FOUNDATIONS OF THE STATE IN THEORY AND PRACTICE:

READING BREMER AND THE COUNTERINSURGENCY FIELD MANUAL

by Roger B. Myerson,  November 2007

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*Abstract.*  Paul Bremer's book about Iraq and the US Army's Counterinsurgency Field Manual express theories about the foundations of the state.  Bremer emphasizes the primary importance of a national constitution.  The Field Manual emphasizes local security operations and effective governance to establish the government's legitimacy.  From economic problems of agency, I argue that the foundations of the state depend critically on political leaders' reputations for rewarding and judging government officials.  This perspective suggests that the chances for successful democracy are increased when there are more opportunities for different political leaders to develop reputations for responsible governance and effective use of patronage.

When social philosophers write about the foundations of the state, in the long tradition of Plato and Hobbes, their treatises may sometimes seem like abstract exercises in theoretical mythology.  But the genre has recently taken a very practical turn.  L. Paul Bremer's My Year in Iraq (2006) and the U.S. Army and Marine Corps's Counterinsurgency Field Manual (2007) express theories of the foundations of the constitutional state.  Their theories have been used to guide practical policy-making in the reconstruction of Iraq, but we should also read them as exercises in social theory.  In this paper, I want to examine the theories of nation-building that are expressed by Bremer and the Field Manual.

The state is like the proverbial elephant, and our theories tend to focus on one aspect or another of its complex reality.  I have written some theories of my own (Myerson 2006), emphasizing the essential role of political leadership in the foundations of the state.  My goal here is to show how the differences among such theories can imply fundamentally different approaches to the practical problems of nation-building that we have faced in this decade.

The core of the argument here may be summarized as follows.  Paul Bremer begins from an assumption that a good constitution is the essential foundation of a democratic state, and the Field Manual emphasizes local security operations and effective governance to establish the government's legitimacy.  But I would put more emphasis on the fundamental problem of motivating the network of individuals who actually make the government work: the political

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leaders and government officials.  Such powerful people face regular temptations to abuse their power, and so the effective functioning of government depends on their confidence that good service will be well rewarded while bad service would entail serious loss of privileges.  Economists have shown that the most effective way to solve such dynamic incentive problems is to backload the rewards of government service, in the form of long-term promises of promotion and patronage benefits.  But promises of future rewards become a debt that leaders may be tempted to deny.  So the government's internal incentive system cannot function without credible assurances that higher political leaders will honor their commitments to lower officials and will judge them appropriately.  Thus, to create the required trust, the government needs strong political leaders who have built a reputation on keeping their word.  A democratic system of government is built on competition among political parties, each of which must be headed by leaders who have reputations for reliably rewarding their loyal supporters while they provide good public service.  So while Bremer and the Field Manual emphasize the role of impersonal law at the foundations of the state, I argue that the essential building blocks of the state can be found in the personal reputations of its political leaders.

The Field Manual expresses the collaborative ideas of many people, while Bremer's book expresses the views of just one individual, albeit one of great intelligence, energy, and experience.  So I begin in Section 1 by surveying Bremer's ideas about the foundations of a democratic state.  In Section 2, I try to survey the main ideas of the Field Manual.  Then, in the next three sections, I discuss three aspects of state-formation which I see as insufficiently considered by Bremer and the Field Manual.  The vital role of rents for agents of the government is examined in Section 3, following Becker and Stigler (1974).  The essential role of top political leadership in allocating these rents through chains of command and responsibility is considered in Section 4, building on ideas of Alchian and Demsetz (1972).  The problem of cultivating democratic leadership is discussed in Section 5, applying theories that were developed formally in Myerson (2006) and (2008).  Conclusions are summarized in Section 6.

## 1.  Bremer's theory of foundations of the constitutional state

The core of Bremer's theory of the state is summarized by the essential goals that he described to Colin Powell after six months on the job of trying to reconstruct Iraq:

I've got three 'red lines' about Iraq. We must leave behind a professional uncorrupt police force, attentive to human rights; we must not have an army involved in internal affairs, and no militia; we should pass sovereignty to an Iraqi government elected on the basis of a constitution. ([B] p 203)

So at the core of Bremer's theory, he sees that a democratic state must be based on a written constitution that establishes checks and balances in the government and defines rights of individuals and minority groups ([B] p 79). This constitutional system must be served by professional police and military personnel who have inculcated the values of respect for law, individual rights, and civilian political authority.

*1.1 Primacy of the constitution*

Bremer's view of the fundamental primacy of the constitution justified his insistence that there should be no elections in Iraq until some form of constitutional law had been established. This policy against elections without a constitution put Bremer into direct conflict with Grand Ayatollah Ali Al-Sistani, who argued that a legitimate constitution could be established only by elected representatives.

To lay the foundations for successful democracy, Bremer understood that the new Iraqi constitution should be drafted by a council with representation from all the major strands of Iraqi society, including Sunni, Shia, Kurd, Turkmen, Christian, tribal, men, and women ([B] p 84). Then, according to Bremer's plan, the first national elections would follow a few months after the popular ratification of the new constitution. With elections following only after the adoption of the constitution, however, the members of the initial council had to be selected by Bremer's CPA, instead of by some political process within these groups themselves. Bremer describes how his staff worked long and hard, traveling all across Iraq, to identify and recruit a diverse membership for his governing council, so that all major groups in the population should see themselves well represented in the process of drafting the new constitution.

With such CPA-administered selection of representatives, however, the representation that Bremer achieved could be only demographic, not political. Constituting an interim council from a demographically representative sample of the population might be sufficient if these identity groups were understood only as categories of people with similar preferences. But Bremer clearly recognized that at least some of these groups were not merely categories of like-

mind people but were social institutions with internal structures of leadership, and he worked to recruit much of the governing council from among these recognized leaders.

Bremer's view of the fundamental role of the written constitution closely fits the way that Americans think about our own republic. The popularly ratified constitution is the basis for everything else, defining limits and checks on the powers of our leaders. We hope that the agents who directly exercise the coercive force of our government should all be professionally indoctrinated to accept their roles as constitutionally subject to law and civilian political authority. When power is distributed widely and everybody accepts the constitutional rules, an official who tried to go beyond his constitutional authority should be checked and rejected by everybody else. Thus, a constitutional system like ours can be a stable equilibrium, and Bremer's problem would be just to get people in Iraq to all play according to a similar constitutional equilibrium in their country.

