

## I. Introduction

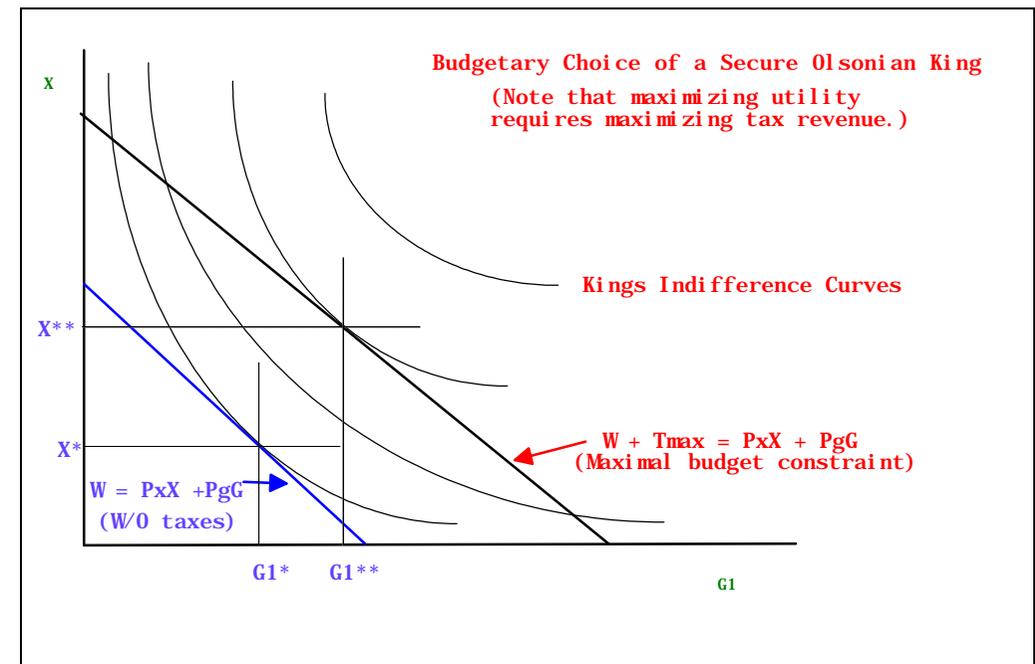
- A. To this point, the course has provided an overview of US Colonial history with a sharp focus on constitutional developments.
- B. Essentially, I have argued that (i) most people came to the English and Dutch colonies along the Eastern United States in order to enrich themselves, followed by (ii) those looking for a more perfect place in which to practice their religion (Puritans and Quakers) followed by (iii) those looking for political liberty.
- C. If political liberty is only third in importance, why did the colonies evidently compete so much on constitutional design?
- The simplest answer is that it is constitutional design that is necessary to achieve (i) and (ii).
    - { Without a reasonably good constitution, property rights would not be defined nor protected, and the risk of economic expropriation would have been very large.
    - { Without protection for their civil and economic liberties, very few immigrants would have taken their labor and capital to America.
    - { Without protections for freedom for religious practice, far fewer religious faiths could have found protection in the new world.
    - { For example, the Dutch colony was among the most tolerant and cosmopolitan of the European settlements in the Americas during most of its short history. Eighteen language groups and a broad cross-section of Protestant, Catholic, and Jewish faiths were represented. These included religious refugees from the less-tolerant Puritan English colonies to the north (Wish 1950: 94; Taylor 2001: 255).
  - Of course, political elites do not have strong **political** reasons to give their power away, as often is emphasized in political histories. However, there are often quite good **economic** reasons to do so.
    - { I have mentioned that political elites in the English colonies needed settlers in order to profit from their investments, and that this encouraged a good deal of competition between the colonies for settlers, including "constitutional competition."
    - { The Tiebout model of local government suggests that constitutional competition of this sort can be quite intense.
    - { On the other hand, it is interesting to note that a good deal of constitutional evolution may take place, even without competition.
    - { And, more over, it is interesting to point out that, although these were probably more important in Europe than in the US, they still played a role in the development of US institutions.

{ For today's lecture, we will spend some time exploring a few other rational choice based models of constitutional exchange and evolution.

