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POLITICAL CONFLICT AND CONSTITUTIONAL REFORM

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ABSTRACT
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The objective of the thesis is to construct an analysis which places much greater attention on group formation, how heterogeneous group members choose leaders and the effect these factors have upon the nature and outcomes of political competition, than would normally be the case in the public choice literature. The thesis has both positive and normative components. The positive component attempts to analyze political outcomes given the assumptions that are made about the political environment and the motivational nature of group members. The normative component asks whether we can judge certain outcomes of the political process to be inferior and if so, can we design a constitution that contains institutions that would reduce political inefficiency.

The thesis is divided into six chapters.

In chapter 1 titled Introduction, the goals of the thesis and its fundamental points of reference are introduced.

In chapter 2 titled Basic Themes, themes that are of central importance to the thesis are discussed in the style of a brief survey. The purpose of this chapter is to provide a background and additional detail prior to the bulk of the thesis contained in chapters 3 to 5.

In chapter 3 titled Group Formation and Competition: Instrumental and Expressive Approaches models are built to provide a positive theory of group formation under different assumptions regarding individual motivation and the form of group competition that may arise. The analysis contains normative implications as it suggests that high-cost conflict may exist under expressive motivation that would not exist if instrumental motivation were the only motivational assumption.

In chapter 4 titled Political Leadership and Political Competition groups are taken as exogenous and the issue under investigation is how group members choose a leader from within their own groups. This has implications for the nature and outcomes of political competition in all societies. However, particular attention is focussed on societies which are constitutionally unstable, within which the selection of certain types of leaders will be more likely to give rise to violent conflict. Motivational assumptions play a crucial role in determining the sorts of leaders that are selected and as a result the sort of political process and/or political outcomes that emerge.

In chapter 5 titled Political Leadership, Political Conflict and the Prospects for Constitutional Peace focuses on the extent to which an expressive theory of group politics may reduce optimism that peace agreements can be made in conflictual societies. This leads to the further question, that if such an agreement could be found, would the expressive perspective alter the conventional instrumental perspective on the sort of constitutional reform that should be undertaken?

Finally chapter 6 titled Concluding Comments offers some final remarks.

Contents

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Chapter 1

Introduction

This thesis will focus upon the role of groups in political competition. Groups are conceived as voluntary collections of individuals and detailed attention will be devoted to the nature of the individual motivation to found, join, lead and act within groups. Political competition is invariably competition between groups, whether these be political parties in a constitutional democracy or groups identified by nation, ethnicity or religion in less structured political environments. As such, the choices made by group members and leaders may have a major impact upon the politics of any given society.

The theoretical framework within which this analysis will be conducted is the economic approach to politics or 'public choice', but this approach has tended to neglect the role of groups. Groups are generally depicted as containing members with homogenous preferences so that a group can be treated as if it is an individual. But our common understanding of political groups is that they generally contain a significant degree of heterogeneity, and it is important what sort of preferences come to represent the group. For instance, do group members choose leaders that are extreme or moderate relative to the distribution of views within the group? In this way internal group choice cannot be dismissed as an insignificant aspect of political competition, and to that end this thesis explores internal group choice as a potentially important component within the wider setting of political competition. Issues such as group formation, the decision to join a

group and the choice of leaders within groups will be central to the analysis.

Political competition may vary in nature but it exists within all societies. In some, constitutional democracies have been established and political 'rules' of procedure are respected so that competition is a 'battle' between groups of political parties attempting to win elections. In other societies, the 'rules' of political engagement either do not exist (anarchy) or they exist but are not respected by some group or groups within that society. In such a society, political competition may literally be a battlefield where violence is used to determine political outcomes. This sort of society will be labelled *conflictual*. Political competition in a conflictual society is very different to that in an established constitutional democracy in that the competition may be violent where there has been no higher level agreement on the institutions of governance. Alternatively, a society may be despotic so that political competition does not appear to exist. This appearance may, however, be deceptive and political competition fails to exist overtly only because dissent is suppressed. Whatever the political environment that exists within the world (democratic, despotic or conflictual) political competition between groups is common to all.

What light does public choice analysis throw upon this issue and how will this thesis attempt to build upon the existing literature? Public choice takes as a basic premise the idea that institutions matter and that politics is best understood as the interaction of individuals within a particular institutional setting. The concentration has been upon political competition in democracies, but the tools of public choice analysis have also been applied to conflictual and despotic societies. The method is the same for all political forms. The rules (or lack of rules) of politics and the motivation of agents are specified and positive analysis identifies the likely outcomes of the political process. This opens the way for the normative analysis of how these outcomes should be judged and how they might be improved upon by institutional or constitutional reform.

The chapters in this thesis follow the public choice approach to political competition. What makes the thesis distinct from other models of political competition will be the

enhanced attention paid to the internal nature of the groups involved and how group choice impacts upon the politics of a society. In established democracies, the selection of party leaders and party platforms within political parties is an important ingredient in determining subsequent *political outcomes*, but in established democracies what has in fact been established at some prior point in time is the *political process*. In established democracies, the political process can be taken to be exogenous. For conflictual societies, it is not just the outcomes of political competition that will be under the spotlight, but also the manner in which political groups compete. In particular, will political outcomes be determined violently, peacefully or constitutionally? For societies other than constitutionally established democracies, the political process will be considered endogenous. The concentration will be on internal group choice as a crucial determinant of political outcomes for all types of society, but also, as a determinant of the political process itself for societies where the constitutional framework is not well-established or not well-respected.

The work in this thesis is to some extent a continuation of earlier work (Jennings (1998)) in which an economic approach is applied to the conflict in Northern Ireland. It is a continuation in the sense that an attempt to understand and explain the existence of political violence from an economic perspective remains the major focus of interest. However, the work in this thesis differs substantially in that it attempts to construct a generally applicable theory, and heavy emphasis is placed on a motivational assumption that is absent from the earlier work.

In this introduction a number of themes have been mentioned that exist within the public choice approach. In chapter 2 these themes are explored in more detail and I will discuss how they relate to the chapters that follow. In chapter 3 a model for group formation and competition under different motivational and institutional assumptions is provided. Chapter 4 builds on the previous chapter; taking groups as pre-existing a model is constructed to analyze how groups may select leaders who in turn determine political outcomes and, in the case of a conflictual society, the political process itself. Again

the analysis is conducted under different motivational and institutional assumptions. In chapter 5 attention turns exclusively to a conflictual society and I explore, from a positive perspective, the difficulties that may exist in achieving agreement between groups and, from a normative perspective, what sort of constitutional arrangements might improve the prospects for constitutional peace. Chapter 6 will offer some concluding comments.

Chapter 2

Basic Themes

The purpose of this chapter is to provide some detail and discussion of the basic themes that are contained within the bulk of the thesis in chapters 3, 4 and 5. As stated in the introduction, the thesis lies within the public choice approach to politics. In section 2.1, the key features of this approach are outlined. While the public choice approach provides the overall theoretical framework for the thesis, within that framework certain features receive particular attention in this work. The motivation for individual choice and action is a crucial feature of the analysis throughout the thesis. This issue is explored in section 2.2. The emphasis on individual motivation, but within a group setting necessitates a discussion of collective action in section 2.3. Another theme of central importance is the nature of group interaction, or more specifically the manner in which they compete for political power. Section 2.4 is devoted to a discussion of group competition. A main focus of the thesis is that group competition may be violent. This would appear to be an inefficient way to conduct politics and naturally raises the question as to whether the nature of group competition could be made peaceful. This line of reasoning links to the normative branch of research in public choice - constitutional political economy (CPE) - and the CPE approach is discussed in section 2.5.

2.1 The Public Choice Approach

The aim of this section is to draw attention to the methodological basis of public choice. It is easier to understand the inspiration for this methodology by considering what brought public choice as a school of thought into existence.[1] Public choice emerged primarily through the work of James Buchanan (for example (1954) and (1964)) as a response to developments in public finance and the emerging social choice literature. In response to the public finance approach (for example Samuelson (1954) and (1955)) it was felt that the idea of a social planner solving for market failures and redistributing income to maximise a social welfare function was too far removed from the reality of political processes to be accepted as a depiction of actual government practice. Furthermore, concerns with the 'rationality 'of social choice (Arrow (1963)) seems misplaced if society is to be viewed as a composite of individuals and not as an organic life in itself. Under the same assumptions that are used for the behaviour of individuals in the marketplace, a theory of politics was developed that contained both positive and normative components.

On the positive side following Downs (1957) models were developed to predict political outcomes given the behavioural assumptions of *homo economicus* and the institutions that actually exist within a democratic society. These models can be very roughly summarized as containing the following features, an atomized set of voters with instrumental and/or expressive preferences over an n-dimensional policy space, a set of candidates competing for political office under a constitutionally agreed electoral rule and an analysis of how the elected candidates or government performs within a constitutionally agreed set of institutions.[2] Following Olson (1965) positive analysis also began to take more account of the role of interest groups in politics and how they may affect political outcomes. Normative analysis studies the quality of outcomes from the political process and offers proposals on how to improve the system.[3]

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[1] For a detailed discussion on the origins and themes of public choice see chapter 1 in Mueller (1997).

[2] For detailed discussion of these points and extensions to the theory, see Mueller (1989) and Hinich and Munger (1997).

[3] See Buchanan and Tullock (1962) and Brennan and Buchanan (1980 and 1985).

As public choice developed it has been extended beyond stable democratic environments. The papers in Tullock (1972) and Buchanan (1975) analysed the actions of individuals in anarchy. Rules and institutions do not exist in such an environment and individuals are depicted as investing in predation in addition to or instead of production. The normative component to this analysis is that the existence of high levels of non-productive activity and subsequently low welfare outcomes provide a Hobbesian justification for the creation of a state. The Hobbesian solution to the conception of the state was that of a despotic Leviathan and public choice has extended to consider despotism as a political environment and to explore the welfare outcomes associated with such a system.[4] The focus on despotism provides the most extreme vision of unconstrained government and serves as a motivation in democracies to design institutions that constrain the actions of the state.[5]

In all of these forms of political system there is a distinction between behaviour within rules (or absence of rules) and behaviour aimed at changing rules. The latter has been the subject of much debate. On one side would be those that argue that institutions evolve through in-period politics (see for example Schotter (1981), Sugden (1989) and Voigt (1998)) and those who argue that while this may generally be true, members of a society can at any point step outside in-period institutions and consciously design new sets of institutions (see Buchanan and Tullock (1962), Brennan and Buchanan (1985) and Mueller (1996). Regardless of the merits of this debate both sides would agree that at any particular point in time we are constrained in our in-period actions by the institutions and rules that exist. The chapters in this thesis follow this approach. Rules and institutions (or their absence) will be given in chapters 3 and 4 and agents within the society act within the given political environment. In chapter 5 we address the debate given above. We study whether agents can step out of in-period politics and design new institutions at a constitutional convention.

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[4]See Tullock (1987), Olson (1993) and Wintrobe (1998).
[5]See Usher (1992) and Grossman (2000).

The novelty of these chapters lies primarily in two areas. First, the focus on political action will be on individuals acting within groups both in the decision to join a group and their role in selecting leaders and platforms as members. Simply focussing on groups in itself is obviously not particularly new. Public choice models from the outset have referred to political parties and interest groups, but in general the members of such groups are treated as having homogenous policy preferences. There is no internal group decision as to how it will establish its leadership and policy platform. This issue is taken seriously in this thesis and groups will be depicted as containing heterogeneous members who must decide on a single group policy. Second, much greater emphasis is given to expressive motivation as a crucial feature of group decision-making where the actual nature of expressive choices is largely determined by group identity. However, instrumental concerns are included beside expressive motivation as a possible motivation for political action. We discuss in greater detail the difference in these motivations in the next section.

The conception of in-period politics will be one where individuals choose to join groups, choose within their groups and in the case of a potentially conflictual society how the aggregate of the choices of group members will determine *how* groups interact with each other (whether they engage in conflict or compromise). We will see in chapters 3 and 4 that conflict is possible in potentially conflictual societies and this provides the basis for a discussion of constitutional choice in chapter 5. Prior to that the remainder of this survey will be used to elaborate on key themes that we have alluded to in this section and which will play key roles in the chapters to come.

2.2   Individual Motivation

A deep rooted debate has raged throughout the social sciences between advocates of *homo economicus* and advocates of *homo sociologicus* (Binmore and Samuelson (1994)). In the former, the metaphysical status of man is that of a purposeful, egoistical, utility-

maximizer familiar from standard microeconomic theory who is effected by society only to the extent that it imposes constraints upon his choices. In the latter, man is a social animal for whom action is determined by the structural setting within which he exists. In the study of violent political conflict, examples of the former style of reasoning are Tullock (1971) and Popkin (1979), in the latter a classic example is Skocpol (1979).

Neither of these accounts seem particularly accurate. Structural arguments suffer from the fact that they ignore individual motivations and thus avoid addressing issues such as incentives for free riding (Granovetter (1985)) and suffer from reality conflicting with theory, for instance where similar structural conditions do not provide similar outcomes (see Berejikian's (1992) critique of Skocpol's structural theory). Simply enough, it seems difficult to ignore the role of individual motivation in social sciences, so we shall take methodological individualism as our starting point, although this may be a more expanded perspective on motivation than that of *homo economicus.*

On the other hand, egoistic utility maximization appears to ignore interdependent preferences that emerge from man's status as a social animal connected through social networks (Granovetter (1985)). Economists had increasingly brought the model of man associated with market behaviour into non-market domains to counter the lack of attention to individual motivation that was prevalent in these areas. However, the level of malfeasance and free-riding that one would expect in theory is not borne out in practice or experiments (Ostrom (1998) and Fehr and Gachter (2000)) The existence of this socially-oriented behaviour led Hirshleifer (1985) to write

> But the analytically uncomfortable (though humanly gratifying) fact remains that from the most primitive to the most advanced societies, a higher degree of cooperation takes place than can be explained as a merely pragmatic strategy for egoistic man. The social contract seems to maintain itself for better than we have any right to expect, given the agency and free-rider problems involved in enforcing the contract against overt or covert violations.

(p.55)[6]

What will be assumed about the contents of utility functions in this thesis? At least four versions of motivation could be considered. Since political action is the focus of this thesis, and political action exhibits, to a large extent, the features of a public good, the four versions will be discussed in the context of an individual deciding whether to contribute towards the provision of a public good where a large population exists. An obvious example within a political context would be voting in mass elections. The first three versions are all types of *instrumental* motivation which is distinct from the fourth version which is *expressive* motivation.

First, we could assume the narrow focus of *homo economicus*, where narrow means self-interest without reference to other individuals. If faced with the issue of whether to contribute towards the provision of a public good, we would expect *homo economicus* not to contribute. The probability of his contribution bringing about the public good is very low so there is very little *instrumental* incentive to incur the cost of contribution.

Second, we could discard *homo economicus* as our model of man and assume that individuals have interdependent preferences. Man may be viewed as altruistic so that higher levels of utility for other members of society enters as a positive component within the utility function. As such, actions may be performed which are costly if they sufficiently improve the welfare of others. However, in the case of public good provision, even altruists may not expect their action to have any discernible effect and thus there is once again very little *instrumental* incentive for them to contribute. If the altruist is concerned at all with his own welfare, he will be unlikely to contribute.

Third, we may expand the basis of individual motivation beyond the narrow focus of *homo economicus*, to maintain self-interest as the motivational force, but where individ-

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[6] As we shall see, cooperation may not be 'humanly gratifying' if it is used to conflict with outside groups. Hirshleifer (1995) later writes

> In fact, in modern times relatedness r may play on the whole an anti-social role. Reason: relatedness favors *cooperation within* but *conflict between* groups. (p.174)

uals are concerned with how they are viewed by other individuals. It may be rational in this case to contribute to the provision of the public good, not because of any altruistic urge or any expectation that the public good will in fact be provided, but because of a desire to be seen to be a provider. Note that this argument can only apply if the action is visible to others and it suggests that the action in itself is of no direct benefit. The benefit is the *instrumental* benefit of obtaining the approval of others.[7]

All the versions up to now are arguments based on *instrumental rationality*. Instrumental utility can be defined as the indirect or consequentialist benefit obtained from performing an action, so it can be viewed as an investment. So for example, a decision to vote is instrumentally motivated if it is made by balancing the cost against the benefits associated with the change in political outcome brought about by the vote or the social approval gained by being seen to vote.

An alternative version of rational action is that it may be *expressive*. Expressive utility can be defined as a direct benefit from an action, so it can be viewed as an act of direct consumption. This provides the fourth version of individual motivation. Here the individual may contribute towards the provision of a public good, not because he expects his action to have any instrumental effect (whatever that may be), but for the direct benefit derived from performing the action in itself. Whether the action takes place in a market or in the political arena through participation in a group, we can attempt to separate instrumental from expressive motivation. In the former an individual performs an action X to generate an outcome Y. In the latter, an individual performs action X to be identified as an *X-performer* as Schuessler (2000, p.54.) observed.

In a market setting instrumental benefits gained from consuming a good may be the function that particular good serves. For example, a function of buying clothes is for warmth, of buying food to satisfy hunger or of buying a car to get from location A to B and so on. Alternatively, we can think of expressive benefits as the benefit that is gained simply by *being* a consumer of that good, for instance, wearing designer labels, eating

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[7]For a discussion of social approval as a motivation for action, see Brennan and Pettit (2000).

at exclusive restaurants or driving a sports car. All of these are direct benefits through being an X-performer. Expressiveness in itself does not imply sociability. An individual can gain utility as an X-performer in private, but we argue that expressive benefits tend to be related to one's *identity* and that to a large extent is socially stimulated. Thus, it is through expressive benefits that we will incorporate social preferences in this thesis. Individuals may expressively consume certain goods to provide them with an identity within a certain social group. In the study of markets, economists have not traditionally been concerned with exploring the various benefits from consumption as discussed above, but have rather concerned themselves with how preferences reveal themselves in the market. Furthermore, since economists have used *homo economicus* as their model of man issues such as identity have been ignored, thus expressive returns have largely been ignored, and utility is characterised as instrumental.

To give a little more formality we summarise the discussion in chapter 2 of Brennan and Lomasky (1993). Brennan and Lomasky argue that an individual will choose action A over action B if

$$R_A^i + L_A^i \geq R_B^i + L_B^i \tag{2.1}$$

where R_J^i is instrumental benefit and it tells us the money value that individual i places on outcome J and L_J^i is the expressive return to i of expressing a preference for J. A key point to note here is that in a market setting the individual is decisive. Instrumental returns are completely under the individuals control and if the individual decides to choose expressively he may have to incur an instrumental opportunity cost. This perhaps adds further justification to the relegation of expressive returns to a minor role in consumer theory.

If we move to a political environment, the nature of choice changes considerably. It will now look like this;

$$hR_A^i + L_A^i \geq hR_B^i + L_B^i \tag{2.2}$$

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h is a weight measuring the probability of being decisive. In political environments this is likely to be less than one and for many situations it will be approximately zero.

Consider the familiar political arena of mass elections. Here instrumental considerations are likely to drop out of the calculus completely.[8] Now the opportunity cost of expressive choice in terms of instrumental benefits forgone is zero. As such, the sole criterion for choosing will be expressive utility. The significance of expressive utility comes on three levels. First, it helps to explain rational participation in elections. The rational choice tradition viewed returns from voting as instrumental (carrying on from market analysis), this led naturally to questioning the rationality of voting if there was any cost attached to doing so. With positive expressive returns voting does not seem so paradoxical. At the second and more important level, individuals may have expressive preferences that deviate from their instrumental preferences. Individuals may collectively choose a policy that would not have been selected if each was placed alone and told their decision was to be decisive. Therefore, electoral outcomes may emerge as the unintended consequence of individual political action, even though the individual action was fully rational in the relevant sense. At the third level the use of expressiveness eases the conflict between *homo economicus* and *homo sociologicus*. Now we can view the expressive utility that individuals obtain as being derived from their identity, which must to some extent be determined by the social structures within which they live.

Participation and choice in mass elections is just one example of large group collective action and the idea of expressive rationality as a motivation for action would hold for other forms of group participation as well. These forms of collective action could be political parties, interest groups or national, religious and ethnic groups. Individuals in these groups do not need to believe that their action will have any instrumental effect to spur them to action. The desire to express their group identity may be sufficient.

To complete this section we need to address a methodological difficulty raised by

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[8]See chapter four in Brennan and Lomasky (1993) for a discussion of how unlikely it is for an individual to be decisive in elections. See also the discussion in Aldrich (1993).

Brennan and Buchanan (1985). In their attack upon the traditional Pigovian mode of reasoning in economics, they identified an attribution of different motivations to the private sector compared to the public sector. In the former, egoistic self-interest was assumed to occur, but in the latter where government was assumed to work towards maximising social welfare, individuals were selflessly motivated. Brennan and Buchanan argued that this approach greatly reduced the power of economic analysis, because it simply introduced idealistic notions into our conception of government without due consideration for feasibility, where the latter was determined to a significant extent by the behaviour of individuals with selfish motives. Thus, a consistent approach to political economy requires the assumption of motivational neutrality in both sectors of the economy. Further, this motivation should be assumed to be that of *homo economicus*.

In Brennan and Lomasky, the assumptions of motivational neutrality and *homo economicus* may superficially appear to have been discarded. On the latter, with the inclusion of expressive concerns, social concerns are more likely to slip into individual motivation via their effect on identity, thus denying purely egoistic motivation. On the former, expressive concerns are more likely to be relevant in a political arena than a market one, so we appear to be returning to the split personality problem identified in the previous paragraph.

This problem is resolved by recognising that motivational neutrality is still assumed, but in a form that allows for a broader base of motivation than that of *homo economicus*. It is not assumed that individuals enter the market and the political arenas with different (indeed polarized) motivations as in traditional models of public finance, but rather that the price of choosing expressively may be reduced in the public arena. Further, it should be clear that by definition expressive motivation is logically different to selflessness as the individual is still behaving in his *own interests* albeit not his instrumental interests.[9] The inclusion of expressiveness in the motivational set-up, does not lead one back to the

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[9]See chapter 1 in Brennan and Hamlin (2000) for further discussion of this point.

Pigovian approach.[10]

2.3 Collective Action and Group Identity

Collective action that may not otherwise have taken place may happen due to the existence of expressive returns. In choosing expressively an individual is choosing action X to be an X-performer and this can be viewed as a statement of their identity. While identity may be entirely personal, it may also reflect their group allegiance. So how might a group instill feelings of group identity in its members?