But when we think about more carefully about our history, we discover that constitutional democracies are not necessarily established this way. The British parliamentary system developed without any formal constitutional document, and America adopted a constitution several years after the revolution, when people wanted to expand the power of the central government. So there must be something else in society, other than a formal constitutional document, that can provide effective checks on the powers of political leaders.

We should also note that the writing and ratification of a constitution is often one of the least democratic aspects of democracy. The drafting of a proposed constitution is typically controlled by a small committee dominated by a few politicians. Then, in ratification process, voters are asked to choose between the output of this elite committee and an alternative of indeterminate chaos. A more democratic process might allow different factions to draft proposed constitutions that could all be offered as alternatives for the voters to choose among. Of course such a plan was never considered by Bremer, or anyone else, but it helps to focus our attention on the substantial power that is implicitly claimed by anyone who, like Bremer, takes charge of the process of drafting a constitutional document. It was possible, of course, that Iraqis might later reject as illegitimate the constitutional laws that Bremer tried to introduce, in which case his constitution-writing would be an exercise in futility. But in the event that Bremer's constitutional laws were accepted as the foundations of Iraq's future government, his heavy influence over the

process as an unelected foreigner could only be characterized as an undemocratic aspect of the new political system.

## 1.2 Professionalizing the security forces with values of civil society

Bremer's view of the essential priority for guaranteeing the professional and nonpolitical nature of the army and police justified both his dissolution of the old Iraqi army and his insistence that the new Iraqi military and police forces could not be recruited without a time-consuming process of extensive professional training for all personnel. This latter policy was implemented over the objections of US military commanders, who urgently called for much faster expansion of the Iraqi security forces.

The red-lined requirement of professionally trained police in Bremer's system deserves some scrutiny. From a historical perspective, we may note that professional policing developed in America decades after the establishment of our republic. For example, the police department in New York City was established in 1845 (Lardner and Reppetto, 2000).

On the other hand, it may well be universal in armies to make sure that soldiers are all indoctrinated to obey the existing leadership. But during Bremer's reign, any military indoctrination to accept constitutional civilian authority would have had an aspect of unreality, because at that time Iraq did not have any constitutional civilian authority. Soldiers and police could only be taught to obey an abstraction that did not yet exist. With no guarantee that future political leadership in Iraq would actually conform to the norms that Americans were prescribing in their military and police training programs, the trainees would be irrational to take their indoctrination too seriously.

## 1.3 Other themes in Bremer's social thought

Bremer recognizes that the stability of a constitutional government may also depend also on the existence of other independent groups in civil society outside the government that serve as "social shock absorbers" ([B] p 12, 19), protecting individuals from the raw power of the state. The groups and institutions that he recognizes as such social shock absorbers included trade unions, political parties, professional associations, the free press, and PTAs. At no point, however, does he ever express the view that such social shock absorbers might also include tribes and religious institutions, although it seems clear that they played exactly this role of limiting and

moderating the influence of past Iraqi governments. So he does not contemplate the possibility that his agenda of creating new institutional shock absorbers might be seen as an attempt to displace the social role of other institutional shock absorbers.

Bremer also regularly expresses the importance of careful vetting to exclude criminals and active agents of the old repressive order from power in the new state. This concern might have been lessened, however, if he saw democratic competition as an incentive system to motivate better performance by political agents. Under such a theory of democracy, we might hope that individuals who acted badly under the old authoritarian regime might behave better when their political destinies depend on winning popular elections. This view might have justified a much-reduced scope of de-Baathification in occupied Iraq, perhaps only to those who were directly (and unrepentantly) responsible for specific crimes of the old regime. Furthermore, any vetting process puts its administrators in a position of power over those who are being vetted and have their livelihoods in jeopardy. So to the extent that Bremer's vetting process was actually conducted by Iraqis, some could use it as a basis for building their own political power. Such potential politicization could be avoided only if the scope of de-Baathification were limited to the number of cases that could be closely supervised by American officials.

Bremer recognized the importance of economic reforms and secure property rights to foster growth and prosperity in the new state. He saw the most important of the CPA's economic reforms as being the repeal of old restrictions against foreign investment ([B] p 159), although bad security actually discouraged such investment in the near term. But Bremer also recognized that economic policy-making may be subject to political constraints, as when he avoided the politically sensitive problem of reforming Saddam's policy of providing fuel to the Iraqi public at a trivial fraction of world prices. When violence cut domestic production, this policy could require the government to import fuel which could then be profitably re-exported by smugglers. Ali Allawi described this vastly expensive system of fuel subsidies as a poisoned chalice that Bremer handed down to future Iraqi governments (Allawi, 2007, p 263-264).

## 2. The Field Manual's view of the struggle to establish a state

The Counterinsurgency Field Manual recognizes an insurgency as a violent struggle to establish a state. The counterinsurgents' strategy in this struggle is summarized as follows:

Killing insurgents – while necessary, especially with respect to extremists – by
itself cannot defeat an insurgency.  Gaining and retaining the initiative requires
counterinsurgents to address the insurgency's causes through stability operations
as well.  This initially involves securing and controlling the local population and
providing for essential services.  As security improves, military resources
contribute to supporting government reforms and reconstruction projects.  As
counterinsurgents gain the initiative, offensive operations focus on eliminating the
insurgent cadre, while defensive operations focus on protecting the populace and
infrastructure from direct attacks.  As counterinsurgents establish military
ascendancy, stability operations expand across the area of operations and
eventually predominate.  Victory is achieved when the populace consents to the
government's legitimacy and stops actively and passively supporting the
insurgency.  ([FM] p 5-6.)

There are many ingredients in this recipe for nation-building: addressing the causes of the
insurgency, attacking extremists and isolating the insurgent cadre, securing and controlling the
local population in gradually expanding areas, providing essential services and supporting
government reforms for effective governance, and achieving predominance as the legitimate
government.  Let us consider each in turn.

*2.1  Addressing the root causes of the insurgency*

The Field Manual advises that the counterinsurgents must analyze the causes of the
insurgency.  When large groups in the population have specific grievances against the
government, insurgents can gain broad support by promising popular satisfaction against these
grievances.  If the government can address these grievances first, then the insurgents' popular
appeal may be reduced.  When we think this way, we are framing the competition between the
government and the insurgents in terms of the popular appeal of their policies, which is exactly
the way that we like to think about competition between political parties in a democracy.