## II. Why an Almost Omnipotent Despot Might Grant Veto Power over Taxes to a Taxpayer Council

### A. Fiscal Policies Fit for a King

- Consider as a point of departure, the familiar leviathan model of government developed by Brennan and Buchanan (1980) and extended by Mancur Olson (2000).
  - { We shall refer to the "leviathan" as the king, since it is likely that Hobbes had the restoration of the English King, Charles II, in mind when he wrote his most famous book in the middle of the English civil war.
- For purposes of analysis, assume that the king has a utility function defined over his own private consumption,  $X$ , and two government services, guns,  $G_1$ , and butter,  $G_2$ :
  - {  $U = u(X, G_1, G_2)$
- The king's budget is determined by his own household wealth,  $W$ , which is usually considerable and the taxes that he levies,  $T$ .



iv. Suppose that the king can collect any tax that he wishes and spend the money as he sees fit. In this case, the feasible range of services and his personal consumption are determined by the cost of government services,  $c(G_1, G_2)$ , and the price of personal consumption.

- { (A parliament, if one exists, may be used as a source of advice, but initially is assumed to play no direct role in policy formation.)
- { Using personal consumption as the numeraire good allows the king's budget constraint to be written as  $T + W = X + c(G_1, G_2)$ , or
- {  $X = T + W - c(G_1, G_2)$
- { where  $c$  is a separable convex cost function of the two government services.

v. Substituting for personal consumption,  $U = u(T + W - c(G_1, G_2), G_1, G_2)$ , and differentiating with respect to the control variables  $T$ ,  $G_1$ , and  $G_2$  yields the following first-order conditions that characterize the king's preferred fiscal policy:

- {  $U_{G1} - U_x C_{G1} = 0$
- {  $U_{G2} - U_x C_{G2} = 0$
- {  $U_x = 0$

vi. The first two first-order conditions imply that the king chooses public service levels so that the marginal utility of the service equals its marginal cost in terms of his diminished personal consumption of the private good.

vii. The third implies that taxes will be collected until the marginal utility of his additional personal consumption falls to zero.

viii. Note that the latter can be satisfied as an equality only if the king has sufficient household and tax revenue to **achieve satiety in all goods**.

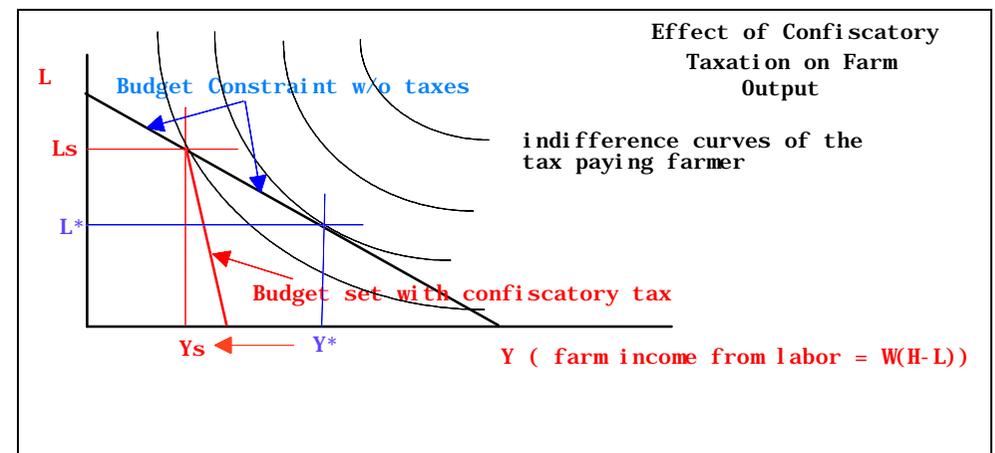
- { (Equation 5,  $U_x = 0$ , implies that both  $U_{G1}$  and  $U_{G2}$  also equal zero at the utility-maximizing public policy.)
- { Whether these policy choices are feasible or not depends both on the king's preferences and the extent to which tax revenue may be "squeezed" from the kingdom.

ix. If the king's tastes are not such that satiation occurs within the feasible range of the kingdom's economic output, a secure king will be disposed to tax away the entire surplus of the kingdom.

- { The geometry of this logic for the two good case (one government service,  $G_1$ , and personal consumption,  $X$ ) is depicted above.

