

Rights to the Realm: Reconsidering Western Political Development

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I explore how political property rights to revenues from governance relate to generality norms in governance. I do so by examining the rise of Western constitutional liberalism from the perspective of property rights economics and political economy. While it is true that Western political development has been the result of bargains between political elites (Congleton 2011), the implications of the fact that parties to these bargains historically were “owners of the realm” have been underappreciated. I argue the unintended consequence of these political bargains among “owners of the realm” was a de facto supermajority rule, approaching conceptual unanimity for those party to the bargains. In developing this argument I elaborate on the relationship between political and economic property rights, noting that while they were and will continue to be intertwined, there was a hierarchy of rights that became inverted over the course of elites’ constitutional bargains.

INTRODUCTION

In this article, I offer a novel interpretation of the development of Western political institutions. In particular, I explore the idea of political property rights to revenues derived from governance, to understand better how this can contribute to responsible governance. I do so by examining the course of postmedieval Western political history from the perspective of property rights economics and political economy. James Buchanan (1975) famously undertook the project of finding institutional arrangements that unleash the protective state and the productive state, while constraining the predatory state—the use of political machinery to benefit one group at the expense of others. Following this line of inquiry, I want to explore how property rights to governance meet, or fail to meet, the challenge of securing productive governance while avoiding predatory governance (Buchanan and Congleton 1998; Wicksell 1958). Similar studies of private-law societies (e.g., Anderson and Hill 2004; Benson 2011 [1990]; Foldvary 1994; Friedman 1973; 1979; Leeson 2014; Rothbard 1982; Stringham 2007) have engaged these issues and deserve much credit for challenging our understanding as to what degree market processes can endogenously create effective governance institutions. In contrast to these studies, I want to reconsider how governance property rights, defined as claims to political power and the revenue derived therefrom, evolved over time as the Western project of liberal constitutional governance advanced. Despite the brief historical success Western constitutionalism had in constraining the redistributive state and unleashing the protective and productive state in the 19th century, there are some fears that Western governments have gone “too far down the rabbit hole.” These fears, often brought up by adherents of conservatism and classical liberalism, are obviously not new. While I share the normative premise of these schools,

my analysis in this article will be purely positive, in the tradition of “mainline” price-theoretic economics (Boettke 2012). What I add is an understanding of how economic property rights and political property rights, entangled as they were even as the last vestiges of feudal Europe were swept away by the Enlightenment, became so dispersed that a commons in governance was necessarily established. With this commons came an erosion of incentives to engage in stewardship of the polity’s resources.

Significant aspects of constitutional protection of basic rights exist in Western nations today. However, these protections are not as strong as they once were. With the rise of Progressivism and the science of managerial bureaucracy in the early 20th century, the protections afforded to local rights and liberties in the Western world, and especially the United States, were more and more replaced by a monocentric political order whose purpose was the active imposition of the good society from above, as opposed to the maintenance of the basic institutions that allowed individuals themselves to create the good society themselves (Ostrom 1997; 2008a [1971]; 2008b [1973]). The problems of the tyranny of the majority, feared by Hamilton and Madison, and of democratic despotism, feared by Tocqueville, loom larger today than during the heyday of classical liberalism in the West. Those who disagree, especially in the United States, may argue that this transformation in governance was required to destroy barriers to equality that prevented women and minorities from enjoying their rightful place in a free and tolerant society. I do not dispute the claim that the barriers to rapid and widespread collective action favored in much classically liberal governance philosophy, and as embodied in the federal structure of the United States, were often used by the prejudiced as an obstacle to social reform. But I do claim that the (at least partial) destruction of these barriers poses a significant problem for those for whom securing productive and non-predatory governance—governance oriented towards the benefit of all, rather than towards one group’s benefit at the expense of others’—is a normative standard. If this standard is adopted, the demands of some to empower the redistributive state (e.g., Meltzer and Richard 1981) are currently driving public policies that

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almost certainly cannot be justified on grounds of productive and nonpredatory governance.

The rise of liberal democracy as the form of governance that came to be seen as the *telos* of human social institutions (Fukuyama 1992) has resulted in the setting up of a normative standard of governance favoring widespread “voice” and limiting the range of activities upon which the opinion of the majority is forbidden from trespassing. If the essence of the political philosophies comprising Western constitutionalism is in finding a balance of political power, minimizing the ability of any one group to impose its will on others, then modern majoritarian tendencies must be viewed as antithetical to these philosophies. Given this, it may be worthwhile to explore alternative institutions of governance that today are viewed as antiquated and best forgotten. The quintessential feature of such institutions is a property right to governance, and thus a claim to the income derived therefrom. The popular term “shareholder state,” of which the medieval order is but one example, captures this idea. My question is, from the standpoint of classically liberal constitutionalism—of achieving a balance of political power that allows for meaningful collective action, but also affords widespread protection to individuals and civil society from political expropriation—is there any role for these obsolete governance institutions? My tentative answer is that they there was, historically. The abandonment of these institutions, on the basis of theories of justice that hold private governance rights to be morally arbitrary, have resulted in the loss of a mechanism that, when coupled with other mechanisms advocated in the philosophies of constitutionalism, have a nontrivial effect on the quality of governance.¹