But the Field Manual recognizes that such policy grievances may actually have a limited
role once an insurgency is actively started.  David Galula's Counterinsurgency Warfare (which is
acknowledged as uniquely influential in John Nagl's forward to the Field Manual) lists two
essential prerequisites for a successful insurgency: an attractive cause to gain initial popular

support, and an administrative weakness of the government.   (He also lists favorable geography and outside support as other contributing factors that are not essential. [G] p 44.)  He emphasizes, however, that the importance of the ideological cause tends to decrease over time, as the war itself becomes the principal issue ([G] p 25).  So the ideological aspect should not be allowed to distract us from the essential struggle over power.

*2.2  Attacking extremists and isolating the insurgent cadre*

The main offensive goal in counterinsurgency is to attack the elite cadre who lead the insurgency.  The Field Manual's chapter on intelligence in counterinsurgency includes an introduction to basic concepts of sociology, with the ideas of social network analysis developed further in an appendix, because the insurgency must be understood as a social network that is held together and directed by the central leaders at the top and the activists of the cadre around them.  This vital leadership at the top may keep themselves hidden, but to gain influence and control over the population, their cadre must make contact with others in the population, and then their network becomes vulnerable if many people will provide intelligence to the government.

The Field Manual describes the killing of extremists as necessary but not sufficient for defeating the insurgency.  In this statement, it is responding to military doctrine in traditional warfare where the destruction of the enemy's organized armed forces can indeed be the key to victory.  Against insurgents who have avoided fixed investments in standing armies, however, victory cannot be determined from relative casualty figures.

Of course nobody can deny that insurgency is war and counterinsurgents will have to kill people.  But a rational-choice economist may pause at the suggestion that, among the insurgents, there may be some specific individuals who must be killed or captured because they are "extremists whose beliefs prevent them from ever reconciling with the government" ([FM] p 2).  Such statements beg questions about what are the extreme beliefs that make these individuals so dangerous, and whether these beliefs may be rational or not.  A crazy person might believe anything, but it is difficult to see how his beliefs could influence large numbers of people unless they have some rational appeal to people with normal beliefs and tastes.

Let me suggest that the core belief that makes extremist insurgents so dangerous may be their rational belief that their roles in the insurgency give them a substantial positive probability of winning great power in the nation.  As the Field Manual recognizes, different insurgencies

may derive some initial motivation from different religious, ethnic, or ideological causes. But the essential driving motivation behind the leaders of the insurgency must be a shared belief that, by working together in the insurgent struggle, they can hope ultimately to gain great political power and all the material rewards that follow from it. Such a belief may indeed be rational and dangerous.

As noted above, the central leadership of the insurgency may keep themselves hidden, but to gain influence and control over the population, the cadre whom they direct must make contact with outsiders. Then the insurgent network becomes vulnerable if many people will provide intelligence to the government. So when there are people who trust and support the government in all segments of the population, then the insurgent cadre can be isolated and rendered ineffective or destroyed. In counterinsurgency, all security and governance operations should be designed to achieve this end, so that widespread acceptance of the government induces people everywhere to stop supporting the insurgency even passively by hiding it ([G] p 77).

## 2.3 The crucial question of legitimacy

Individuals' decisions about whether to provide information about the insurgents to the government emerge as crucial transactions in the struggle with insurgency. The Field Manual recognizes that such human intelligence is vital for success of the counterinsurgency and advises that special offices should be established to receive such intelligence and protect the sources. But a potential informant must weigh the government's rewards for information against the very serious possibility of retribution by the insurgents. A rational individual would be unlikely to provide intelligence to the counterinsurgents if he knew that the insurgents were strong in his community. Even if the insurgents are not so strong now, an expectation that they are likely to take power in the future could be a very substantial reason for people not to provide intelligence against them to now.

So an expectation of future success or failure can become a self-fulfilling prophecy for or against the insurgents. An expectation of insurgent defeat would encourage people to offer intelligence to the counterinsurgents, clinching their victory over the insurgents. An expectation of insurgent success, however, would inhibit the counterinsurgents' sources of intelligence and thus make insurgent success a more realistic possibility. Everything can be driven by expectations of power that cause their own fulfillment. Thus the struggle to establish a state

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must be seen as a game with multiple equilibria where Schelling's (1960) focal-point effect applies. Anything that focuses people's attention on the expectation that either side will hold power in this society in the future can make this expectation true now, because nobody wants to be the last person to acknowledge a political leader whose power has been acknowledged by everyone else. I would argue that such focal expectations of future power define the true meaning of legitimacy. A government is <u>legitimate</u> when everyone believes that everyone else in the nation will obey this government. (See also Myerson, 2004.)

This perspective may help us to understand why Galula finds that an ideological cause with broad popular appeal is so essential at the start of an insurgency. At the very beginning, it is hard to evoke expectations of future power. But if a weak band of insurgents can present themselves as activists for the common good of some group of people, then members of this broader group might feel that anyone who provided information to the government against such patriots should be stigmatized as an unreliable traitor to their group. Thus, ideological identification with collective welfare can be particularly valuable at the start of the insurgency, before the expectation or reality of local power can provide the insurgents with a stronger deterrent against local informers.

The Field Manual states emphatically that the main objective for both sides in the struggle is to be accepted by the population as the legitimate government of the country ([FM] p 37, 137), but it sometimes seems unclear about how such legitimacy is to be achieved. A point of confusion may be indicated by the awkward wording of the last sentence in the passage quoted above from the Field Manual: "Victory is achieved when the populace consents to the government's legitimacy and stops actively and passively supporting the insurgency." This sentence might read better if the phrase "consents to" were replaced by "recognizes." The use of the word "consent" here seems to suggest that legitimacy is given by the people as an act of choice. In a democratic society, the legitimate government is indeed determined by the choices that people make in elections, and it seems that such democratic ideals may be coloring the Field Manual's language here. But elsewhere the Field Manual recognizes that many governments have achieved recognized legitimacy without any election or expression of free popular consent ([FM] p 39).

As Hume (1748) argued against Hobbesian theories of an original contract, the

foundations of political power generally depend, not on any prior consent of the population, but merely on a common recognition by the population. From a contemporary perspective, Hume's argument can be seen as a fundamental application of Schelling's (1960) focal-point effect in games with multiple equilibria, because the social process of identifying leadership in a society is essentially a coordination game that has multiple equilibria. So anything that makes people expect that their neighbors will accept the authority of some political faction can become a compelling reason for all of them to accept it.

