Abstract: Successful states maintain a functional relationship between local politics and national politics. Property rights have depended on recognition by communities and local leaders since before any states existed. To maintain unity in an extensive domain, a state needs a cadre of agents who expect national leaders to reward them for serving the state above any local connections. But investments require locally rooted investors with confidence in the state's protection, so a stable prosperous state must earn the trust of local elites. Successful autocratic states make local politics dependent on national leaders, who promote favored supporters to local leadership by granting them privileged connections in the state. In successful democracies, national leaders are dependent on approval from local groups throughout the nation, and autonomous local leaders who perform well can become competitive candidates for national leadership. International assistance for democratic development can fail when local politics is neglected.

Keywords: village communities, local leadership, property rights, mandarins, gentry, representative assemblies, political decentralization, state-building

1. INTRODUCTION

In federal republics, state powers are constitutionally divided between the national government and lower levels of subnational government where officials owe their positions to local politics (Weingast, Chapter 7). In the study of comparative politics, such political decentralization is often viewed as fundamentally applicable only in nations that have adopted a federal system of government, which is seen as merely one among many alternative ways of organizing a political system. However, both from a broader historical perspective and from a deeper theoretical perspective, we should recognize that local politics can have fundamental importance in any state that maintains order over an extensive territorial domain.

Discussions about foundations of the state often begin from an assumption that the alternative to a well-organized state would be a Hobbesian anarchy where each individual stands alone against all others, but this is never the case. Nowhere do humans live without basic social structures to help them get along with their neighbors, and the importance of local groups becomes even greater when people cannot rely on a wider state. The establishment of a national state means imposing its national leaders' authority over communities which may already have
their own forms of local leadership with local political accountability (Murtazashvili, 2018; Myerson, 2022).

To maintain unity, any successful state needs an executive team that can act forcefully and coherently in any part of an extensive territorial domain. This unifying mission requires a cadre of agents who are dedicated to the central leadership of the state above any local identification. But the resources for a successful state will depend on long-term economic investments that need effective protection from neighboring communities, as well as from the state's central agents. Thus, the stability and prosperity of a national state depends on its ability to maintain a constructive relationship between the centralized agents of the state's national leadership and local groups that are rooted in their communities.

When we approach comparative politics from this perspective, we can find important differences between states, because there are two fundamentally different ways to develop a basic alignment between local politics and national politics in a state. One way is to make local politics dependent on national politics, as happens regularly in traditional autocratic or authoritarian regimes, where national leaders may bestow a privileged status on some favored individuals, who are then recognized as leaders of their community on the basis of their special connections to the wider state. Such privileged status may be granted as a reward for past service to the national leader. Alternatively, alignment can be achieved by making national politics dependent on local politics, by institutionally empowering local leaders in national politics, as happens in modern democratic states where national leaders are accountable to locally elected representatives in a national assembly. The dependence of national politics on local politics may be even stronger in federal democracies where successful local leaders can become competitive candidates for national political leadership.

These issues are examined in more detail below. After noting the fundamental primacy of local politics from the earliest evolution of human society, section 2 offers some broad observations about autonomous village communities, where people must maintain a broad consensus about the distribution of ownership and use rights for the land and other resources in their neighborhood. Section 3 examines the political foundations of wider states, showing how the problem of maintaining a credible long-term allocation of moral-hazard rents can make the central leadership of a state look like a community that has specialized in maintaining group trust across great distances. Section 4 focuses on the general principles for organizing provincial and
local government in a traditional autocratic or authoritarian state that grants privileged status to those who have served it and then governs through these privileged elites. To maintain the coherent unity of the state across an extensive domain while promoting local investments, the state's privileged elites may be divided into two broad classes: mandarins who have widely itinerant careers in provincial administration, and gentry who remain rooted in their local districts. The vital importance of trust between the localized gentry and centralized mandarins is discussed with examples from the history of Spanish America. Section 5 reviews how the role of local politics in successful states can be fundamentally transformed by the institutional development of representative assemblies and democracy, under which all citizens share the political privileges that autocracies extend only to a limited class of gentry. Section 6 summarizes our main conclusions and suggests their potential applicability in international assistance for democratic development.

2. FUNDAMENTALS OF LOCAL POLITICS IN VILLAGE COMMUNITIES

We humans are social mammals, adapted to living in communities.\(^1\) The folk theorem of repeated games can be interpreted as a general model of how people who live together in a small community can discipline themselves to maintain virtually any pattern of behavior that may be adaptive for their survival. The folk theorem is proven by strategies in which anyone who deviated from his or her prescribed proper behavior would then suffer an adverse change of status in the community and so be treated worse by others.\(^2\) We may conjecture that some aspects of such strategies might be hard-wired in our human brains, such as an inclination to judge the propriety of the behavior of others in our community, and a reciprocal fear of losing status in their eyes.

In particular, trusted public leadership depends on a reputational equilibrium where an individual can expect to be recognized by the community as a leader, and so to be accorded special powers and benefits of this high status, as long as the leader uses these powers to provide some expected public services. The leader could lose this privileged status by acting otherwise. To motivate proper use of this power, leadership must entail expected rewards (or moral-hazard

\(^1\) A comparative analysis by Dunbar (1998) of brain sizes and group sizes among different species of social mammals suggests that human brains may be particularly adapted for life in a community of about 150 individuals, who all know each other and can develop personal relationships with each other.

\(^2\) See for example section 7.5 in Myerson (1991).
rents) which are not less than the benefits that the leader could get by abusing the powers of this position. Successful societies must be able to get people focused on such equilibria with some generally accepted leaders, who can take responsibility for essential public goods that require coordination or management by one person.