In addition to the works mentioned above, I engage three strands of literature that broadly comprise an institutional approach to political economy. The first considers the choice calculus of a holder of claims to political power in the form of political property rights, whether from the perspective of a noble, king, or autocrat (e.g., Kurrild-Klitgaard 2000; 2003; Olson 1993; Salter and Hebert 2014; Tullock 2002; 2005b; Wintrobe 1990), where the boundary between these roles is inherently porous. This literature seeks to explain the choice calculus of a representative political rights holder, usually from the perspective of perpetuating his regime. The effect of the rights holder’s choices on the distribution of economic surplus is also treated, but is usually relegated to the analytical background. I intend to reverse the analysis: My main concern is the implications of the rights holders’ choices for economic (and also constitutional-political) outcomes.

¹ By “quality of governance” I mean the desires of individuals who comprise a polity for specific collective outcomes. I assert that political property rights (tempered by other constitutional mechanisms) can improve governance outcomes *from the perspectives of the affected individuals themselves*. While the belief that government exists to satisfy the preferences of its citizens is a normative premise, the question I treat is whether this set of governance institutions is an appropriate means for achieving the given end. Answering the latter question is positive, not normative, political economy.

The second strand of literature focuses on bargains between governing elites and those whom the elite’s decisions affect. The focus here is on bargains over political property between actual holders of power and other holders, or potential holders (e.g., Acemoglu 2003; Parisi 2003). The most comprehensive work in this literature, applied to the rise of Western liberal democracy, is undoubtedly Congleton (2011), although de Jouvenel (1993 [1945]) is similar in both treatment and scope. Political property bargains can be struck when those deals are self-enforcing. In such situations, while bargains are presumably mutually beneficial to the governor-parties and potential governor-parties (at least *ex ante*), their implication for those not party to the transaction are far less clear. It is in this sense that liberalism, which involved bargains between elites that resulted in socially beneficial outcomes, has since evolved to the point where bargains between elites are socially costly. I will discuss this proposition in further detail in subsequent sections.

The third strand of literature focuses on the institutional underpinnings of modern economic and political well-being (Acemoglu and Robinson 2005, 2012; North, Wallis, and Weingast 2009). This literature emphasizes the economic bounty and political liberty of modern times has its root in expanding the range of individuals who are party to political decision-making processes. Relatively “closed” societies are dominated by elites, who make decisions in accordance with their own self-interest, but not necessarily in accordance with that of the polity at large. By breaking up elite concentrations of power, unwilling governance, and hence predatory governance, becomes more difficult to impose. This literature understandably looks favorably on the expansion of democracy in the form of widespread franchise. However, this process can proceed too far. Excessive democratic franchise, or the expansion of issues within the scope of a given franchise, can result in predatory governance as well. This is due to interest groups practicing “concentrated benefits, dispersed costs” strategies, which succeed due to rational voter disinterest or ignorance. This probably explains the lack of a clear relationship between democracy and economic growth in a recent “meta-study” of the empirical literature on democracy and growth (Douchliagos and Ulubaşoğlu 2008). My contribution relates to this literature in that it suggests an alternative mechanism, namely political property rights in the context of Western constitutionalism, can yield nonpredatory governance.

I organize the remainder of the article as follows: In the next section I consider two stylized models, “pure” autocracy and democracy, as orientation points for understanding how political-economic property rights influence the incentives of political decision-makers. Both of these systems have serious defects, which explains the fragility of polities that approach these ideal types in the limit. With this model in the background, I move in the subsequent section to exploring how bargaining over political-economic property rights may, or may not, improve welfare for other members of the polity. Next I discuss at a more theoretical level how

political-economic property rights in the “corporate polity” influence political-economic outcomes. I then specify how the combination of “old world” and “new world” governance institutions, i.e., political property rights plus constitutionally divided powers, yields results more favorable than either in isolation. Finally I conclude by discussing the assumptions upon which my analysis rested, how sensitive my results are to these assumptions, and the implications of my analysis for contemporary political-economic outcomes.