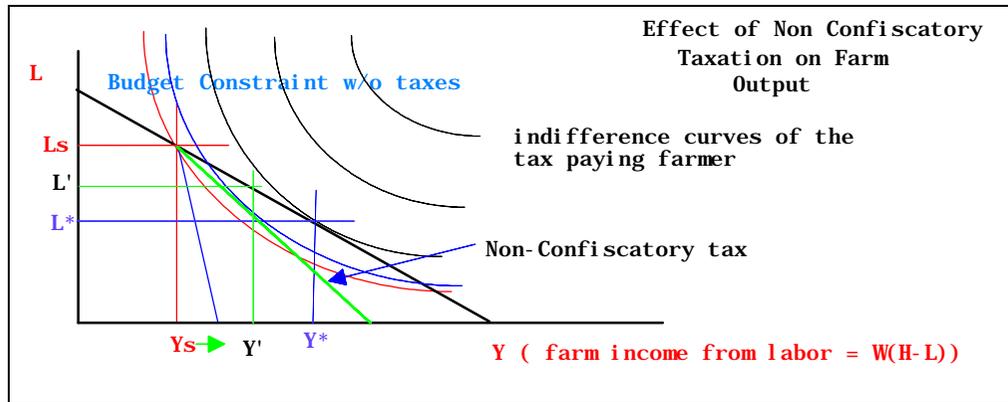
### B. Leviathan's Taxation Dilemma

- i. However, if every potential taxpayer in the kingdom expects all of their production above subsistence to be taxed away, there is no private incentive to produce a taxable surplus; in which case, the king will have to rely upon his own household resources for government finance, because no taxable surplus will be produced.
- ii. To obtain this hypothetical maximal tax revenue the king must enslave the entire population of the kingdom.
- iii. Taxation of independent producers by leviathan can be represented as a three-stage game. In the first stage (the Spring), the king announces a tax rate; in the second (the Summer), the subjects produce their output; in the third (the Fall), the king collects his taxes.
  - { In a one-shot game, the king would announce a very low tax in the Spring, but, subsequently, take the entire surplus produced in the Fall regardless of the tax previously announced.
  - { Forward-looking subjects would anticipate the final confiscatory tax, and produce no taxable surplus no matter what tax he announces in the Spring.
  - { Consequently, the king's tax revenue in period 3 is zero in equilibrium, and taxpayers would live at subsistence income levels, but with plentiful leisure.
  - { The effects of a confiscatory tax is illustrated below for a typical farmer.<sup>1</sup> (It is assumed that only the "surplus production" can be taxed.)



<sup>1</sup> The mathematics behind the diagram is the following. Consider a typical farmer-taxpayer whose utility is  $U = u(L, Y)$  where  $Y = (1-t)f(H-L, G_1, G_2)$ ,  $t$  is the marginal tax rate,  $f$  is a the taxpayer's strictly convex production function of farm output,  $L$  is leisure, and  $H$  is the available hours in the day.  $H-L = W$  the hours spent farming.

$Y$  can be regarded as income greater than subsistence income. The taxpayers works  $H-L^*$  hours, and  $L^*$  is such that  $U_L - U_Y(1-t)F_W = 0$ . Note that given  $U$  monotone increasing, twice differentiable, and concave, whenever  $t = 100\%$ , a corner solution emerges with  $L^* = H$ . If subsistence output,  $Y=Y^S > 0$ , is required to survive,  $L^* = H -$



- iv. In exchange for a royal commitment to take only a specific fraction of the surplus, the subjects would produce a larger tax base by producing more than subsistence income.
  - { Unfortunately, the king's fiscal promises are not entirely credible by themselves, as noted by Weingast and North (1989) and others, because an all-powerful king may simply rewrite the tax code whenever he pleases.<sup>2</sup>
- v. For this reason, the **possibility of tax avoidance or tax resistance together with the king's interest in tax revenue creates an opportunity for constitutional exchange** between a nearly all-powerful king and those who pay the taxes.
  - { **Any tax institution that can simultaneously assure positive surplus for the taxpayers and tax revenue for the king makes both better off.**

C. Parliamentary Veto as a Solution to Leviathan's Taxation Dilemma

- i. One institutional method for making the king's tax "commitment" credible is to grant veto power to a parliament representing taxpayer interests over future tax increases in exchange for additional tax revenue.
  - { Vesting a tax council or parliament representing taxpayer interests with veto power transforms the previous three-period into a four-stage game in which the council may veto any increase in taxes in the fourth-period, forcing the king to adhere to his first period announcement.<sup>3</sup>
  - { In the new four-period game the king's announced tax policy in period one is credible, because a representative council will veto subsequent tax increases in period 4, barring unanticipated emergencies.
  - { At the subperfect equilibrium, an income-maximizing king announces the revenue-maximizing proportional tax rate in period 1, or perhaps a long-term revenue-maximizing lump-sum or head tax that allows substantial surplus to be realized by the average taxpayer.<sup>4</sup>
  - { Because the revenue-maximizing tax rate is less than 100%, the subjects produce more than required for subsistence in period 2, and the king collects taxes according to the announced (or status quo) tax schedule in period 3.
- ii. Under this constitutional arrangement, the subjects will produce more surplus and pay greater taxes than they would have in the absence of the veto authority, because they receive a more credible promise of lower future tax rates, which assures taxpayers of a more certain and larger share of their future surplus.<sup>5</sup>

<sup>1</sup>f<sup>1</sup>(Y<sup>s</sup>).