Such problems had to be solved among hunter-gatherer bands long ago when our species first spread out of Africa to transform the world. We may conjecture that some of the first uses of human language might have been for a band's leader to assign roles in a hunt or battle and then to distribute shares of any rewards from success, but also for others in the band to gossip about whether their leader had exercised this coordinating power appropriately. In this sense, local community politics may have deep roots in the evolutionary history of our species. People seem to have an innate propensity for identifying leadership in their communities and an innate inclination to accept the norms that are affirmed and adjudicated by their community's leaders.

The development of a capability for language also enabled humans to recognize social and kinship links with other communities that share a common language and culture, thus defining a broader social or tribal identity among the communities that are so connected. A propensity for people to identify themselves as part of such a multi-community society or tribe may also go far back in the evolutionary history of humanity (Richerson and Boyd, 1999; Chapais, 2008; Moffett, 2018; Newson and Richerson, 2021; Myerson, 2023). Groups that were unable to recognize long-term cooperative relationships with anyone outside their local community would have had difficulty defending their place in the world against groups that could use wider cooperation to organize raids to take resources and territory. Before the development of national states with specialized ruling elites, however, the broader coordination of a tribe would depend on negotiations among leading members of its various communities.

Then, from about 10,000 years ago, the great transformative development of agriculture depended, not just on some basic understanding of plants, but also on the ability of people in farming communities to defend their rights to benefit from the crops that they had worked to plant and cultivate. Before the rise of states that could provide law and order over extensive regions, each village must have had the necessary leadership to fight for the defense of its territory against its neighbors, and to negotiate agreements and alliances with them.

As North (1981, chap. 7) has observed, the development of agriculture is fundamentally dependent on a system of reliably enforced property rights that can encourage farmers to invest
in the cultivation of crops, which they are willing to do only if they have some confidence in their ability to benefit from the resulting harvest. So the fact that farming communities existed in the Middle East for thousands of years before the establishment of the first national state (about 5000 years ago) shows that reliable enforcement of property rights does not necessarily depend on the existence of an effective national government to enforce law and order. Indeed, J. Murtazashvili and I. Murtazashvili (2021) noted that an increase in a national government's effectiveness can actually be associated with a decrease in the reliability of property rights, as agents of the central state may interfere with local communities' enforcement of property rights.

Questions about whether some specific individual has taken benefits from using some specific physical asset (like land or a manufactured item) can only be answered by observers who are locally present and have some familiarity with the individual and the asset. So the enforcement of rights to use valuable assets requires some cooperation among people in the neighborhood of the asset.

Indeed, we might take the definition of a local community to be a group of people who not only reside near each other but also share a broad consensus about the rights of use or ownership that each of them has over the resources in their neighborhood. The terms of this consensus may be derived from local custom or from administrative decrees of a wider state; but in any case, the community's consensus can generate a strong social imperative for individuals to accept the limits of their locally recognized rights.

When a community is in the domain of a wider state, forces of the state may be capable of seizing local residents' property and even taking their life or liberty. But common questions about whether one individual might have used some local resource in a way that transgressed recognized rights can be answered only with detailed local knowledge that cannot be expected from high officials of a great state. Thus, instead of assuming that property rights must be defined by a sovereign state, it might be better to start from an assumption that property rights are primarily rooted in local communities. Then we can ask how the power of a national state could modify such locally defined property rights (for better or for worse).

From this perspective, an analysis of modern economic and political development should be based on some basic understanding of traditional village communities that proliferated around the world in the long history from the agricultural revolution to the industrial revolution. Such local institutions must be expected to vary greatly across time and space, but it may be worth
summarizing here some common features that have been noted by Henry Sumner Maine (1861, 1871) and reviewed by Myerson (2021a).³

Maine (1871) found several basic structural features that 19th-century Indian villages shared with villages of ancient and medieval Europe. The territory of the village-community would be composed of a cultivated area, areas of common fields or waste, and the residential area of the village. The cultivated land would be divided among the village households, but they had to cultivate their plots in a coordinated manner according to village rules, while the fields and waste areas could be used in common by the whole village. In the village, each household was ruled by the recognized head of the family. Common economic transactions among the villagers were expected to be at customary prices. Disputes among the households would be resolved according to customary rules as defined by a village council or assembly. When its peaceful order was disturbed, the village would rely on the head of one preeminent family for leadership.

Maine (1861) had observed that, before the growth of the Roman state, the laws of Rome were applied, not to individuals, but to families; and each family was ruled by a patriarch who held despotic power over everyone else in the household. Relationships were regulated by people's generally recognized status, not by bilateral contracts. Maine (1871) found that these communitarian principles were also general characteristics of traditional villages in medieval Europe and in his contemporary India. Maine (1861) noted that individual property rights were introduced into Roman law as Rome became a great state, and that property that an individual acquired in military service to the state was the first kind of property that a Roman was legally allowed to own as an individual, not subject to the head of his family. That is, an impetus to separate individuals' legal rights from their families may have been initially driven by a state's need to recruit individuals into its service.