PURE AUTOCRACY AND PURE DEMOCRACY

Hoppe (2001) argues that monarchy is a more preferable form of government than democracy. According to this argument, since the king owns the country, he has an incentive to engage in responsible stewardship of the realm. Olson (1993) correctly realizes there is a profound flaw in this argument: While it is true that the king-owner has some incentive to care for his property, and thus the country, the incentives between private and social wealth maximization may still diverge. A king-owner will invest in his country, provide public goods, etc., to the extent that the marginal private benefit exceeds the marginal private cost. However, the king has little incentive to care about any divergence between marginal social benefits and marginal social costs, aside from the effect of this divergence on the chances of his being deposed. Alternatively, a king-owner, as a rent-maximizing autocrat (e.g., Tullock 2005b), has incentives to treat the country as an income-yielding investment. Among other things, the private income stream the country provides depends on the tax rate set by the autocrat. The autocrat’s incentives are such that he maximizes private payoff by picking the revenue-maximizing tax rate. Economic theory suggests that the autocrat faces a tradeoff between tax revenue and wealth destroyed due to the tax, and so he sets the tax rate such that the marginal unit of revenue equals the marginal unit of deadweight loss. This is not a social optimum: the tax rate that maximizes the autocrat’s private wealth is almost certainly higher than the tax rate that would maximize the wealth of the rest of society. It is this divergence that shows the incentive-aligning features of private ownership are, by themselves, insufficient to prevent a territorial monopolist from engaging in privately beneficial but socially costly acts (Leeson 2007).

This narrative is the foundation for Olson’s (1993) support of democracy. In Olson’s model, since voters earn income from both the market and from public revenue disbursements, they internalize the wealth destruction created by taxation. A politician competing for voters’ support would thus be forced to choose policies such that the marginal unit of public revenue going to the representative voter equals the marginal loss in market income due to the tax scheme needed to raise public revenue. This mechanism allows the polity to enjoy a nonpredatory tax regime, which improves welfare for all. However, this argument too has sev-

eral problems. Olson assumes the interests of voters are adequately aligned with social wealth maximization, but beyond a very small proportion of the polity’s population, this is almost certainly not true. The representative voter, in a large election, knows his vote is unlikely to be decisive. Therefore there is little cost to him for abstaining, or to voting for policies that are economically inefficient as a signal of altruism, which may raise the voter’s social status in the eyes of his peers. Furthermore, there is little incentive for the representative voter to acquire information concerning the candidates, both in terms of their proposed policies and their effect on the polity. Information is a good that is costly to acquire, just like any other good; to the extent that voters value information on candidates and candidates’ platforms as an input to making sound electoral decisions, the fact that the representative voter rightly expects to have no effect on the election outcome discourages him from acquiring information in the first place. Of course, politicians recognize this, and rationally respond by playing “concentrated benefits, dispersed costs” strategies that gain them the support of well-organized and well-informed interest groups. Since the cost of these policies, which are a form of rent-seeking, to poorly organized and poorly informed ordinary citizens is minimal, it is privately beneficial to politicians, but socially costly.

These insights, long appreciated by public choice scholars, suggest Olson’s rosy picture of democracy is the result of comparing actually existing autocracy to ideal democracy, which is hardly the relevant counterfactual. Both pure autocracy and pure democracy are characterized by significant defects as a result of the rational choice calculus of those in a position to influence policy. Of course, whether pure autocracy or pure democracy entails larger social wealth destruction is an empirical question. But it is not a very interesting one, because history offers us no examples of pure autocracy and pure democracy, and few that approach them in the limit. Both in highly democratic and highly authoritarian polities, there are elements of the other governance form embedded in the polity’s constitution, whether formal or informal. Nations that are frequently portrayed as practicing “direct democracy,” such as Switzerland, also frequently have a federal system with representative government at both the local and national levels. Direct democracy in these cases is usually embodied in the public’s option to force referenda on ordinary legislation and constitutional amendments. Strongmen in a dictatorial position, such as exists in several sub-Saharan African countries, frequently make use of an advisory council of close confidants, and must take cognizance of the informal power structure upon which their rule is based. “The dictator continuously lives under the Sword of Damocles and equally continuously worries about the thickness of the thread” (Tullock 2005b, 292). But pure democracy’s and pure autocracy’s lack of historical realism does not prevent these models from being useful in our study of actually existing governance institutions. As an illustration, in economic theory, the model of perfect competition is empirically inaccurate, but it is an

indispensable tool for studying actual market processes. This is because juxtaposition of the model with the real world highlights precisely which features of the real world are interesting, and helps ameliorate the market frictions which are absent from the perfect competition model by assumption. It is the same with the above stylized models of governance: The absence of real-world examples help us discover how the division of authority between the strongman and the council, usually embodied in modern political institutions in the separation between executive and legislative decision-making, helps ameliorate the frictions in political processes.