The attributes that make people focus on one source of political leadership or another may depend arbitrarily on their shared cultural traditions. But we can list a few general principles that probably apply everywhere. Any society includes generally recognized social leaders, who have prominent roles in the various "social shock-absorber" organizations that Bremer talked about, and widespread expressions of support from such social leaders can give legitimate power to a political leader. Any culture that has preserved its autonomous identity through centuries of history probably has a deep-rooted tendency to resist leadership from outside the culture. Such resistance to foreign influence would of course create a dilemma for foreign counterinsurgents, whose support may itself become an obstacle to the host government's legitimation. But people everywhere will ultimately accept the rule of a faction that is able to win decisive battles, kill its enemies, and protect its friends, even if the faction lacks any other culturally accepted symbols of legitimacy. Surely the general recognition of Bremer's authority in Iraq during his year there depended mainly on this natural law of legitimation by conquest.

The Field Manual regularly works from a premise that a government can build its legitimacy by providing security and effective governance for citizens and by sustaining a rule of law ([FM] p 154). From this point of view, the importance of providing basic public goods to the population follows from the goal of winning legitimacy. Victory depends on the host government developing an effective administrative apparatus that can deliver the public goods and services that the people demand. Among these public goods, the Field Manual makes it clear that the most important is basic security. The Field Manual also remarks that a government's respect for preexisting impersonal legal rules, ideally those of a written constitution and of laws that have been democratically adopted, can be the key to assure widespread acceptance of the government's authority and thus its legitimacy ([FM] p 39). So the Field Manual sometimes

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seems to agree with Paul Bremer about the fundamental importance of a written constitution and of security officials demonstrating respect for impersonal rule of law.

But as the Field Manual emphasizes security as the most important public good that a legitimate government must provide, it sometimes expresses a more Hobbesian view that the people accept a sovereign government to escape from the horrors of war and anarchy. With observation that "legitimacy is accorded to the element that can provide security, as citizens seek to ally with groups that can guarantee their safety" ([FM] p 16), the Field Manual concedes that victory may be won whichever side can more effectively manage violence.

## 2.4  Expanding areas of control

The execution of the counterinsurgency operations, according to the Field Manual, is composed largely of a series of operations that are focused on small regions or districts, one at a time, first to get basic security and control in the region, and then to build effective governance there. The long-term goal is to win national power by gradually expanding these regions of effective governance and control. Concentrating efforts in selected regions makes sense, because the positive externalities in getting members of a community to recognize and accept a leader's authority imply that local efforts to win recognized control can have increasing returns to scale.

In the first stage of such local operations to secure and gain control of a local population, according to the Field Manual, a neighborhood may be trapped in a closed cordon and invaded by armed searches with artillery support ([FM] p 183). Then identity cards may be issued to strictly control the enclosed local population. Such a terrifying process may not seem designed to win any local supporters. But once basic security has been achieved, the Field Manual recommends that local paramilitary security forces should be trained and organized so that the people of the village or neighborhood can defend themselves. In this way, the host government can gradually develop an effective national network to provide security throughout the nation. It seems possible, however, that such local defense units might see themselves as depending for broader sponsorship and protection on the US army rather than the national government of their nation.

## 2.5  Providing effective governance

For the population, the positive aspect of the government's expanding control is that it should then establish its legitimacy by providing essential services and public goods that improve

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people's quality of life. Success at this stage requires that the host government must be able to deliver the necessary public goods and services. To make sure that the host government gets political credit for administrative accomplishments, the Field Manual quotes T. E. Lawrence's advice that it is better for the host government to do something tolerably than for foreign counterinsurgents to do it well ([FM] p 49-50).

But the provision of public goods and services must be accomplished at least tolerably well. The Field Manual sees corruption and inefficiency in the host government as a serious failing that can fatally undermine the counterinsurgency, as may have been the case in the failure of Chiang Kai-shek's government in China ([FM] p 159). A host government's tendency to promote officials based on personal connections rather than on demonstrated competence is seen as a potential problem, and American counterinsurgent forces need to guard against such corruption ([FM] p 202). The Field Manual advises that counterinsurgents should not be afraid of boldly supporting government reforms and may sometimes even have to arrange for corrupt officials to be removed from office in the host government ([FM] p 172). In its own transactions, American counterinsurgents should set a good example of clean dealings that avoid any hint of corrupt favoritism ([FM] p 276).

The problem of developing the effective security forces for the host government, both army and police, is a central concern of the Field Manual. The host government should be urged to recruit from all major groups in the population, resisting tendencies to exclude disaffected minority groups, but the Field Manual recommends that no military or police unit should contain too many people who have belonged to any one tribal militia or militant faction ([FM] p 215). Members of the security forces should be given extensive training to develop skills and inculcate appropriate values. Police should be well paid and should be subject to independent review. The Field Manual recommends that the process of developing a security force for the host government should begin with training of effective commanders and staffs for small units (at the level of a company or battalion or a police station) and should only later progressively move to training leadership for higher echelons ([FM] p 224).

## 3. Admitting rents for government agents

When we ask, from the perspective of economic theory, what may be missing from this overall picture of state-building, I would begin with the question of incentives and moral-hazard rents for agents of the host government. Although Bremer may see the written constitution as the foundation of the state, it should be obvious that the constitution can only be enforced by the actions of people. So the fundamental problem of constituting the state is to get people to take actions that implement and enforce its provisions. The problem of getting people to take appropriate actions is called moral hazard in economic agency theory. So we should understand that moral-hazard incentive problems are fundamental to the constitution of any political system.

In particular, the agents whose actions are most vital to the enforcement of constitutional rules are the political leaders and officials who hold high offices of the government under the constitution. For the constitutional system to function, officials of government, from ministers to local magistrates, must exercise great power over others, and this power can be abused for the personal enrichment of the officials. These leaders and officials must be motivated by an expectation that loyally fulfilling their constitutional responsibilities will bring greater rewards and privileges. So the survival of any political system depends on its providing appropriate incentives for political and administrative agents to take actions that may be subject to moral-hazard temptations and imperfect observability. This problem has been analyzed by Becker and Stigler (1974), and they have shown that its solution may require the state to promise large future rewards to officials who maintain a good record of service over their careers.