<sup>2</sup> North and Weingast (1989) argue that the transfer of control over government finances from the King to the British Parliament in the Glorious Revolution made the government substantially more creditworthy by reducing the probability of a royal default. It bears noting, however, that veto power over new taxes had existed in England since the signing of the Magna Carta in 1215 which granted such power to an elected council of twenty five barons (section 61), although this power had waned somewhat during the reign of the Tudors. Similar arrangements were commonplace throughout Europe during the late Middle Ages.

<sup>3</sup> Taxpayer utility always diminishes in *t* whenever tax receipts are increased to support additional consumption for the royal household. Given  $U = u(L, Y)$  and  $Y = (1-t)f(H-L, G_1, G_2)$ , after tax utility can be written as  $U^* = u(L^*, (1-t)f(H-L^*, G_1^*, G_2^*))$ . The envelope theorem implies that  $U^*_{t=0} = U_Y[-f(H-L^*)] < 0$ .

<sup>4</sup> Note that imposition of a nearly confiscatory lump sum tax in the Spring would require complete knowledge of each individual farmer's productivity as well as a perfect weather forecast. Without this quite impossible level of knowledge, the economist's "confiscatory tax less epsilon" cannot actually be imposed. In the long run, the maximal sustainable lump-sum tax system has to allow below-average farmers to keep something above subsistence in below-average seasons, because starvation clearly undermines the tax base. That talent, fertility, and weather vary so widely within farming and commerce probably accounts for the widespread use of roughly proportional taxes, as within manorial sharecropping systems.

<sup>5</sup> Buchanan and Brennan (1980) analyze taxpayer interests in constraining the tax power of leviathan at a time when the fundamental institutions of governance are adopted by a constitutional convention. Although their path-breaking analysis clearly influences the approach taken here, the purpose of their analysis was normative rather than positive. Their research analyzes the properties of durable tax schedules and taxable bases that taxpayers might agree to as a means of advancing their own self-interests. That is to say, Brennan and Buchanan attempt to characterize the fiscal arrangements that should (and perhaps would) be adopted by a society that

- { In this manner, granting a council of taxpayers veto power over future tax *increases* generates both a wealthier king and a wealthier kingdom.
- iii. It bears noting, however, that *no vetoes will be observed* when the system is working smoothly, and consequently, such parliaments will appear to be "toothless," as commonly reported of medieval parliaments.
  - { Nonetheless, in the absence of the council's veto power over new taxes, both the king and the kingdom would have been substantially poorer.
  - { Authority to veto future tax increases creates credible tax laws, rather than vetoes when this tax constitution is working well.
- iv. Note also that having **two councils** with veto power over taxation allows two classes of taxpayers to be protected. This is one explanation for the **origins of multi-cameral legislatures**.

D. Durability of a Parliamentary Tax Veto

- i. This assignment of powers to parliament or council of taxpayers is surprisingly stable once in place, because the *institutional* game is also subgame perfect.
  - { The king cannot formally reduce the veto power of the council without substantially undermining his tax base.
  - { Nor can the king simply add another stage to the game in which the king can accept or reject the council's veto of tax increases.
    - } In such a game, a utility-maximizing king would be inclined to impose confiscatory taxes occasionally in period 3 and then overturn the council's period 4 veto in period 5, taking the entire surplus.
  - { The fact that the king is already maximizing expected tax income also implies that the king cannot occasionally "roll the dice" and renege on his assignment of veto power to the council by randomly calling out the army to raid a subset of taxpayers.
  - { In either case, production would fall below levels that maximize long-term government revenues, because such policies increase anticipated tax rates.