Economists have often suggested that advantages of efficiency can derived from legal principles that allow any individual to own property and allow any group of individuals to voluntarily form a contractual relationship. But when broader state institutions do not provide

³ Henry Sumner Maine [1822-1888] was a British jurist who studied the history of law and in 1861 published a successful text on *Ancient Law*. Then he went to India to serve as a senior legal advisor to the British imperial government, where he studied legal problems from traditional Indian communities, applying a sensitivity that was rooted in his long study of the laws of ancient Rome and medieval Europe. After returning to England, he wrote Maine (1871), *Village-Communities in the East and West*, to describe a conceptual framework that could fit both ancient European history and contemporary Indian developments. See further discussion in Myerson (2021a).
enforcement of laws and adjudication of disputes, property rights must be adjudicated and
enforced by people in the community. So we cannot evaluate the social efficiency of legal rights
without considering the community's cost of maintaining them. This basic point can help us to
understand Maine's observation that people's relationships in traditional villages are generally
regulated more by social status than by voluntary contractual relationships. A poor village,
which could hardly afford to offer public adjudication for arbitrary contracts, might naturally
limit its civil protection to rights of social status that are recognized by the community. Then
individuals can be motivated to provide various public services for the community if they
anticipate that doing so can help them to achieve a higher recognized social status.

In a community where people cannot rely on protection from a publicly funded police
force, an individual could find it difficult to enforce a claim to valuable property alone without
the support of other family members who share an interest in the claim. So collective ownership
by a family could become the norm as a way of credibly covering the costs of enforcing these
ownership rights. A rule of recognizing rights only for the senior head of each family could also
help to reduce the community's responsibilities for dispute resolution, as the adjudication of
intra-family disputes would be left to the head of the family.

Although traditional autonomous villages are often described as democratic, Maine
(1871, p164-168) argued that they should actually be considered little oligarchies, and the
element of oligarchic inequality in such villages actually tends to worsen when a wider state
provides even a minimal quality of regional government. To understand this effect, we must
remember that local hardships have always driven some people to leave their homes and move to
other communities, whether as migrants or refugees or indentured servants. Such immigrants
arrive in a village with no claim to its land and resources, but they may earn a livelihood by the
labor that they can provide. If nothing compels the old village families to share the privileges of
their status with these newcomers, then their descendants may eventually form a permanent
landless underclass in the village.4

However, in the primordial chaos before the establishment of a national state, an
autonomous village-community would regularly face existential threats of war from invaders or
from other villages in the region. The urgency of mounting a vigorous communal defense in

4 So customary land tenure rules in which rights to use communal land are allocated to members of the community
can exacerbate ethnic tensions by raising questions about who should have such membership rights (Boone, 2009).
such crises could motivate villagers to offer full citizenship to all residents who fought to defend the village and its property. However, this force for inclusion is eliminated when a wider state protects the village in a regional peace. Thus, if a state provides even tolerably good government while permitting traditional villages to define their own citizenship autonomously, then local village democracy can develop into an oligarchy that may face problems of collective ownership without avoiding problems of class inequality. Alternatively, a state which claims the power to define citizenship could try to compel communities to recognize equal rights for all residents, including new immigrants; but we should understand that such assertions of central state power over citizenship may be resented and resisted by the established residents of many communities.

Even so, the creation of a regional peace should be counted as a benefit that a new state provides to communities in its domain, if a community's costs of taxes or tribute to the state are less than its costs of conflict and defense without the state. A further discussion of how local communities may be transformed by inclusion in a wider state requires some basic theory of states.

3. CREDIBILITY OF LEADERSHIP AND MORAL-HAZARD RENTS IN THE STATE

States are established by political leaders, who organize groups of people and mobilize them for action toward shared goals. In many periods of history, the founder of a new state could begin a military career by taking responsibility for defense of his local community and then, after developing a reputation for effective leadership, could recruit broader support to build forces capable of establishing order over a wider region.

Ancient social philosophers perceived that the basic foundations of a state may depend on its leaders’ reputations for rewarding those who serve them. According to Xenophon's *Education of Cyrus*, Cyrus the Great founded the Persian Empire with one essential quality of leadership: a reputation for reliably rewarding good service. The captains who flocked to Cyrus's banner were confident that they would be well rewarded for serving him in battle, and their recognition of Cyrus as the reliable paymaster of a great army made him a leader who could build a state which was then the greatest in the world.

To compete for power in any society, a political leader needs the active voluntary support of many people in a group or faction, and these supporters must be motivated by some expectation of future reward in the event of their success. But when rivals have been defeated, a
leader may be able to enjoy the fruits of power without such broad support, and so an established leader may be tempted to ignore the claims of past supporters. Thus, a successful leader must somehow be credibly committed to reward those who have supported him in the past. This is the central credibility problem of political leadership.

This central credibility problem can be solved within a leader's own faction of supporters, without relying on any external court. A leader becomes politically accountable to a group of supporters when he could not hold power without their confidence in his promises of rewards for good service. This accountability can be effective when these key supporters meet regularly in a central council or court where they can monitor their leader's distribution of rewards and share any evidence of his denying appropriate rewards to any of them. Myerson (2008) showed that, in negotiation-proof equilibria of a simple model of sequential contests for political power, a contender for power would be unable to credibly recruit any supporters if he did not organize them in such a way that he would fall from power if he failed their trust. Then the standards of behavior which a leader must maintain to keep his supporters' confidence can effectively become a fundamental political law or personal constitution for the leader. Such personal constitutions for a state's political leaders may underlie the enforcement of all other constitutional provisions in a state.

When the domain of a state is too large for its ruler to supervise personally, the state cannot exert control over any part of its domain unless it has some agent who is close enough to monitor compliance with the state's laws and ensure that any disobedience would be punished. So states regularly have appointed governors who exercise delegated powers of the state within a province of manageable size, to supervise enforcement of the state's laws and collection of the state's revenues in the province.