When the state faces serious challenges to its authority, the problem of motivating its local representatives may require promises of correspondingly greater rewards for loyal service. Evidence for this key point can be found in Banerjee and Iyer's (2005) analysis of British colonial rule in India. The British used several different systems for collecting revenue from taxes on land in different regions of India. In some regions, great landlords called zamindars were given local authority and responsibility for collecting tax revenues in their districts. The zamindars' local authority was granted as a property right that could be sold or bequeathed to their heirs. But in other parts of India, the British collected local revenues directly from individual cultivators or from village councils. Banerjee and Iyer find that the regions where the British governed through zamindars have had significantly lower agricultural investments and productivity than other

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regions of India. For example, they find that local wheat yields are 23% higher and infant mortality is 40% lower in non-zamindar districts. So Banerjee and Iyer (2005) conclude, as British reformers argued two centuries before, that granting local privileges to a feudal zamindar elite had severe economic costs for India. But these costly privileges may have been rationally granted by British imperialists for a vital political benefit. The zamindar system was instituted largely in the regions that came under British rule early, in the 1700s, and then it was used also in other districts which came under direct British rule after the great Indian Mutiny of 1857. The fact that these economically inefficient grants of zamindar privileges were resumed by the British when they felt threatened by the 1857 Mutiny is evidence that its value to them was greater when the threat to their regime was greater. The logic is clear: To suppress insurgent enemies throughout the country, a regime needs active supporters throughout the country, and a straightforward way to motivate a network of such supporters is by giving them a privileged stake in the regime.

These arguments are sharpened when we take account of the great risks of working for the government against a violent insurgency. In a violent struggle for power, expectations of favoritism within the governing elite may become even more essential for recruiting people into the service of the host government against its deadly opponents.

But the Field Manual tends to let concerns about corruption and favoritism obscure the importance of promising rewards to key supporters of the government. For example, consider the Field Manual's discussion of local business suppliers of American counterinsurgent forces ([FM] p 284). The Field Manual observes that such local business contacts may develop into relationships from which counterinsurgents can begin to derive valuable intelligence information. Then the Field Manual remarks that such local vendors may be putting themselves at serious risk of attack by insurgents, and it suggests that the task of protecting them may be more of a challenge than is worthwhile for US forces. But a few pages earlier, the Field Manual also warned against admitting any favoritism or corrupt practices in local business transactions ([FM] p 280). The unspoken question is, what could induce local suppliers to take such serious risks of being killed, if all the transactions really are competitively priced with a minimal profit margin? Surely anyone who is not coercively drafted into supplying the counterinsurgents would provide such risky services only if he believed it to be part of a very profitable long-term relationship. In

particular, he would have to trust the counterinsurgents to not cut him off from profits and protection because he was not worthy of favoritism.

From this perspective, when we read the Field Manual's description of how corruption undermined Chiang Kai-shek's government in China ([FM] p 159), we should recognize that the problem was not that highly connected government agents took profits from their positions; the problem was that they took profits from their positions without providing the governance and services that was expected of them. In the Becker-Stigler incentive model, the great future rewards of office must be conditional on evidence of good service. It was Chiang Kai-shek's job, as the nationalist leader, to monitor the performance of his high officials and make sure that they were well rewarded only when they did their jobs correctly, withdrawing privileges of elite favor from officials who were seen to fail in their responsibilities. So the problem may have been a failure of Chiang Kai-shek to effectively monitor and judge his subordinates' performance. But a perception that Chiang's regime was doomed, so that he would soon lose his power to reward anyone, could also have motivated officials to defeatist short-term profit-taking before the fall.

Although the Field Manual emphasizes the importance of analyzing the social network among insurgents, it does not encourage counterinsurgents to think as systematically about the social network of the host government. The value of analyzing social connections among people in the host government may have been obscured by the ideology of constitutional democracy, or by the goal of inclusive diversity in government recruiting. But we should not let the ideals of constitutionalism blind us to the fact that the enforcement of constitutional provisions depend on the actions of people, and people in high office must be motivated to appropriately fulfill their constitutional responsibilities. The goal of recruiting members of minority groups into government positions should be compatible with the idea that those who are so recruited will also expect substantial rewards and privileges for their service (especially if it entails social risks for them).

There is one point where the Field Manual actually seems to express this idea, buried in Appendix A. There the Field Manual advises that a counterinsurgent unit's first task in its area of operations is to build trusted networks, and then Field Manual reveals:

> This is the true meaning of the phrase "hearts and minds," which comprises two separate components. "Hearts" means persuading people that their best interests are served by

counterinsurgency success.  "Minds" means convincing them that the force can protect them and that resisting it is pointless.  Note that neither concerns whether people like Soldiers and Marines.  Calculated self-interest, not emotion, is what counts. ([FM] p 294)

If we interpret "people" here as referring to the local leaders who will exercise local power for the government, then "winning the hearts and minds of the people" could mean convincing local leaders throughout the country that they will be well paid and well protected if they serve the government well.  Two paragraphs later, however, Field Manual begins to describe the interests in question as community needs or local public goods, so that a reader might not see the key members of this network and its principal local beneficiaries as a privileged elite.

Even when we interpret this network as one of privilege, we can see the cogency of the Field Manual's advice here that the trusted network should be diverse and inclusive.  As the Field Manual emphasizes, the crucial question is where people think they can find basic protection, and anyone who does not believe that he can get protection from the government may turn to the insurgency for it.  So the counterinsurgents' goal should be that everyone in the population can identify some official or patron in the government to whom he can turn for protection.  When there are substantial social groups whose members have no place in the governments' network of trust, then the insurgents can operate among these groups, offering protection and leadership, without fear of detection or competition by the government.  Indeed, the failure to reach such excluded groups may be the political and administrative weakness that Galula saw as a primary cause of insurgency.  Galula emphasizes that the ultimate goal of all counterinsurgency operations is to extend the political network of the government to reach people throughout the nation ([G] p 136).

## 4.  The role of political leaders in establishing the state

Writers of history often describe states as having been established principally by the political and military accomplishments of their top leaders, but the Field Manual has surprisingly little to say the role of the host government's political leaders.  So let us try here to analyze more deeply the essential role of political leadership in the foundations of the state.

We have characterized the government as a network of agents who are motivated by expectations of future privileges as long as they are seen to fulfill their official responsibilities.

But each official's performance must be judged by others, higher in the government, who have the power to remove his privileges if they judge his performance to be unsatisfactory.  As Alchian and Demsetz (1972) have observed, responsibility for monitoring agents' performance and metering their appropriate rewards ultimately goes to the top leadership of an organization. When lower agents cannot be directly monitored by top leadership, this responsibility can be communicated through the hierarchical chain of command, where each official holds those directly under him responsible for the performance of their subordinates.  It is essential that each agent of the government must be confident that the political leadership above him will appropriately judge his performance.