BARGAINING OVER POLITICAL PROPERTY RIGHTS

With these stylized models in mind, we can better understand the work done on the historical evolution of the distribution of political authority between an executive and a council of elites. Congleton's (2011) account is invaluable because it explores these issues in economic terms. Political power, in the form of the distribution of decision-making capability, results from executives (historically, a king) and councils (historically, nobles) bargaining over governance rights. From these distributions Congleton infers a generalizable "King and Council" or "King in Parliament" framework. The result is a classification, during the rise of Western liberal democracy from the feudal order, of who has what power, and how that power can be explained by a rational choice framework. The end product is a partial endogenization of constitutions.

Of particular interest is the model of taxation rights between the king and the advisory council (Congleton 2011, Chaps. 5 and 6). In brief, this model assumes the king initially has the power to tax unconditionally. The king's ideal strategy would be to convince his subjects that taxes will be low and stable, to incentivize a high level of production. But this would change the king's strategy after his subjects have produced many goods and services; predation, in the form of a higher-than-promised tax rate, is now preferable. Subjects recognize the king's promise is incredible, and so produce at near subsistence, leaving little to nothing for the king to tax. This sets up the possibility of a mutually beneficial exchange in authority between the king and his council. Initially, the council's role is purely advisory, with no formal power. But the king can bargain with the council to grant them the right of veto to the king's tax plan. The increased political power is obviously desirable to the council, as a protection against arbitrary taxation by the king. The decreased political power too is beneficial for the king, since it allows him to credibly commit to lower and more predictable tax rates. Subjects respond by producing more, which benefits the king, because he is getting more revenue at the lower and predictable rate, since the expansion of the tax base more than makes up for the lower tax rate. All parties are better off under this scenario, even though subjects had no

say in the bargain, to which only the king and nobles were party.

Interestingly, the course of bargaining can run both ways in the model. If bargains between a powerful king and a weak council, yielding a moderately powerful king and council, can be welfare enhancing for all parties, so can bargaining between a powerful council and weak king, yielding the same result. Only the distribution of governance rights between the king and council, and hence private surplus, will be affected. Of course, the interesting implications of this breakdown of political rights arise in the real world, where impediments to exchange and historical path dependencies make it very important who begins with what rights. Time, through which action takes place, is irreversible (O'Driscoll and Rizzo 2002 [1985]), so the distinction between *ex ante* and *ex post* is analytically significant. If the most recent bargains among elites have resulted in negative consequences for social wealth and welfare, reversing course may not be desirable, let alone feasible. Nonetheless, if I want to establish that claims to governance revenues in the form of political property rights is, to some degree, desirable for social wealth maximization, then I must confront the implications of Congleton's narrative, which throughout has a noticeable Whig undercurrent.² Congleton (2011, 606–7) admits his positive narrative of gradual constitutional refinement fits well with Whig notions of history. Is there any reason to suspect that any subset of the Western constitutional bargains may not have had beneficial consequences?

I believe there is, and the key lies in further specifying the nature of political property rights. Political property rights always exist, *de facto* or *de jure*, but the form they take has changed significantly. In the medieval order, political property rights stemmed from, and were bundled with, economic property rights. Kings and nobles based their right to govern on their ownership of the realm. In modern liberal democracies, political property rights are rarely formally defined, but instead depend on the balance of interests and power between elected officials, interest groups, and the bureaucracy. Which actor has the authority to control which cash flow rights in the political process is institutionally contingent and often is unclear even to public officials, since control over the cash flow stemming from the fiscal commons emerges out of complex political bargains, and is not an object of direct choice (Wagner 2007; 2012b; 2014).

SPECIFYING PROPERTY RIGHTS IN THE CORPORATE POLITY

In the "shareholder state" paradigm, the state is conceived as a peculiar type of corporation (e.g., Salter

² De Jouvenel (1993 [1945]) provides an analysis quite similar to Congleton in terms of methodology, but arrives at quite different conclusions.

and Hall 2014). This is more a classificatory model than one used to drive the generation of predictions, similar to Congleton's (2011) classification of various governance schemes as points along the "King and Council" spectrum. As in more familiar joint-stock corporations, the state has shareholders. These shareholders are the claimants to the profit generated from the state's activities, which is "governance," broadly conceived. In the medieval order, these were largely kings and nobles, but also included clergy and trade guilds. These rights were often explicitly defined and enshrined in documents, such as charters, that resulted from bargaining between the various shareholders. The result of these bargains was the polycentric legal order that characterized medieval Christendom (e.g., Anderson 1991; Baechler 1975; Benson 1990; Berman 1983; Raico 1994; Stark 2011, Chaps. 14–6). This order was accompanied by a very different understanding of the prerogatives stemming from political property rights. For example, before Hobbes, sovereignty referred merely to the specific, limited, and traditionally proscribed rights of a king in his capacity as a judge. Sovereignty was seen as inimical to, not supportive of, discretionary power, including the creation of new law (de Jouvenel 1997 [1957], III.12). Thus the *structure* of medieval governance institutions—checks and balances through polycentricity, with many organizations that comprised the order characterized by some element of incentive alignment through claims to governance revenues—achieved an admirable kind of political balance, even if the *content* of these institutions can rightly be condemned by defenders of an "open" society (Popper 1945).