However, as governors and other agents exercise power in the name of the state, they may find many ways to profit personally from abusing their delegated powers. Any state must solve the moral-hazard problems of getting its agents in every province to faithfully implement the state's policies instead of using their delegated powers for personal gain. To solve these moral-hazard problems, any agent of the state must expect that the rewards for good service can be better than what the agent could get by abuse of power. The rewards from good behavior that must be expected by agents of the state, to deter them from abusing the powers of their office, are called the moral-hazard rents for their office.
Becker and Stigler (1974) analyzed the problem of motivating government officials to serve appropriately during a long career in which opportunities for abuse of power can arise every day. Their analysis showed that how cost of moral-hazard rents for such officials can be minimized by an incentive system in which large late-career rewards are promised for officials who maintain a record of good service, but any evidence of bad service would be punished by early dismissal without such rewards. By back-loading the promised payment of moral-hazard rents to a later point in time (without changing their expected present discounted value), these rewards can be used to motivate more years of good service in offices of increasing responsibility.

During an official's career, however, promises of back-loaded moral-hazard rents become a debt of the state, which its ruler could be tempted to repudiate by falsely finding fault in the official's performance. So the credibility of these promised rewards may depend on the official having personal connections in the ruler's central council or court, so that a wrongful dismissal of the official would raise political risks for the ruler as it became widely known among other high officials whose trust the ruler needs. That is, responsible officials of the state must form a tightly connected social group. Literacy of state agents has been essential for strong states throughout history, not only so that the ruler's commands can be reliably conveyed to agents throughout the domain, but also so that responsible officials who are dispersed throughout the domain can maintain personal connections with each other by exchanging letters.

The fact that responsible state offices entail moral-hazard rents implies that individuals would be willing to pay for appointment to such an office. One way to reduce state's net cost of moral-hazard rents would be to sell offices, which has sometimes occurred in history. Becker and Stigler (1974) even suggested that newly appointed officials could be asked pay an entry fee or to post a bond equal to the temptation of malfeasance in their office, which would earn interest and be repaid at retirement unless they were dismissed for abuse of power. But a more common practice is to give higher offices with larger moral-hazard rents to individuals who have already earned rewards of good service in lower office. This practice could also be motivated by an expectation of productivity gains from putting proven experienced administrators in positions of greater responsibility. But the point here is that the state's net cost of promising moral-hazard rents for a high office can be reduced by giving the office to someone who is already owed a substantial reward by the state. That is, it would be more cost-effective for the state to fill a high
office by promotion from a lower office of the state than to appoint an outsider who had similar experience and accomplishments in some other organization.

The advantages of delaying the payment of moral-hazard rents can actually be pushed beyond the end of an official's career if officials also want good things for their children. That is, the cost of paying moral-hazard rents to one agent of the state can be reduced by promising that the agent's children will be also given priority for valuable responsible positions in the state. Thus, responsible agents of the state may tend to become a hereditary elite (Myerson, 2015a).

From this perspective, we should understand that the elite who exercise power in a great state may form a community of individuals with a strong network of social and family connections. That is, many familiar structures of community life that have deep roots in human evolution can be found also in privileged elite around the center of power of a great state, as if the rulers and their courtiers formed one more village in the realm. The one basic difference from traditional local communities, however, would be that the members of a state's governing elite must learn (generally with writing) to maintain their connections across much greater distances than members of traditional local communities.

4. MANDARINS AND GENTRY IN TRADITIONAL AUTOCRATIC STATES

In an insightful analysis of the origins of nationalism, Anderson (1991, p. 53-56) compared the career paths of administrative officials in an absolutist monarchy to the routes of religious pilgrimage that have created a sense of meaningful unity for adherents of great religions. But Anderson also saw a fundamental difference between these absolutist functionaries, whose jobs required them to be ready for reassignment to any province in the realm, and feudal nobles, whose careers were largely tied to their family's estate, with occasional visits to the monarch's court. We may suggest, however, that the fundamental distinction here is not between absolutist and feudal monarchies as two types of political systems, but between two classes of agents on whom rulers throughout history have relied for exercising power over an extended domain. We may refer to these two elite classes as mandarins and gentry, and the difference between feudal and absolutist monarchies may then be defined by the greater relative importance of mandarin functionaries under absolutist monarchs. Recognizing the essential complementary roles of the resident land-owning gentry and the perambulatory mandarin governors in traditional monarchies can help us to understand the fundamental relationship
between local politics and national politics in any political system.

As we have seen, the ruler of a great realm can solve the problem of asserting power in distant parts of his domain by appointing local governors to exercise delegated powers within a province of more manageable size. Within the province, each resident would fear to disobey the governor's commands when everyone else in the province is expected to obey; so it could be a rational equilibrium for everyone in a province to obey their appointed governor, even without any immediate threat of external force. Thus, local acceptance of the governor's authority would enable the governor to maintain stable order in the province with little or no action by the ruler's armed forces, which could be devoted instead to countering foreign challengers elsewhere on the frontiers of the realm.

However, if people in a province got so accustomed to obeying their governor that they forgot that his power was supposed to be contingent on the ruler's approval, then the governor could effectively become an independent local ruler. Thus, to maintain unity of the realm, it has been common practice for rulers to transfer their governors from one province to another at regular intervals. A transfer to a larger province could be a welcome promotion for the governor, but the real point of the transfers is to keep reminding everyone that their province owes obedience, not to their governor personally, but to only their governor as a designated appointee of the ruler. These cross-country transfers form the circuitous routes of mandarin careers that Anderson saw as defining the unity of the realm.

The regular movements of mandarin administrators imply that they cannot take a long-term perspective on the development of any one province.\(^5\) But the wealth of a province depends on people making economic investments there that may yield profits only over a long time horizon. Thus, the prosperity of the realm requires another class of agents, the gentry, who have enough power to protect investments in a province where they maintain a long-term presence, while the mandarins who supervise their province may come and go. As the ruler's appointed representative, a mandarin governor must have substantial power to command the gentry of a province. But the provincial gentry must have also some right of appeal to the ruler's central council or court when a governor's actions threaten their basic property rights.