(Alchian and Demsetz were considering an economic firm, where this judicial function of senior leadership could be rendered less essential by the possibility of contractually promised rewards being guaranteed by a court of law.  But when we consider a political organization that aims to take and hold supreme power in a nation, there is no higher court of appeal for internal disputes about the distribution of political rewards.  So the arguments of Alchian and Demsetz may be even more compelling for political organizations.)

So we should recognize the vital role of top political leadership in maintaining the system of incentives that drives the state.  But as we have noted above, officials who wield the state's power in any domain may have great moral-hazard temptations to abuse this power, and so they must be promised correspondingly great compensation in the future for good service now.  In effect, the state must become a debtor to its high officials, and a political leader must be able to function like a banker who can motivate current efforts by promises of future credit.  Such promised rewards may become very costly for the state, and so the leader may well prefer ex post to minimize them or deny them.   Others should be willing to pay richly for such privileged offices, and so the leader may be regularly tempted to judge an official's performance inadequate, so that he can resell the office to someone else.  Somehow a successful leader must credibly commit himself to judging and rewarding his supporters and agents appropriately, even when the rewards are great and costly.

The key to solving this fundamental problem of moral hazard at the top of the state is that, although any one agent may be expendable, a political leader cannot maintain his privileged position of power without the active support of many people who trust that he will appropriately

reward them. His power would be lost if many key supporters and agents switched to a distrustful equilibrium where each acts only to maximize the short-term benefits that he can extract from his current office. Thus, a leader can achieve the necessary commitment by regularly gathering his key supporters and agents together in a council where each monitors his treatment of the others. Such high councils or courts, where high officials gather as courtiers around the supreme leader, are common features of life at the pinnacle of power. With such a court where key supporters can collectively observe his judgments, the implicit threat of his losing all their trust by one misjudgment can be used to strengthen the leader's credible commitment to appropriately judge and reward each of his agents. (This argument is developed in more detail by Myerson 2007, 2008.) Thus, we should expect that the highest positions of state power will be held by political leaders whose first imperative is to maintain their reputation for rewarding a group of loyal supporters.

From this perspective, we should re-examine the suggestions by both Bremer and the Field Manual that the chain of command in security forces of the host government can be built from the bottom up, beginning with lower-echelon units that operate under American direction and sponsorship until the higher echelons are ready to take charge. During such a bottom-up process of development, discipline could be readily undermined by an expectation that future top leadership might not reward current service. This problem could become urgent, for example, when units are ordered to attack groups whose support is likely to be vital for political leaders in the future.

Similarly, we can see how the Field Manual's prescription that a military or police unit should not contain too many prior members of any factional militia ([FM] p 215) might sometimes become a recipe for government paralysis. It may sometimes be better to maintain a chain of command where people trust each other from tribal or factional identities than to have a failure of trust that paralyzes a crucial arm of the state. In fact, Donner (1981) has observed that the original expansion of Islam was achieved by forces in which lower-echelon military units were regularly organized on the basis of tribal identity.

The bottom-up plan for developing security forces before identifying top political leadership seems in stark contrast to the way that disciplined insurgent movements develop. From his early days as an insurgent leader, Mao was willing to pay great cost of internal

bloodletting to eliminate Communist units that had developed separately under independent leadership (Sun, 2006, p 53-55, 239).

The Field Manual's casual attitude toward the identity of the host government's top political leadership might be derived from an ideology of constitutional democracy which teaches that leaders fill constitutionally-defined niches after election by the people. From such a perspective, the only question would be whether the people will be able to agree on honest and effective leaders. Counterinsurgents could then play a useful role by working to put forward good candidates in the first place, or by sweeping corrupt and ineffective individuals out of the way. But we should recognize that political leaders must come with their own networks of supporters, to whom they have long-term obligations.

Galula asserts that a single boss must direct all the state-building operations of counterinsurgency: the military operations to provide overall security, the subsequent police and judicial operations to arrest and judge individual insurgents, and ultimately the political operations to control and organize the population ([G] p 87). The Field Manual recognizes that civilian and military operations must be well coordinated to achieve a unity of effort, although it never suggests that US counterinsurgent forces should be under the direction of the boss who heads the host government's political organization.

Galula's insistence on involving a political leader at all stages makes sense from our perspective that an essential function of political leaders is to guarantee the distribution of patronage benefits in a network of agents who can control the state and society. For example, the 2007 surge of US troops would be more likely to accomplish a political change in a district of Baghdad if the troops were closely followed by agents of the government offering patronage jobs to build networks of loyalty in the district (see [G] p 68-9). When counterinsurgent forces are trying to sustain a multiparty coalition government at the national level, such a plan begs the question of which party should get to build its political network under the protection of American forces in each district. But basic common sense would suggest that the surge would not go forward until that question had been satisfactorily settled for all districts. A temporary military surge that does not install any long-run local leadership in its wake can become an exercise in futility, as all the forceful efforts to encourage collaboration can be nullified by people's anticipation of subsequent retaliation against collaborators after the surge has gone.

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It is worrisome to see the Field Manual describing operations where US counterinsurgency forces cultivated local leadership structures under their own patronage, without asking whether these independent local leaders would actually find a place in the political network of the host government (e.g. [FM] p 187). The British could credibly promise long-run privileges to designated zamindar leaders of districts in India when the British were planning to stay as colonial masters. But if US counterinsurgents are not colonial imperialists, then they cannot offer long-term sponsorship and protection for local political leadership, and the resulting local political vacuum would encourage insurgents to return after US forces leave.

On the other hand, if the host government is democratic and a new local leadership dominates an area large enough to have representation in the national legislature, then the shifting coalitions of legislative politics may provide a mechanism for the new local elite to find a valued place in the host government. Thus we may begin to recognize one possible advantage to having a representative form of government in counterinsurgency.

## 5. Democratic leadership and constitutionalism

As a game theorist, I am very interested in studying constitutions which define rules of the game that politicians play to achieve power. But I have argued here that, when the foundations of the state are contested, it may be misleading to think of the constitution as the essential cornerstone of a democratic government. In the previous sections, I have suggested a view of the state as a team of officials and political agents, whose system of incentives must be managed by political leaders who have reputations for appropriately rewarding loyal supporters. Such a description applies to both authoritarian states and democracies, but it can be a useful starting-point for considering further how a democratic state can be established.