A key difference between the old and modern orders is in how claims to political power take form. In the medieval order, political property rights were founded on economic property rights. Governance of the realm was usually the prerogative of those who, quite literally, owned the realm. Extensive realm ownership, especially in the form of land and natural resources, earned one a "seat at the shareholders' table," where ensuing bargains determined the breakdown of political authority, such as the division of powers between kings and parliaments. Today, while the politically powerful often have extensive wealth, it is often the case that this wealth derives from political power. Political power in this case earns one a "seat at the shareholders' table," where ensuing bargains determine how these political rights will map on to claims to the economy's output. It is true that property rights in the medieval order were subject to constant flux due to robbery of some elites by others, and property rights in the modern order are in constant flux due to the shifting locus of power resulting from political enterprises carrying out their activities. Nevertheless, the difference between the two orders remains clear: claims to governance revenues once determined political power, whereas now political power determines claims to governance revenues. This relationship should be thought of as ideal-typical, in the Weberian sense. Obviously medieval elites often fought and pillaged (using political property rights to claim new economic rights), and modern politicians

frequently use considerable wealth accumulated in the private sector as a foundation to launch a campaign (using economic rights to claim new political property rights). What is of critical importance is the hierarchy of rights—from which rights predominantly flow. In other words, that political and economic property rights are necessarily entangled (Wagner 2013; 2014) does not invalidate the existence of a hierarchy between these rights, with the hierarchy reversing during the course of Western society's advance from the medieval to the modern order, as documented in the previous section.

The bargains struck at each stage of the evolution in Western political society led to the inversion of the rights hierarchy as an emergent outcome. It was not intended by any of the parties to this bargain, whether they were enthusiastic initiators due to a relaxing of constraints or unenthusiastic responders due to a tightening in constraints. Nonetheless, we can classify the effects of these bargains on systems-level variables, such as wealth creation, by analyzing the choice calculus of the relevant actors in both states of the "flipped" institutional structure (Menger 2007 [1871]). Assuming wealth-maximizing behavior, decision-makers in the first institutional structure will make political bargains and decisions that maximize the value of their resources, i.e., their subset of the privately owned realm. A claim to governance revenues, in the form of political property rights, provides some incentives for stewardship, but not complete incentives for stewardship, since kings, nobles, clergy, and trade guilds can engage in predation as well as production. Decision-makers in the second institutional structure will make political bargains and decisions that maximize their ability to control a portion of the economy's output. Since they are not initially claimants to politically secured (but economically generated) revenues, they have less incentive to steward the polity's wealth, but again only to a point—too much predatory behavior runs the risk of destroying the very wealth of which they hope to gain control.

The question is, at what stage of the political bargaining process are the incentives and propensity for production the strongest, and hence the incentives and propensity for predation the weakest? If it is wealth maximizing to institutionalize barriers to predation, which emergent outcome of the political process is the closest to nonpredatory governance at the constitutional level (Buchanan and Congleton 1998)? This will depend on the interplay between political claims to governance revenues and the division of governance roles, recognized in modern constitutionalism as the separation of powers. In isolation, these two features either only imperfectly align incentives (partial ownership of the realm incentivizes care for one's own property, but not necessarily others') or only imperfectly prevent predation (separation of powers prevents overstepping political bounds only to the extent another political authority fears its autonomy is threatened and acts on that fear). Together, the defects of one can be shorn up by the strengths of the other, and vice versa.

PRIVATE INCENTIVES AND SOCIAL WEALTH

Revenues derived from the “corporate polity” are a function of its wealth-producing capabilities, but not one that is monotonically increasing. It bears repeating that, from the perspective of elites (whether in the old or modern orders), revenue-maximizing behavior by political shareholders does not necessarily yield wealth-maximizing behavior for society. This is why aspects of Western constitutionalism, especially the formal division of political rights among various corporate polity shareholders, are a complement and not a substitute for revenues derived from partial realm ownership.