\(^5\) If governors' rewards depended on the long-term economic performance of their former provinces, the result would be to induce problems of moral hazard in teams, as the long-term performance would also depend on the actions of all subsequent governors. In team problems, commitments to rewarding many agents can generate an adverse incentive for the central paymaster to reduce performance; see Holmström (1982).
The ability of the local gentry to get high-level attention for their concerns requires that they have some local organization, and that at least some leading members of the local gentry should maintain personal contacts with the state's central court. To ensure that any organized group of local gentry is subject to supervision by a mandarin governor, the gentry would typically be organized in local districts that are contained within a governor's province. Thus, empires have commonly been divided into provinces where a centrally-appointed mandarin governor exercises broad powers, and then each province may be further subdivided into local districts where leaders of the resident gentry help to maintain local order. Within this framework, an imperial elite of peripatetic mandarins can maintain cohesive government of the empire, while local elites of resident land-owning gentry maintain a system of local property rights in which they can profitably invest.6

Historical monarchies have differed greatly in the relative ability of their centrally directed mandarin administrators to regulate the locally based gentry, with minimal central control in feudal states and maximal central control in absolutist monarchies. Even in the first known kingdom, scribes of ancient Egypt already exemplified the category of mandarin administrators, supervising the delivery of taxes and tribute from the provinces.

The creation of a privileged land-owning gentry can arise naturally from two problems that confront a new state. First, the state must find a way to establish some basic control over communities throughout its domain, to extract taxes and suppress insurgency. Second, the new state must fulfill its promises to those who supported its claims to sovereignty over this domain, including those who served in its conquering armies as well as indigenous local leaders who helped induce their communities to accept the new state. A natural solution to both problems is for the new state to reward its supporters by granting them property rights and authority in a district where they will then be expected to maintain order. Then privileges of the gentry may be generally understood as rewards for past service to the state, and the ruler's power to certify new members of this privileged class could also be used to motivate service to the state in subsequent generations.

Maine (1871) offered a detailed analysis of how weak feudal states in medieval Europe transformed autonomous village-communities into feudal manors under local landowners. The

6 Myerson (2021b) shows a simple model in which local investment must be inefficiently undersupplied if the central state takes responsibility for the local justice system but gives local residents no political voice.
territory of an autonomous village-community would become the manor of a feudal lord, who would fit our definition of landed gentry when the manor was his principal residence. The community's common lands would become the lord's private domain, and village households became tenants who might retain customary rights in the community's cultivated areas. Then the village council would become the lord's court, with the lord as judge and with villagers as jurors. Maine noted that rights of lordship over a manor were sometimes derived from a grant by the ruler to reward past service, but local lordships could also be established by the state's recognizing and elevating the position of an indigenous chief from a leading local family.

Even when feudal lordship was bestowed on the traditional war-leader or chief of a formerly autonomous community, one may find substantial historical injustice in the conversion of communal property into private property of the lord. Most importantly, the state's recognition of the indigenous chief would make him a local lord whose position no longer depends on the community's approval of his public service. In effect, the wider state would endorse general obedience to the local lord as a focal equilibrium for people in the community, provided that the lord kept the community as an orderly tax-paying component of the state's domain.

It may be instructive also to consider the institutional structures for local and regional government that were applied in Spain's vast American empire after 1492. Haring (1947, chap. 9) notes that, on entering a new region to subdue and occupy it, the Spanish conquistadors' first step would be to establish a town and set up its basic municipal organization. The first citizens of the town came with the expedition of conquest and formed a town council (cabildo), which thereafter became an essentially self-perpetuating institution, as new members were regularly selected by old members subject to approval by a provincial governor. The town then functioned as an organization of the local gentry to maintain local order and property rights for its citizens, including those who received large estates in the district around the town. The town's militia would be the primary force for suppressing any uprising of the indigenous population.

The towns in Spanish colonial America were supervised by an appointed provincial governor, who fit the mandarin pattern of being an itinerant functionary from Spain or elsewhere in the empire. This system of local government in the Spanish empire was ultimately derived from the Roman Empire, where imperial governors supervised provinces that contained formerly autonomous city-states, which had primary responsibility for order and taxes within their local districts. In the Roman Empire, a city council could complain to the emperor about a governor's
actions. The towns of the Spanish Empire in America had rights to appeal a governor's decisions to the audiencia or administrative court of a broad region, as well as to the king's council in Spain. These regional audiencias were key institutions for maintaining imperial control across the great distances of Spain's American empire. The members of an audiencia were professional judges who exercised their broad powers as a group, and so their ability to monitor each other closely could help to mitigate many problems of moral hazard in the exercise of distantly delegated powers.

Our general distinction between gentry and mandarins in imperial elites can be made particularly sharply in the Spanish colonial empire, where these groups were generally recruited from different populations. After the first generation, the gentry in colonial towns were generally creoles, born in America to families of Spanish ancestry, while the mandarins who staffed the higher levels of imperial administration (including the governors and audiencia judges) were generally peninsulares, born to prominent families in Spain. Higher administrators might be less tempted by disloyalty when their families were deeply rooted in the homeland of Spain (Salgado, 2022), while the gentry's local ties gave them more interest in maintaining the empire's essential local infrastructure. Together they constituted an imperial system of power that could overwhelm the autonomous communities and states of the indigenous native Americans. None of the indigenous native-American states could match the Spanish Empire's ability to maintain local militia forces under the creole gentry, which could contain a native revolt, while the higher network of mandarin administrators could call in greater imperial forces from far away.