- ii. Such taxpayer responses to confiscatory taxation remain credible as long as production is a costly activity for the taxpayers and the king is not able to reduce his subjects to abject slavery.
- iii. Moreover, the organization of the tax council, itself, reduces the collective action problem for those represented on the council insofar as meetings of the council both affirm their common interest in resisting tax increases and decisionmaking process by which they can organize to resist kings who, nonetheless, attempt to undermine the tax council.<sup>6</sup>

		Kings Strategies	
		Keep Tax Constitution	Revoke Tax Constitution
Farmer's Strategies	Produce Surplus	(F, K) (3, 10)	(F,K) (1, 12)
	Don't Produce Surplus	(2, 7)	(2, 7)

III. Historical Counterparts

- A. These theoretical results have many real-world counterparts in European and US Colonial history.
- B. In order to secure a more predictable or less costly tax revenue stream, medieval kings often agreed to create councils representing major taxpayers and to vest those councils with (substantial) veto power over taxation.

anticipated government by leviathan.

In the present analysis, the constitutional arrangements that characterize the division of power between the king and council emerge gradually as a consequence of ongoing trades between the king and those taxed. Moreover, taxes are assumed to be "standing" confiscatory taxes rather than a modern income tax. Little would change in the analysis if the tax agreements constrained tax rates in progressive or proportional income taxes instead of lump-sum taxes.

<sup>6</sup> This institutional equilibrium is one of many that are consistent with the folk theorem. If the taxpayers can make a credible commitment to reduce their surplus output to zero whenever the king attempts to undermine the council's veto power, the tax council is an equilibrium outcome in infinitely repeated games. Other credible commitments, such as a call to arms to resist taxation can achieve the same equilibrium.

- { Perhaps the most famous of these formal agreements is the British Magna Carta of 1215, which, among other provisions, established a representative council of 25 barons that made decisions via majority rule and had the power to veto new royal taxes.
  - { In the British case, this power was initially obtained and occasionally guaranteed by a threat of insurrection by these major taxpayers, but similar political arrangements were also peacefully adopted in France, Spain, Germany, and Sweden during the thirteenth and fourteenth centuries (Palmer and Colton 1965, 29-31).
  - { These new constitutional arrangements vested veto power in councils, parliaments, cortes, and tings representing major taxpayer interests, and the political institutions created lasted hundreds of years.
  - { Several of these "tax councils" continue to the present time, albeit in substantially modified form.
  - { How a tax constitution might be transformed into a legislature, and then transformed into a parliament will be taken up in the next few lectures.
- C. In the US, most of the colonial legislatures received veto power over new taxes, either right from the start, or later, partly in response to competition from other colonies.
- { Indeed, English crown (and parliament) to take back the power to veto colonial taxes is one of the most important reasons for the Revolutionary War.
  - { Note also that two chamber systems were often introduced to protect elite and middle class interests, which, indirectly, encouraged immigration by both types of taxpayers by protecting them from exploitation (from the crown-governor and from each other)..

#### IV. Other Advantages of Kings with Councils

- A. Solving the royal tax dilemma is only one of many reasons for kings to have councils.
- i. Section V considers the purely informational advantages of an advisory council in settings where a king is less than perfectly informed either in the finite sample sense or in the rational ignorance sense.
  - ii. Section VI suggests that the king and council template can be used to reduce wasteful conflict in cases where disputes take place between a hierarchical organization (a king) and an alliance (council) that resists the king's dominion.
  - iii. *(These provide two additional explanations for the wide spread use of councils in addition to the tax credibility application developed above.)*

- iv. Section iv analyzes the long and short run implications of dividing agenda control and veto power between a king and his council to assess why assignment of such powers can be used as bargaining chips.
- B. Section v discusses how democracies can emerge from the king and council template as a result of systematic political shocks.
- C. In practice one rarely observes pure forms of dictatorship that lack a council, or pure forms of parliament that lack an executive.
- i. Generally government policies emerge from organizations that combine an executive branch of government, "the king," with a cabinet or parliamentary branch, "the council."
  - ii. This lecture provides an explanation for this regularity, and also provides an evolutionary model of the emergence of democracy.
- D. At first thought, this pattern of organization may seem to be rather limited in application.
- i. In late medieval Europe, many of Europe's kings formally established councils or parliaments that had significant control over public policy, for example, veto power over taxation.
  - ii. A few of these parliaments continue into the present in modified form with much greater powers. England, Sweden, Norway and Denmark are classic examples of this.
  - iii. However, a bit more reflection leads one to recognize that very few kings or dictators have lacked advisory councils of one kind or another, and that very few democracies have lacked an executive branch.
  - iv. Moreover, as one thinks more deeply about this organizational template, one comes to realize that this general form of governance is widely used within firms (CEO and board of directors), within many totalitarian regimes (secretary general and polit bureau), within military organizations (commander and war council), and within the church (pope and congress of cardinals).
  - v. The "king and council" template is very scalable, and is widely used to make decisions within many hierarchical organizations. For example, such "committee and executive" decision making procedures are common place within universities and other nonprofit organizations.