An example of this can be seen in Wagner and Backhaus’s (1987) and Wagner’s (2012a) investigation of cameralist theories of public finance and public administration. Cameralism was an approach to these fields practiced largely within the multitude of Germanic principalities, coming into maturity after the end of the Thirty Years’ War and the Peace of Westphalia. The interesting aspects of cameralism are most noticeable when juxtaposed with mercantilist recommendations on similar subjects, but most especially public finance. Great powers of the time, such as France and England, practiced mercantilist economic strategies such as auctioning off monopoly production rights and implementing taxation. These behaviors were obviously not wealth maximizing for society, but were privately beneficial for the ruler, and those who were in a position to obtain monopoly charters. According to Wagner (2012a, 5), the great powers knew they were in a position to influence global terms of trade, and used this influence to maximize governance rents, the costs of which were passed on to nonelites. In contrast, the Germanic principalities of the time were not great powers. Over 300 polities were recognized in Germanic lands by the Peace of Westphalia, and whatever *de jure* statutes existed binding labor and capital to a prince’s lands, *de facto* labor and capital were highly mobile (for the time). The fragmented nature of the Germanic principalities led to a protoscience of administration and finance, cameralism, whose policy prescriptions varied greatly from mercantilist recommendations. Cameralist writers advised their local sovereigns to employ their capital within the market, rather than acting upon the market for the purposes of rent extraction. Taxation was widely regarded to be undesirable, and best left as a last-resort measure of finance in extraordinary circumstances. Elaborating on the choice calculus of a Germanic prince, Wagner (2012a, 6) writes:

This concern about development took place within regimes that were both absolutist and severely constrained. The prince was the ruler of his lands. He did not have to worry about surviving periodic elections, and he could hope to pass his principality along to his eldest son. His ability to do this, however, varied directly with the extent of economic progress within his land. A prince whose land was supporting a growing population of energetic and enterprising subjects would both be wealthier and face better survival prospects than a prince of a land where the population was stagnant or declining, and whose subjects

were dull and lethargic. Furthermore, population was mobile in fact, even if it was mostly tied to the land at law through feudal restrictions. Distances between lands were typically short. A peasant who traveled to a new land was not likely to be returned. The rulers of the cameralist lands faced a competitive labor market. Indeed, the cameralist lands represented a kind of competitive industry among localized governments, much as Tiebout (1956) tried to characterize some 300 years later.

The difference between mercantilist and cameralist polities convincingly shows that formal political property rights are not sufficient for achieving good governance. Despite the popularity of absolutist political theories in Europe during this time, the differing terms of trade, both in traditional factors of production and governance itself, forced absolutist Germanic princes to adopt quasi-liberal policies, compared to their mercantilist cousins further west. This strongly suggests the importance of “something else” in better aligning governor-proprietors’ incentives with the stewardship of the polity and its wealth. In the cameralist lands, during the early- to mid-17th century, this “something else” was competition between political jurisdictions for residents (Tiebout 1956). That “something else,” when it arose in England, was a division of political authority such that all elites’ abilities to engage in predation was constrained relative to historical levels. Importantly, with these divided powers also persisted an element of political claims to governance revenues. Social elites, in the form of kings, nobles, prominent clergymen, and important members of trade guilds and the growing bourgeoisie, were still in a position to disproportionately influence the terms of governance relative to the vast majority of commoners. The unintended consequence of centuries of political-economic bargaining was a form of generality norm. These groups had an ability to check the predatory tendencies of the others. The generality norm was combined with institutions that made political property holders (partial realm owners) parties to collective action. With most of these parties controlling a nontrivial portion of the wealth derived from the corporate polity, the only political results that could make it past this unique historical filter were those in a supermajority of the governor-proprietors’ interests.

While such arrangements have largely disappeared from Europe, they exist on a tiny and highly idiosyncratic scale in the microstate of Liechtenstein. Liechtenstein’s constitution, the legacy of a bargaining process between the Princely family and the people (2004), reflects the chief characteristics of the theory of governance I outlined above.³ Liechtenstein’s constitution recognizes the hereditary Reigning Prince as the head of state, whose assent is required for all legislation and constitutional amendments to become law. The unicameral parliament (*landtag*) is vested with legislative authority. In addition to the check on the legislative process in the person of the Reigning Prince’s, citizens

³ The following brief narrative is adapted from Salter and Hebert (2014).

can force a popular vote on parliamentary legislation, as well as constitutional amendments. Liechtenstein is also highly federalized, with the municipalities having a constitutional guarantee to the right of secession. Governance of Liechtenstein thus exhibits incentive alignment over an extended time horizon, in the form of the hereditary Reigning Prince, along with many internal checks to procedure that prevent any results of collective action that do not enjoy *de facto* supermajority consensus from becoming binding (Salter and Hebert 2014, 13–6). These constitutional provisions are arguably the source of its meteoric economic growth since World War II.