Machiavelli (1513, chap. 4) observed in history that some kingdoms were easy to invade but hard to conquer, while other kingdoms were much harder to invade but then more easily conquered after a successful invasion. This distinction can be derived from the relative strengths of the local gentry and the central mandarin administration of a kingdom. A stronger gentry could retain a larger share of local revenues, leaving less resources for the central government's defense of the kingdom's frontiers; but in that case, a successful invader would meet continuing resistance from local leaders who were determined to defend their privileges of power. Thus, administrative reforms in the Spanish Empire after 1782 that increased the central government's share of revenues would also decrease the local gentry's motivation to preserve the Empire's authority in their provinces after the French invasion of Spain in 1807 (Chiovelli et al, 2023).
In any case, successful states depend on local political elites' ability to trust the basic parameters of their relationship with the central administration of the state, and such trust requires broadly shared expectations that may take time to develop. This point is illustrated by the remarkable fact that, when the Spanish Empire in America finally dissolved, the territories of the new states were generally defined by the jurisdictions of the Empire's regional audiencias. As the seats of audiencias became national capitals, regional power relationships from the colonial period could provide the foundation for shared expectations and trust between the leading citizens of provincial towns and the central administration of the new nation.

We have defined the gentry here as a class of individuals who are rooted in their local communities but who have an elite status with sufficient voice in the state to be confident that their local property rights will be respected by officials of the state. The existence of such nationally respected local elites would depend on their having some reliable way of conveying complaints against state officials to a central forum where an evident failure of justice could damage the ruler's vital political reputation for being a trustworthy patron.

However, in dysfunctional regimes that lack any reliable institutions for protecting residents far from the seat of power, there may be wide regions where a class of gentry so defined does not exist, and then we must expect local economic investment to be small and vulnerable. People who cannot trust their national leaders often prefer to rely on informal structures of local leadership, which are harder for outsiders to monitor and manipulate (Scott, 2009). In such cases, strengthening the central state administration could actually weaken security of local property rights, when agents of the strengthened state get greater ability to expropriate local property (as has been observed in the history of Afghanistan by Murtazashvili and Murtazashvili, 2021). We should understand that the state's national leaders have a general interest in registering ownership of property for the purpose of taxing it, but they would have less interest in actually protecting local property rights when local owners have no national political voice or influence.

If a central state is too weak to keep disciplined security forces in local communities throughout its domain then other forms of independent local leadership may emerge, but such a weak state could still try to maintain its general sovereignty by co-opting successful local leaders and offering them positions of authority in other provinces. In that case, the central state would be perversely contributing to a spread of roving bandits in the sense of Olson (1993); see also
Verweijen (2015, section 10.1.2) and Sanchez de la Sierra (2020). Thus, some of the worst forms of economic underdevelopment can result from a lack of any basic trust between local residents and the state that claims sovereign power over them.

5. REPRESENTATIVE ASSEMBLIES AND CONSTITUTIONAL DEMOCRACY

The domination of local politics by an elite who owe their privileged status to recognition by the state's central authorities is one way of assuring some alignment between local leadership with the wider state. An alternative way of promoting such alignment would be to make the state's supreme political leadership more dependent on local politics, but incumbent rulers might naturally consider such dependence to be an undesirable inconvenience. So it is not surprising that institutions that compel national leaders to seek approval from representatives of local elites are hard to find in the history of states before 1200. However, when such representative assemblies were introduced in England and other states of medieval Europe, they substantially increased local elites' willingness to trust and support their national leaders, so that the net result could be a significant increase in the strength of the state.

The English Parliament and other early representative assemblies developed in the 13th century as institutions where the ruler could seek support from local elites for new tax revenue after hearing their complaints about abuses of power by the ruler's agents. In England at this time, one notable cause of complaints was that the king's sheriffs (or governors) increased their opportunities for extracting legal fees from local gentry by summoning them more frequently to local courts, where local gentry could develop a shared sense of grievance against royal officials (Maddicott 1984). The early English Parliaments brought together representatives from town councils and rural gentry in every part of the realm, as these were the people who had basic responsibility for maintaining local order and raising local revenues for the state. (Unlike the tradition in Spain, towns in medieval England did not have jurisdiction over the rural areas around them.) These local elites were more inclined to trust and support a monarch who regularly gave them a national forum for communicating their local complaints against abuses of power by royal officials (Maddicott, 1984, 2010; Coss, 2003; O'Callaghan, 1969). As the English Parliament began meeting with some regularity under Edward I, it quickly became evident that a demand for taxes would yield more revenue if the king got it approved in Parliament (Prestwich, 1997, chap. 17). Thus, the institution of Parliament increased the king's
ability to credibly promise privileges for local elites in exchange for their raising new revenues for the state. Within a couple of generations after the first English Parliament, Parliament showed it could play a key role in approving a new king's accession to the throne, in reforming the system of local government, and in raising revenues for military operations that shifted the balance of power against France in what would become the Hundred Years War (Ormrod, 2000).

Centuries later, after parliamentary authority in England had been further strengthened by civil wars of the 17th century, early foundations for modern economic development were shaped by the relationship between local and national elites that was mediated by Parliament. In the 18th century, turnpike trusts built toll roads that gave England the world's best land transportation system, which set the stage for the industrial revolution (Albert, 2007). These toll roads were managed by local county leaders, who retained profits from tolls on well-maintained roads, but the tolls had to be nationally regulated as part of a national transportation network. The national government's dependence on local elites through their representatives in Parliament made such local investments secure against central expropriation. Thus, the development of the world's first modern land transportation network depended essentially on England's system of parliamentary government, which made the national government responsible to locally elected representatives. (The development of standardized macadam road-building technology in this period facilitated the subsequent development of modern roads elsewhere in the world.)