### 5.1 From leaders' personal reputations to constitutional norms

There is a confusing chicken-and-egg relationship between the careers of political leaders and the formal constitution of a democracy. The constitution is supposed to define the game that politicians play to gain the rewards of power in their careers, but their career-motivated actions are essential to implementing the constitution itself. Of course the whole system can be understood as a self-enforcing equilibrium, but when we ask how this equilibrium gets started, it seems that one or the other ought to come first. The new development of a national democracy

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must be a complex process, of course. But I want to argue here that the best way to understand it may be to view the personal reputations of individual political leaders as being the fundamental building blocks with which effective constitutionalism is constructed. A complex system can be spontaneously self-organizing when it has many opportunities to start locally and then grow larger, which is true of leader-follower networks; but a constitutional system of government must be enforced nationally or not at all. Thus, on the question of which comes first, the political system or the leaders in it, it seems plausible to argue that the leaders come first.

To win power and hold it, a leader must be able to make credible commitments to his supporters and agents, but credibility requires some threat of adverse consequences if commitments are not fulfilled. So any political leader, even an autocrat, must be judged by those who support him in power. Thus, a successful political leader may encourage his active supporters to gather regularly to collectively judge his behavior even as they individually serve him, so that his reputation with this group of courtiers becomes the essential key to maintaining his credibility and his power. The standards of behavior that active political supporters expect of their leader, if he is to keep their trust, become a primary constraint on the leader's actions and may be viewed as an informal personal constitution for him. (See Myerson, 2008.)

The establishment of formal constitutional structures in a state may depend critically on their compatibility with such personal constitutions for the leaders who hold high offices. In an established constitutional republic, senior politicians have generally built relationships of trust with supporters while professing loyalty to the established constitutional norms; and then it would be difficult for such a leader to suddenly begin violating these constitutional norms without raising doubts among his supporters whether he might suddenly break faith with them too. Thus, the binding power of constitutional provisions may become naturally embedded in the crucial reputations that politicians must maintain with their supporters.

When a new constitution is first adopted, its success may similarly depend on the reputations of previously recognized political leaders, if these leaders' pledges to obey the new constitution are understood as solemn and sincere by their respective supporters. Certainly the American constitution began with a meeting of prestigious leaders who put their reputations behind the new document. Constitutional provisions may develop even by a process of generalized extension from one leader's personal reputation. For example, George Washington's

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personal decision to not seek a third presidential term became, for 140 years, a virtually constitutional requirement on leaders who wanted to be trusted like Washington.

On the other hand, a politician is most likely to disregard formal constitutional norms when they stipulate that he should do something that would be viewed as a breach of faith by his active supporters. The first officials under a new constitution need support to win their high offices, and so they cannot be expected to abandon their past supporters at the start of the new constitutional system. Provisions of the new constitution would be unenforceable if they asked these leaders to violate the terms of longstanding relationships with supporters. Thus, the fate of a new constitution may depend critically on the pre-existing personal constitutions that bind its first political leaders with their primary supporters. The rules of a new regime are not written on a blank slate.

This view, that political leaders' reputations for rewarding their supporters are the fundamental building blocks on which state are established, has practical implications for the cultivation of democracy. From this perspective, the crucial steps of state-building occur when politicians have opportunities to distribute the benefits of their patronage. Their reputations will depend on whom they choose to reward, what rewards they give, and what effective service they demand for these rewards.

### 5.2 Reputations for democratic leadership

Of course the essential norm that defines a democracy is that a political leader must admit the right of other independent political leaders to compete peacefully for power and must accept the verdict of popular votes to decide the contests between them. Successful transfers of power in multi-party democracies also require that leaders of competing political parties should recognize and accept some common standards for rewarding and promoting the government's permanent staff of career civil servants and officers. Encouraging political leaders to develop new reputations for respecting such general democratic norms becomes much more difficult when the social order is disrupted by a violent insurgency. But American counterinsurgent forces could play a useful role in encouraging parties that are recognized participants in the democratic political system to accept each others' rights to peacefully compete for power.

The basic goal of democracy is that competition for votes from the population at large should motivate democratic political leaders to maximize the net value of the public services that

they provide, minus the cost of patronage profits that they take for distribution to their agents, subject to the basic incentive constraints of managing the government. So in a successful democracy, democratic political leaders should develop reputations for serving the voters as well as for rewarding their loyal supporters. That is, to establish a successful democracy, political leaders who have reputations among their supporters for reliably rewarding loyal service must also develop reputations among the voters for using their power to provide public goods and services at a reasonable cost.

This view of the fundamental role of leadership suggests that, to build democracy in occupied Iraq, Bremer's CPA should have tried to maximize the opportunities for different political leaders to begin developing good democratic reputations. The CPA could have created such opportunities for local political leaders throughout Iraq by holding early local elections, before any national constitutional government was established, and by allowing locally elected leaders to allocate as much of the budget for public services and reconstruction as possible. The goal should have been to create, for as many future politicians as possible, opportunities to begin developing reputations for providing public goods and services while allocating patronage. By doing so while the national summit of power was still under American trusteeship, local leaders could have hoped that relative success in serving the public could make them serious contenders in subsequent national elections. (This argument is formalized in Myerson, 2006.) Whenever an Iraqi politician was given clear responsibility for some area of administration, with control over the spending of a publicly announced budget, Bremer's CPA could have been creating another opportunity for the development of a democratic political reputation.

Under Bremer's administration, the alternative policy of maintaining tight American control may have reduced corruption, or may have directed patronage opportunities to American politicians instead of Iraqi politicians. But in either case, we should recognize that politicians build their political reputations by the way that they use patronage opportunities, and building Iraqi political reputations was essential for building a new democratic political system in Iraq. Indeed, the short-term goal of providing local public services may have been less important than the long-term goal of cultivating new local political reputations.

The occupation period should have been recognized as a potentially unique opportunity for encouraging such local democracy. After the transfer of power, the national leaders who got

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control of the independent sovereign Iraqi government would naturally have less incentive to create opportunities for independent political competitors to begin demonstrating abilities to better serve the voters.