Although governance in this manner initially was a European phenomenon, similar ideas (though further radicalized by the Enlightenment) made their way to the New World, in the form of the American constitutional project. This tradition is most strongly represented by Thomas Jefferson and other antifederalist/early Republican writers, in their glorification of the ideal of a republic of agrarian freeholders. Strict interpretations of the 9th and 10th amendments to the U.S. Constitution, with political decision-makers at the local level having ties to the land through their farms and homesteads, would in these authors' and thinkers' minds be a strong protection for the citizenry's rights against usurpation of authority and economic expropriation. The U.S. Constitution can be viewed as a conscious attempt to mimic the results of the bargains between elites that the Founders wished to jettison. The standard-bearer of this tradition in the generation subsequent to the Founding was South Carolina statesman John C. Calhoun, who played a prominent role in the conflicts over state vs. national authority in the decades leading up to the Civil War. Calhoun's contribution to political science is the theory of the concurrent majority, which is an explicit attempt to prevent majoritarian usurpation of minority rights through granting each minority group in a polity—though how constituted Calhoun does not make clear, beyond asserting such rights belong to the several states, under the social compact theory of the union—a veto on the actions of the others (Lence 1992; see also Salter 2014). Calhoun goes so far as to attribute the “golden age” of such polities as the Roman Republic and the Polish Commonwealth, and the current power of Great Britain, to the artistic, intellectual, and technological productivity unleashed through implementing the freedom-preserving properties of the concurrent majority.

With this understanding of the American project, we have come full circle, arriving once again at seminal modern works in political economy that also place the genius of the Founding in institutional attempts to limit arbitrary and discriminatory political power (Buchanan and Tullock 1962; Ostrom 2008a [1971]). Of course, by the time of these writers the popular interpretation of the Western political tradition had changed. Progressivism had captured the imagination of both the formal hereditary aristocracy of England, and the informal meritocratic aristocracy of the United States. Combined with political unrest that resulted from rapid economic change in the 19th century, the

final steps of the inversion of the property rights hierarchy outlined in Section 4 were complete, which is what rendered further bargains among political shareholders beneficial for these shareholders, but harmful for society at large.⁴

CONCLUSION—ASSUMPTIONS AND IMPLICATIONS

The implication of my argument is that standard narratives of Western success are correct, but incomplete. The ideas underlying Western constitutionalism, in dividing political authority, do deserve some credit for constraining the rent-seeking state and unleashing the protective and productive state in the heyday of classical liberalism. But this took place in an institutional environment where most political decision-makers were, in virtue of their political property rights, claimants to the wealth of the polity. Even in the early days of the United States, a nation born of Enlightenment liberalism and for a time its leading embodiment, franchise requirements restricted voting privileges to property owners, although these standards were admittedly less strict than in Great Britain. Globalizing the success of liberal constitutionalism overlooks this crucial empirical detail, and explains the increased success of rent seekers and rent extractors today, as compared to the classically liberal period, as a function of the property rights regime. Political and economic property rights are always intertwined, but this does not invalidate the observation that the hierarchy of political-economic rights was inverted as the unintended result of bargains between sociopolitical elites. Nonpredatory governance took place with both supporting institutional features, separation of authority and claims to governance revenues.⁵

The ultimate takeaway is that neither realm ownership nor division of political authority is sufficient to yield good governance. Without realm ownership in the form of claims to governance revenues, holders of political authority have little incentive not to use political machinery to enrich themselves at the expense of others. In the limit, this results in a rent-seeking society (Tullock 2005a). Without separation of political authority, the wealth-maximizing behavior implied in the standard autocracy model also results in costs borne by society at large. The important feature is the combination of incentive alignment afforded by claims to governance revenues, *plus* competition among holders of political power, which checks predatory behavior (Leeson 2007; Stringham 2006).

⁴ In the United States, strong aspects of federalism were substituted for political property rights, but the end result—the rise of Progressivism—was the same.

⁵ Even then it was nonpredatory with reference to the value scales of those with a “seat at the shareholders' table,” meaning white males. Undoubtedly women and minorities benefited from the massive increase in living standards that these governance institutions unleashed, but since for much of this period their value scales were represented in collective action only indirectly, it would be grossly incorrect to classify these results as necessarily welfare-enhancing for all parties affected by political decisions, for each specific political decision.

Instead, a system of competitive governance with claims to governance revenues and competition might be thought of as an environment of governance “clubs.” Because clubs operate in a highly competitive environment and derive revenue from implementing their “constitutions”—the procedures for conducting club business, over which consumers have preferences—their governance contracts are self-enforcing (Leeson 2011). To tie this in to what I have discussed previously, the system of governance prevailing among German principalities after the Thirty Years’ War, and also medieval Europe before the rise of absolutism, appears quite clublike. The more these political “quasi-markets” resemble actual markets—claims to governance revenue to incentivize stewardship, plus competition through divided authority to check predation—the more likely they are to deliver nonpredatory governance (Boettke et al. 2011).

