governance requires that incentives of powerful government agents must be managed by leaders who have the will to reward good service and punish corruption.

Why shouldn't an autocrat let his agents maximize their profits (corruption)?

Sources of political will to fight corruption in government:

elasticity of tax base, and threat of losing power to less-corrupt rivals.

Economists believe in the power of competition!

But democracy doesn't always yield good government.

Voters may tolerate corrupt government if they think that rival politicians would not be any better if they were in power.

So the key to successful democratic development may be the supply of independent leaders with reputations for good responsible management of public resources.

Political systems that create more independent opportunities for leaders to begin cultivating such reputations should be more competitive:

federal systems, or multi-party parliamentary systems.

(Myerson, "Federalism and incentives for success of democracy," QJPS 2006.)

Development assistance could also be applied in ways that create such opportunities.

Applications of the basic insight that democratic development can be encouraged by increasing the supply of leaders with good reputations for responsible management of public funds:

In poor countries: who gets to administer aid, and who audits the results?

Sachs suggests that donors need to centralize giving of aid in each country.

But recipients of aid could be decentralized: allowing provincial and local leaders and local NGOs to apply for grants, without needing approval of the national government, but with a requirement that size and purpose of grants be well publicized to local people.

Cultivating democracy in occupied Iraq.

Instead of starting democracy with a national constitution, why didn't Bremer encourage local elections and channel reconstruction funds through these local councils?

Democracy requires political competitors, and political reputations are built on exercise of patronage power. (...building political reputations in America or Iraq?)

After occupation, central government would not want to encourage new local rivals.

Governors in Russia. Since Dec 2004, governors have been appointed by President.

Who will have independent reputations to compete for national leadership in future?

(To solve problems of local autocratic equilibria in some provinces, might have required candidates for governor to be endorsed by national parties, say >x% of legislature.)