The early development of representative assemblies in Europe generally included representation only for recognized local elites, which could include town councils and rural gentry. Under this system, only a small subset of the population would have sufficient political voice to be confident of their local property rights being respected by officials of the state, and so local economic investments by others outside the privileged elite would be severely limited. But the base of local investments can be enlarged when political rights are extended democratically to broader groups in the population. For an early observation of the significance of such democratic extension of political voice for modern economic growth, we may recall this remarkable passage from Adam Smith (1776):

"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; and as a great part of the yeomanry have freeholds 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, nowhere in Europe, except in England, any instance of the tenant building upon the land of which he had no
lease, and trusting that the honour of 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." (Wealth of Nations, Book III, Chapter 2, p. 415)

The central focus of the economics profession since Adam Smith has been on regulations of commerce that can encourage greater economic growth. But in this passage, Smith tells us that basic political and legal rights for small farmers, which enabled them to invest in improving their land without fear that the benefits of such improvements would be expropriated by a landlord increasing the rent, may have been the most important factor in the prosperity of England in his time. He indicates that this empowerment of poor tenant farmers was a result of particular legal and political institutions of England, including the participation of small farmers in local parliamentary elections. Political developments in England that gave political voice to a great mass of small farmers in turn enabled them to invest securely in economic improvements which marked the start of modern economic development.

Mass local political participation was also cultivated after 1620 in the British colonies of North America (the future United States), where institutions of local self-government were granted to encourage English settlers to come to America and to offer loyal service in local militias. As argued by Tiebout (1956), mobility of people and resources can motivate a ruler to offer good government services, to attract tax-payers and investors into his domain; but long-term promises of good treatment by the government become more credible for people when they get democratic voting rights (see also Myerson, 2010).

Since the 19th century, democratic states have extended voting rights to more of their resident population, and when all adult citizens can vote then there should be no distinction between citizens and gentry, essentially making the latter term obsolete. Extending democratic privileges to broader groups has enlarged the set of people who can invest in improving their economic status, with confidence that their investments will have protection under the state. Thus, miracles of economic growth in modern democracies have been based on people throughout a nation confidently making significant new investments to improve themselves and their communities.

It is sometimes assumed, however, that successful democratic development depends only on citizens' rights to vote in elections of national leaders, as if national democracy needed no connection with local politics. Such an assumption would ignore the historical fact that
representative institutions of national democracy originally developed from institutions for maintaining a balanced working relationship between local community leaders and the state's national leadership. A comparison between the American Revolution and the French Revolution provides further evidence of the potential importance of local political roots for successful national democracy.

The United States of America was established as an independent nation by a Congress of delegates from thirteen provincial assemblies, each of which consisted of representatives elected by their communities. Since America's first national elections in 1788, American politics has always been characterized by a broad concern for maintaining an appropriately balanced distribution of powers between elected local governments and the elected national government. In contrast, the revolutionary establishment of democratic government in France from 1789 was accompanied by a centralization of power. As Alexis de Tocqueville noted after visiting America in the 1830s, the French Revolution was the enemy both of royalty and provincial institutions (Tocqueville, 1945, p. 100). Regional parliaments, which had provided significant political decentralization in France's Old Regime, were viewed as vestiges of hereditary privilege and were suppressed by the Revolution. Within a dozen years after the French Revolution, the underfunded and chaotic system of revolutionary local governments had been brought under central direction by appointed agents of a national dictator (Cobban, 1943; Myerson, 2015b).

We should understand that successful democracy requires more than just elections. For democratic competition to effectively benefit the public, voters must have a choice among candidates with proven records of public service who have developed good reputations for exercising power responsibly in elected office. When such trusted leadership is lacking, democracy is inevitably fragile. This essential supply of trusted democratic leadership can develop best in responsible institutions of local government, where successful local leaders can prove their qualifications to become strong competitive candidates for higher office. In effect, responsible democratic local governments can strengthen national democratic competition by lowering barriers against entry into national politics (for a formal model, see Myerson, 2006). From this perspective, we could argue that even a small nation may benefit from having some decentralization of power to autonomous subnational governments, where future candidates for national leadership can demonstrate their ability to serve the people.

An incumbent national leader, however, might naturally prefer not to face competition
from candidates who have demonstrated effective leadership in local government. Thus, we may expect national leaders to advocate a more centralized state, where autonomous local political institutions are weak or nonexistent. Given that elected national leaders are generally the most influential people in their country, it can become very difficult to introduce responsible democratic local government in countries where democracy has been introduced first only at the national level. However, a constitutional system with democratic local government can become politically stable once it is established. When governors and mayors have been locally elected, they become local power-brokers from whom national politicians must regularly seek support in competition for national power, and then it would be very costly for any national leader to threaten the constitutional powers of these elected local officials.

Locally accountable local government can also have fundamental advantages in the provision of local public goods that are essential for modern economic growth. Even a poor community may be able to mobilize resources for essential public investments when members of the community are coordinated by local leaders whom they can trust to appropriately reward contributors and discipline free-riders (Fortmann, 1983). Such trust can be expected only from leaders whose authority is based in local politics. Administrative officials who are appointed by the national government will inevitably be more concerned about national political priorities and less committed to earning people's trust in a community from which the officials may expect to be transferred at their next promotion (see also Myerson, 2021b).

Local property-rights enforcement should be included among the local public goods that can benefit from local accountability. This is the basic reason why greater local private investments may depend on investors having some political voice in an appropriately responsible local government.