The classic reference in the economic approach to groups or collective action is that of Olson (1965). Sandler (1992) provides a summary of the key points in Olson's work

1. Group size is, in part, a root cause of collective failures...

2. Group asymmetry, in terms of individuals' tastes and/or endowments, is related to collective failures...

3. Collective failures may be overcome through selective incentives (giving private inducements) and institutional design. (p.8-9)

In this thesis it will simply be assumed that a collective action problem exists in the form of an n-person prisoners dilemma if the payoff to group action is to be defined instrumentally as a collective good. We are also unconcerned with the issue of group asymmetry, so in this section we wish to draw attention to the role of selective incentives as a means to overcome collective action problems.[11]

The problem with collective goods is that if they are non-excludable then individuals have an incentive to free ride on the activity of others which leads to under or zero provision. Selective incentives are an attempt by an institution to provide benefits that can only be achieved through participation in the institution, that is, benefits which

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[10] However Brennan and Hamlin (1999) use expressiveness to try and reconnect public choice with more traditional political theory on the issue of political representation.

[11] For a full discussion and critique of Olson's theory, see chapter 2 in Sandler (1992).

are excludable. The institution provides a joint product, the collective (non-excludable) good and the selective incentive (excludable good). It is the latter that provokes group members to participate. Olson's conception of selective incentives was that they would be private goods supplied monopolistically by the group (Olson (1971). This idea was challenged by Stigler (1974), who argued that a monopoly supply of selective incentives would be subject to competitive market forces. An area where Stigler's criticism would appear valid is for trade unions and recognising this Booth (1985) provided an extension to Olson's model which is more in line with the ideas in this thesis.

Booth modelled the union wage as a pure public good for all workers in the industry, but *reputation* is depicted as an excludable benefit available only to union members. In order to obtain reputation members must be group active otherwise they will be excluded from the group. Booth follows Akerlof's (1980) definition of social custom

> as an act whose utility to the agent performing it in some way depends on the beliefs or actions of other members of the community. (quoted in Booth (1985), p.255).

This depiction of selective incentives is one that recognizes interdependencies. Further, the social custom is not performed to achieve a collective good, but rather it is performed so that the individual can be considered a member of the group by his peers. The union members are depicted as being group active, in order to obtain group approval. This is the third version of motivation that was discussed in section 2.2 and it is an instrumental explanation. But we could interpret this differently, so that the individual performs the social custom in order to be a social custom performer and thus identify himself as a group member. This would then be essentially expressive behaviour.[12]

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[12]Clearly this is a fuzzy area. Whether individuals perform actions for social approval, or whether they do so to acquire self-identity is likely to be extremely difficult to ascertain. Indeed, it may often be the case that actions are taken to acquire both rewards. Nonetheless, the two motives are distinct and expressive motivation in this thesis will be considered actions that are taken free of social pressure. In chapter 3 where the work of Kuran is discussed, the alternative instrumental argument is put forward. The idea in Kuran's work is that for many individuals, action may be purely motivated by social pressue and would not have been undertaken otherwise.

How does this relate to the work in this thesis. There is a difficulty with Booth's use of social custom (and indeed institutional selective incentives in general) as a means to explain group behaviour if it is not be joined with a theory of how such a custom was created in the first place. While it may be the case that at a particular point in time, social interaction serves as a basis for overcoming free rider problems within an institution, it must also be the case that the institution which depends upon this social custom was itself created at some previous point in time.

In chapter 3 institutions and social customs are determined as simultaneously created in a coordination game where the focal points in the game are provided by group founders. We show that it is possible for a number of groups to form. Individuals are depicted as coordinating in a desire to achieve group identity and as such their behaviour is expressive. This perspective shifts the emphasis away from collective action as a prisoners dilemma in instrumental terms, but rather a coordination game in expressive terms. Given that collective action may be a large scale act of group identification, it is important what sort of identity group members expressively respond to. We explore this issue in depth in chapter 4 where the expressive basis for group identity may carry negative political consequences.

2.4 Group Competition

Individuals may join groups or act within pre-existing groups to achieve a political reward or for reasons of identification. The former motive is instrumental. It is familiar to political economists and for that reason the attention in this chapter has been upon group identification as a motive for behaviour which is divorced from questions of indirect benefits and costs. It is the case, nonetheless, that certain individuals within a group face choices where they do not lie behind a *veil of insignificance* so that their choices do carry instrumental effects. In chapters 4 and 5 these individuals are simply depicted as *leaders*. It will be assumed that leaders will have their own policy preferences and that

their goal is to have this policy implemented as a collective policy. Group leaders will have different preferences for the collective outcome, so competition ensues.[13]

In stable democracies, competition takes place between political parties in the form of elections, where the electoral rule may be plurality rule or proportional representation for example. The rule has been decided at a constitutional level, so although parties compete on policies they do not compete on the form of competition itself. In a potentially conflictual society, leaders are depicted as not only determining the political outcome, but also the form of competition as no higher level of agreement on a constitution exists. The choice for the form of competition is portrayed as a choice between conflict or peace. Conflict has obvious welfare implications because it is wasteful of resources, both in terms of resources diverted from production and in terms of the destruction of resources in the course of conflict.

Economics has traditionally paid little attention to conflict costs.[14] Neo-classical economics developed a theory of markets where property rights are assumed to be secure and law and order is unchallenged. Agents use their resources productively to engage in exchange and where market failures occur, they occur due to failures in exchange. However, a cursory inspection would tell us that many societies do suffer from insecure property rights and challenges to law and order. Incentives clearly exist for individuals to invest in predation as well as or instead of production. Predation clearly reduces welfare levels.

As discussed in section 2.1 public choice developed as a response to the public finance approach of benevolent governments correcting for market failures. It concentrated much of its efforts on exposing the possibility for *political failures*. But just as a market failure is defined as a failure of exchange, political failure was defined as a failure of political exchange. The view that political systems may be infected with the additional costs of

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[13]Leaders shall also be depicted as having other goals (such as the acquisition of office rents) that make political leadership attractive.

[14]For a more detailed discussion on the role of conflict in economic theory see the introductory chapter in Garfinkel and Skaperdas (1996).

predation began to emerge with Tullock (1967) and these costs later came to be called rent-seeking costs. For an action to be defined as rent-seeking, it must simply exhibit the non-productive use of resources and a most extreme example of that is the use of political violence. The chapters to come do not address the issue of rent-seeking in democracies, but the choice of conflict as the form of competition and its subsequent negative effect on welfare will be central to the analysis.[15]

2.5 Constitutional Political Economy

Considerable space will be devoted to a discussion of the CPE approach in chapter 5, so comments at this point will be kept brief. The seminal work here is Buchanan and Tullock (1962) and Buchanan (1990) makes clear how CPE differs from *orthodox economics* and orthodox *constitutional politics*.[16] Orthodox economics is concerned with *choice within constraints,* whereas constitutional economics is concerned with the *choice of constraints* under which agents act. CPE differs from orthodox constitutional politics in recognising that while agreement on political outcomes cannot be achieved, it is more likely that agreement on the rules of the political game can be achieved. This is the economic aspect of CPE, the emphasis on exchange and cooperation in market analysis is transferred to the political setting of devising political rules.

Constitutional political economy embodies the normative component of the public choice approach. Political failures may exist as the equilibrium of the game of in-period politics, but following in the contractarian tradition, the constitutional perspective is that the players of the game (the citizens within a society) may step out of in-period politics and change the rules of the game. The political gain will be that the players step

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[15]The term rent-seeking was provided by Krueger (1974) and for a survey of the literature on rent-seeking, see Tollison (1996). For rent-seeking as political violence see Usher (1992), and the essays by Hirshleifer and Grossman and Kim in the aforementioned Garfinkel and Skaperdas (1996).

[16]A booklength treatment on CPE is provided by Mueller (1996) and for shorter surveys see Mueller (1997) and Brennan and Hamlin (1995). Finally see Brennan and Buchanan (1985) for a clear statment of this branch of public choice and Hardin (1988) for a critical response to this book.

back in to a game that is 'better' to play. The political failure that is of central interest in this thesis is the existence of political violence as a political equilibrium in a game played by the political leaders and chapter 5 is devoted to the question as to what extent constitutionalism can be expected to resolve conflict.

Chapter 3

Group Formation and Competition: Instrumental and Expressive Approaches

3.1 Introduction

The major objective of this chapter is to contribute to the analysis of political competition. However, our starting point is to note that political competition is almost always best seen as competition between groups, rather than between individuals. These groups might be rival political parties competing within a highly structured constitutional framework that sets out the rules of competition in some detail, and where elections may be thought of as the major battlefield on which political competition is played out. Alternatively, the groups might be rival gangs competing in an essentially unstructured environment where the idea of a battlefield may be all too literal a description of the mode of competition. Political competition, as we conceive it, therefore covers the full range of activities from electoral competition to political violence. But, wherever in this range any particular case of political competition may lie, we identify the group nature of political competition as an important part of what makes any particular instance of

competition political.

In most models of political competition in the rational actor tradition, however, the group nature of political action is glossed over - political rivals may sometimes be referred to as 'parties', but - following Downs (1957) - they are almost always analysed as if they were individuals. In addition, citizens/voters are usually treated as separated from the political parties which compete for their support. However, to varying degrees in different societies, parties are actually the representatives of the distinct groups from which they emerged. We follow Demsetz (1990) in seeing political parties as appealing not just to an 'external constituency', but also to an 'internal constituency' and in this chapter we wish to focus our attention upon the emergence of these internal constituencies. It will not, however, be our purpose in this chapter to explicitly model the emergence of political parties. Rather, as a first and fundamental step towards that future task, our purpose is to model the emergence of political groups, some of which might develop into political parties.

In moving away from the narrowly individualistic model of political competition, we should emphasise that we are not abandoning the commitment to methodological individualism. We are merely concerned to push the level of analysis back one step to focus attention on the formation of the relevant political groups - whether parties, factions, gangs or whatever. The basic idea is to think about the emergence of political groups from individual behaviour as a preliminary step to employing those political groups as key features of a variety of models of political competition, although, of course, some discussion of the eventual roles of political groups will often (but not necessarily always) be relevant to the analysis of their formation. One clear aspect of political groups that must be built into the discussion from the outset, is that political groups are by their nature conflictual. We are not dealing with the emergence of consumption clubs (see Buchanan (1965) and Cornes and Sandler (1996)) where, at least in many cases, it is sensible to begin with the case in which clubs, once formed, do not interact with each other. Political groups, as we understand them here, are by their nature rivals in at least

some key aspects of their activities.

The chapter is organised as follows. In Section 3.2 we introduce the two key elements that we use to develop the idea of the endogenous formation of political groups. These are the citizen-candidate approach, which has been used to endogenise candidate emergence in elections, and the idea of expressive - as distinct from instrumental - political behaviour. Section 3.3 will briefly review two extant approaches to social and political groups that lie broadly in the rational actor tradition and that are of direct relevance to this chapter. Section 3.4 will then develop a series of models that attempt to capture important elements of the process of group formation. Finally, section 5 will offer some concluding comments.

3.2 Key Ideas

As already indicated, the two fundamental ideas that will be key to our analysis are the ideas of endogenous political agents and of expressive political action. Each of these ideas may be thought of as developing in reaction to perceived limitations in the benchmark Public Choice model of political competition. In the case of the citizen-candidate model of endogenous political agency, the relevant limitation was the *ad hoc* nature of the specification of candidates in 'standard' models of electoral competition, *ad hoc* both in the identification of the number of candidates to be considered (with or without any possibility of entry), and in the specification of their motivation. In the case of expressive political behaviour - and particularly expressive voting - the relevant limitation concerned the classic 'paradox of voting' as an example of the free-rider problem that applies in many large-number political situations, where it may be difficult to identify individual incentives to act on purely instrumental grounds.

We will use the citizen-candidate approach and expressive motivation in Section 4 to derive models of the emergence of political groups, but first, we will offer some brief introductory comments on each idea in turn.

3.2.1 Endogenous Political Agents - Citizen-Candidate Models

In response to the limitations of the standard model associated with the *ad hoc* and exogenous specification of political candidates, Osborne and Slivinski (1996) and Besley and Coate (1997) introduced a class of models which endogenises candidate emergence. The basic set-up in these models identifies a three-stage game. In stage one, each individual citizen faces a decision of whether to stand as a candidate or not; in stage two, voting takes place given a set of candidates; in stage three, policy is implemented given the results of the election. In both Osborne and Slivinski and Besley and Coate, individuals operate with the same preferences over policy outcomes as candidates as they do as citizen-voters, and the voting rule employed in stage two of the game is simple plurality voting so that the election always produces a single winner, and that winning candidate implements her ideal policy in stage three of the game. Hamlin and Hjortlund (2000) extend the analysis to the case of proportional representation, so allowing compromise between candidates in the third stage of the game and a richer sense of representation within the model. They also discuss the possibility of allowing office-rents as well as policy considerations to motivate citizens in their choice of whether or not to stand as candidates.

While these citizen-candidate models clearly make a considerable step forward, they equally clearly retain the commitment to modelling political actors as individuals. It is of the essence of these models that individual citizens make individual decisions to become individual candidates. In order to extend the structure of citizen-candidate models to the study of electoral competition between groups we might first think in terms of a four-stage game, where the first stage now identifies the endogenous emergence of political groups or parties; the second stage determines the choice of platform within each party; the third stage includes the election; while the fourth stage implements policy.[1] Of course, such a

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[1] For an analysis which aims to achieve this extra dimension of political party emergence prior to policy emergence see Haan (1999). Note that Haan's model assumes that individuals are instrumentally motivated.

model would then be a specific model of political groups in electoral competition, rather than a more general model of political groups in forms of political competition that may range far beyond elections. An alternative line of thought that offers a less restricted account of the nature of the eventual competition between groups, and a more detailed account of the process of group emergence, would reinterpret the basic citizen-candidate model differently. We might now conceive of the first stage of the game as one in which potential group founders or focal points emerge which offer a set of group norms to be followed. The second stage of the game could be conceived as one in which citizens decide which - if any - group to join, and a third stage of the game as the forum within which groups compete and which determines political or social outcomes. We shall explore models of this form below.

3.2.2 Expressive Political Action

In response to the limitations of the standard model associated with the critique of the instrumentally rational political action in the face of the free rider problem, Brennan and Lomasky (1993) and Brennan and Hamlin (1998) provide an account of expressive voting that motivates political action by reference to direct, expressive benefits[2]. The basic starting point of this line of argument is that in many cases of political action (such as voting in mass elections), individual action may be almost entirely inconsequential, so that any individual who was motivated only by instrumental considerations, and also faced a small cost of action, would not act. The more constructive part of the argument then suggests that once the individual is released from the simple instrumental calculus, she may engage in a more expressive calculus in which rather different considerations will weigh in determining the nature of the political act. Political acts will be opportunities to identify with certain causes, display loyalty to a particular candidate or party, or express some other feeling or prejudice at low cost. The idea of expressive voting, in itself, offers an explanation of certain types of political acts but it does not offer simple

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[2]Applications of the idea of expressive voting are provided by Brennan and Hamlin (1999, 2000).

or direct normative analysis of those acts, since the link between expressive concerns and interests is by no means direct. At the same time, expressive voting is only one ingredient in any model of political process. The relevance and impact of expressive behaviour will depend greatly on the details of the institutional arrangements, and on other structural aspects of the model. It is important to note that expressive behaviour is no less rational than instrumental behaviour. Formally, this is just to say that both expressive and instrumental motivation can be explained side-by-side within a generalised utility function, with the particular circumstances of a choice situation selecting which type of motivation is the more relevant.

In the standard citizen-candidate models outlined above, all political agents are taken to act instrumentally. One aspect of this assumption is that behaviour in the first stage of the game is motivated by reference to its impact on outcomes in the final stage of the game. It is precisely this sort of assumption that is subject to the criticism from expressive behaviour, since the link between individual behaviour and the final social outcome is so tenuous as to break any link of this type, once a cost of action (voting) is added and action is made voluntary. The expressive line of argument would have to offer some more proximate and non-contingent motivator of activity in the first stages of the game. We believe that the shift to the focus on political groups offers one such possibility. In particular, we believe that group membership may be motivated by direct, expressive considerations linked to the simple and proximate benefits derived from inclusion in, and identification with, a relevant group; rather than by indirect, instrumental consideration of the policy effects or other social effects that may arise at a later stage of the political process. This is not to deny that instrumental considerations may be important to some political actors at some stages of the game, but merely to argue that the balance between instrumental and expressive considerations as motivators of political action will depend on the structure of the game and the role of the individual within that structure.

One clear possibility raised by the introduction of expressively motivated political activity is that the behaviour in early stages of a political game may be largely - or even

wholly - independent of the consequences of that behaviour in later stages. Thus, for example, decisions of whether or not to join a particular political group may be effectively divorced from the exact specification of how that group will operate to determine final political outcomes. The converse is, however, not the case. While individual behaviour may be divorced from its long-range and contingent consequences as a matter of motivation, the long-run outcomes are still consequences of the initial individual behaviour in a causal sense. This opens up an additional line of argument - characteristic of the expressive approach to political action - for identifying political outcomes as the unintended consequences of individual political action, even though the political action was fully rational in the relevant sense.

3.3   Related Approaches to Social and Political Groups

This chapter is clearly linked to spatial theories of voting. However, we focus on a broader class of 'group activity' rather than limiting attention to the case of voting. Relevant 'group activities' may include obviously collective activities as attending meetings, but may also include more private activities such as following rules of behaviour laid down by the group. More generally, 'group activities' will be distinguished by the adoption of a distinct group norm. As already stated, the idea of expressive voting provides an explanation for why people actually vote and likewise, in the present setting, expressive motivation may provide an explanation for the adoption of a group norm, and hence group activity.

In this way, expressive motivation is linked to the classic Olson (1965) explanation of how groups overcome collective action problems. Olson looked to the provision of selective incentives (either negative or positive) as inducements to group action, as any public good incentive is effectively zero. Applications of the Olson approach are myriad (see Sandler (1992) for a survey), for example Tullock (1971) analysed how revolutions

might come to be provided.[3] In this chapter expressive considerations play the role of direct incentives to individuals to engage in group action.

Against this background two recent developments in the discussion of groups are particularly noteworthy. Hardin (1995) departs from the Olson model by emphasising the coordination aspect of the decision to form a group, rather than the free-rider or prisoner's dilemma aspect. Kuran (1995) emphasises the importance of social psychology and argues that *reputational* concerns may be sufficient to induce individuals into *preference falsification*. These approaches to collective action deserve special attention for five main reasons. First, both emphasise that group behaviour is identified by the adoption of group norms. Second, the adoption of group norms provide a source of power to the group, which may lead the group into conflict with other groups. Third, they both provide a theory (in their different ways) of how unforeseen and very possibly unwanted outcomes may emerge. Fourth, the 'issue space' upon which the groups gather is interpreted much more broadly than is usual to include religion or ethnicity. Finally, both approaches operate within the broad rational choice tradition. We will discuss these two contributions in turn in slightly more detail.

3.3.1 Hardin - Coordinating Action

Hardin provides a relatively informal analysis of both the formation of groups and inter-group conflict. He starts from the observation that a primary reason for being in a group is to achieve power. Power comes in two forms: 'coordination power' that derives from individuals conforming to some group-specific norm or activity; and 'exchange power' which derives from the group's ability to amass economic resources - either thorough production or through predation. Coordination power is seen as logically prior to exchange power. These two types of power may be seen as underpinning the Hobbesian social contract. In that case, the whole population coordinates to form a social contract

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[3] See Lichbach (1995) for a comprehensive overview of theories concerned with the provision of political violence.

whereby some liberty is surrendered to a sovereign. However this provides the basis for secure property rights and the accumulation of economic resources. Here coordination power is seen as a prerequisite to exchange power, where exchange power relates to production which depends on secure property rights and protection from predation.

Hardin extends these basic features to explain how separate and conflicting groups may form. Coordination power is derived from individuals coordinating around particular behavioural norms which provide the group with its identity. For some members this might be seen as the playing of a simple coordination game where they face no internal conflict in pursuing these norms. However, others may face a prisoners' dilemma incentive to free-ride on the groups' activities, while enjoying the benefits of membership. This distinction between those facing a coordination game and those facing incentives to defect, separates the dedicated *core* of the group from the less dedicated *fringe*. However, the fringe are faced with social pressures from those that have coordinated that may prevent them from free-riding, and as such social pressures act as negative selective incentives.

Clearly, for inter-group conflict to arise, separate groups must form. Why do we not see the whole population conform around a single set of norms?

> Why would members of a group wish to be different, to exclude non-members? Often because there might be benefits to membership. Benefits can take at least two quite different forms....First, some subgroup or coalition can benefits its members most quickly by excluding others from access to the limited resources. Here the group is a means to other goods.
>
> Second, there may be straightforward benefits of comfort, familiarity and easy communication in one's group. (1995, p.76.)

The source of political conflict relates to predatory behaviour or 'rent-seeking' in public choice terminology.

> In this account, identification with a group matters because it can lead to coordination for great power. That power might then be used more for de-

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struction than for creation just because destruction is easier and more readily focused on specific, extant objectives. (1995, p.9.).

Thus, for political violence to emerge separate groups must form around certain types of norms, and at least one of these groups must then engage in predatory behaviour.

The models we develop below attempt to formalise some aspects of Hardin's account by discussing the potential benefits to be derived from group membership under two distinct headings - one associated with the external role of groups acting in potential conflict with other groups, and the other associated with the internal role of groups as providing its members with a sense of identity or belonging. His emphasis on group norms as the basis of group strength is followed here and the idea of a *fringe* and *core* of more or less dedicated members is developed in this model, where the less dedicated engage in less group activity.

3.3.2 Kuran - Preference Falsification

Kuran begins from the idea that when individuals perform an action they may receive utility from three different sources. He identifies *intrinsic utility* with the instrumental outcome of an action, *reputational utility* with the approval or disapproval one receives from other people, and finally *expressive utility* with the utility one receives from being true to one's self regardless of the actual outcome. One result of the interaction between these three sources of utility is that if the pressure of reputational utility is strong, individuals may conform to certain types of group norms,[4] even if they would privately prefer different modes of behaviour. Kuran calls this type of behaviour *preference falsification,* since it amounts to hiding one's 'true' preferences out of a desire to fit into a reference group.

Kuran uses his theory of preference falsification as a basis for discussing how particular norms become embedded within a society and how they can change rapidly through the

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[4]For example they may state politcal preferences simply to conform, such as support of communist dictatorships (Kuran 1989, 1991 and 1995), or conform to norms of ethnicity (Kuran 1998).

mechanism of a reputational cascade. At this stage we will not discuss this more dynamic part of his analysis. The key point for now is that social pressures may effect what one says and what one does - that groups imply their own norms of activity and may demand compliance to at least some extent.

Kuran's theory is most powerful in providing a microfoundation for adhering to group norms. However, while Kuran explains group solidarity, he fails to explain either group identity or voluntary membership. Group solidarity is achieved through the application of social pressure, but the preference falsification that follows does not provide a sense of individuals identifying with the group. Equally, Kuran takes membership of a group as his starting point with no option of either joining or leaving the group. While this is appropriate for his discussion of ethnic groups, it is clearly not satisfactory more generally.