#### V. Advice: Informational Advantages of Council

- A. An autocrat faces several kinds of information problems.
- i. First, much policy relevant information tends to be kept private, because superior information aids in negotiation and planning.

- ii. Second, much of the information that is publicly available is intentionally **biased** because individuals, especially those within government, often benefit from exaggerating their loyalty and performance, or those of organizations they are affiliated with.
  - iii. Moreover, even in a setting where unbiased information is readily available, the autocrat may find it difficult to assess the relative merits of policy alternatives because so much information needs to be assembled and analyzed.
  - iv. Clearly, in most cases it will be difficult for any single individual to independently gather sufficient information to make accurate policy assessments. Wintrobe (1997, Ch. 2) refers to these informational problems as the dictator's dilemma.
- B. An advisory council is one widely used technology for reducing a king's information costs.
- i. Insofar as both incompetent and dishonest advisors are routinely eliminated from such councils, and insightful advice is rewarded with positional or pecuniary compensation greater than that associated with their occupational alternatives, council members have incentives to be truthful with their advice and generous in sharing their stock of private knowledge.
- C. It bears noting that even a well informed king may benefit from the advice of non experts chosen at random from his populace.
- i. The members of such a council will tend to be less informed than the king because they lack an encompassing interest in the Kingdom.
  - ii. However, advice from such a council may still be informative insofar as the samples of the king and council members are independent of one another. The average of several unbiased estimates is generally a better estimator (more accurate) than any one of the estimates averaged, and better than a single estimator based on a smaller data set. Such a council will be cost effective if the total sample of all council members exceeds the reduction in the king's sample necessary to pay the council members.
- D. In many cases, the king can do better than a randomly assembled council.
- i. For example, he may limit his sample to potential council members who appear to be better informed than he is (because of greater experience, e. g. larger samples). Some potential councilors simply have a comparative advantage at gathering and processing information because their opportunity cost for assembling and processing information is substantially below that of the king.
  - ii. This comparative advantage can be increased insofar as the king constructs competitive games for council membership that rewards policy relevant information acquisition with status or lucrative salaries.
    - { Contests can induce greater investments by the players than the sum of the rewards given out, as true of even simple lotteries, Tullock (1980).

- { Moreover, payment in *positional goods* can be quite inexpensive for the king, yet produce substantial efforts by prospective councilors, Hirsch (1995), Frank (1985), Congleton (1989).
  - iii. Potential gains from organizing a committee of advisors can be significant in a setting where the king has rational expectations about policies. The number of policy mistakes (and thereby policy risks) tend to fall as a result of cost effective advice.
- E. The king can also attempt to organize his council to minimize strategic information problems.
- i. The simplest method is to assemble a council that includes persons with well understood but conflicting interests who possess overlapping knowledge or expertise. Such a council can be assembled by having interest groups (guilds, land owners, the clergy, etc.) propose policy experts or representatives to the king's council.
  - ii. Such a more or less "representative" council implies that the king will hear a wider range of policy assessments from predictable policy interests, and that the *median* or average of the opinions heard is fairly well-informed and unbiased insofar as the council as a whole lacks a policy interest that differs *systematically* from that of the king.

## VI. Advice and Consent

- A. The remainder of the lecture analyzes conditions under which both the King and Council have direct power over public policy.
- i. Why is formal policy making authority often granted to councils or executives initially created for the convenience of a dominant executive or parliament?
- B. The most plausible answer to this question is that in many circumstances policy making *power can be used as a tradable good* in a voluntary exchange between king and council or between the government and parties outside government.
- i. For example, modest grants of power may be explained in the context of a supremely powerful king or president as a form of compensation for council members with a direct financial or ideological interest in public policy.
    - { In settings where neither king nor council has supreme authority, the king and council template may be adopted or modified as a means of reducing losses from intra-polity conflict.
    - { The king and council template can reduce losses associated with both "civil" and "uncivil" warfare among power centers and other organized interest groups within the polity to be governed.
  - ii. Table III below illustrates the deadweight loss of such asymmetric conflict

**Table III**      **Asymmetric Conflict**

Weaker party	Stronger party		
	Little Aggression	Moderate Aggression	Intense Aggression
Little Resistance	6, 14	3, 16	0, 18
Moderate Resistance	7, 10	4, 12	1, 14
Intense Resistance	8, 8	5, 10	2, 12

iii. Note that the balance of power equilibrium (Nash) is wasteful in the sense that the welfare of both groups shrinks as additional resources are devoted to conflict, other things being equal.