Local defense against invaders may also be counted among the local public goods that can benefit from democratic decentralization. In a nation where locally elected officials exercise a substantial authority, every part of the nation will have local leaders who have a proven ability to mobilize their neighbors for political action and who have a stake of power in the national state that can motivate them to lead their neighbors in its defense. This point extends Machiavelli's classic observation that some decentralization of political power can make a nation harder to conquer.

Other advantages and disadvantages of democratic decentralization have been analyzed
in the literature on fiscal federalism (see an insightful summary by Oates, 2005, and a thoughtful critique by Treisman, 2007). Decentralized governments can have advantages for flexibly providing local public goods that vary across regions, in response to different local conditions. If a centralized government had no constraints or norms against offering different public services in different regions, then a geographically-based governing coalition could use such flexibility to concentrate public spending in the regions where it gets its political support, neglecting people elsewhere. On the other hand, a centralized government may be better able to take account of externalities that local public goods in one region may have for people in other regions. With decentralization, a possibility of subsidies across regions could generate soft local budget constraints that encourage people to misrepresent their demand for local public goods. We should note that all of the advantages of democratic decentralization depend on hardening of local public budgets. A soft local budget constraint would mean that local public funding depends on negotiations with national authorities, and this dependence would generate a basic imperative for electing local leaders whom the national authorities would favor.

6. CONCLUSIONS

We have developed a theory of the state that is compatible with the historical fact that local politics has been an essential part of human life since long before the first establishment of territorially extensive states. Humans evolved to live in communities that maintain systems of ownership or usage rights that define how members of the community can exploit the resources around them. Individuals will not invest in improving their local resources without some confidence that their community will respect and protect their right to profit from the improvement, and such confidence must have existed at least since first origins of agriculture.

But a community's ability to protect its members and their property is necessarily limited by the possibility of raiding by people from elsewhere. Thus, wider states have established themselves by offering regional protection against intercommunal raids and by taxing the surplus that is generated by this regional peace. Any state needs a centralized team that can project sovereign force throughout an extensive realm, to keep the internal peace and implement state policies coherently. To maintain the coherent unity of the state, its responsible agents should identify their long-term interests with the state's central leadership, effectively separating themselves from local interests of any one community.
So the political economy of property rights essentially involves both local politics and national politics. A broad consensus within a community about who has rights to use and exploit various resources in its vicinity can be established only with some form of local leadership. But the wider national state also has an interest in registering property rights, for the purpose of taxing them, and so local investors need also wider protection against confiscatory tax increases or expropriation by centralized agents of the national state.

Thus, the stability and prosperity of a national state depends fundamentally on its ability to earn the trust of local elites. Such trust must be sustained by a social equilibrium that involves a general recognition of some basic rights, channels for communicating complaints about violations of these rights, and some broad class identification to ensure that a local rights violation could provoke a wider loss of essential trust from groups across the nation. That is, a successful state needs some fundamental connection between its national politics and local politics in communities throughout its domain. We have found two general ways establishing such connections between local and national politics. In traditional autocratic states, national political leaders can bestow a privileged status on favored individuals who may then use their privileged connections in the wider state to establish themselves as local leaders in their communities. Conversely, in successful modern democracies, the powers and positions of national leaders depend on approval from local groups throughout the nation, and autonomous local leaders who perform well can become competitive candidates for national leadership. That is, local politics may become dependent on national leadership in autocratic states, but successful democratic states make national leadership more dependent on local politics.

One area where this theoretical perspective offers significant policy implications is in international assistance to support democratic national development. A national government’s ability to regulate foreign aid can effectively make the aid a valuable external resource that increases the national leader’s ability to govern with less local support. Thus, international assistance has commonly been a force for the centralization of power in poor countries, which can undermine the balanced relationship between local and national politics that is essential for successful democratic development. So if international assistance is not to be counterproductive, aid coordinators need a deeper understanding of local politics and its role in national development (Khemani et al, 2016). With such understanding, donors might insist that some portion of their aid should be directed through local institutions with locally elected leadership.
The need for deeper understanding of the foundations of successful democratic states was tragically demonstrated by the 2021 collapse of the US-supported Republic of Afghanistan, where the last President, Ashraf Ghani, had been widely regarded as an expert on fixing failed states. Ghani and Lockhart (2008) cogently argued that the ultimate goal of state-building assistance should be to help a country establish an effective government that is accountable to citizens. But from our perspective, serious questions should have been raised about whether effective democratic accountability could be achieved in a state that centralizes all responsibility for government under one elected official, the President of Afghanistan, leaving no public responsibilities for local leaders who could be directly accountable to their communities.

Theories of constitutional democracy have regularly emphasized different ways of constitutionally dividing power, particularly among various offices of the executive, legislative, and judicial branches of the national government; but our perspective here suggests a vital primacy in the division of power between national and local political leaders. This point should be particularly relevant for missions to support democratic state-building. Broadly accepted forms of local leadership can be found even in failed states, where a lack of basic consensus about national leadership could make proposals to divide it into separate branches seem premature or quixotic. But even for the authors of the United States Constitution in 1787, the balance of power between the new Federal government and the existing local authorities was a primary concern, because local authorities controlled the ratification process; and a separation of powers among branches of the Federal government was introduced as a mechanism for credibly constraining Federal power.

In the language of the American Revolution, the people who formed the fundamental basis for the new nation were understood to be the enfranchised inhabitants acting together in their local communities (Waldman, 2014). If this understanding had been applied in Afghanistan before 2021, interveners for democratic state-building might have had more appreciation for the autonomous authority of traditional village institutions (Murtazashvili, 2016), instead of trying to establish a centralized state without any role for locally accountable leadership.
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