While the models to be developed below are similar to Kuran's in some ways - Kuran distinguishes between instrumental/intrinsic utility and expressive utility (although our sense of expressive utility is not exactly that of Kuran), and in the following models we depict individuals pursuing norms that would not be their personal preference - there are also clear differences in that we focus explicitly on the membership decision, and therefore on the potential trade-off between costs and benefits of membership. Membership of a group may help to achieve particular instrumental benefits, and may also help to forge a sense of identity; but there may be costs of membership in terms of compliance to norms that are not ideal from the individual's perspective.

3.4 The Models

As already indicated, the basic structure of the citizen candidate model will provide our point of reference. However, there will be several departures from the basic version of the citizen-candidate model. These may be introduced via two distinctions: between instrumental and expressive behaviour on the one hand, and between conflict and compromise on the other. As already outlined, the basic point underlying the instrumental/expressive

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distinction is that an essentially instrumental model of individual behaviour will always tie individual behaviour at the early stages of the model - the stage of group formation - to the eventual outcome of the competition between groups. In this way, instrumental actors may be said to 'see through' the structure of the model and map their own actions at each stage to final outcomes. The expressive line of argument, by contrast, denies this link and looks for more proximate explanations of political action. While, up to now, we have stressed the relative significance of expressive motivation as opposed to instrumental motivation in political settings, we will initially present models where we assume that only one type of motivation is present. Models 1 and 2 will be purely instrumental and model 3 will be purely expressive. This allows us to make the distinction between them as sharp as possible. Once the nature of these extreme case models has been clarified, model 4 will attempt to combine both instrumental and expressive elements.

Before turning in detail to the models, we shall first discuss the underlying game structure of these models. As already mentioned, the citizen candidate approach adopted a three-stage game, which is solved by backwards induction to provide subgame perfect equilibria. For illustration we shall take the plurality rule game (as used by Besley and Coate and Osborne and Slivinski) as our reference point and consider each stage in turn.[5]

In the final stage of the game, the only credible policy for the winner of the election is to implement her preferred policy, (where in the case of an electoral tie a winner is determined by the toss of a coin). This is apparent to all citizens in stage two of the game, and here a voting equilibrium will exist, such that - given the set of candidates, and the policies that each would implement if elected - each citizen's vote is a best response to the votes of all other citizens. Finally, in the first stage of the game, given the anticipated voting equilibrium and impact on final policy outcome, each individual citizen will decide whether to stand as a candidate or not subject to some entry cost, so that an equilibrium of the entry game is identified.[6] Hamlin and Hjortland follow the same formal structure,

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[5]See Besley and Coate for a formal description of the game.

[6]See Besley and Coate on the existence of an equilibrium. There will always be a mixed strategy equilibrium at the entry stage. However, the focus of their paper, Hamlin and Hjortland's and of this

but instead of plurality rule, the policy in stage three is determined by proportional representation, which substantially effects the equilibria of the game.

The models to be presented here also maintain the same formal structure and general solution method. However, just as Hamlin and Hjortland changed one aspect of the Besley and Coate model to consider proportional representation, the models presented here will change other aspects (often radically) within the three stages of the game. The common outline of all of the models to be discussed may be sketched as follows: in stage one individual decide whether or not to provide a focal point around which a group may emerge, subject to an entry cost. Those that decide to act in this way will be referred to as the founders of groups and may be thought of as identifying a particular norm. In stage two, individuals who did not themselves found groups either attach themselves to a group or choose to be independent. Finally, in stage three, the groups interact in some way to determine a social outcome that affects all individuals.

The instrumental/expressive distinction and the conflict/compromise distinction may now be located within this general outline. In the purely instrumental models the payoff to individuals will be specified solely in terms of the final social outcome determined by the interaction between groups; it is in this sense that individuals are modelled as seeing through the entire game to the final social outcome which will dictate their choices over whether to found a group, join a group or be independent. In the expressive model, by contrast, individuals base their group attachment decisions upon factors such as the size of groups they would prefer to be members of, and their location within those groups, without reference to the final social outcomes that may emerge from the interaction between groups. Note, however, that while social outcomes play no motivational role *ex ante* in the expressive model, they will have an effect upon utility *ex post*. The conflict/compromise distinction relates to the form of the eventual interaction between groups. Conflict identifies a relatively sharp form of competition, while compromise identifies a more moderate form of rivalry. More specifically, conflict situations will be

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chapter will be on pure strategy equilibria.

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ones in which groups face each other in a winner-take-all contest; so that the idea of conflict might be associated with simple first-past-the post electoral rules or with recent development in political economy that stress the violent element in the emergence of social institutions (see Usher (1992) and Garfinkel and Skaperdas (1996)). By contrast, compromise situations will be ones in which groups interact in such a way that the final social outcome can be defined in terms of a weighted average of the positions that would be chosen by each group if it had monopoly power; so that the idea of compromise might be associated with electoral rules supporting proportional representation and coalition building, or with ideas of a social contract. Since the contrast between conflict and compromise relates to the form of the eventual interaction between groups, it is clear that it will be significant as a motivation for individual action only in models of group formation that emphasise instrumental behaviour. Models 1 and 2 below will examine this distinction by viewing compromise and conflict respectively.

Formally, models 1 and 2 below are closely related to the models of Hamlin and Hjortlund and Besley and Coate respectively. This is because, as we have just said, the contrast between compromise and conflict relates quite closely to the distinction between proportional representation and plurality voting. In one sense, then, the discussion of models 1 and 2 may be seen as a reinterpretation of the formal structure of the Hamlin and Hjortlund and Besley and Coate models into the context of group formation, and an opportunity to establish ideas and appropriate notation for models 3 and 4 to follow. However, there is one further novelty of the sequence of models to be discussed that requires some further introduction - the activity rate of an individual member of a group. An individual's activity rate - or the total activity within a particular group - bears rather different interpretation in each of the models to be presented, and also provides a clear departure from the models of Hamlin and Hjortlund or Besley and Coate, since there is no analogue of the activity rate in a voting model. The broad idea of the activity rate is that it stands as a measure of the degree of involvement of the individual in the group. This might be interpreted as the level of identification that the individual feels for the

group, or an index of the personal cost of membership, for example. We will comment more specifically on the interpretation of individual activity rates in each of the following models.

3.4.1 Model 1 - Instrumental Social Compromise

We begin with the case in which all agents are purely instrumental in their approach to decision making, and where the eventual form of competition between groups involves compromise. The issue space is taken to be one dimensional and the ideal points of individuals are assumed to be uniformly distributed on the interval $[0, 1]$. As already mentioned, in stage one of the process, individuals decide whether or not to establish a group (become a group founder). If a group is formed, that group takes on the ideal point of its founder as its collective position. This is revealed by the group pursuing a set of behavioural norms that are uniquely associated with the preferences over social outcomes that characterise the founder. Under instrumental calculation, an individual will decide to found a group if the benefit in terms of the expected impact on the final social outcome outweighs the cost of group formation. This cost will be taken to be a fixed transaction cost, c, associated with establishing one's position as a group founder. The form of the payoff to individual j who founds a group is:

$$U_j = -|P - x_j| - c \qquad (3.1)$$

where x_j is $j's$ ideal point and P is the eventual social outcome. We now need to explain how the outcome P is determined.

In stage two, all individuals who have decided not to found groups will affiliate themselves with the group that is closest to them. This statement may be broken into two parts. First, that all individuals will join a group, so that there will be no independents or 'outsiders'. For the moment, we simply assume that for all individuals, the marginal benefit of group activity/membership is (weakly) greater than marginal cost over the

relevant range and that there are no transaction or fixed costs to group membership. Second that each individual will join the group whose founder is closest to her, this can be demonstrated given the other assumptions of the model.

We now turn to the individual's activity within a group. In a fully specified model, this activity rate would itself be endogenous, however this would introduce additional complexity which we do not wish to explore in this chapter. The idea that we wish to capture is that group members face alternative activities - activity within the group must be balanced against private activities outside of the group - so that the level of group activity can be expected to vary across group members. We will assume that the further away an individual is from the group's ideal position, the less will be that individual member's activity within the group - so that activists are identified as those close to the founder, while more peripheral members will be less active in support of the group's position. While we assume that there is no transaction or fixed cost of group membership, there is an implicit cost in terms of activity. This cost could be seen as the opportunity cost of time spent on group activity, and will be higher for individuals located further from the founder, thus lowering their activity rate.[7] To simplify matters, we will assume that the activity rate of individual member i, y_i, is given by:

$$y_i = 1 - |x_j - x_i| \qquad (3.2)$$

where x_j is the position of group founder j, and x_i is the position of the individual member i. For a particular group, with a founder at x_j we can then calculate the total group activity rate, Y_j, by summing activity rates for all individual members or, in the continuous case that we study here, taking the relevant integral over all members of the

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[7]As stated, we assume for the meantime that there is an instrumental benefit to group activity, which is positive enough to outweigh the marginal cost of activity over some range. However, it is just this sort of assumption that leaves models in political settings which are built on instrumental motivation open to attack.

group:

$$Y_j = \int y_i \tag{3.3}$$

In this particular version of the model, then, the activity rate is to be interpreted at the individual level as a measure of the strength of an individual's contribution to the group, and at the aggregate level as a measure of the impact or weight that the group will exert in influencing social outcomes.

In stage three, the final social compromise emerges. We define this outcome as the weighted mean of the ideal positions of the groups, where the relevant weight for each group is related to that group's activity level:

$$P = \sum_j v_j x_j \tag{3.4}$$

where v_j is a normalized measure of the aggregate activity level of the group based at x_j:

$$v_j = \frac{Y_j}{\sum\limits_j Y_j} \tag{3.5}$$

A Nash equilibrium in pure strategies exists if:

$$|P_{-j} - x_j| - |P_j - x_j| - c \geqslant 0 \tag{3.6}$$

for all group founders j, and

$$|P_{-i} - x_i| - |P_i - x_i| - c < 0 \tag{3.7}$$

for all non-founders i, where P_j is the outcome from j forming a group and P_{-j} is the outcome if j decides not to form a group. The following results all flow from these equilibrium conditions. Clearly the number of groups that form in equilibrium is endogenous. To rule out the possibility of no group emerging, we assume that $U = -z$ for all individuals when there are no groups, where $z > c$, so that each individual would prefer to

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found a group rather than accept an equilibrium in which no groups emerge. It should also be clear that however many groups emerge, they must be distinct in the sense that no equilibria can exist in which more than one group founder occupies any given position (this mirrors Hamlin and Hjortlund's lemma 1). To see this, simply notice that if two individuals were to found groups at the same position, the payoff for one of them would be greater if she disbanded her own group, with all members joining the other group. The second group would have no impact on social outcomes, but would incur the fixed cost. We will proceed by investigating equilibria in which there is just one group, before discussing two-group and n-group equilibria.

One-Group Equilibrium

To establish an equilibrium with the single group based at a we must demonstrate that no individual will wish to found a rival group. To prevent group formation at, say, b we require that:

$$b\left(\frac{Y_b}{\sum_j Y_j}\right) + a\left(\frac{Y_a}{\sum_j Y_j}\right) - a - c < 0 \tag{3.8}$$

or

$$\frac{aY_a + bY_b}{Y_a + Y_b} - a < c \tag{3.9}$$

for all $b > a$ and:

$$a - \left(a\left(\frac{Y_a}{\sum_j Y_j}\right) + b\left(\frac{Y_b}{\sum_j Y_j}\right)\right) - c < 0 \tag{3.10}$$

or

$$a - \frac{aY_a + bY_b}{Y_a + Y_b} < c \tag{3.11}$$

for all $b < a$.

To see how any position may support a one-group equilibrium, one may begin by

considering the value c must take to allow the extreme positions of 0 or 1 to be one-group equilibria. Here our model departs significantly from the model in Hamlin and Hjortlund since, in Hamlin and Hjortlund's model all votes count equally in support of the chosen candidate, whereas in our model, members contribute differentially to their groups depending on their activity rates. So, while, in Hamlin and Hjortlund's model, it is clear that the potential candidate with the greatest incentive to enter against a candidate located at 0 is an individual located at 1 (and vice versa), the analogous statement is not true in our model. This is because, *ceteris paribus*, a group founder at an extreme point generates less group activity than a group founder at an interior position.

In order to find which potential group founder would have the greatest incentive to found a group in the presence of a group located at 0, we substitute $a = 0$ in the left hand side of equation 3.9 to obtain:

$$\frac{bY_b}{Y_a + Y_b} \tag{3.12}$$

Plugging in the values for Y_a and Y_b and maximising with respect to b gives an optimum value of b of approximately 0.935, with a maximised value of the expression of 0.5052.[8] Therefore, an individual located at 0.935 has the greatest incentive to form

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[8]To see how this is calculated note that

$$Y_a = \int_0^{\frac{b}{2}} (1 - x)\, dx = \frac{1}{2}b - \frac{1}{8}b^2$$

and

$$Y_b = \int_{\frac{b}{2}}^{b} (1 - (b - x))\, dx + \int_b^1 (1 - (x - b))\, dx = \frac{1}{2}b - \frac{5}{8}b^2 + \frac{1}{2}$$

After some manipulation, we obtain

$$\frac{bY_b}{Y_a + Y_b} = \frac{-\frac{1}{8}b\left(-4b + 5b^2 - 4\right)}{b - \frac{3}{4}b^2 + \frac{1}{2}}$$

which yields:

$$\left(\frac{1}{2}b\right)\frac{-4b + 5b^2 - 4}{-4b + 3b^2 - 2}$$

Maximising with respect to b gives an optimum value of b of approxiamtely 0.935, with a maximised

a group in the presence of a group located at 0, and this incentive would be sufficient to overcome any fixed cost less than 0.5052. So, $c > 0.5052$ is certainly a sufficient condition for one-group equilibria. With c above this critical level, a group located at *any* position will constitute a one-group equilibrium. As c falls below the critical value the range of possible one-group equilibria tightens as described by equations 3.9 and 3.11 until the point where these two constraints intersect at $c \simeq 0.1359$. At this value of c, 0.5 is the only location that could support one-group equilibrium.

We can summarize the conditions for one-group equilibria as follows:

i If $c > 0.5052$ any position can support a one-group equilibria.

ii If $0.1359 < c < 0.5052$, then point a can support a one group equilibrium if it satisfies both equations 3.9 and 3.11, which gives

$$b - \frac{c(Y_a + Y_b)}{Y_b} < a < \frac{c(Y_a + Y_b)}{Y_b} + b \tag{3.13}$$

for all b.

A key point to note here is that one individual will become a group founder, but will attract no group activity. In an instrumental model, individuals are motivated to act in order to achieve instrumental gains. In a one-group equilibrium however, group activity will bring about no change in social outcomes and therefore the incentive to join a group is gone. As such, the outcome would be determined by one founder, who will receive no group affiliation. This seems strange when we think of dictatorships, which receive group-oriented behaviour. However, this is precisely the point, group participation in situations where only one group exists is difficult if not impossible to explain using an instrumental model. Participation suggests that other factors are at work, as we shall explore later.

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value of the expression of 0.5052.

Two-Group Equilibrium

Clearly, two-group equilibrium requires both that two founders are willing to found groups in each others presence, and that no other founder would emerge. For two founders to be willing to run against each other requires essentially the reverse of the conditions described in the last subsection. So, for a potential founder located at $a < b$ to emerge alongside b, it must be that the case that:

$$b - \left(\frac{aY_a}{Y_a + Y_b} + \frac{bY_b}{Y_a + Y_b} \right) \geq c \tag{3.14}$$

which reduces to

$$\frac{Y_a (b - a)}{Y_a + Y_b} \geq c \tag{3.15}$$

and for $b > a$ to be willing to form a group in the presence of a, it must be that:

$$\left(\frac{bY_b}{Y_a + Y_b} + \frac{aY_a}{Y_a + Y_b} \right) - a \geq c \tag{3.16}$$

which reduces to:

$$\frac{Y_b (b - a)}{Y_a + Y_b} \geq c \tag{3.17}$$

Note that as c falls from approximately 0.5052 (so that equilibria with more than one group become feasible) the co-existing groups may be closer together.

The next step is to demonstrate the conditions under which no third group will wish to enter. Hamlin and Hjortlund's lemma 2 eliminates the possibility of intermediate candidates in their election model, but this lemma does not carry over to the present case. Again, the explanation lies in the variable activity rate in this model. If all activity rates were constant, it should be clear that an intermediate group could have no impact on the eventual social outcome, given the weighted average nature of the compromise outcome. This is essentially the analogue of Hamlin and Hjortlund's lemma 2. However, with variable activity rates it should be equally clear that this argument fails. A new intermediate group would generate more activity out of its members than would have been

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generated by their membership of the existing groups, and this opens up the possibility of intermediate groups.

However, given the assumption we have made for activity rates, the possibility is rather remote. That is, the fixed cost c has to be rather low before any intermediate group is sustainable in equilibrium. We can use the case in which the two established groups, a and b, are located at 0 and 1 respectively to illustrate this, by observing that if c is sufficient to prevent the formation of an intermediate group in this case, then it will certainly be sufficient to prevent intermediate entry in all two-group equilibria. In this case a potential group founder, located at d, would face the following incentive to form a group:

$$|0.5 - d| - \left| \frac{dY_d + Y_b}{Y_a + Y_b + Y_d} - d \right| \tag{3.18}$$

Making the relevant substitutions, it is straightforward, if tedious, to check that the individuals facing the maximal incentive to form a group are located at approximately 0.8 and 0.2. The intuition here is clear enough, in the absence of the third group the compromise outcome will be 0.5. A new group can be worthwhile to its founder only if she has an ideal point significantly different from 0.5. However, if the third group's ideal point is too close to either 0 or 1, the new group will have little impact on the compromise outcome, since they would effectively replace one of the existing groups. The trade off between these two forces identities the location of the individual with the maximal incentive. However, even when the incentive is maximised, it is rather small. The impact on the final compromise outcome is to shift it by only approximately 0.01445. Therefore, if $c > 0.01445$ there can be no formation of an intermediate group, and therefore no equilibria with more than two groups.

Of course, for a two-group equilibrium, we require not only that the two groups will form in each others presence, and that no intermediate group will form, but also that there will be no incentive for a further group to form outside of the range a, b. This will be assured if a (the left most group) is such as to preclude further group formation on the left, and b (the right most group) is such as to preclude further group formation on

the right. Call the potential leftist group l, and the potential rightist group r, then the condition to prevent the formation of l is the natural extension of equation 3.11:

$$P_{ab} - \frac{aY_a + bY_b + lY_l}{Y_a + Y_b + Y_l} < c \tag{3.19}$$

where P_{ab} is the compromise outcome when a and b are the only groups in place. Similarly, the condition to prevent the formation of r is:

$$\frac{aY_a + bY_b + lY_r}{Y_a + Y_b + Y_r} - P_{ab} < c \tag{3.20}$$

To summarise the conditions for two-group equilibria:

i If $c > 0.5052$ no two group equilibrium is possible.

ii If $0.01445 < c < 0.5052$, groups located at a and b (where $a < b$) will form a two-group equilibrium provided that conditions 3.15 and 3.17 are satisfied. This requires that;

$$\left\{ \left(b - \frac{c(Y_a + Y_b)}{Y_b} \right), \left(b - \frac{c(Y_a + Y_b)}{Y_a} \right) \right\} \geq a \tag{3.21}$$

and;

$$b \geq \left\{ \left(\frac{c(Y_a + Y_b)}{Y_b} + a \right), \left(\frac{c(Y_a + Y_b)}{Y_a} + a \right) \right\} \tag{3.22}$$

and that conditions 3.19 and 3.20 are satisfied.

iii If $0 < c < 0.01445$ we require the additional condition that no intermediate group will emerge. This requires that;

$$P_{ab} - \frac{aY_a + dY_d + bY_b}{Y_a + Y_d + Y_b} < c \tag{3.23}$$

for $d < \frac{a+b}{2}$ and;

$$\frac{aY_a + dY_d + bY_b}{Y_a + Y_d + Y_b} - P_{ab} < c \tag{3.24}$$

for $d > \frac{a+b}{2}$.

The interpretation of the conditions in (ii) and (iii) are relatively straightforward. Condition 3.21 and 3.22 ensures that a and b will form in each others presence, while conditions 3.19 and 3.20 ensure that there will be no outside groups formed. Conditions 3.23 and 3.24 ensure no intermediate entry when costs are low enough to allow this to happen. In particular, while for any value of c in the identified range, there will always exist a two-group equilibrium (many such equilibria, in general) it is not the case that one can select an arbitrary group founder $a*$ and guarantee that there will be a second group founder $b*$, such that $(a*, b*)$ forms a two-group equilibrium. A key point to note now is that all individuals may be seen as having an incentive to engage in group activity, as their action will have some bearing on the overall social outcome.[9].

Discussion of model 1

This model of instrumental social compromise builds quite directly on the Hamlin and Hjortlund model of proportional representation. The mechanism of compromise between groups is essentially similar to the mechanism of proportional representation in the voting context analysed by Hamlin and Hjortlund. The major difference lies in the idea of variable activity rates, which makes good sense in the context of the operation of political groups, but has no counterpart in a model of voting where all votes are of equal weight. This difference gives us a more realistic sense of a political/social group to which members attach themselves to varying degrees.

There are three further points to note. First, we have assumed no fixed cost of group membership, only a cost of founding a group.[10] Second, note that in this model the group founders do not have to be representative of the group in the sense that they do

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[9]For ease we assume that indifferent individuals will participate in group activity, but we could equally assume that they do not without changing the results of the model.

Note that when $c = 0$ all individuals will wish to found groups - which will attract no other members. This is the purely individualist limit of the group formation process where all individuals enter directly into the production of the final social compromise with equal weight (since each one-person group has an identical activity rate).

[10]This is worth noting in contrast with our next model of conflict where a membership cost clearly exists in the sense that being a member of a group implies becoming involved in conflict.

not necessarily occupy a position at the centre of their group. Indeed, it can be the case in a two group equilibrium, that the founders of the groups are seen as extremists within their groups. Finally, we assume individuals believe that they will have an effect upon social outcomes. If they were not to believe this, they would not engage in group activity, since they incur a positive marginal cost in group action. Indeed, a feature of one-group equilibrium in the case discussed above is that it would attract no group activity.