C. One possible solution is to use a less resource intense method of "public choice." An effective collective choice mechanism does not generally eliminate all losses from conflict, but reduces the cost of conflict by encouraging the use of more "civil" forms of social choice, Congleton (1980).

- i. The king and council template is one such collective choice mechanism. It is a natural way to reduce *wasteful* conflict between a coalition (guilds, nobility, church authorities, major land holder) and a hierarchical organization (king).
- ii. The king and council template allows policy making authority to be divided between the king and parliament in a manner which can more or less replicate the payoff ratio's of the initial equilibrium, while reducing the extent of the resources consumed by conflict.

### VII. The Continuum of Power: Agenda Control and Veto Power within the King and Council Template

- A. One method of dividing up policy making responsibilities between the king and council is to distribute agenda control and veto power over specific subsets of public policies among the king and council.
- B. Significant variation in the degree of control over policy can be created through this device.
  - i. Autonomy in particular policy domains can be established by granting both powers to the king or council, and a degree of mutual consent can be generated by assigning veto and agenda control to different parts of the government.

- ii. For example, in the U. S. the Congress ("council") has agenda control over legislation and the President has veto authority, while over international treaties and appointments of top executive officials and judges, the President has agenda control and the Congress has veto control.
- iii. Distributing these powers among branches of government may have significant effects on policy outcomes in both the short and the long run, although this is less apparent than one might first expect. Both the initial policy position, and the assignment of agenda control and veto power can influence policy outcomes.

### C. Veto and Agenda Control with Decisive Councils

- i. Many of the potential effects of assigning agenda and veto power among the king and council can be analyzed using Figure 1.
- ii. Figure 1 depicts the preference profile of a decisive three member council composed of members A, B, and C; and the king, K.
- iii. The ideal policy combinations for each is denoted with a capital letter. Distance from their respective ideal points is assumed to characterize each person's rank orders of alternative policies.
- iv. To see the importance of the initial policy position, consider the case where the reversion policy is the king's ideal point K.
  - { In this case, granting the council veto power or agenda control has no effect on policy. If the king has agenda control, he proposes K, which confronts the council with a choice between K and K.
  - { Clearly K continues as the law of the land regardless of whether the council veto's the policy or not. If the king has veto power and the council has agenda control, he may veto any proposal made by council to move away from K.
  - { A similar conclusion would hold for policy B in the case where the council has either agenda control or veto power to the executive and B is the reversion point. (B is the median voter of the council, and B's ideal policy will be chosen if the council makes its decisions using majority rule.)

D. Note that either branch of government's ideal point can be defended by that branch as long as that it has either veto or agenda control.

- i. Consequently, in a stable setting it is clear that a dominant branch of government can give the other branch direct power over policy, "consent," without affecting policy in the short run.
  - ii. The willingness of the other branch to trade much for such authority would obviously be fairly limited unless the weaker branch has a *relatively longer* planning horizon.
- E. In the long run, political circumstances may change in a manner that affects the preferred policy combination of the chamber initially favoring the status quo. This

allows the policy effects of a transfer of power from one branch to the other to be **more significant in the long run** than in the short run.

- i. To see this, suppose that political circumstances change because of technological or political shocks that change the ideal points of both council members and the king.
  - { In this case the status quo, reversion point, may resemble a policy combination similar to that labeled "2" in Figure 1, which can now be interpreted as the *previous* ideal point of the stronger branch of government.
  - { In the absence of a veto by the weaker chamber, the stronger chamber would simply adopt its new ideal point as the official policy of the realm.
  - { However, an honest application of the weaker chamber's veto power now will block such moves. Policy combination 2 is preferred by the king to B, and by the median council member to K.
  - { The policies that might be proposed and not vetoed are identified by the shaded lens or football shaped area.