My argument is sensitive to several assumptions that I did not explore. I will discuss what I think is the most important one briefly. The first assumption relates to the difference between the scale and scope of governance. In other words, I reconsidered the development of Western polities largely from a perspective internal to the polities themselves. Prosperity was found to be a result of an institutional arrangement within a polity, with relationships between polities left almost completely unexplored. The exception was the discussion of cameralism in the Germanic principalities, and this suggests relationships between polities are also extremely important. The international order is a larger-scale network comprising the smaller orders of polities, and it is reasonable to consider competition between these sources of political authority as well. As examples of polities characterized by claims to governance revenues, but the most significant checks on predation stemming from external rather than internal power limitations, the city-state of Singapore and the Emirate of Dubai are particularly salient.⁶

Singapore is one of the world’s most prominent “development miracles,” with income per capita growing from roughly \$4,700 in 1965 to \$37,000 in 2012 (World Bank 2014; constant US dollars). It has also exhibited strong attachment to economic liberalism, having never fallen below fourth place in the Fraser Institute’s ordinal ranking of the economic freedom of the world’s polities. While Singapore is nominally a democracy, the ruling People’s Action Party (PAP) has been in power continuously since 1965, and unofficially possesses a monopoly on the political process. In the corporate polity paradigm, the PAP can be seen as the organization that runs “Singapore, Inc.”—a popular meme for describing Singaporean governance, which possesses more truth than is commonly appreciated—with high-ranking PAP members acting as corporate executives. Although there are many pieces of evidence that illustrate this thesis, the single most interesting is Singapore’s policy with respect to ministerial pay. Civil servants in Singapore are extremely well compensated. In

1996, Singapore’s chief executive was paid \$812,858. In comparison, the president of the United States was paid \$200,000. Senior civil servants in Singapore averaged \$292,715, compared to \$118,118 in the United States (Low 2006, 359). In addition, civil servant pay is linked to private sector pay by a constantly updating formula, and civil servants receive bonuses based on the rate of economic growth (World Bank 2001). When combined with Singapore’s well-known harsh punishments for shirking and corruption, what emerges is a mode of governance that closely resembles internal governance of a large business firm. Incentives are aligned through high salaries, linked to economic performance, that attract talented administrators.

If Singapore is a corporation, the Emirate of Dubai is a family business. Power within the emirate—and all the emirates that comprise the United Arab Emirates—is held by the royal family, which serves as a focal point for coordinating around an equilibrium that minimizes costly political infighting, while maximizing governance rents (Davidson 2005, Chap. 2; Herb 1999, Chap. 2). In particular, family members limit their jockeying for power in exchange for a share of oil rents and a portfolio of prominent political appointments. The end result is incentive alignment of the royal family members in the interests of wealth-producing governance, albeit accompanied by a significant degree of social illiberalism. Dubai’s success with its own variant of the corporate polity model is best illustrated with comparison to Kuwait. Although Dubai and Kuwait are both Middle Eastern monarchies, Dubai is absolutist, whereas Kuwait, due to its differing history with British colonization, has a tradition of liberal democracy. The monarchy in Kuwait is constrained, and its parliament relatively powerful. But since Kuwaiti politicians do not have an explicit claim on governance revenues, similar to legislators in modern Western polities, the result is a commons problem in governance. Political infighting for informal claims to governance rents has rendered Kuwait’s political sector dysfunctional, with a resulting environment that is much less friendly to new economic activity than Dubai’s (Herb 2009, 381). In contrast, “[i]n the UAE, in the absence of a parliament, political power resides primarily in the hands of those *who have an interest in private-sector growth*” (Herb 2009, 384; emphasis added).

We thus have two “models” before us: claims to governance revenues plus internal checks on the one hand, and claims to governance plus external checks on the other. While the theory I presented can explain the wealth-generating capacities of both, it cannot explain the *comparative* wealth-generating properties between the two models. How to compare a world with a million Singapores or Dubais to a world with a few large republics governed by supermajority consensus among political property rights-holding aristocrats is unclear. Knowing which of these arrangements—and it is equally possible a world with both, or neither, may be most satisfactory—best promotes nonpredatory governance requires consideration of a sufficiently unfamiliar counterfactual that it probably cannot be

⁶ The following brief narratives of Singapore and Dubai are adapted from Salter and Hall (2014).

decisively answered with already existing theoretical and historical tools.

In closing, I want to touch on the implications of my argument for actually existing governance institutions. If the reader believes he has found a clear implication, he is far more certain than I am. “Immediately turn all *de facto* political property rights into *de jure* political property rights,” and “hand everything over to the descendants of nobility,” are decidedly *not* courses of action implied by my argument. Just because separation of powers within an environment of partial realm ownership afforded a measure of wealth-producing governance in the past does not mean this is the proper course for achieving wealth-producing governance in the future. This is because it may be impossible to transition to the new (old?) regime in a cost-effective manner, or in a manner that is not subject to capture by special interests. Furthermore, it is unclear that future bargains will erode governance quality as recent bargains have. Congleton (2011, 606) notes that constitutional bargains can result in reactionary governance institutions in addition to liberal governance institutions, as in 1930s Japan. How the incentives of those party to political bargains will change in the future depend on ideological and economic circumstances that cannot be predicted.

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