3.4.2 Model 2 - Instrumental Social Conflict

If the model of instrumental social compromise is built on Hamlin and Hjortlund's study of proportional representation, the model of instrumental social conflict to be considered in this section relates most directly to Besley and Coate's analysis of the simple plurality voting rule, since both social conflict and the plurality rule are defined in terms of a winner-take-all competition between groups/candidates. Aside from the re-interpretation of the model, the key differences between the model to be developed and that of Besley and Coate concerns the explicit modelling of a cost of conflict.

e assume that this cost is borne by all individuals who engage in group activity and not just the founder. Furthermore, we shall make the (perhaps rather strong) assumption that the cost falls on all group members in the same way regardless of their own group activity level, and that the group with the most members wins the ultimate contest. With this in mind, activity rates play no driving role in the model of conflict.

We shall assume that the cost of conflict for a member i is given by $\beta \left(\frac{n_o}{n_i} \right)$ where β is a weight and n_i is the number of individuals active within the group of which i is a member and n_o is the number of individuals in groups of which i is not a member.

The payoff functions 3.6 and 3.7 are now rewritten as:

$$|P_{-j} - x_j| - |P_j - x_j| - \left(c + \beta \left(\frac{n_o}{n_j} \right) \right) \geqslant 0 \qquad (3.25)$$

for all founders j

$$|P_{-i} - x_i| - |P_i - x_i| - \left(c + \beta\left(\frac{n_o}{n_i}\right)\right) < 0 \qquad (3.26)$$

for all non-founders i.

We must also pay attention to the payoff functions of all non-founders in stage two of the game. They now incur a conflict cost if they are group members. Thus, they will only join groups if the instrumental benefit of shifting the social outcome outweighs this conflict cost. This is formalised as follows

$$|P_{-d} - x_d| - |P_d - x_d| - \beta\left(\frac{n_o}{n_d}\right) \geqslant 0 \qquad (3.27)$$

for all members d and

$$|P_{-k} - x_k| - |P_k - x_k| - \beta\left(\frac{n_o}{n_k}\right) < 0 \qquad (3.28)$$

for all independents k.

One-group equilibrium

Two conditions are required for a one-group equilibrium to exist:

i If no individual stands as a founder, the payoff to each individual is $-z$, where $z > c$. As before, this simply assures us that at least one individual will found a group.

ii No second individual wishes to enter as a founder. Consider the possibility of an individual located at b entering against a such that the group founded at b would win the eventual conflict with certainty. In this case:

$$|b - a| < c \qquad (3.29)$$

is sufficient to ensure that b does not enter. Note that if $c > 1$, any position

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can constitute a one group equilibrium, and that as c approaches zero, the set of possible one-group equilibria shrinks until 0.5 is left as the only potential one-group equilibrium. Note that in this case $\beta\left(\frac{n_a}{n_a}\right) = 0$, which simply means that there is no actual conflict in a one-group equilibrium. In addition, since there is no individual, instrumental incentive to join the single group, we will see no participation in group activity, so that all except the founder will be independents. This is then a limiting - almost degenerate - case in which the relatively high cost of acting as a founder and the potential costs of conflict between groups yield an outcome in which there are no effective groups at all.

Two-group equilibrium

The conditions for a two-group equilibrium are as follows:

i $\frac{a+b}{2} = 0.5$. For any positive cost of entry an individual will not wish to enter if she expects to lose. Therefore, only individuals who expect to obtain the same level of membership will compete against each other. This requires that they occupy symmetric positions around the median.

ii For b and a to run against each other requires

$$\frac{1}{2}\left|b - a\right| \geq c + \beta\left(\frac{n_b}{n_a}\right) \tag{3.30}$$

since $\left(\frac{n_b}{n_a}\right) = 1$, we get;

$$\left|b - a\right| \geq 2\left(c + \beta\right) \tag{3.31}$$

The result must be a tie for no individual would found a group knowing he is going to lose. That is, his payoff in terms of effecting the social outcome would be zero, but he would still incur entry and conflict costs. Thus he would be better off not entering.

iii No other individual wishes to enter against a and b. Exactly which kind of entrants

will be deterred depends on whether we assume 'honest' attachment (that is one joins the group founded closest to you) or 'strategic attachment' (a possible Nash equilibrium strategy in the attachment stage of the game, would be to join a group founder not located closest to you, in order to prevent one's least preferred founder from winning). Allowing for strategic attachment expands the set of possible two-group equilibria, to any set of symmetric individuals, whereas, assuming honest attachment would prevent extremists from being a two-group equilibria.

For two group equilibria to exist, it must be the case that $\beta \leqslant 0.5$ and that as $|b - a|$ become closer together, the value of β must fall to allow for two-group equilibria to continue to exist. This follows Besley and Coate in that we are simply adding β to c in the decision process for potential group founders.

Where this model differs is in the behaviour of non-founders. In Besley and Coate all individuals who are not indifferent between candidates vote as it is costless. This no longer holds here. Only individuals d for whom

$$|d - a| - 0.5\left(|d - b| + |d - a|\right) \geq \beta \tag{3.32}$$

or

$$|d - a| - |d - b| \geq 2\beta \tag{3.33}$$

when d is closer to b and

$$|d - b| - |d - a| \geq 2\beta \tag{3.34}$$

when d is closer to a will participate in group activity.

Note that for individual 0.5 the payoff for group activity is 0. Therefore if $\beta > 0$ individual 0.5 will not participate. This is unsurprising because he is indifferent between the two groups and this is no different to the Besley and Coate scenario. However, where the result does differ here is that individuals who do have a preference over one group founder than another will *not* participate if $2\beta > |d - a| - |d - b|$. Therefore if β

is high few individuals will engage in social conflict and extremists are the most likely combatants in two group equilibria. In fact if $\beta = 0.5$, and $c = 0$, 1 and 0 will sustain a two-group equilibrium, but no other individual will wish to engage in group activity. As β falls the range of two group equilibria expands (assuming c is held constant at a low value) as does the number of individuals prepared to engage in group activity. For all individuals to engage in group activity requires that $\beta = 0$, but this in fact means there is no conflict. Thus it is not possible to have group conflict with all individuals participating.

Discussion of Model 2

By shifting the emphasis to conflict rather than entry costs, we draw attention to the cost-benefit analysis facing potential members of groups (followers rather than leaders) as well as the founders. As is the nature of plurality rule models with complete information, individuals may be pivotal in determining the overall outcome, and this provides the claimed instrumental incentive to participate. The assumptions used here greatly simplify the analysis of conflict, for instance, assuming that larger groups automatically win ignores a host of interesting issues in the modelling of conflict (see Hirshleifer (1988) and (1995)). Further, we have not discussed how group activity actually translates into group conflict, and whether individuals with different roles within a group may incur different costs of conflict. For now though, this simplified analysis serves our present purposes. It demonstrates that, as conflict costs increase, group participation diminishes until $\beta > 0.5$ where no group activity will exist at all. Further, where individuals do participate they have calculated that the instrumental benefits are greater than the costs.[11] Note again, as in the case of the compromise model, that the group founders do not have to be representative of their groups. These observations provide a useful benchmark for the

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[11] In this sense, when costs of conflict are high, we should expect to see very little group activism. However, just as we do see group participation even where only one group exists, we often see high levels of group activity where the conflict costs are substantial. Again, this points to a model less tied to eventual social outcomes.

expressive model that we shall turn to now.

3.4.3 Model 3 - Expressive Motivation

A purely expressive model is sharply different from its instrumental counterpart because
we no longer need to discuss actual social outcomes in analysing initial decisions to join
a group. Behaviour is assumed to be unrelated to overall social outcomes as individuals
believe that the effect of their actions on overall outcomes are negligible. An individual's
motivation will be assumed to be determined by two factors: utility gained from the
size of the group; and the individual's location within the group relative to the founder.
Clearly, actual utility *ex post* will be effected by final social outcomes, but these could
be viewed as externalities over which the individual has no effective influence *ex ante.*
Turning attention to preferences for group size captures the sense that individuals are
motivated to expressing themselves within a 'group frame of reference'.[12]

The "utility function"[13] for an individual i who is a member of group j is given by

$$U_{ij} = f\left(n_j, |x_j - x_i|\right) \tag{3.35}$$

If an individual stands as founder his utility will be given by

$$U_{ii} = f\left(n_i, 0\right) - c \tag{3.36}$$

and if the individual chooses to be independent of all group adherence (where I stands

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[12] In addition to the work by Hardin and Kuran discussed earlier, this section relates to a paper by
Van Winden (1999) calling for a group frame of reference in political economics. It also relates to a
recent paper by Akerlof and Kranton (2000) which provides a model for how group identity effects
decision-making. Finally, the purely expressive model presented here has strong similarites with the
sorting/segregation models in Schelling (1978).

[13] Note again that we use the term *utility function* loosely here as *ex post* utility will be effected by
social outcomes.

for independent), his utility will be

$$U_{iI} = f(1,0) \tag{3.37}$$

where U_{n_j} may be positive, negative or zero depending on an individuals ideal group size. $U_{|x_j - x_i|} < 0$ reflects the idea that individuals become worse off as the distance between themselves and the group founder increases. If we were to ignore the issue of distance from the founder, then this model would in effect become a simple club good model. The idea here is similar; one may wish to be in groups simply for reasons of camaraderie and communication. When the group becomes large, benefits such as these may be diminished as congestion sets in. We assume (for ease) that all individuals have the same preferences over the size of the group, and differ only in their locations.

In the analysis to follow, to clarify matters, we will assume an additively separable functional form as follows. In the case where individuals join a group with founder j their utility is:

$$U_{ij} = \alpha\left(g\left(n_j\right)\right) + \gamma\left(l\left(|x_j - x_i|\right)\right) \tag{3.38}$$

As indicated we assume that the effect of changes in n_j upon utility may be either positive or negative, depending upon the size of group individuals prefer to be in. However, greater distance from the group founder unambiguously makes the individual worse off. α and γ are weights upon these factors. We will use this form of the utility function to derive conditions concerning equilibria.

If an individual stands a group founder, his utility will be:

$$U_{ii} = \alpha\left(g\left(n_i\right)\right) + \gamma\left(l\left(0\right)\right) - c \tag{3.39}$$

and if he chooses to be independent his utility will be:

$$U_{iI} = \alpha\left(g\left(1\right)\right) + \gamma\left(l\left(0\right)\right) \tag{3.40}$$

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We will assume that n must be greater than one to be defined as a group.

The structure of the game to be played here is that in stage one group founders enter, in stage two individuals who did not found groups decide whether to attach themselves to groups or decide whether to be independent. In stage three, the outcomes in terms of group size and location within groups are given. This set-up for the expressive game would require much more specification to allow for the kind of numerical solutions which we derived in the instrumental models. However, this simple approach allows us to set out clear conditions for equilibria. We provide these conditions for one and two-group equilibria and then provide a fairly informal discussion as to how these equilibria might come to exist.

One-Group Equilibrium

i We assume that if no groups form the value of being independent is inferior to being a group founder (even if no other individuals join ones group), this is given by

$$U_{jj} - c \geq U_{jI(0)} \tag{3.41}$$

where $U_{jI(0)}$ refers to the utility that individual j would receive from being independent when no groups have formed. This ensures that one individual will enter as a group founder.

ii To ensure that no other individual wishes to enter against individual j, we require that for all other individuals either: they prefer to join group j or they prefer to be independent, rather than enter as founder. In the first case this means that for all individuals i;

$$U_{ii} - c < U_{ij} \tag{3.42}$$

which becomes;

$$\alpha \left(g\left(n_i \right) - g\left(n_j \right) \right) + \gamma \left(l\left(0 \right) - l\left| x_j - x_i \right| \right) < c \tag{3.43}$$

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The case of independence means that

$$U_{ii} - c < U_{iI} \qquad (3.44)$$

which becomes

$$\alpha \left(g\left(n_i \right) - g\left(1 \right) \right) < c \qquad (3.45)$$

How might one-group equilibria emerge? Note that three factors determine the equilibria in this model, the preference for the size of the group one would like to be in, preferences for location within a group and the cost of entry. To keep matters tractable, we shall start by ignoring the effects of entry costs (by assuming they are constant at some arbitrary low level) and we shall assume that $\gamma = 0$, thus preferences are only for group size. Let us also assume, for simplicity, that individuals wish to be in a group with the whole population. It should be clear here, that a one-group equilibrium will emerge and further, the founder may be located at any point on the distribution.[14] Indeed, even if we assume that preferences identify ideal groups smaller than the whole population, but still very large, it is still highly likely that there will be a one-group equilibrium.

Now let us assume that $\gamma > 0$, so that individuals care about their location within groups. How might this effect one-group equilibria? Once again ignoring the effects of entry costs and still assuming that the preference is for very large groups we should expect the set of potential one-group equilibria to be reduced, so that only more central individuals could emerge as founders in one-group equilibrium. In this case, extremists will not be able to found groups unopposed, as individuals at the opposite extreme will also wish to found groups.

Finally, let us consider the effect of differing cost levels. The effect of high costs are twofold, first, they make the emergence of one-group equilibria more likely, for instance even if preferences are for small groups joined with a deep concern for one's location,

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[14]Individuals are assumed to want to be in a group with everybody else, but since we assumed $\gamma = 0$, they will not care who the founder of that group will be.

if costs are set at an extremely high level, only one individual will found a group in equilibrium. Second, a related point, is that an effect of high entry costs is to allow for a wider set of potential points for one-group equilibria. Obviously, if the costs of entry are low and the preference is for small groups then one-group equilibria are not likely to be possible.

In summary, then, one-group equilibrium will be associated with (a) preferences which identify large ideal group size, (b) preferences that attach relatively little weight to location within group and (c) relatively high costs of entry as a group founder.

Two-Group Equilibrium

This requires that two individuals are prepared to enter as founders against each other and that no other individual wishes to form a group.

A two group equilibria founded by i and j requires that for i

i

$$U_{ii} - c \geq U_{ij} \qquad (3.46)$$

ii

$$U_{ii} - c \geq U_{iI} \qquad (3.47)$$

These conditions are clearly replicated for j.

If we take individual i and plug in the functional form, conditions 3.46 and 3.47 become;

$$\alpha \left(g\left(n_i \right) - g\left(n_j \right) \right) + \gamma \left(l\left| 0 \right| - l\left| x_j - x_i \right| \right) \geq c \qquad (3.48)$$

$$\alpha \left(g\left(n_i \right) - g\left(1 \right) \right) \geq c \qquad (3.49)$$

For all other individuals k it is required that either

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$$U_{kk} - c < U_{ki} \qquad (3.50)$$

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or

$$U_{kk} - c < U_{kj} \tag{3.51}$$

or

$$U_{kk} - c < U_{kI} \tag{3.52}$$

Constructing n-group equilibria would require going through this process for situations where there are more than two groups.

How might two-group equilibria emerge. Similar observations to those made for one-group equilibria may be made. First, if the preference is for very large groups, there must be a concern with location to enough of an extent to allow for two individuals to enter at stage one. Second, if the preference is for moderately sized groups, then the concern with location can be reduced to some extent and two groups may still emerge. However, some concern over location would be required for segregating equilibria to emerge.[15] Third, costs of entry cannot be so high as to prevent a second group emerging. Finally, if costs are low and the preference is to be in small groups, two-group equilibria are unlikely to be possible.

Discussion of Model 3

In this section we have set out the conditions for group formation in one or two-group equilibria in a model containing a sharply different source of motivation to that of the previous instrumental models. Individuals now form and join groups on the basis of a preference for interaction within groups divorced from the eventual social outcomes which the interaction between groups brings about. We mentioned earlier that while social outcomes play no role *ex ante* in individual decision-making, they do carry consequences *ex post*. In this case individuals may be engaging in group activity under expressive motivation which they would not have engaged in at all under purely instrumental motivation.

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[15]A segregating equilibrium can be defined as containing groups whereby if x_i and x_{i+r} are the boundary members of a group, all individual x such that $x_i < x < x_{i+r}$ are also members of the group.

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3.4.4 Model 4 - Instrumental/Expressive Motivation

We now wish to construct a model which incorporates both instrumental and expressive motivation. The instrumental motivation contained in the models for social compromise and conflict constructed earlier is generated by a shift in the social outcome towards one's preferred outcome. The expressive motivation lies in one's preferences over the size of the group one belongs to, and one's location within that group.

We can formalise this as follows, the utility function for an individual i who is a member of group j is given by

$$U_{ij} = f\left(n_j, |x_j - x_i|, |P_{ij} - x_i|\right) - \beta\left(\frac{n_o}{n_j}\right) \qquad (3.53)$$

where n_j is the size of group j, $|x_j - x_i|$ is $i's$ location within group j and $|P_{ij} - x_i|$ is the difference between the social outcome and the individual's preferred social outcome, given that he has chosen to be a member of group j. Obviously utility is declining in $|P_{ij} - x_i|$ and this reflects the instrumental element to group involvement. $\beta\left(\frac{n_o}{n_j}\right)$ reflects potential conflict costs and clearly this term is not relevant in models of compromise.

If i stands as a founder, his utility function is given by

$$U_{ii} = f\left(n_i, 0, |P_{ii} - x_i|\right) - c - \beta\left(\frac{n_o}{n_i}\right) \qquad (3.54)$$

Finally if i opts to be independent, his utility function is given by

$$U_{iI} = f\left(1, 0, |P_{iI} - x_i|\right) \qquad (3.55)$$

If we continue to work with the more specific utility function used earlier, the conditions 3.53, 3.54 and 3.55 become

$$U_{ij} = \alpha\left(g\left(n_j\right)\right) + \gamma\left(l\,|x_j - x_i|\right) + \delta\left(v\,|P_{ij} - x_i|\right) - \beta\left(\frac{n_o}{n_j}\right) \qquad (3.56)$$

$$U_{ii} = \alpha \left(g\left(n_i \right) \right) + \gamma \left(l\left(0 \right) \right) + \delta \left(v \left| P_{ii} - x_i \right| \right) - c - \beta \left(\frac{n_o}{n_i} \right) \qquad (3.57)$$

$$U_{iI} = \alpha \left(g\left(1 \right) \right) + \gamma \left(l\left(0 \right) \right) + \delta \left(v \left| P_{iI} - x_i \right| \right) \qquad (3.58)$$

where δ is a weight upon the instrumental factor.

Discussion of mixed model

As before, the mixed motivation approach relates to two possible settings: social compromise and social conflict. We could go through the rather tedious task of setting out the algebra for one and two-group equilibria to exist in each of these environments, but instead we shall provide an informal discussion of how expressive concerns may impact on the instrumental equilibria already identified, and in so doing, pick out what we consider to be the most striking features of combining the two motivations.

Consider first, the setting of social compromise (model 1). A number of features were associated with the equilibria derived there. In the case of one-group equilibria, we found that costs of entry had to be above a certain level for equilibria to exist, and that the higher the costs, the larger the set of potential equilibria. In addition, there would be no incentive for group participation (recall that since no instrumental incentive to action would be on offer for group action, a positive marginal cost would rule out the possibility of group action). The addition of expressive motivation modifies this conclusion in two main ways, first the factor of cost is less relevant if individuals wish to be in very large groups (and do not have too deep a concern about their within group location). In addition, participation will generally arise, individuals may now obtain direct expressive group benefits, rather than indirect instrumental benefits. This is similar to the idea that an expressive model of voting will account for participation even when the candidates on offer are identical.

In two-group equilibria, under purely instrumental motivation costs were required to

be below a certain level, there was no requirement that founders should be symmetric around the median position and participation was now possible (assuming that positive marginal instrumental returns to group action outweighed positive marginal costs). The addition of the expressive line of reasoning to some extent augments these conclusions, such that it produces additional benefits to participation and concerns regarding one's location within a group are similar to concerns regarding one's location with respect to the social outcome. However, a difference is that expressive concerns may lead some individuals to choose to join a group where the founder is located further from them. This is possible if a preference to be in a large group plays a major role in the individual's utility function, and this may be so even when preferences for group size are the same across all individuals. In the instrumental two-group equilibrium, individuals always join the group located closest to them.

Let us now consider the other possible setting of social conflict with both instrumental and expressive concerns. Similar to the compromise setting, one-group equilibria in the conflict setting may arise due to high costs of entry and expected conflict. If these costs were lowered, the set of potential one-group equilibria shrinks until 0.5 would be the only remaining point as costs approach zero. For the same reasons as for compromise, there would be no group participation. Adding expressive concerns here has the same effect as it did for one-group equilibrium in the compromise setting. Significantly, it provides a rationale for group participation, and a desire to be in large groups would add to the instrumental reasons for a one-group equilibrium emerging.

Under social conflict, costs were required to be below a certain level for two-group equilibrium to emerge. The group founders had to be symmetric around the median, and the level of participation depended upon the conflict cost.[16] The introduction of an expressive component significantly alters this picture. A radical example of how equilibria may be altered, is that a (certainly) losing group may form in equilibrium, whereas under purely instrumental motivation, all groups must have a positive probability of winning.

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[16]We do, however, accept that the model of conflict used in this paper is highly stylised.

For a losing group to emerge in equilibrium, the expressive return would be required to outweigh the expected conflict cost. This is simply to say that the desire to be in a group of like-minded individuals may be strong enough to outweigh the associated costs of conflict even when it is acknowledged that there is no prospect of winning in the competition for social outcomes.

3.5 Conclusion

This chapter has attempted to re-interpret and extend the model of political competition to provide for a focus on political groups rather than individuals, and to forms of competition between groups more general than elections. To this end we have adopted and adapted the citizen candidate approach to provide the formal basis for endogenising group emergence, and studied both instrumental and expressive motivations and two forms of competition between groups.

We believe that the inclusion of expressive motivation allows us to understand examples of group behaviour that would be difficult to rationalise using only instrumental motivation. For instance, one significant advantage of the mixed-motive model outlined here is that it offers an explanation of the existence of political groups that seem to have little or no realistic chance of affecting social outcomes. Examples might include small minority parties in situations where the electoral system offers such parties no real prospect of power or influence; or small revolutionary groups that have little or no prospect of success. The explanation lies not in attributing such groups false beliefs about their own instrumental significance, but in understanding the expressive value of group membership as a potentially powerful influence on behaviour.

The models derived here could be viewed as a starting point for a sequence of studies. We have provided an account of the formation of competing political groups. Given that we model group members as possessing both instrumental and expressive concerns, a next step will be to ask how political organisations emerge out of these basic groups, and

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how groups provide incentives for group members to supply leadership or organisational services that may improve the prospects of the group. We would also be interested in how political representatives with the support of their group may choose violence rather than 'normal politics' as a means to achieve group goals - which might be thought of in terms of a choice between forms of competition. In addition, normative issues are raised by the models outlined here, since the outcomes that emerge may be inefficient in the standard sense. This then leads to a consideration of whether groups (or founders) can reach constitutional agreements that may serve to improve the outcomes that emerge. The role of expressive rather than instrumental motivation in providing a different perspective on constitutional issues is one that has yet to be fully explored. We turn to some of these issues in the following two chapters.