When we see reputations as politically fundamental, we can see that the problem of bridging deep sectarian divisions in Iraq was a problem of encouraging national politicians to develop reputations for sharing patronage benefits fairly across the communities. In this regard, for example, Bremer's role in forming the interim government of Iraq at the end of his reign seems to have been particularly dysfunctional. Bremer describes how he carefully distributed ministerial positions to form a broadly inclusive interim government, and only at the end did he consult the designated prime minister Ayad Allawi to make sure that he had no objections to any of them ([B] p 372). But the distribution of ministerial portfolios is the highest level where a leader can build his reputation for distributing patronage benefits. So a crucial step towards constitutional democracy could have been realized if Ayad Allawi had the personal responsibility for distributing the ministerial positions, not Bremer. If necessary, an inclusiveness criterion could have been enforced by a potential veto from Bremer at the end. But the key point is that each minister in the diverse cabinet should have understood that he owed his position to prime minister Allawi, not to Bremer.

*5.3  Advantages of democracy in counterinsurgency*

Galula's emphasis on the need for a single boss raises the basic question of whether democracy may be a disadvantage for counterinsurgency efforts. As we have seen, promises of future benefits of power may be invaluable during the struggle, to motivate activists whose greater efforts and risk-taking are essential for victory. But we normally hope that democratic political competition will reduce the profits of power to political leaders, so that more benefits of government should reach the broader public instead, including those who free-rode during the war. So in principle, an authoritarian faction that intends to rule without opposition could have a larger expected fund of power-benefits to distribute.

Competition in real democracies is not so perfect as to eliminate all expected profits for political factions, however. Various aspects of the constitutional structure of a democratic system may create barriers to entry in the political arena (Myerson, 1999). Such barriers, by limiting democratic competition, can give established political parties more scope to profit from

power, so that they have a positive expected stake in the political system. For example, the tendency of plurality voting to discourage entry of third-party candidates, so that each district tends to be dominated by at most two parties (Duverger's law), could make plurality voting a good electoral system for a democracy in a counterinsurgency struggle.

Democracy may actually have some advantage over authoritarianism for building the state, because of the credibility problem that we have emphasized above. The problem of credibly guaranteeing rewards to a wide range of supporters is particularly acute for an authoritarian leader, as his greater power after victory will make it easier for him to deny past promises to people who are lack identifiable connections with his inner circle. A system of representative democracy with substantial devolution of power to local government may then make it easier to credibly guarantee a share of power to local elites. This general effect may also help to explain how representative democracy can be self-sustaining. If one party openly violated democratic norms then, in the subsequent struggle for power, other parties that have maintained their commitment to representative democracy could have an advantage in recruiting new supporters more broadly.

Indeed, the early English parliaments around 1300 served largely to represent the interests of gentry who were local agents of the government (Coss, 2005, ch 7). Thus, the early parliaments could actually strengthen royal power, by enabling kings to guarantee privileges to a larger class of agents than could be assembled at court.

In recounting the history of another insurgency, John Marshall (2000, p 49) observed that English colonial institutions were well designed to lay the foundations for representative government in America. The American republic was born with political leaders who were already committed by their past reputations to democratic competition and representative assemblies, because election to provincial assemblies had been a vital step in the political careers of so many of them. Furthermore, the existence of 13 separate state governments guaranteed many opportunities for many leaders to establish independent political reputations in the new republic. But the division into separate state governments also created free-rider problems among the states, which hindered revolutionary efforts throughout the struggle. Foreign assistance may indeed have been essential to the outcome of this particular insurgency.

## 6. Conclusion

The foundations of the state are not just an abstract topic for the study of political philosophers. Politicians and soldiers may be actively involved in the practical art of establishing the state. Counterinsurgency is about the establishment of government in a state under the most challenging of circumstances, but the problem of establishing the state is solved anew in every generation by political leaders who rise to the summit of political power, whether by election or conquest. They understand that broad political and administrative efforts that are essential to take power and wield it are mobilized by promises of patronage benefits that can be credibly communicated only through political networks of trust. The problem of maintaining that trust, at least within his faction, compels a successful leader to develop a reputation for adhering to social norms which underlie the enforcement of all other laws and constitutional provisions of the state.

So we may safely assume that those who have attained that the highest political offices in our country should understand such principles of patronage and political reputation far better than any soldier or diplomat or academic theorist, at least as far as these principles are applied in our own country. But when it is a question of helping to establish a state in a foreign land, people who understand how things work at home may become confused by the ideals that we prefer to express. A social theorist may, with some care, have a better chance of avoiding such confusion. Thus, although the reality of state-building is too complex for my simple theories, I have tried here to expose some of the gaps in the theories that more practical diplomats and soldiers have articulated under the direction and guidance of successful political leaders.

The key to a successful democracy must be found in the development of two or more independent networks of political leadership which have accepted the principle of peaceful coexistence under a system of democratic competition for power in the host government. But such political networks begin with their leaders, and political leaders define themselves by the reputations that they develop for how they exercise power and spend public funds. So the first step in a project of democratic state-building should have been to encourage individual politicians to begin developing independent reputations for responsible and tolerant governance, by giving them clear opportunities to exercise power in different domains. To build effective government against violent opposition, the problem is not to provide a clean administration without favoritism but to make sure that favoritism is effectively managed by political leaders

whose judgments are trusted by their supporters. Counterinsurgency operations to pacify a region should be understood as opportunities for specific political factions from the host government to extend their patronage networks into the pacified region. Democracy will be truly established, not when a constitution has been formally ratified by popular plebiscite, but when the political reputations of successful leaders include their fundamental acceptance of peaceful democratic competition for power.

In contrast to Bremer's perception that the fundamental cornerstone of the democratic state is its constitution, I have argued that the state is established by its political leaders and their networks of trusting supporters. Where the Field Manual recognized that networks of trust among insurgent leaders and their cadre of active supporters are vital to the insurgency, I have argued that such networks among political leaders and their supporters are equally vital to the state that the counterinsurgents are trying to establish. Where the Field Manual has emphasized the role of efficient provision of public services to legitimize the host government, I have emphasized that such services really contribute to state-building when they enhance the individual reputations of the political leaders whose patronage appointees administer them. Galula ([G] p136) suggested that the essential goal of counterinsurgency warfare can be summed up in a single sentence: "Build (or rebuild) a political machine from the population upward." I would suggest that this goal could be rephrased: Help to build a democratic system of political networks that extend out to reach all of the population.

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*Author's address:  Roger Myerson, Department of Economics, University of Chicago,*

*1126 East 59th Street, Chicago, IL 60637.  Email: myerson@uchicago.edu*

*Internet: http://home.uchicago.edu/~rmyerson/*