### VIII. An Evolutionary Path to Parliamentary Rule and Democracy

- A. The previous section of the paper suggests that in many circumstances a king can grant a parliament policy making authority at an initially low expected cost.
  - i. Thus, one can imagine circumstances whereby a king with an advisory council would voluntarily grant the council a veto over tax or other policies as a method of obtaining support or service from council members on issues where their support can be a significant advantage in the short run, perhaps even during a king's entire lifetime.
  - ii. The reverse is also true insofar as a decisive council can in similarly stable circumstances grant "special" or "emergency" powers to the executive branch at a similarly low cost in the short run insofar as it retains veto or agenda control.
- B. Together, these suggest that a series of random political shocks would cause the division of power between king and council to behave more or less as a *random walk* through time.
  - i. During some periods the executive will be increasing its control over policy, and at others the council will be consolidating its power as political shocks change the bargaining positions of king and council as well as the reversion points of policy.
  - ii. Through time, one would expect to observe all constellations of power within a single polity, as has been the case for much of Europe.

C. Yet, the shocks may not be completely random.

- i. For the past century and a half, there has been a **worldwide** trend toward council/parliament dominated forms of the king and council template.
- ii. One explanation of this recent trend is that a series of changes in the circumstances confronting kings has led them to **gradually bargain away** most of their control over policy in exchange for favorable policy decisions on pressing matters, or at least reduced resistance to policies that serve the king's immediate interest.
- iii. A similar trend took place in colonial America during the eighteenth century.

D. Three sorts of shocks have recently favored democratic evolution.

- i. *Genetic shocks.* One systematic source of drift toward council domination of policy formation is variation in the talent or planning horizon of kings through time. Insofar as competition for membership in the council or parliament is more open than that for king--particularly in dynasties--the talent of the council tends to be high and fairly consistent through time. On the other hand, the vagaries of training, tastes, and breeding imply that the talent and interests of the king would vary considerably through time.
- ii. The king may, because of his own immediate interest in revenues or leisure, simply allow a relatively talented council to make more and more policy decisions directly. Alternatively, a weak king may be simply out-bargained by a very talented council.
- iii. Insofar as the occasional farsighted or very forceful king is unable to fully recapture the authority given up weaker rulers--perhaps because of deference to tradition or precedent that helps to legitimize the state--there tends to be a systematic drift toward council control--other things being equal.
- iv. Here it bears noting in the Colonial case that from 1640-1660 there was a distracting civil war & Cromwell in England, and from 1702 - 1760, England was governed by weak Queens (Anne) and Kings (George I and II).
- v. *Technological Shocks.* Changes in the patterns of trade or warfare may affect the relative cost of maintaining control over the polity in either direction. However recent shocks have to some extent favored parliament.
  - { With the advent of the industrial revolution the policy consequences of taxation and torts became relatively more difficult to assess, but relatively more important to the economic development of the polity.
  - { The increasing complexity of policy analysis tends to make relatively more representative councils informationally more superior to less representative councils than previously the case.<sup>7</sup> Moreover, industrialization tends to take place in towns and cities. The greater population densities of cities allows industrialists, tradesmen, and laborers to more easily organize to resist the policies of a king and unrepresentative councils. Insofar as shifts of

<sup>7</sup> Evidence of the importance of how technological developments may affect political organization is developed in Dudley (2000, 1991) who provides a sophisticated historical analysis of how informational technologies can affect the size and scope of national governments. Although his analysis emphasizes institutional revolutions

power between king and council favor those whose ability to resist have increased, industrialization tends to favor democratization--an increase in the range of interests directly represented by council.

{ Improvements in ships and the rise of commercial centers in the North had similar effects, as might be said of innovations in Plantation farming in the south (although the latter tended to be anti-democratic).

vi. *Ideological Shocks*. Changes in the positive and normative theories of governance may also affect the costs of control and resistance by changing the norms against which current institutions are assessed.

{ That is to say, changes in ideology which undermine the legitimacy of king dominated end of the king and council spectrum, reduces the productivity of efforts to maintain control or produce what Wintrobe (1998) terms "loyalty."

{ Moreover, recent ideological shifts often point previously unorganized groups or individuals toward common interests which reduce organizational costs. Together these shifts would tend to increase resistance to the king's policies, increasing conflict, although not necessarily through violent means.

{ The dead weight loss of conflict, again, can be reduced by trading formal power for acquiescence in a manner that is broadly advantageous to both the king and council under the new circumstances.

{ In the US case, applied theories of government were being developed prior to Enlightenment theories, but European Enlightenment liberal political theories--especially of Locke and Montesquieu--were very influential in colonial elites.

## **IX. Government by Treaty Organization and the Revolutionary War**

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rather than the evolution of governance, his analysis of the importance of information technologies is very much in spirit of that developed here.