Chapter 4

Political Leadership and Political Competition

4.1 Introduction

This chapter sets out to explore the idea of political leadership within groups - both in terms of an analysis of the emergence of leaders and their characteristics, and in terms of the impact of leaders on the political competition between groups. Casual empiricism tells us that political leaders must first win support within their own groups, before engaging with external issues. It is also clear that the characteristics of a potential leader that generate support within the group are not necessarily identical to those that prove successful in the wider setting. We aim to capture and explore these ideas.

We believe our analysis is relevant to the spectrum of situations. At one end of the spectrum lies well-developed and established democracy, where the constitution and institutions within political society are strong and well accepted. In such a society, the political 'rules of the game' will be relatively fixed and leaders will operate within that established set of rules which we will interpret in terms of voting procedures. In these societies, political leaders must first win the support of their own party members prior to competing in elections against other parties. At the other end of the spectrum,

the political constitution may not be well developed or respected, institutions may be weak and open to challenge. In these societies investment in more violent conflict that alters the nature of the competition between groups may be crucial in determining social outcomes, so that leaders may face a choice of the form of competition that they engage in. But once again, prior to any actual competition between groups, the leaders of the groups must be selected within their own groups. We shall call the first type of society constitutionally stable (to reflect the existence of a constitution and/or institutions that prevents the use of violence to win political power) and the second type constitutionally unstable (to reflect the absence of a constitution and/or institutions that prevents the use of violence for political ends).

Despite the huge difference from one end of the spectrum to the other, a common link is that political leaders must first appeal to an 'internal constituency' (members of their own group or party) before trying to win the support of an 'external constituency' (individuals who are not members of the group or party). And we believe that this balance of inward looking concern for 'members' and outward looking concern for 'others' is a key element of political leadership. The relative importance of 'members' and 'others' in influencing the activities of leaders, or indeed the choice of leader will vary from situation to situation, but the need to balance the two aspects of the group seems fundamental. It seems equally clear that the interests and characteristics of 'members' and 'others' can also be expected to differ systematically, so that the balancing act of leadership is not just a formal one, but one that will embody a real trade-off. The members of political groups are normally a self-selecting group that, by construction, is not representative of the wider society. The interests and concerns of the internal constituency may be expected to differ sharply from those of the external constituency. But group membership and political activity is not entirely about interests. The nature of collective action problems introduces the possibility that expressive concerns will also be relevant in determining behaviour, and this fact will introduce a further potential element into the nature of political leadership in groups.

The main focus in the economic approach to political competition has been upon electoral competition in stable democracies where the rules governing elections are clear and accepted. Within these models, political parties or groups have generally not been given a significant role in the analysis. Following Downs (1957), political parties may equally be called candidates or simply points in policy space.[1] Political competition in the Downsian tradition depicts political parties as unitary actors with no internal structure, and therefore no internal constituency, motivated only by winning elections. In this context parties set their policy platform to appeal to the electorate or external constituency in much the same way that firms produce goods to satisfy outside consumers. Demsetz (1990) discusses the limits to this analogy. He argues that parties must also pay attention to the desires of their internal constituency when setting policies. Our contribution here can be seen as a step in this direction.

Models of political competition that depict parties/candidates as having policy preferences of their own represent a considerable advance on the simple Downsian model.[2] In models of this type, the desire to stand for election may be understood in terms of the preferences of an internal constituency. However, an internal constituency is not generally modelled. The fiction that the party is a unitary agent is maintained. This is true, for example of the models of the endogenous entry of individual candidates of the citizen-candidate type developed by Osborne and Slivinski (1996), and Besley and Coate (1997). Perhaps this would not matter if one could assume that parties were internally homogenous, however political parties do not seem to illustrate such internal agreement. The preferences of party members are more likely to cover a subset of the total set of preferences within a society. Since political leaders tend to emerge only from parties and not directly from the general population, it is important to model this intermediate step in the process by which leaders emerge.

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[1] For surveys and analysis of the large literature on political competition see Mueller (1989), Hinich and Munger (1997), Persson and Tabellini (2000) and Roemer (2001) . However, while the role of partes has generally been neglected a literature does exist which pays close attention to political parties. We will discuss this in more detail in section 4.3.

[2] See Wittman (1990) for example.

But we are also concerned with less stable democracies. In a setting where the political rules of the game are not well entrenched, the choice of the leaders of political groups (not just political parties) may influence what political process is engaged, rather than merely the outcome of a well–defined political process. In particular, in the choice between peaceful, democratic means and violent conflict, the role of particular leaders may be crucial. Economic analyses of conflict have become a more prominent feature of political economy.[3] The focus has been on the rent-seeking nature of conflict since, by choosing to fight, groups invest resources in predation rather than production. Our model picks up on this theme, but our approach differs in that we view leaders as potentially investing in conflict so as to achieve their preferred point in policy space as the political outcome rather than to gain more resources through predation. Also, in our analysis, the investment in conflict will be related to the type of leader that the group selects (for instance whether they are moderates or extremists relative to their internal constituency), rather than issues such as the technology of conflict.

We build on chapter 3 which focussed on the endogenous formation of political groups reflecting both the instrumental and expressive concerns of individuals in a setting which neglected the issue of leadership and where the nature and form of competition between groups was exogenous. In the present chapter we take the existence of political groups that reflect a range of policy preferences and/or expressive concerns as our starting point, in order to focus on issues that relate to political leadership in both stable and unstable settings. We will analyse three different bases upon which a group may select a leader. First, group members look ahead to the eventual external political game and select the leader that they believe would leave them best off in terms of the final political outcome - this is clearly a formulation that reflects the traditional instrumental rationality of economic agents. The other two types of motivation for selecting group leaders, which we believe to be significant and common in reality, are generally absent from political

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[3] See Hirshleifer (1988 and 1995), Usher (1992) and the collection of papers in Garfinkel and Skaperdas (1996).

economics. These motivations might be considered more expressive in character since they relate to the direct consumption benefits associated with leadership rather than the longer term, more indirect benefits associated with the eventual outcomes of the social decision making process. Groups may be viewed as a system of social networks linking group members. Organising these networks without leadership is likely to be more costly than organisation by a group leader. As such the group may wish to select a leader that would best organise the group. In this way the group is depicted as being unconcerned about the eventual interaction with the external constituency and focussed entirely on internal, organisational concerns. Finally, we take seriously the possible role of rhetoric in politics. Group members may respond more positively to certain types of rhetoric than to others in their selection of leader, and so choose a leader with particular rhetorical skills.

As already noted, the inclusion of organisational and rhetorical ability as a basis for selecting group leaders builds on the recent developments of expressive choice in models of democratic elections (see Brennan and Lomasky (1993), Brennan and Hamlin (2000) and Schuessler (2000)). This approach starts from the familiar public good problem of voting in mass elections, where voters rationally know that their vote is highly unlikely to have any impact upon the overall outcome of the election. In this setting the idea that individuals vote for the indirect/instrumental benefit of bringing about a favorable political outcome is open to the criticism that rational individuals will not engage in costly activity when they correctly see that their action is ineffective. The expressive alternative to instrumental voting then emphasises the direct benefit of expressing support for a particular candidate or position. In the model developed here, the expressive story is moved back one stage - to the selection of political leaders within groups. Group members when selecting a group leader may feel that their vote has no effect upon the national political game, so they vote expressively for the candidate that most clearly identifies with their view of the consumption benefits of being a member of the group: this may be the social network aspect of group membership - so that organisational ability is perceived

as the characteristic most salient in a leader - or the more political aspect of reinforcing views and opinions through rhetoric - so that rhetorical skills are most salient. Note that in each case, the group members do not vote in order to choose the best organiser or the best rhetorician, since that would be a form of instrumental behaviour. The claim is rather that organisational or rhetorical ability are the characteristics that members respond to in elections so that individuals with these characteristics are elected, even though no-one sets out to elect them. The outcomes of the election are, in this way, the unintended outcome of a process of expressive voting. However, although the elections may be expressive in this sense, the elected leaders still play an instrumentally important role. We will study the likely impact on the outcome of competition between groups represented by leaders elected by these processes. In this way we will capture what we believe to be an important aspect of the potential trade-off between the internal and external constituencies. The organisational and rhetorical aspects of leadership address an internal, expressive agenda, while leaders will also crucially influence external political competition that will, in turn, affect group members.

The chapter is organised as follows. In section 4.2 we develop the model with reference to political leadership and the subsequent form of political competition in unstable societies. Here political outcomes and the form of political competition are simultaneously determined. The group leaders (after being chosen by their own groups) interact to determine both the form and the outcome of external politics. In section 4.3, we apply the model to stable democracies which operate via mass elections. By contrast with the situation in the unstable case, the form of politics is fixed, and now all individuals in society (whether or not they are members of particular groups) vote in the final election contested by the leaders of the groups. In section 4.4 we offer a conclusion.

4.2 Selection of Group Leaders and the Form of Political Competition In Unstable Societies

To a considerable extent this chapter picks up where chapter 3 left off. In section 4.2.1 we will recap on the aspects of that paper which are relevant to the present chapter. In section 4.2.2 we formulate the utility function for group members. In 4.2.3 we discuss the game of political interaction that group leaders will find themselves playing. In 4.2.4 we begin our analysis of what sort of group leaders may emerge by assuming that leaders are selected on the basis of how they will play the game of political interaction. In section 4.2.5 we consider the choice of leaders on the basis of organisational ability and in section 4.2.6 we discuss the choice of leaders on the basis of political rhetoric.

4.2.1 Group Formation

In the previous chapter we built a model analysing group formation and the emergence of distinct sets of social norms. There we adapted the citizen candidate approach to a setting where an individual invests in attracting other individuals to pursue his preferred his set of norms. Individuals are attracted to follow these norms either for the indirect/instrumental reason that it will lead to political outcomes that are favourable to them or for the direct/expressive reason that, out of a desire for social interaction, individuals are willing to trade off their own individually preferred set of norms against conformity to a different set of norms which provide them with membership of a social group. The instrumental motivation to socially interact may be viewed as strategic in that it requires individuals to see through the various stages of a political process in order to focus on eventual political outcomes, whereas the expressive motivation to socially conform may be viewed as more simply a willingness to *cheer* for a certain group in order to gain the immediate consumption benefits of admittance to the social interaction available within that group.

We discussed political outcomes as being determined by the nature of political compe-

tition (whether there was conflict or compromise between groups, where the existence of conflict and compromise were given exogenously), and analysed the number and locations of group norms (as given by the number and locations of group founders) that emerge in equilibrium in response to the nature of political competition and whether individuals were instrumentally or expressively motivated. In one particular scenario we analysed group emergence where individuals are *purely* expressively motivated to join groups so that the eventual political outcome plays no motivating role. It is this idea that forms the basis of this chapter.

For simplicity we will assume that only two groups formed in equilibrium. To provide a more solid basis as to how we envisage the two groups, we may view them as having emerged from a population of purely expressively motivated individuals distributed uniformly on $[0,1]$ who wish to be in groups, but are concerned to a certain extent with their location within those groups. A Nash equilibrium prevails where two group founders emerged and all members of society joined one of the groups and that the equilibrium is a segregating equilibrium.[4] The groups may be of equal or unequal size. The location of the group founders (and thus the location of the group norms) may (in theory) appear anywhere within the two sets.

A final point to note for now, is that we wish to distinguish the idea of the group founder from the idea of the political leader. Group founders were modelled in our earlier work as individuals who were willing to invest resources in establishing their norms as those around which group members may coordinate. However, we do not view the group at this point as formally organised. It is political leaders who will provide this political organisation and further choose the strategy for the group. Note, though that we do not exclude the possibility that the political leader will emerge from the same location as the group founder.[5]

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[4] A segregating equilibrium can be defined as containing groups whereby if x_i and x_{i+r} are the boundary members of a group, all individual x such that $x_i < x < x_{i+r}$ are also members of the group. In our discussion of democracy in section 4.3 we will allow for a large number external to the groups.

[5] In the models in chapter 3 where groups were founded for instrumental reasons, group founders were effectively political leaders as they were forming groups to shift political outcomes in their favour.

4.2.2 Utility of Group Members

We assume that individuals are locked into the groups they joined in the process of group formation and that they were motivated to join groups purely from a desire for social interaction and not to effect overall political outcomes. We do not, however, argue that individuals are not interested in eventual outcomes, only that, as discussed earlier, the familiar public good problem of voting comes into play. Now though we apply this more generally to group action, broadly interpreted. Individuals believe that the instrumental effect of their actions will have no effect upon political outcomes, so if there is any cost to group behaviour it cannot be purely instrumental considerations that are driving individuals towards group participation. Rather, the benefit to group participation lies in the direct benefits of social interaction.

We are interested in the utility received from individual i who is a member of group j, where j is the focal point of the group norm. Individuals are assumed to receive utility from four sources, direct consumption y and three components relating to their activity within groups. The first of these latter three components is that individual utility is effected by the social or political outcome that emerges as a result of group interaction, which we call P. P is determined by the group activity of all group-engaged individuals within society, therefore P is a function of the individuals own group activity and the activity of the members of all groups, such that $P\left(g_{ij}, G_{-i}\right)$ where g_{ij} is the group activity of individual i and G_{-i} is the activity of all other individuals apart from i. This form of utility is an instrumental form of utility, that is engaging in group activity not for its own sake, but to effect overall political outcomes. It can also be seen as the public effect

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However, this chapter builds on the idea of purely expressive motivation, where group founders want social contact but would obviously prefer social interaction to be focussed on their preferred set of social norms. In the purely expressive model of group formation, forming groups to effect political outcomes plays no role. As such, these expressively formed groups do not have a location within the group from which their political platform is launched. Which political platform/leader is selected is a variable in the case of expressively formed groups, but not for groups where instrumental motivations played a role in group formation. In those cases the founder is also the leader. By picking the purely expressive motivation for group membership as a starting point, we favour the idea of considering the social motivation to belong to a group as a first step and the selection of a political leader within the group as a second step in the analysis.

of an individual's action. As discussed above we assume that $P_g = 0$ and therefore it does not play a motivating role for group participants. Although instrumental concerns do not provide a marginal benefit to group action and thus do not provide an *ex ante* incentive to participate, the actual political outcome clearly effects utility *ex post.*

The second component of the group-related utility captures the idea that individuals may receive direct utility from group engagement for its own sake. In this case we may consider the activity of individual i to be dependent upon the activity of all other group members of group j, which i will take as given. Here we are taking group activity to be essentially interactive. While it may be the case that individuals receive utility from expressing group allegiance privately, we consider group allegiance to be expressed mainly in the presence of other members. Direct benefits are derived from individuals coordinating upon certain activities or group norms with other individuals. While interaction provides utility from group action we shall later argue that the political leader through his rhetoric may also effect utility from social interaction. Therefore, the direct component for group activity can be written for individual i as $g_{ij}(g_{j-i}, R)$ where g_{j-i} refers to the total activity of group j apart from individual i and R refers to rhetoric. In this section and the next we assume that the leader has not yet been selected and therefore R plays no role at this stage and for now we can ignore it. In the state prior to political organisation, expressive utility can therefore be written as $g_{ij}(g_{j-i}, N)$, where N tells us that the group has no leader.

Finally, group activity will be a source of disutility for individuals not located at the focal point of the group. We assume individuals experience discomfort from conforming to norms that would not be their preferred choice, and that this discomfort is greater the further they are located from the group focal point. We call this discomfort d, which is a function of group activity g_{ij} multiplied by distance from the focal point $|x^j - x^i|$ as follows $d(g_{ij}|x^j - x^i|)$.

The full utility function can be written as follows

$$U_{ij} = U\left(y_i, P\left(g_{ij}, G_{-i}\right), g_{ij}\left(g_{j-i}, R\right), d_i\left(g_{ij}\left|x^j - x^i\right|\right)\right) \tag{4.1}$$

We assume the function is continuous, increasing in y and g and strictly quasi-concave. We assume $U_y > 0$ and $U_g = U_P P_g + U_{g(g_{j-i}, N)} + U_d d_g \left|x^j - x^i\right|$, where $P_g = 0$. We assume that $U_{g(g_{j-i}, N)} > 0$, reflecting the positive benefits from direct interaction with fellow group members and finally $U_d < 0$ and $d_g > 0$, where of course no discomfort will be experienced if $x^j = x^i$.[6] The model is one of an impure public good, individuals are effected by the overall social outcome, but this may not provide a motivation for group action. Instead, they receive a stream of private benefits from coordinating with other individuals in group interaction.[7] It is useful to compare how the private benefits from group action are derived here compared with the selective incentives that provide private benefit in the Olsonian model (see Olson (1965)). In our case, no formal institutions are required to provide incentives for group action (where the game structure is a coordination game). The impure nature of the public good is present from the start. In the latter case, a formal institution is required to provide incentives (where the game structure is a prisoners dilemma) and thus create an impure public good. Later we consider how the formal institution of the political organisation emerges not to create a stream of private benefits that did not previously exist, but rather to increase the return on private benefits that already existed.[8]

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[6] To maintain the assumption that the function is increasing in g, it must be the case that $U_{g(g_{-i})} > -U_d d_g \left|x^j - x^i\right|$ for all levels of g.

[7] See Cornes and Sandler (1996) for a discussion of impure public goods.

[8] To a large extent we follow Hardin (1995) who emphasises the coordination aspect of group behaviour. This point is made by Hechter et al (1982) for the case of ethnic behaviour. That is individuals receive direct private benefits from action apart from any public effect. See Anderson (2000) for an overview of work on the pursuit of social norms and an emphasis on the social motivation for group behaviour. On a related theme see Van Winden (1999) for a survey of the economic theory of interest groups which calls for greater attention to be given to social motivation by political economists

Incidentally, this discussion is important in other areas of political economics, Booth (1995) discusses trade unions and compares two situations

The first situation is where the union is not yet in existence, while the second is where the union is a viable organisation recognised by firms for collective bargaining over wages and working conditions. (Booth (1996) p.73).

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We assume that individuals face the following constraint

$$S = p_y y + p_{gN} g \qquad (4.2)$$

S stands for resources that individuals can divide between private activity y and group activity g. Individuals are endowed with different level of S. The price of private activity is given by p_y and the coordination and participation in group activities will entail an organisation cost p_{gN} (where N reflects the absence of a leader) which in the absence of a formal organisational institution within the group will mean that the organisation cost is incurred by all group members.

Maximising 4.1 with respect to 4.2 gives the marginal rate of substitution of g for y as follows

$$MRS_{gy} = \frac{U_P P_g + U_{g(g-j,N)} + U_d d_g \left| x_j - x_i \right|}{U_y} = \frac{p_{gN}}{p_y} \qquad (4.3)$$

We assume that all individuals in society are group active, so at this stage we do not allow for a corner solution with all activity devoted only to private activity.[9] The total group activity rate will be important later in the chapter for determining the pecuniary returns to becoming group leader

This representation will act as our benchmark in analysing why groups may choose certain types of leaders and to give weight to a normative discussion of the results in the

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The analogy to this chapter is very clear, we aim to provide a model of how groups come into existence and then how they became politicised, so that the political organisation represents the group in bargaining with other groups over social outcomes. This could be reinterpreted as union members and union leaders. Booth concludes that as regards the first situation

> So far, the economics of the trade union has little to say about the formation and growth
> of unions. (Booth (1996) p.73.)

Perhaps, viewing unions as emerging out of groups that originally solved a coordination game may help give some account of the formation of unions.

[9]Note that it is highly possible that as the model is set up a prisoners dilemma may exist such that individuals would not wish to invest time in organising group activity if they can free-ride on the organising time of all other members. In the extreme this may prevent group activity exisiting at all. We do not wish to explore this issue in any great detail, but merely note that the actual social basis of the group may prevent the problem emerging in that if an individual is not observed to have contributed towards organising group activity they will be excluded by other members.

subsequent model.

4.2.3 Game Of Political Interaction

Whichever leaders emerge in each group, they will find themselves playing a game against the opposing leader which will determine the overall political outcome. In the setting of an unstable society we also endogenise the choice as to the form of the interaction between groups - whether violent conflict or peaceful compromise. If the two leaders engage in conflict, we assume that the political outcome is exactly the same as it would be if they both chose compromise - a weighted sum of the two leaders policy preferences - group conflict is therefore depicted as purely wasteful. So why might it happen? It may happen as a dominant strategy choice in the game illustrated below, where $L = (L_2 - L_1)$:

	com	con
com	$kL, (1 - k) L$	$L, -c_2$
con	$-c_1, L$	$kL - c_1, (1 - k) L - c_2$

Figure 4.1 *The Game of Political Interaction*

We assume that all members of society are members of one or other of the two groups, and that the members of society are distributed uniformly across locations on $[0, 1]$. L_1 and L_2 are the leaders of group 1 and 2, c is the exogenous cost of conflict and k reflects the relative strength of the two groups, measured in terms of their relative size. If both groups are of equal size, $k = 0.5$ and if group 1 were the majority $k < 0.5$ and approaches zero as the size of group 1 approaches that of the whole population. The outcomes will be determined by the bargaining power of the two leaders and the payoff in terms of outcomes is the distance between the social outcome and the leaders own locations.

A special case is where the two groups are of equal size, encompassing $[0, 0.5)$ and $(0.5, 1]$ and $c_1 = c_2 = c$. Here the game becomes

	com	con
com	$0.5L, 0.5L$	$L, -c$
con	$-c, L$	$0.5L - c, 0.5L - c$

Figure 4.2   Political Interaction

With Equal Sized Groups

The key result here is that a prisoners dilemma may emerge with conflict a dominant strategy for each player. This will be the case if

$$0.5\left(L_2 - L_1\right) > c \tag{4.4}$$

however if

$$0.5\left(L_2 - L_1\right) < c \tag{4.5}$$

compromise will be the dominant strategy for each player.

Therefore, high values of c are more likely to be accepted by more extreme leaders. However, we assume that this cost will be borne by all group members if the leader decides to engage in conflict.

If the game is played between unequally sized groups, where group 1 encompasses $[0, x_i)$ and group 2 $(x_i, 1]$ such that $x_i > 0.5, k < 0.5$ and $c_1 < c_2$ (reflecting the idea that the cost of conflict is divided among members) we find that (con,con) will arise if for both groups conflict is a dominant strategy. This will be the case for group 1, if in response to group 2 playing com

$$k\left(L_2 - L_1\right) > c_1 \tag{4.6}$$

and in response to group 2 playing con

$$\left(L_2 - L_1\right) - k\left(L_2 - L_1\right) > c_1 \tag{4.7}$$

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Conflict will be a dominant strategy for group 2 if in response to group 1 playing com

$$(L_2 - L_1) - k(L_2 - L_1) > c_2 \qquad (4.8)$$

and in response to group 1 playing con

$$k(L_2 - L_1) > c_2 \qquad (4.9)$$

Note that this equilibrium is less likely than in the case for equal sized groups as the conflict costs are assumed to be higher for the weaker group 2 and as k in (4.9) approaches zero. As for equal sized groups conflict is more likely with extremist leaders.

4.2.4 Selecting Leaders for Political Interaction

Here we consider the possibility that in choosing a group leader, the group members see through the selection game to the interaction between the two groups in the game of group interaction. Members will be assumed to vote for the potential leader who would make them best off in terms of the eventual political outcome. This is effectively instrumental voting. We consider the choice of leaders where preferences over political outcomes determine voting for both equal and unequally sized groups.

The general model works as follows. Members, in stage 2, and given the leaders/leader that emerged in stage 1, vote on the basis of how these potential leaders/leader would behave in stage 3, given the choice of leader by the other group. We discuss the entry decision in stage 1, where members decide whether or not to stand for leadership given stages 2 and 3. In this way, through backwards induction, we find subgame perfect equilibria to the game.

The method is directly based on the citizen candidate approach for endogenising which candidates will stand for election in a representative democracy. In the paper by Besley and Coate (1997) a three stage approach was used. In stage 3, the winner of a plurality rule election implements policy. If votes are tied a toss of the coin determines the

winner. In stage 2 the citizens vote for their preferred candidate and on the basis of stages 3 and 2, citizens decide in stage 1 whether to stand for leadership subject to an entry cost. They consider conditions for one-candidate and multiple-candidate equilibria in elections and an essential result of their paper is that a wide range of political equilibria exist as regards to which sort of candidates will stand for leadership. For instance, if entry costs are high multiple two-candidate equilibria exist, one of which may be that extremists may stand against each other in equilibrium. If entry costs are very low, a one-candidate equilibrium would be that position which would defeat all other points in pairwise elections (a Condorcet winner) namely the position of the median member of society.

Clearly our approach is very similar. However, there are key differences. First, the process of leadership emergence will happen separately within the two groups. As such political equilibrium must contain two leaders. Second, the policy rule is different in our model. The outcome is a weighted sum of the two positions, so that if two extremists emerge as leaders, they will cancel each other out so that a moderate outcome will arise. In the Besley and Coate paper, the *actual* outcome with two extreme leaders would be an extreme outcome, although the *expected* outcome would be moderate.[10] Third, we do not analyse the effect of differing entry costs upon the game. We assume that the cost of entry is very small and we analyse only one-candidate equilibrium. Thus, only one leader will stand for election in each group and that leader must be the Condorcet winner and thus the choice of the median voter. The fourth and final difference here is that the emergence of the Condorcet winners in the two groups does not imply good outcomes,

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[10] However, see Hamlin and Hjortland (2000) where a proportinal representation rule under the citizen candidate approach would lead to moderate outcomes with extreme candidates. In a different setting, Bulkley, Myles and Pearson (2001) discuss the decision to join committees subject to an entry cost where the decision rule is compromise and find that in equilibrium extremists have most incentive to join. In doing so they cancel each other out, thus providing little incentive for moderates to join. In our model we will find that moderates within a group may have an incentive to vote for an extremist as leader of their own group to counter the choice of leader by the opposing group and thus pull the political outcome further in their direction than would be the case if they voted for a moderate within their own group.

normatively speaking. In our model, political inefficiency is not analysed as arising from any transactions costs of entry to politics or struggle to become leader, but rather that when groups select the *best* leader on a certain criteria *ex ante* they may not take into account other criteria which will effect them *ex post*.

Our focus on voting then is not in capturing a realistic process of leadership choice with actual within group competition. Rather, our aim is to highlight how different criteria for choosing leaders may lead to very different political outcomes. We are, in effect, concentrating on a reduced form of the election process by looking only at the equilibrium we would expect to emerge from our analysis of similar models, without explicitly modelling the process of the election. This strategy is adopted to allow us to focus attention on the key aspects of the model as they relate to the relationship between the choice of leader and the role of leadership rather than over-complicate the model with inessential details of the process of election.

Equal Sized Groups

Stage 2 - Voting   While we call this stage voting, we consider only one leader emerging out of stage 1 (the entry stage) and thus we can now simply focus our attention on what sort of leader the median member of the group would prefer. For group 1 this would be the member located approximately at 0.25. We assume that 0.25 (like all group members) knows the payoffs in the game of political interaction (stage 3) and the value of c. 0.25 will choose the leader as a best response to the type of leader that may be selected by group 2. Note that a leader located at 0 would always be preferred to any other possible leader in group 1 if the game of political interaction were restricted to compromise. That is, extremists are always preferred as leaders in respect of their ability to deliver the most advantageous compromise. However, 0 is also the most likely location to bring about conflict rather than compromise. In the simplest case, group members therefore face a choice between a leader located at 0 with the certainty of conflict, and a leader who is the most left-wing member of the group who would compromise. All leaders other than

these two would be dominated. For 0.25 to choose the leader who would compromise, it must be the case that

$$0.25 - 0.5 \left(0 + L_2\right) - c < 0.25 - 0.5 \left(L_{1(com)} + L_2\right) \tag{4.10}$$

where L_2 is any given leader chosen by group 2 and $L_{1(com)}$ is the location of the most left wing compromiser, (4.10) reduces to

$$c > 0.5 L_{1(com)} \tag{4.11}$$

In turn, for group 2 to be willing to choose a leader who would compromise, it must be that for their median voter (approximately located at 0.75)

$$0.5 \left(1 + L_1\right) - 0.75 - c < 0.5 \left(L_{2(com)} + L_1\right) - 0.75 \tag{4.12}$$

This reduces to

$$0.5 - c < 0.5 L_{2(com)} \tag{4.13}$$

For two compromise leaders to emerge, both 4.11 and 4.13 must hold. We can now make some conclusions about what sort of leaders will emerge, given differing values of c.

i. When $c = 0$ or $c > 0.5$, there will be no conflict and group 1 members will elect an individual located at 0 as their leader. This point is obvious, if $c = 0$, by definition there is no conflict and if $c > 0.5$, no leader will actually choose conflict as a strategy. The social outcome will be $0.5 \left(L_2 - L_1\right)$ and therefore 0 would be the preferred location of 0.25, no matter which leader group 2 elects. Given that the same logic applies to group 2, L_1 and L_2 will be located at 0 and 1.

ii. Until roughly $c = 0.165$, 0 and 1 will continue to be the equilibrium leaders and conflict costs will be incurred. To see this note that it will not be possible to find values for L_1 and L_2 such that 4.11 and 4.13 will hold. For instance, assume

$c = 0.1$, for 4.11 to hold it must be that $0.2 > L_1$. However, any individual located at approximately 0.2 would not choose a compromise strategy against any leader that group 2 may choose. As such group 1 would choose 0 as leader and in response group 2 would choose 1. Therefore, conflict would ensue, but note that the reason for this outcome is that c is low.

iii. Between roughly $0.165 < c < 0.25$, multiple equilibria exist. For instance at $c = 0.2$, 0.3 would be willing to compromise against 0.7. If we plug the values into 4.11 and 4.13, the equations hold. However, note that the best response to the choice of 1 as L_2, would be for group 1 to choose 0, in turn if 0 is elected by group 1, group 2 will elect 1. Multiple equilibria exist, one of which is conflictual - the election of 0 and 1. This raises an interesting problem of coordination between the two groups when choosing leaders.

iv. For $c \geq 0.25$, conflict disappears in equilibrium. At $c = 0.25$, member 0.25 is indifferent between voting for 0.5 or 0 against 1. At costs higher than 0.25, the compromise leader would always win in response to any leader selected by the other group. Although there remains to be multiple equilibria, none will be conflictual.

Stage 1 - Entry To determine whether individuals would be willing to stand as a leader we need to consider how members view the payoff to the eventual group leader following the completion of the game of group interaction (stage 3) *ex ante*. For an individual to be willing to become a leader, they should expect to be at least as well off as a professional politician than they would be by not becoming leader. The real enticement given the utility function and constraint outlined earlier is the possibility of a higher income. Note that, although by reaching stage 3, the leader will have an instrumental effect upon the social outcome, this will not act as an incentive to become leader, if one believes that another individual from the same location would become leader instead. Thus in stage 1, the incentive to stand will hinge purely upon the possibility of a higher income from politics than the private sector.

In stage 2, the member located at 0.25 determines which location within the group would be most preferred, given the value of c and the choice of L_2. We discovered that at low values of c only the most extreme leaders would be preferred. If we assume there is some small cost to standing for leadership, we can thus conclude that at low c, members located at any other location other than the extremes will decide not to stand for leadership as they would realise that they would not win the election in stage 2. At higher values of c, multiple equilibria exist and the decision to stand would become dependent upon the expected choice of leader by the other group. Clearly there is a coordination problem here. Despite this complication, the same logic applies, if a member has no prospect of success, he will not stand for leadership. As such only those individuals located at the winning location will have an incentive to stand for leadership. This means that in the stage 2, there will not in fact be an actual location difference in the potential leaders, so all those who stand have an equal chance of success, and which one is actually elected will be a random outcome. However, if members care (to even the smallest degree) about the price they will pay for having a leader, they will choose that leader from the favoured location who offers the lowest price.

We now turn to the issue of how differing levels of productive ability can effect the price one can offer for group activity if elected leader and how comparing political income with private income may narrow the number of members from the favoured location who are actually willing to stand for leadership.

At the given location that does offer the possibility of electoral success, it may be the case that not all these individuals will wish to stand for leadership. The determining factor here is the possible income to be made from politics as opposed to the private sector.

First, assume that productive abilities are distributed uniformly at each location. Private sector earnings are given by

$$e = \alpha + \beta p \qquad (4.14)$$

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where $\alpha, \beta \geq 0$ and p is the productive ability of the member.

We depict income from politics in the following way. Once the group moves from informal coordination to formal organisation through the election of a leader, they will now make payments directly to this leader who organises the group. Once the leader is elected we assume that he is effectively a monopolist and will set p_g so as to maximise profits. The more productive the leader, the lower the marginal cost and the lower the price. The leaders income will be the profit from his role as group organiser which will be assumed to increase with productivity. We depict the relationship as follows

$$\pi = \psi + \delta p \tag{4.15}$$

where $\psi, \delta \geq 0$.

We now consider a variety of possibilities with regard to which types of individuals may be attracted to politics. If $\pi < e$ at all values of p, then seemingly no individual would be willing to pursue politics. However, given sufficiently negative consequences if no individual stands for leadership, one member will emerge from the group.[11] If $\pi > e$ at all values of p, then all individuals would be willing to pursue politics. Alternatively, assume that $\alpha > \psi$ and $\delta > \beta$ and that the two curves meet at

$$\frac{\alpha - \psi}{\delta - \beta} = p \tag{4.16}$$

In this case only more productive individuals will be attracted to politics. If instead,

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[11] The question then is what the best response is to whether the other group selects a leader or not. If group 2 selects a leader, even though a political career means a reduction in income a member of group 1 may wish to stand as leader to avoid group 2 dictating the political outcome. If group 2 were not to elect a leader, we may suppose that if group 1 were not to select a leader there would be no political outcome which may cause large negative payoffs to all members of society. To avoid this and to have the chance to dictate the political outcome, a member of group 1 may wish to stand for leadership despite the reduction in income. In this way, we reason that the groups will select leaders.

$\alpha < \psi$ and $\delta < \beta$ and the two curves meet at

$$\frac{\psi - \alpha}{\beta - \delta} = p \tag{4.17}$$

only less productive individuals will be attracted to politics.

We could in addition to the payments from group members add an extra income in the form of office rents. Formally, this would be captured by an increase in ψ. It would lead to more productive leaders, but would have no effect upon the location of the leader.

Comments In this model we have focussed on what might be one aspect of how groups choose leadership and as a consequence the form of competition between groups. Here individuals are assumed to be motivated to choose the individual they feel would leave them best off in terms of the overall social outcome that would emerge from the game of political interaction. This choice is based upon external relations with the opposing group, but the choice is *pragmatic*. The results from this motivation will contrast with the results in section 4.2.6 where group members also choose on the basis of external relations with the other group, but on an *ideological* basis.

We make three main points here. First, conflict may exist in equilibrium, but at a relatively low level (compared to what may arise in sections 4.2.5 and 4.2.6). Second, group norms play no role under this sort of motivation. The reason for this (given the way the model is set up) is that there is no advantage for potential leaders to be located at the focal point of the group. Third, does this prior point matter. A sensible assumption is that it may do in one crucial way. We assumed that productive ability was uniformly distributed in the same way, at all locations. However, the ability to organise the group at lowest costs and thus highest profits may not be distributed uniformly across all locations. One may expect that individuals located at the group norm, given that they fully identify with actual group behaviour would have a competitive advantage in supplying group activity. Formally, this could be shown by the highest level of ψ at the point of the group norm. This in turn implies higher profits and lower p_g for an individual

at this point compared to an equally productive individual at a different location. As such, if the location of the leader that emerges is not that of the group norm, the group will not have elected the leader who could have provided group activity at the lowest p_g which is feasible. Since, we assume that group members are motivated in their choice only by the game of group interaction *ex ante,* they may not end up with the best organiser *ex post.* Whether this is significant in normative terms, depends upon the extent to which this lower p_g could have compensated members for a less appealing leader in instrumental terms.

Unequal Sized Groups

If the groups are of unequal size, the analysis is more complex. If we assume, for instance that group 1 has more members than group 2, then $k < 0.5$ and $c_1 < c_2$. In group 2, the choice of 1 will still be preferred by the median voter in terms of the location of the political outcome. However, in group 1, 0 will not be the Condorcet winner within group 1. Despite these points the same reasoning applies as in the case of equal sized groups. The median member within each group will face a choice between their most preferred location, but with the possibility of conflict against the best location which offers peaceful compromise. In the case of unequal sized groups, group conflict is less likely due to the increased costs of conflict and reduced bargaining power for the smaller groups. In addition, a (con,com) outcome becomes a possibility with the larger group effectively dictating the political outcome at a small conflict cost to the larger group.

Note, finally that given this latter possibility and the fact that the demand curve for group activity will be less for the smaller group, the incentive to become group leader will be less in the smaller group. This perhaps signals issues that we have not addressed for either the cases of equal or unequal sized groups. Pecuniary compensation may be only one part of the incentive to be a political leader and motives such as a desire for power or a desire to serve the public good may feature strongly in reality. We do not model these motivations, but neither do we deny their existence. What we do claim is that to provoke

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an individual with a certain private sector income to become a professional politician, these non-pecuniary incentives must be stronger in situations where pecuniary rewards are low than where they are high.

4.2.5 Selecting Leaders for Organisational Ability

We now turn to a sharply different form of motivation for members in selecting their leaders. We now assume that the game of political interaction does not provide the basis on which group members make their choice when voting. We now view members as cheering for those leaders who can provide the social networks for group activity at lowest p_g.

Expressive choice is now viewed as internally focussed on the member's own group. However, the leaders that do get chosen will still play the game of political interaction. We do not assume that members are unaware of this fact. We might simply argue that they do not see this fact as particularly relevant to - and certainly not decisive with respect to - their voting decision. Additionally, we might argue that in a political environment there may be huge uncertainty about how politics will be played so that it would be very costly - if not impossible to detect the real political positions and talents of candidates, but that the organisational ability of potential leaders is more readily apparent to group members. As such, members cheer for the best organiser - the candidate who offers to make the group most internally coherent.

As in the last game, the choice of leader will be made on the basis of an *ex ante* evaluation of utility, where in this case we focus on how this will be effected by the organisational ability of the leader. However, as in the last game (where organisational factors were not included in the choice calculus) utility may be substantially different *ex post* because of the unintended consequences of the choice of leader. In this model, the *ex post* effect will be derived from the game of political interaction, played by leaders chosen for their organisational ability and not how they would play the interaction game.

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Equal and Unequal Sized Groups

Since individuals do not vote on the basis of the game of group interaction, we do not need to discuss equal and unequal sized groups separately in our analysis of leader emergence.

Stage 2 - Voting In this game choice is straightforward. All members would simply choose that individual who would provide group activity at the lowest p_g.

Stage 1 - Entry In each group, each individual will be aware of the p_g that they can offer the group. In turn they will be able to calculate the level of π associated with the p_g they charge. We assume that there is a negative relationship between p_g and π. Individuals of ability p would compare equations 4.16 and 4.17 to see if politics would leave them better off than the private sector. Therefore, assuming there is a set of individuals that would be made better off through politics, those that would be made worse-off would not stand for leadership. The set of willing individuals would be aware which other group members would be willing to become political leaders. As such only the most productive individuals from this subset of the group would stand, the less productive would realise they would not win the election.

Finally, as discussed earlier, we may sensibly assume that since group members are identified through observation of group norms, the formal organisation of these group norms will be carried out at a lower cost by members actually located at this point. This may be reflected in the highest value of ψ being located at the group norm. Thus, the individual who will win the election would be the most productive individual located at the group norm who is willing to stand. In equation 4.16, this would be an individual with the highest ability within the group. If, however, the relationship between e and π are given by equation 4.17, the individual located where 4.17 holds in equality would be the member who would stand for leadership.

We may add here that it must be the case that the group leader can offer group activity at $p_{gL} < p_{gN}$ where p_{gL} is the price of group activity with a leader. If this were

not the case, the group would not wish to have a leader as it would be cheaper for them to organise group activity themselves.

Comments The expressive choice in this game is simply to choose the best organiser. A single point will be selected offering the lowest feasible p_g (feasible in the sense that this individual is willing to stand as group leader). However, the other feature of this game stand in contrast to the previous game.

First, group norms do play a significant role here. We assume that an individual located at the group norm will have a competitive advantage over an individual with identical productive ability located at a different location within the group. As such, leaders must emerge from the focal points of the two groups.

Second, this point feeds into any normative discussion regarding the *ex post* outcome of group interaction. In the previous game, conflict if it were to exist at all would only exist at relatively low levels of c. However, in that game, group activity may not have been supplied at the lowest p_g possible. The balance of these two effects (in combination with the actual location of the social outcome)[12] would tell us whether voting on political interaction provided a 'good' *ex post* outcome for society.

In this game the effects are reversed. Here the positive effect is that the group does choose the lowest p_g possible, but they do not consider the game of political interaction. However, the two leaders will play this game and dependent upon the location of the leaders and the value of c a decision to compromise or conflict will be made. To see the potential for negative outcomes, the two groups may have norms located towards the extremes and even for relatively high values of c, conflict may occur. Therefore, *ex post,* the election of these leaders while providing the benefit of low cost group activity may lead to the cost of a high degree of conflict.

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[12]Given a uniform distribution on $[0, 1]$, the ideal location for the social outcome for social welfare would be at 0.5.

4.2.6 Selecting Leaders as Rhetoricians

We now turn our attention to the third role of group leaders, that of rhetoricians. If individuals in collective situations do not choose instrumentally, the highly neglected issue (in the political economics literature) of political rhetoric may now come strongly into play, helping to determine how group members choose. An exception to the general neglect of political rhetoric is Riker (1990) who writes

> In order to understand and generalize about persuasion, one should be able to describe how rhetorical appeals actually work on individual psyches to move them from one ideal point to another on dimensions in the outcome space. (p.57).

We believe the logic of expressive choice goes some way to incorporating rhetoric without having to present underlying preferences as changing. An individual's preferences for political outcomes may differ from their preferences for the 'language of politics'. Models of political competition that only allow for the instrumental voting on political outcomes, thus ignore this other non-policy dimension. If individuals choose expressively, they might want to cheer for a language of politics as opposed to actual political outcomes.

The significance of political rhetoric in the context of voting for redistribution in democracies is discussed by Brennan (2001). It becomes significant because voting now becomes more akin to booing or cheering for a particular position *after* hearing the debate, than already knowing exactly how one would vote *before and after* any debate as would be the case in instrumental arguments for voting, thus rendering no purpose to political speech. In an alternative example of obvious relevance to this chapter Brennan and Hamlin (2000) give an example where voters vote for war rather than peace on an expressive basis due to the powerful rhetoric associated with the war platform. We conceive rhetoric as providing an ideological basis for group identity. All members are once again aware that the game of group interaction will occur following the election of leaders, but now they focus their expressive choice only on which potential leaders would

provide the strongest rhetoric for the group. In terms of equation 4.1 this is the factor R.

Equal and Unequal Sized Groups

Once again we do not need to analyse equal and unequal sized groups separately.

Stage 2 - Voting We cannot be as precise as we were in the previous two sections in identifying the sets of leaders to emerge and as a result the nature of the game of political interaction that would be played. Rhetoric may be either internally or externally focussed. An external focus would be trained on defining group identity in relation to the outside group and the rhetoric will be either antagonistic or accommodating. Antagonistic rhetoric would be more effectively conducted by extremists and accommodating rhetoric would be more effectively conducted by moderates. Thus, to simplify matters we shall argue that if the majority of the group prefers antagonistic rhetoric they would vote expressively for an extremist, but if they prefer accommodating rhetoric they would vote expressively for a moderate.[13] An internal focus would be aimed at the rhetoric of group identity in terms of itself without reference to outside groups. In this case we may expect the rhetoric to be focussed on the norms of the group, thus giving an individual located at the group norm a rhetorical advantage as their speech and behaviour is identically aligned to the actual behaviour of group members.

The sort of rhetoric the majority of members do in fact respond to will determine the sorts of leaders the group may select and therefore what sort of group interaction occurs.

Stage 1 - Entry If we assume that group members can assess what sort of rhetoric will appeal to the majority of group members, only those located at that location which will be successful will have an incentive to stand for leadership. In addition, only those

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[13]Social psychologists suggest though that group identity is more easily forged by defining the group as different to an outside group. This suggests that the rhetoric of antagonism is often more likely to be successful (see Brown (2000)).

individuals that will be compensated for private sector income forgone will wish to stand.

Comments We now have a third basis upon which group members select a leader. They now consider how their utility will be effected by having a voice for the group. We continue to assume that members vote expressively on this basis, but will only discover how utility is actually effected once the leader interacts with the other group leader. One possibility is that both groups respond to antagonistic rhetoric and select extremists and a high cost of conflict becomes a more likely outcome. A second possibility is that the group members respond to accommodating rhetoric and select moderate leaders, thus making conflict less likely. A third possibility is that individuals located at the group norm get elected and the same comments apply here as in the previous section.

4.2.7 Combining All Three Factors For Leadership Choice

So far we have modelled group members as selecting the group leader on only one basis and ignoring the other two factors. In reality, all three factors may feature in the minds of group members when choosing a leader. We do not model this multi-faceted choice explicitly, but simply note that if all three factors are significant, trade-offs between different potential leaders would be likely to exist. The 'best 'leader on each of the three factors may be different, and the choice of 'best ' leader overall would involve capturing an appropriate balance of all three considerations.

Up to now, selecting on only one basis may have negative implications. For instance, choosing a leader on the basis of antagonistic rhetoric may provide a leader who will incur high conflict costs for the group. If the value of choosing the rhetorical leader is less than the costs of conflict, then choosing a leader on this basis implies inefficiencies in the choice of leader. If however, group members consider all three factors (appropriately weighted for their importance in the underlying utility functions) one might expect improved efficiency as the process accounts for both instrumental and expressive concerns.

In other words, in a model where group members would be depicted as choosing in-

strumentally - given their utility functions that recognise organisational and rhetorical benefits in addition to the more standard benefits associated with eventual political outcomes - (in combination with low entry costs for potential leaders) an efficient outcome would arise as an extension of the median voter theorem. However, our emphasis has been on the potential for inefficiency that derives from the failure of these assumptions. We model group members as choosing leaders in ways that over-emphasise one or other aspect of leadership relative to the others. In particular we would suggest that the inward looking and expressive concerns for group organisation and political rhetoric are likely to dominate leadership elections and so bias the choice of leader. Members do not believe their choice has any impact upon eventual outcomes, group members simply cheer for the potential leader they like best. In such an environment, factors such as the rhetoric of potential leaders may dominate the battle for leadership, to the point of becoming *the* salient issue upon which members choose leadership.

A disturbing implication then is that due to the expressive nature of political choice, groups may select more extreme leaders, not because they prefer conflict to compromise or because they are irrational, but because antagonistic rhetoric comes to play too dominant a role in the choice of group leader.

4.3 Selection of Party Leaders In Stable Democracies with Large External Constituencies

We now briefly adapt the approach developed for an unstable society to a stable democracy characterised by a process of political compromise between groups/parties based on a popular election. We will assume that the political outcome is determined by plurality rule, with the party leader who gets the most votes, implementing the party platform. As before, party leaders emerge endogenously from within their parties and we continue to assume a uniform distribution of preferences. For simplicity, we assume that only two political parties exist. In more detail, we assume the existence of a left party that consists

of a number of members all of whom lie to the left of the median member of society, a right party that consists of a number of members all of who lie to the right of the median voter, and a large number of individuals (including the median voter) who do not belong to either party, so that the number of external constituents greatly outweighs the number of internal constituents. Our concern is what sort of leaders and platforms may emerge out of these parties and thus what choice will face the nation in a general election. In this way, we place the internal process of choosing leaders of political parties at the forefront of an analysis of political competition. There are a range of potential leaders/platforms within the party that party members may select, and the key determinant of how they choose a leader may not be directly related to the overall outcome of the election even though the choice of leaders by the parties clearly has important implications for the outcome of the election.

Earlier we discussed deficiencies in the analysis of political parties in the political economics literature. Before continuing our present analysis we will mention some exceptions. One strand of literature has likened political leaders to entrepreneurs. This literature has its roots in Schumpeter (1942) and has been further treated in Frohlich, Oppenheimer and Young (1971) and Frohlich and Oppenheimer (1978). For a discussion of the differences between the Downsian and the Schumpeterian approach to modelling politicians, see Wohlgemuth (2000). In recent times another strand of thought regarding political parties has been developed by Jones and Hudson (1998 and 2001) who adapt the 'transaction cost' style of reasoning within industrial organisation to a political setting to help explain why parties exist. Parties are seen as providing voters with a 'brand name' which reduces their uncertainty regarding what policies the party is likely to pursue and political parties provide a greater likelihood of probity on the part of their representatives as they seek to protect their 'brand name'. In this way, search costs may be greatly reduced for the voters. Aldrich (1995) investigates the integral role political parties have played in American democracy. He provides a useful three part function for political parties, their role in determining social choice, mobilising collective action and satisfying

the ambition of the politicians. Finally, a paper which provides a general overview of work on political parties is Pomper (1992).

In the discussion to come elections take place in two stages. First, parties choose their leaders (which we take to be synonymous with the party platform). We assume once again that party members choose leaders on the differing criteria we have discussed earlier, but note once again, we do not describe the details of an actual election within the parties, since we assume a one-candidate equilibrium. At the entry stage, in addition to political profit, we assume there is an office rent associated with becoming national leader. In the model for unstable societies, the existence of an office rent made a difference to the productivity of political leaders but not their location. Here, we will find that it also effects location. Having selected a leader, in the second stage, the public then vote in a general election. For consistency, we must hold that they vote expressively, however, we may assume that since the vast bulk of the population has no expressive attachment to either of the parties they vote for that party which would leave them best off in terms of the political outcome. Note that since - by assumption - there is no prospect of conflict in a stable democracy, there can be no trade-off between the costs of conflict and other considerations. Here the trade-off is entirely in the other direction - between the internal preferences of the party and the pressures coming from the external constituency.

4.3.1 Selecting Leaders to win General Elections

We make a number of points.

i. We consider first the case where the most right located member of the left-wing party and the most left located member of the right wing party are equidistant to the median member of society. In equilibrium the members of the two parties will select these individuals as their leaders. This would be the pure strategy equilibrium for the choice of leaders by both groups. Note that not choosing a leader at these locations, would allow the other group to win the election and leave group members worse off in terms of the political outcome.

ii. If one party is composed of party members such that it has members located closer to the median than the other party, then that party can always win the election. It will therefore select as leader a member from the subset of winning positions which is preferred by the median member of the party. The losing group may wish to choose their boundary member in the direction of the median member of society. In this way they can force the winning party to choose a leader more acceptable to them.

iii. At the entry stage, we argue that in addition to political profit, there is now an office rent associated with becoming national leader. Therefore, the possibility of winning elections will be important in attracting productive individuals into politics. As such, in case (i), the selected leaders will have a 50/50 chance of obtaining this external reward and in case (ii) the leader of the more central party will certainly obtain it, whereas the leader of the less central party will not. Here we might expect the leader of the losing party to be of lower productivity than the leader of the winning party.

iv. The implication of this section is that policy outcomes are likely to be close the median - as close as is allowed by the structure of the parties. In the case of a uniform distribution this would be a good outcome normatively. However, we would need to know much more about the actual locations at which party membership exists to say exactly how close the policy outcome will be to the median.

4.3.2 Selecting leaders for Organisational Ability or Rhetoric

The central point in relation to organisational ability or rhetoric is clear enough - if leaders are selected entirely on their internal organisational ability, with no reference at all to the prospects of winning the general election, parties will tend to select leaders close to their own founding norms, rather than as close as possible to the median voter. Unfortunately, this does not provide an absolutely clear result since there can be no presumption that

the founding norm of a party lies in any specific relation to the position of that party's members. Nevertheless, it is clear that, on average, parties that focus on organisational ability will choose leaders further from the median voter and who are not the best response to the choice of the rival party. Thus we might expect political outcomes to deviate more from the median voter result while at the same time we might expect elections to be less closely fought than might be expected under simple instrumental models, with the prospect of landslide victories for one party or the other.

The existence of an external reward in the form of an office rent for winning the general election makes the analysis slightly more complicated. To see this, consider the possibility that the two parties have norms such that one is located closer to the median member of society than the other group. If the two groups were to select leaders purely on grounds of organisational ability, the party located further from the median would lose the general election with probability one. It might then be that, for that losing party, selecting a different leader with a real possibility of winning the election will provide a more productive leader in organisational terms than choosing a leader located at the party norm. To see this note that for individuals of equal productivity, an individual located at the group norm will have a comparative advantage in organising the group. However, if choosing a leader located at the group norm guarantees political defeat in the general election, no prospect of office rent will be available for individuals at this location. By choosing a leader who has a chance of winning the election (and therefore the opportunity to earn office rents), it may be that individuals of greater productivity would be willing to stand as leader, and that this increased productivity effect might dominate the location effect so that the overall organisation of the group would be improved by selecting a leader with a chance of winning. (Of course, there is no guarantee that the productivity effect will be sufficient to overwhelm the location effect and it is only at all plausible where the private office rent from winning the election is large).

The role of rhetoric will also play in the choice of party leader. A candidate running on a more central platform may face a disadvantage in terms of lacking antagonism towards

the other party (if we assume party members prefer the language of hostility towards the opposing party), but will now be armed with the rhetorical advantage of describing a more antagonistic stance as a losing ticket in a general election. Again, a trade off for party members may exist. On this occasion it is in choosing between the rhetoric of opposition to the rhetoric of winning elections. Which sort of leader emerges depends on the sort of rhetoric the group prefers.

4.4   Conclusion

In this chapter we have attempted to take the first steps towards integrating the role of political leadership into models of political competition between groups. We believe that this is an important and under-researched topic since many of our everyday beliefs about politics seem to hinge on the role of political leaders. A simple example is provided by the recent election of a new leader of the UK Conservative party following the decisive defeat of the party at the last general election. The explicit focus of the debate in the leadership election was on the choice between selecting a candidate who stood the best chance of winning the next election by maximising the appeal of the party to the external constituency of the electorate, and selecting a candidate who responded to the key internal concerns of party members and activists. The discussion we offer provides at least one way of understanding this debate by departing from the narrow confines of the standard models in the Downsian tradition which rely on the instrumental rationality of all agents and on modelling political candidates as unitary actors. By insisting on recognising the importance of political groups, and on the significance of the role of leaders within groups, we open up the space for accounts which explain the election of leaders in relation to their ability in one domain (of special relevance to the internal constituency) even though the primary function of political leaders may appear to be to operate in another domain (of relevance to the more general external constituency).

Although relevant to stable democratic societies, our model has been developed in

the more general context of potentially unstable societies in which leaders may not only influence the political outcomes but may also influence the form of politics - and in particular whether politics takes a low-cost, democratic route, or a high-cost and potentially violent route. In this setting - where the political stakes are high - we have modelled the possibility that the group nature of political organisation, and the internal incentives to appoint leaders, may increase the probability of violent and purely wasteful conflict.

Given the preliminary nature of this work, it is clear that many questions relating to political leadership remain open - one question of particular interest given our distinction between stable and unstable societies is the role that leaders may play in endogenously stabilizing society. This raises the question of political leadership to the constitutional level - and asks whether we can expect the sort of political leaders that are likely to emerge to provide the sort of constitutional structure that may be expected to serve society well. To this theme we now turn in chapter 5.

Chapter 5

Political Leadership, Political Conflict and the Prospects for Constitutional Peace

5.1   Introduction

In chapters 3 and 4 models were built to depict the formation of groups and the emergence of group leaders. Through the interaction among leaders, the subsequent possibility of violent conflict between groups was depicted. Taking violent conflict as a potential political equilibrium, we now attempt to complete the sequence of topics by discussing the potential for conflict resolution.

A major distinction between the last two chapters and this one is that the earlier chapters lie within the realm of in-period political choice and the current chapter relates to pre-period or constitutional choice. In the in-period setting, institutions within a society are given, and choices made within a particular institutional environment determine political outcomes. In the constitutional setting, the outcomes from the in-period political choice may be judged to be inefficient and this inefficiency may point towards a change in the institutions that govern a society. The choice to change institutions is a constitutional

choice.

The emphasis in constitutional political economy (CPE) has been upon choosing constitutional rules that would lead to clear efficiency gains and thus allow for unanimous *ex ante* support from the population. The political equilibrium of the in-period politics or 'game' may exhibit political failures, where a failure relates to the failure to achieve Pareto efficiency. The actual play of politics may be such that individuals are uncertain regarding the occasions on which they may be winners and those on which they may be losers in the political game, but the current rules (or lack of rules) of the game leads them into actions that create inefficient outcomes. The idea of CPE is that by changing the rules of the game all parties can be made better off relative to their expected payoff in the existing political game. The 'constitutional move' is the move out of in-period politics to a constitutional setting where new rules of the game will be devised. Individuals are more likely to choose in a generally-interested way at the constitutional stage as they are uncertain about how the 'state of play' will effect them in the newly devised political game. They are more likely to consider the variety of positions they may find themselves in and as a result select institutions that are generally acceptable and that will in turn produce outcomes that provide benefits greater than costs to the whole society.[1]

Buchanan (1975), in a normative analysis, conceived of two distinct aspects concerning constitutional choice, the constitutional contract and the post-constitutional contract. The constitutional contract is the agreement among individuals to emerge from a state of anarchy and form a government which will protect the rights that have been agreed upon in the constitutional contract. The basis for constitutional agreement is that peace will provide an improvement in welfare for all individuals relative to anarchy. The post-constitutional contract is then built upon the security of rights, so that free trade can flow amongst citizens and that government institutions are formed to provide public goods. Voluntarily formed and unanimously agreed upon government thus increases wel-

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[1]See Buchanan and Tullock (1962), Buchanan (1975), Brennan and Buchanan (1985) and Mueller (1996).

fare beyond simply maintaining peace to the efficient provision of private goods (through law) and public goods (through law and/or government production). The two welfare enhancing roles of government (relative to anarchy) are captured in Buchanan's (1975) distinction between the protective and productive state.

The concentration of work in CPE has been upon inefficiencies in the post-constitutional contract. That this has been the focus is unsurprising. CPE has been developed with mainly western democratic societies in mind. In these societies the initial constitutional contract or escape from anarchy, could be viewed as basically settled. As Mueller (1996) indicates conflict can be of two types. One case is common criminality or private conflict, which does not emanate from a disagreement with authority, but rather as the result of a calculus which suggests crime pays. The second case, which we might term public or political conflict is the one we focus on in this chapter. This relates to organised groups perpetrating political conflict with the aim of shifting the balance of political power. The fundamental difference in this case from the first is the non-acceptance of the state as the political authority. All nations display some level of political dissent against the state. But it is fair to say that the countries of the European Union (with the important exceptions of Northern Ireland and the Basque Region) and especially the USA display much less organised dissent than other regions of the world. One might argue that it is for this reason that the first stage of constitutional choice has generally received less attention in the literature.[2]

In many other societies (including the two exceptions mentioned above), the issue of constitutional contract does not seem so settled. A common theme for the non-acceptance of state authority would appear to be the *identity* of the rebellious group conflicting with the identity of the state. That is, dissent is group based. A stronger group may dominate the political process at the expense of a weaker group. Members of

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[2]Though a significant rational choice literature on conflict exists. See Usher (1992) and the collection of papers in Garfinkel and Skaperdas (1996) for examples. The attention in these models is upon investments in predation and/or defence to steal and/or protect resources. This provides a foundation for an understanding of non-violent predation or rent-seeking by groups and organisations in modern society.

the weaker group may not feel represented by the political process and thus rebel. This rebellion may happen even without including the additional effect of any discriminatory policies that may exist and that are directed towards the weak group by the strong. We argue that in predominantly group based societies a political equilibrium can exist and remain stable with a relatively high level of political conflict. This implies an inefficient political outcome and the normative claim for constitutional reform aimed at reducing conflict becomes very strong.

Buchanan's analysis suggests that if individuals are rational such reform should be attainable. He discusses how coalitions may form out of pure anarchy (where conflict is Hobbesian, with each individual fighting against and protecting themselves from every other individual), but suggests that the costs of conflict between coalitions *should* eventually lead to agreement upon a common enforcing agent or protective state. In effect, coalitions *should* converge through a series of constitutional conventions. One could view this as coalition leaders simply explaining the high costs of conflict to their group members, who would in turn approve a constitution designed to eliminate conflict. The group members are conceived as thinking instrumentally and recognising that their approval of a peace agreement will, in fact, lead to a peace agreement and the realization of gains from trade.

We agree that the existence of a high level of political conflict in political equilibrium may be very costly and thus inefficient. But in contrast we argue that in an environment where groups reflect their members passions, and where political choices are more likely to be dominated by expressive rather than instrumental preferences, the prospect of groups converging to a unanimously agreed protective state is greatly reduced. As we discuss in more detail below, group members may not see their political choices as having any direct effect upon actual outcomes. As such, when presented with a peace deal, they may very well vote against peace to express their hatred of the other group. This is rational if they calculate the instrumental effect of their action to be negligible and they

do in fact hate the other group.[3] Our point is not that expressive preferences prevent the emergence of peace, but rather that a clear demonstration of the costs of conflict will not be sufficient to persuade group members to support peace. Expressive opinions would also have to swing behind peace. An additional problem is the role of group leaders. We will demonstrate later that they may have incentives that prevent a constitutional convention from actually taking place, as they may fear that it undermines their leadership and/or their office rents from political leadership.

A relatively high level of political conflict may be maintained as a political equilibrium in a world of expressive preferences. Recognition of this allows us to shift our attention away from post-constitutional contract to the prior stage of constitutional contract. We stress that there is a considerable difference between the idea of peace and the idea of constitutional peace. The first might simply be a cease-fire, where the institutions in a society are the same as when there was conflict. The idea of a constitutional peace is in keeping with the central message of CPE, that to realize efficiency the constitutional rules of the game need to be changed. In the context of this chapter, new commonly agreed institutions would have to be created or existing institutions would have to be re-formed. These institutions would be commonly agreed by participants at a constitutional convention.

Our discussion focuses on two main issues. First, we argue that the role of expressive preferences and group allegiance may make peace very difficult to achieve. The issue of how to actually instigate a constitutional convention has received very little attention in the CPE literature[4]. We place this problem at the forefront of the analysis and argue that it is a crucial factor in explaining why certain societies have such difficulties achieving peace. Second, achieving peace is only the first step of the problem, the second is how to design institutions designed to maintain and institutionalize peace. We are interested as to how the acknowledgment of expressive preferences as central to the analysis may

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[3]For detailed discussions regarding the logic of expressive choice and its application to the political environment see Brennan and Lomasky (1993), Brennan and Hamlin (2000) and Schuessler (2001).

[4]Though see chapter 21 in Mueller (1996).

effect the design of such institutions. The chapter is organised as follows. In section 5.2 we provide a very simple game of political interaction to be played by two group leaders and where initially we define the payoffs as relating only to political outcomes. We then discuss what determines office rents to leadership and then demonstrate that including office rents in the analysis may alter the discussion significantly. In section 5.3, having outlined the potential for an inefficient political equilibrium we discuss whether political leaders would wish to hold a constitutional convention and if so whether they can get their own group members to agree to any constitutional peace that such a convention may make. In this section we also discuss the effect that time may have upon the analysis. In section 5.4, under the assumption that a constitutional convention takes place, we discuss generally the area of institutional design in the context of resolving group conflict. In section 5.5 we draw some conclusions from the analysis.

5.2   The Game of Political Interaction

We build on the analysis in chapter 4 to depict the interaction of two group leaders which have been selected by two pre-existing groups. In line with chapter 4 they are once again depicted as facing a choice of engaging in conflict or compromise. Where this chapter differs from chapter 4 is that we now add office rents to the payoffs of leaders, in addition to the acquisition of political power. It is through this channel that we aim to demonstrate the significance of the expressive preferences of group members for the instrumental choices facing group leaders. We explore this issue in section 5.3.

The second departure from chapter 4 is the interpretation of compromise. In chapter 4, compromise was taken to mean peace with no discussion of altering institutional arrangements. At the constitutional level peace is different. It implies changing the 'rules of the game' through a change in the constitution, under which group members make political choices. We explore this issue in section 5.4. Achieving peace in the form of a mere cease-fire will be taken to be an unstable peace, and to achieve a lasting peace it

will have to be found constitutionally.

This section is organised as follows. In section 5.2.1 we show the game facing group leaders where office rents are assumed not to exist. We wish to demonstrate that engaging in conflict is a form of rent-seeking.[5] Resources are used in non-productive activities and the elimination of conflict will therefore make society better off. As such any strategy profile that includes political conflict will be Pareto inferior to the profile where both leaders choose peace. This argument applies whether both groups engage in conflict or only one group engages in conflict, so that it dictates to the other group. In section 5.2.2 we discuss the determination of office rents. In section 5.2.3 we show the full game facing political leaders with the inclusion of office rents. This provides the basis for the analysis in section 5.3 in which we discuss the difficulties of achieving constitutional peace once the preferences of group members and the existence of office rents for leaders are taken into consideration.

5.2.1 The Game of Political Interaction Without Office Rents

To remind the reader we reproduce the game of political interaction as shown in figure 4.1 from section 4.2.3 and the conditions necessary for political violence to exist as a political equilibrium. Recall in the previous chapter we were interested in the possibility of groups selecting leaders who would choose conflict in a one-shot game. In this section, we are interested in the normative properties of such a choice.

	com	con
com	$kL, (1-k)L$	$L, -c^{tw}$
con	$-c^{ts}, L$	$kL - c^s, (1-k)L - c^w$

Figure 5.1   Political Interaction
Without Office Rents

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[5] See Tollison (1996) for an overview of the literature on rent-seeking.

Recall that $L = (L_1 - L_2)$, where L_1 and L_2 stand for the locations of the leaders of group 1 and 2, c is the exogenous cost of conflict and k reflects the relative strength of the two groups. As before, we allow for the possibility that the groups are of different strength where s denotes strong and w denotes weak. One may assume that $c^s \leq c^w$ and $c^{ts} < c^{tw}$ and since one group may dictate t stands for tyranny.

Political conflict in Political Equilibrium

Group Conflict   Group conflict will occur as a unique Nash equilibrium if conditions 4.6 to 4.9 hold

Dictatorship   The strong group will subjugate the weak group in equilibrium if conditions 4.6 and 4.7 hold and 4.9 fails to hold. This says that conflict is the dominant strategy for group 1, but in response to conflict group 2 would choose compromise. Clearly the weaker is group 2, the closer k will be to zero and the more likely it will be that 4.9 fails to hold. In this case the (con,com) profile would be the political equilibrium, so the group 1 leader would be dictator.

Normative Implications   Both group conflict and dictatorship are inefficient due to the existence of conflict costs. The leaders should be able, through negotiation, to end the conflict and devise mutually acceptable institutions for governance and thus both be better off by ending the conflict.[6]

Dictatorship is inferior for the strong group since we assume they must pay subjugation costs. For instance, if (con,com) is the equilibrium profile and group bargaining is costless, it would seem unproblematic to move to a (com,com) profile and make both parties better off. This can be achieved by providing the weak group with an infinitesimally small value of k. If the weak leader is offered even the most minimal stake in governance, it is better than being offered nothing under a dictatorship. The strong leader in return

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[6]The maximum joint payoff is the (com, com) profile which equals $(L_1 - L_2)$. All other profiles provide a joint payoff less than $(L_1 - L_2)$.

for surrendering a small degree of political control is made better off through being relieved of subjugation costs. The conclusion at this point is very optimistic. Although political conflict is possible in equilibrium, rational negotiation should allow all gains from trade to be realized through the construction of peace.

5.2.2   Determination of Office Rents

To keep matters simple, we define the position of group leader as an attractive position, which becomes more attractive the higher the level of group activity the leader can generate. As such, office rents are simply defined as positively related to group activity. How is group activity determined? In section 4.2.2 we showed that it may be related to how it may effect the political outcome, distance from the focal point of the group, the cost of group activity and the direct expressive benefits of group interaction conditioned by political rhetoric. For now we wish to focus on the last of the incentives just given and so present a simplified version of the utility function. We argue that actual engagement in conflict may increase benefits of group interaction, in the same way that the rhetoric of conflict was argued to increase benefits in the previous chapter, by making the group more cohesive.

Consider the following utility function for group action facing a representative group member, where we distinguish between the two possible forms of interaction that a leader can choose, conflict (which we call state X) or peace (which we call state Y). The utility function for a member of group i is given by either

$$U^i = U^i \left(P\left(G, X \right), g^i\left(X \right) \right) \tag{5.1}$$

or

$$U^i = U^i \left(P\left(G, Y \right), g^i\left(Y \right) \right) \tag{5.2}$$

$P\left(G, X \right)$ is the overall political outcome, where G is total group activity within the society and X reflects the existence of conflict. $g^i\left(X \right)$ reflects the direct benefit of group

action. This is an expressive benefit from group action. An analogous representation can be provided for action under peace.

The optimal level of g in both cases is that which solves

$$U_{g(X)} = U_P P_{g(X)} + U_{g(X)} = 0 \tag{5.3}$$

or

$$U_{g(Y)} = U_P P_{g(Y)} + U_{g(Y)} = 0 \tag{5.4}$$

We may assume that $P_g = 0$ in both scenarios. This reflects the public good problem associated with group action, each individual may assume that their effect on the overall outcome is negligible. As such the motivation for group action must come from the direct, expressive benefit gained. Might this expressive benefit be effected by the presence of conflict or compromise? We argue that the stance that the group leader takes against the other group will effect the marginal utility that group members receive. Suppose that historically antagonism between the two groups is high, we may assume that members will more fervently support their group if they engage in conflict with the opposing group. If this is the case, then

$$U_{g(X)} > U_{g(Y)} \tag{5.5}$$

which implies that group action would be greater under conflict than compromise. In turn this implies that office rents would be greater under conflict than peace, since total activity is greater.

Before returning to the game of political interaction we should highlight an important feature of the analysis of group action. Note that the overall political outcome exerts no influence on the choice of group action by individual members. This is rational in that they calculate that the probability of their action effecting the outcome is effectively zero. We shall see that political leaders may have an incentive to provide conflict if members respond in the manner outlined above. This is because providing conflict would lead to higher office rents than negotiating constitutional peace. This logic follows, even if

conflict provides a much inferior political outcome for group members than constitutional peace and even if members weigh the political outcome much more strongly in their utility function than their expressive preferences.

In terms of the analysis above this would mean that P is a greater source of utility than g. The political outcome is an instrumental incentive to action, but as stated since $P_g = 0$, the instrumental incentive is absent for group members. Their incentive to act is expressive, and the expressive incentive may be stronger under conflict than compromise. This is of considerable significance if instrumental and expressive preferences pull in different directions. We might surmise that this is the case with political conflict, so that welfare outcomes are lower for group members (though not necessarily for group leaders) under conflict than they would be under compromise. In this sense, a *political failure* may arise.

5.2.3 The Game of Political Interaction With Office Rents

The full game of political interaction, inclusive of office rents is as follows

	com	con
com	$kL + \pi^{ms}, (1-k)L + \pi^{mw}$	$L + \pi^{ms}, \pi^{vw} - c^{tw}$
con	$\pi^{vs} - c^{ts}, L + \pi^{mw}$	$kL + \pi^{vs} - c^s, (1-k)L + \pi^{vw} - c^w$

Figure 5.2   Political Interaction
        With Office Rents

π^{vs} stands for office rent to the strong leader when engaged in conflict, π^{ms} stands for office rent to the strong leader when seeking constitutional peace. The definitions for the weak leader are analogous.

The addition of office rents may significantly alter our earlier analysis of the game of political interaction. For instance, what would have been a dictatorship may now become

group conflict. This will be the case if

$$\pi^{vw} - \pi^{wm} > c^w - k(L_1 - L_2) \tag{5.6}$$

where we know the right hand side is positive due to 4.9 not holding in the case of dictatorship.

In this sense political conflict that appears irrational, as it may not have any chance of altering political institutions, may be rational from the point of view of a leader if it galvanizes support and thus generates office rents. The existence of excess rents to conflict compared with constitutional peace make the existence of group conflict more likely, in that conflict may become a rational strategy for weak group leaders in unequal contests whereas it would not have been in figure 5.1.

Nevertheless, the existence of a Nash equilibrium for group conflict is a necessary condition for conflict to exist, not a sufficient one. Group leaders could alternatively negotiate a constitutional peace. Where the payoffs to group leaders are only the political outcomes, negotiation may not pose enormous difficulties. Once the payoff includes excess office rents to conflict the challenge becomes greater.

5.3 Prospects for Constitutional Peace

We now wish to explore two reasons why constitutional peace may not be easily attainable once office rents are included in the payoffs to leaders. We assume group conflict is a Nash equilibrium, but that this may be both a necessary and sufficient condition for the existence of group conflict.

The first reason captures the idea of rent-seeking by leaders. They may engage in conflict which is of personal benefit to themselves, but at a cost to their group members and society as a whole. Leaders face instrumental political choices and it may be the case that their instrumental goals are best served by exploiting the expressive preferences of the members of their group. The second reason is that leaders may see the benefits

of constitutional peace but may be encumbered in their efforts at achieving it by the expressive preferences of their group members. Finally, we consider the effect that time may have upon the analysis.

5.3.1 Profitable Conflict For Leaders

The idea of a constitutional convention and the design of mutually agreeable institutions is dependent upon the existence of gains from trade in forming a constitution. This will not be the case for a (con,con) equilibrium if

$$\pi^{vs} - \pi^{ms} > c^s \tag{5.7}$$

and

$$\pi^{vw} - \pi^{mw} > c^w \tag{5.8}$$

In this situation the Pareto superior outcome is to fight, and no incentive for a convention exists.

Note that the superior outcome from the point of view of the leaders does not carry through to the population as a whole. The existence of conflict as an outcome may provide a much lower utility than would be the case under constitutional peace, but it is the preference of the population for greater group participation when there is conflict rather than when there is peace that causes the politically inferior outcome. We do not depict this behavior as irrational, but say rather that a negative externality exists. $P_{G(X)} < 0$ but for each individual $P_{g(X)} = 0$. Group hostility through augmenting group identity may result in 5.5 holding, thus providing higher office rents under conflict than peace. If this gap is substantial, both leaders will find it in their interests to pursue conflict.[7]

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[7]This analysis is somewhat related to papers by Hess and Orphanides (1995 and 2001). They also are interested in situations where a political leader will select conflict as a strategy. They explain that a leader in a democracy may choose conflict if he or she is low in economic competence and thus by displaying an ability to conduct a war they may be reelected and continue to enjoy office rents. The

5.3.2 Expressive Constitutionalism

Let us suppose that group conflict exists as a Nash equilibrium but that the signs in conditions 5.7 and 5.8 are reversed, so that political leaders do have an incentive to hold a convention and devise a constitutional peace. What sort of obstacles may prevent the new institutions and perhaps the convention itself from taking place. One obstacle is that if the convention must be ratified by referendum then that referendum will be an expressive choice and there is no guarantee that group members will vote for the treaty (see Brennan and Hamlin (2002). If, as we assume, members may receive greater marginal utility from group action under conflict rather than compromise, then it is likely that they will vote against peace. Leaders may worry that losing a referendum would lead to their downfall as leaders and thus the forfeit of office rents.

One might argue that the position of leader in itself may carry expressive value to group members, so there may be room for the leader to argue for peace and thus modify the expressive preferences of the members and thus win the referendum. A second obstacle occurs at this point. It may be that in choosing peace the group would prefer a leader who has not previously engaged in conflict. So peace is achieved, but the leader is replaced. The leaders must weigh up the probability of maintaining their leadership of their group after founding a constitutional peace against the certainty of maintaining leadership by choosing conflict. For the leaders to choose constitutional peace, it must be that

$$q_s \left(\pi^{sm} + kL \right) > \pi^{sv} + kL - c^s \tag{5.9}$$

and

$$q_w \left(\pi^{wm} + (1-k) L \right) > \pi^{vw} + (1-k) L - c^w \tag{5.10}$$

where q_s and q_w stand for the probabilities of the leaders maintaining control of their groups, having agreed to a constitutional peace.

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key difference is that in their work, voters may choose instrumentally for a leader conducting a war on the basis of perceived competence in that area. In our work group members provide a leader with rents through activity rather than votes and for reasons unrelated to actual political outcomes.

The discussion in this chapter links to the argument made by Voigt (1998) for a positive rather than a normative approach to constitutional economics. He argues that the formal institutions embodied in a constitution are the result of an evolutionary process of group bargaining where the nature of bargaining is determined to a large extent by the internal institutions of the participants. By internal institutions Voigt means informal rules, of which in the context of this chapter group norms are an example. Here we argue that the conditions for constitutional peace are determined by the nature of group interaction, so that group hostility may be such that leaders may find it either profitable to engage in conflict or that finding a peace may be too risky for a leader to even attempt. Internal institutions may prevent welfare-enhancing external institutions to be created or reformed. In this sense we follow Voigt in placing an increased emphasis on positive rather than normative arguments in constitutional analysis.

5.3.3 The Effect of Time

Up to this point, we have not considered the effect of time. In both sections 5.3.1 and 5.3.2 constitutional peace is difficult to achieve when group members are expressively against the idea of compromise. While it may be the case that group members are expressively against compromise at the beginning of the conflict, if the conflict was to last for a period of time, the discomfort of conflict may reduce the passion for conflict amongst group members. A natural analogy is with the literature on industrial strikes (the seminal work in this area was by Ashenfelter and Johnson (1969), see Booth (1996) for a review on this line of work). The argument as it applies to strikes is that at the start of the strike, the workers have high expectations of their payoffs from industrial action and union leaders would be risking their positions if they were to agree a wage settlement acceptable to the firm. The longer the period of time in which the dispute is unresolved, the greater the discomfort the workers experience and the lower become their wage demands. At a certain point, the union will be able to settle with the firm without their positions being under threat. The normative dilemma is that if this agreement had

been set in place *ex ante* it would have avoided the costs of industrial action *ex post*. But due to the nature of the expectations held by union members the deal would not have been acceptable to them *ex ante*.

In our model, group members at the start of any conflict may view aggression towards the opposing group as expressively appealing in terms of it augmenting group identity. While group leaders may in fact realise the welfare costs associated with conflict (as they face real instrumental choices), they may also realise that to remain in their position they must provide conflict. As for industrial strikes, it may be the case that the longer the conflict continues, the greater discomfort experienced by group members and the less expressively appealing is hostility towards outside groups. We might depict the marginal utility from group action for group members to fall each period that conflict continues. As soon as the marginal utility for group action under conflict is equal to the marginal utility of group action under compromise, a convention will be successful. In this case, leaders instead of risking their leadership by striking a bargain too soon, must wait until the time arrives when peace can be implemented with the support of group members.

More formally we can say that for both group leaders office rent is a function of time $\pi(t)$, such that $\pi_t^v < 0$ and that $\pi_t^m = 0$. Furthermore at time zero, $\pi^v(0) > \pi^m(0)$ and that at time ∞, $\pi^v(\infty) < \pi^m(\infty)$. So at a time $\bar{t}$, $\pi^v(\bar{t}) = \pi^m(\bar{t})$. At this point, or more precisely at a point just beyond $\bar{t}$, constitutional peace would be accepted in a referendum because group activity now yields greater marginal utility under peace than under conflict.

An obvious difficulty is that time $\bar{t}$ may not arrive until many periods of conflict have been endured. In addition, the point of war weariness being reached is not a sufficient condition for constitutional peace. New constitutional arrangements will still have to be designed and implemented, otherwise the peace is more accurately described as a cease-fire, and a cease-fire may only serve to provide a respite before the marginal utility from group activity under conflict would once again be higher than under peace and a resumption of hostilities would be a likely outcome. Here we draw attention to the

significance of peace not simply entailing the absence of war, but rather the construction of a constitutional peace.

5.4   What Sort Of Constitutional Peace?

In the previous sections we addressed the first of the two main concerns of this chapter. Why should it be problematic to achieve a constitutional convention and through this obtain a peaceful resolution to conflict? We focussed on the effect that the expressive preferences of group members may have on the office rents to group leaders such that their incentives to seek peace are reduced. While drawing attention to the substantial difficulties that expressive preferences in the form of group identity may pose for any attempt to achieve peace, we do not argue that they pose an insuperable barrier. Leaders may gamble that their position carries sufficient weight to carry any peace proposal, or the passage of time may reduce the expressive desire for conflict thus opening the path to a peace. A constitutional convention is possible and peace is possible, but what sort of peace? Would any peace be little more than a cease-fire, so that hostilities could resume once war-weariness has passed. Or will the peace be lasting in the sense that a constitution is designed with the purpose of changing the underlying behavior of group members.[8]

The CPE perspective is that change within a society can be implemented by shifting from in-period political choice to constitutional political choice. Constitutional choice is an attempt to design institutions that provide new 'rules of the game' for in-period politics. These new rules alter the conditions under which individuals play the political game, and the aim is to provide rules that make the outcomes of the game 'better'. In the context of this chapter, 'better' means the elimination of political conflict. To agree a cease-fire at a constitutional convention does not change the nature of the game, so it

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[8]On a related theme a very recent paper by Grossman (2002) explores the extent to which constitutions are self-enforcing so that groups do not wish to engage in conflict.

would be expected that hostilities are very likely to resume at a certain point. The key is to design institutions that provide for a resolution of the conflict.

Designing institutions for the purpose of conflict resolution is clearly an area of extreme complexity which will be dependent upon the specific circumstances facing a particular conflictual society. We do not enter into a detailed study of constitutional design here, but we do argue that three conditions must be met for any constitutional proposal to be successful. These conditions follow directly from the analysis in this chapter.[9]

First, those taking part in the constitutional convention must agree. The delegates at the convention (which we argue would be the leaders of the conflicting groups) must believe that any constitutional arrangements that may be forged must leave them better off instrumentally. This reflects the contractarian normative basis for CPE. Second, any proposal must be expressively appealing to group members. This reflects the feasibility of constitutional reform in that those who lead the groups are likely to be the delegates at the constitutional convention and their position as group leaders after the convention is dependent upon the support of their members. Third, the proposal must be more than a cease-fire. The rules for political interaction must actually change and the goal must be to lessen the negative effects of group identity as displayed through the expressive choices of group members. In this sense constitutional change would be aimed at shifting expressive preferences away from the special interest of the group toward the general interest of the society.

Can these three conditions lead us to say something more concrete. We give two examples. First, consider a proposal by the strong group leader to offer Coaseian style compensation to the weak group in return for hegemonic control by the strong group. While this may be of instrumental appeal to the weak group leader it is difficult to see how such a proposal could ever be expressively acceptable to the members of the weak group. An awareness of the significance of expressive preferences reduces the set of possible constitutions as it must pass two conditions rather than one. *It must be instrumentally*

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[9]For a more detailed discussion of methods for conflict resolution, see O'Leary and McGarry (1995).

appealing to the leaders and it must be expressively appealing to group members.

Second, the third condition may lead us to recommend different institutional arrangements than would be the case under a conventional instrumental analysis. To give an example, consider two papers which recommend federalism as a means toward conflict resolution put forward by Congleton (2000) who views the problem of political conflict instrumentally (he specifically focuses on ethnic conflict), and by Brennan and Hamlin (2000) who view the problem of conflict expressively. Congleton argues that in a centralised system of governance, ethnic groups engage in competitive rent-seeking, where the rents are defined as economic gains. In the extreme, rent-seeking will take the form of political violence. By creating a system of federalism, ethnically homogenous jurisdictions are likely to form as federal states. This would serve to eliminate competitive rent-seeking. This argument for federalism is based on an instrumental diagnosis of the problem. Group identity is used as a basis for collective action in order to gain economic benefits, the problem is that the clash of groups seeking benefits may lead to highly inefficient outcomes. To the extent that federalism provides for ethnic separation it serves as an instrumental solution to an instrumental problem in that it removes the requirement to engage in rent-seeking as an equilibrium response to rent-seeking by an opposing group.

By contrast Brennan and Hamlin put forward an argument for federalism as a means to reduce group conflict, but where their diagnosis is that the source of the conflict is expressive in nature and based on group identity. In their discussion they have in mind the idea of a federal Europe and note that while economic analysis does not unambiguously point to large economic gains to federalism, the political gains may be significant. If by creating a federal system, the citizens of individual states find themselves with divided loyalties for their own state and the central state this would reduce the source of conflict as it dilutes national identity. Nationalist expressive preferences may have contributed to previous wars in Europe and a federal Europe may dull the sharp divide between countries. Note that this argument does not hinge upon an instrumental conception of

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group identity as a means to achieve an economic gain, but rather group identity as a benefit in itself.

The key difference between Brennan and Hamlin's approach and that of Congleton's is that in the latter the level and nature of group identity is taken as given, group identity is instrumentally focussed and institutional design should be targeted with these assumptions in mind. Federalism serves as a solution to ethnic conflict as it reduces the gains to rent-seeking and through migration federations become ethnically homogenous and so non-competitive. In the former, group identity is perceived as a variable and expressively focussed. Institutional design should be targeted with these assumptions in mind and institutions should be designed to dilute group identity (not by attempting to eliminate it) but through the provision of cross-cutting loyalties.

Whether federalism is the best type of institutional design in a bid to end expressively based conflict is open to debate. It may simply make existing group identity even more intense. As stated earlier, it is unlikely that any general model for constitutional peace can be created, the specific circumstances of any individual situation will be crucial. Nonetheless, all the usual ingredients of constitutional debate: federalism, voting rules, bicameralism, and so on, could be assessed in terms of their ability to overcome the expressive nature of the conflict.

A final example of constitutional design that may pass the three conditions outlined above, but would not normally be expected to pass a purely instrumental conception of constitutionalism would be the formation of what appear to be simply symbolic institutions. Generally, we might think that constitutional design would focus on the elimination of unproductive bureaucracy. The existence of institutions that serve no function (other than the interests of the bureaucrats that run them) would appear to be a clear target for institutional reform. The costs to society would appear to be greater than the benefits and by eliminating these institutions, the general interest would be advanced. So we might expect a constitutional convention to recommend such an institutional cull and we would not expect such a convention to recommend the creation of such institutions.

If we consider a society infected with identity based political conflict, we may alternatively conclude that creating unproductive institutions may actually lessen the effect of hostile expressive desires if group members feel that these institutions in some way represent them. In this chapter we have focussed on the social dilemma that arises when the expressive preference for group hostility provides political conflict, although political conflict is an inferior outcome *ex post*. If at the root of the group hostility lies grievances regarding the representativeness of a society's institutions, then the creation of symbolic (but all-encompassing) institutions may provide some degree of 'existence value' to expressively motivated group members. Note that these institutions do not necessarily have to play any significant functional role. A case where this principle has arguably been applied is in the Belfast Agreement and some of the institutions created within it.

5.5   Conclusion

This chapter has followed on from chapter 4 to analyse the prospects for constitutional peace in a conflictual society. As before, we differentiate the nature of choice facing group leaders from that of group members. The former are faced with instrumental choices, whereas the latter are faced with predominantly expressive choices. While group members may select leaders (for reasons of group identity) more likely to engage in conflict, the leaders themselves will be responsible for the actual choice to engage in conflict.

We have depicted political interaction as a 2-person game in which the equilibrium may be Pareto inefficient. It may be argued that this dilemma should not present insuperable barriers for escape and the avoidance of welfare reducing conflict. We argue that the barriers are significant if the provision of conflict is positively related to office rents, and if their is a risk to leaders of losing their leadership in the pursuit of peace. This aspect of the chapter fits with the approach of positive constitutional political economy. The clear existence of gains from trade through the creation or reform of a constitution does not mean that such a creation or reform will take place.

The rest of the chapter is in line with the more traditional normative constitutional political economy. On the assumption that a constitutional convention can take place and will be accepted by the group members, what sort of constitution will that be? We argue that if the source of conflict is due to the expressive preferences of group members rather than their instrumental preferences, then institutions should be designed so that they focus on redirecting expressive choice towards more peaceful commitments. Clearly, this task would be case-specific, a monumental task and we do not address it at a deep level in this chapter. The point we wish to make is more general. The line of reasoning taken in this chapter may lead us to consider recommending institutions that are considerably different to those that may be recommended under the more conventional approach, where the causes of in-period political failures are viewed primarily as instrumental.

Chapter 6

Concluding Comments

The work in this thesis has attempted to develop a more prominent role for individuals choosing their actions as members of groups, where the groups to which they belong are located within the broadly defined arena of political competition. Political competition is depicted as covering a full spectrum, from electoral competition between political parties in a stable constitutional democracy at one end, to tribal conflict in Hobbesian anarchy at the other end. Individuals (regardless of the society in which they are located) are treated as heterogeneous in their policy preferences and while group membership may reduce the degree of heterogeneity it will not eliminate it. In this manner, the work differs from the more standard approach to political competition in public choice, where group preferences are depicted as homogenous, so that the group may be treated as if it is an individual. We contend that in many real-world situations, the degree of heterogeneity displayed within groups is broad and as a result the question of which preference comes to be the one representing the group is a significant one. It is significant both in terms of how it may effect political outcomes and (where it is viewed as endogenous) the political process itself.

The motivational assumptions used in this thesis extend beyond the idea that individuals act purely strategically or instrumentally. Given the 'public good' nature of many political choices, direct benefits or expressive preferences become a crucial component of

individual decision-making. It is argued that the expression of group identity is often the driving force behind an individual's political actions and if expressive preferences deviate from how they would have chosen instrumentally the social implications may be large. The implications may be positive or negative from a social point of view, but the possibility of a divergence between expressive and instrumental preference would appear to exist whatever the political system.

The implication that receives most attention is a negative one. This is the idea that expressive preferences may be more likely to lead to political violence rather than political compromise between groups. This implication in turn suggests that the quest for a peaceful form of political process through constitutional agreement must recognize the role that expressive motivation plays in creating the problem. This may lead to a quite different perspective on constitutional design, to the one that would exist in a purely instrumental account of politics.

Economic progress does not seem to have led to the 'end of history' where individuals are free of *irrational* group attachment and liberalism is the accepted social order. Millions of individuals still appear tied to groups in their search for identity and in recent times we have been horrifically reminded of the terrible consequences that such identity may bring. Treating group identity as rational, but in an expressive manner, may help to shed light on the nature and outcomes of political competition, whether that be in the rather benign setting of a modern western democracy or nations where politics remains tribal and literally a matter of life and death.

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