



## A Model of Political Selection for Good Governance in Africa

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This paper sought to outline mechanisms for selecting high quality leaders into public office having identified the failure of political leadership as the bane of economic development and democracy in Africa. In the first stage of the screening process, certain elements of costs are imposed on the intending politicians so as to deter the entry of dishonest politicians into politics. This is accomplished via the inverse relationship between the degree of honest and the costs of participation. The unique thing is that separating equilibrium that makes participation costs zero for honest individuals and heavy for their dishonest counterparts could in principle be obtained. Interestingly the mechanisms that generate information about the past of intending politicians also impose heavy costs on groups which supply this information. This process should yield an equilibrium that includes only honest and competent politicians in the political system, leading to more accelerate economic development.

*Keywords:* Leadership failure, participation costs, pooling equilibrium, separating equilibrium, screening costs, social welfare

*JEL:* D69, D73, N37

The fundamental premise upon which this whole study rest is that general public sector performance is determined to a large extent by the quality of leadership offered by people who governs public space<sup>1</sup>. Quality is defined here in terms of honesty and competency of the political leaders. This reflects in the ability to translate the potentials of a given society to actual development. The inability of African leaders to translate these potentials to actual and sustained prosperity remains a great political failure. The main reason for this failure is the inability of the system to match the skills and attributes required for nation-building with the people who have such skills and attributes. More than anything else, this accounted for the alternating sequence of civilian and military rule in Africa before now. The dismal performance in Africa's public sector has had a negative knock-on effect on the quality of economic governance in the private sector.

It is to the presence of these leaders that we owe a number of adverse features that have characterized the polity in Africa. They account for why we have inefficient and inferior production techniques in place of welfare-enhancing

technologies (Parente and Prescott, 1999); they account for a regime of bad policies resulting from the inability to use transfers to separate efficiency and distribution, unwillingness to pre-commit to long-term policy and inability to appreciate the close connection between development and changes in the distribution of power (Robinson, 1998; Ndulu and O'Connell, 1999). They explain the rapid deterioration in income distribution (Artadi and Sala-i-Martin, 2003), the resource curse syndrome that encourages over-exploitation of natural endowment, and the manipulation of the electoral process with looted funds and misallocation of public resources (Robinson, Torvik and Verdier, 2006). A legion of other failures identified by Krueger (1990); include high-cost public sector firms, monopoly network of state marketing boards, costly intervention in the economy, wasteful and excessive investment programs, huge budget deficits, decayed social infrastructure and macro-economic instability. To a large extent, it is all or a combination of the features that account for the lack of visible improvements in the living standards of Africans, producing what Adamolekun (1988) calls leadership failure. Though exogenous or random change in a country's leadership can have far-reaching consequences for growth performance (Jones and Olken, 2005),

education of country's leader has been associated with positive economic performance (Besley, Montalvo and Reynal-Querol, 2011)<sup>2</sup>.

To reverse this trend, we can either change the rules that guide the players in politics or replace the present players with those who can act in the larger interest of the public or both. Much of the institutional economics literature has focused on building constraints or establishing rules that prevent the arbitrary use of political power. North and Weingast (1989) argues that the political history of pre-industrial revolution England was characterized by the establishment of secure and stable property rights guaranteed by a representative democracy. With a parliament firmly in place, the arbitrary exercise of power by a corrupt and autocratic monarchy was effectively curbed. Consequently, economic growth accelerated with England outpacing many other countries in Europe.

While institutions are indeed the fundamental cause of long-run growth (see Acemoglu, Johnson and Robinson, 2005) for a recent review of the literature), strong institutions do take a while to evolve. One study by Clark (1996) provided empirical support for the argument that secure and stable property rights may only be a necessary but not sufficient condition for economic growth. He

established the fact that security of property right existed long before 1688 and even before 1600, without any visible evidence of economic growth. This implies that there is no reason to expect immediate economic growth even if property right can be widely secured. If we extend the argument, the establishment of parliament in England could not have been instrumental to securing property right.

A recent re-investigation of the North and Weingast thesis with respect to England and France by Stasavage (2003) shows that creating credible commitment via the establishment of parliament which exercises fiscal authority is dependent on the structure of partisan interest in a society, the existence of cross-issue coalitions and the extent to which debt management functions are delegated. Stasavage (2003) asserts that except these conditions exist, creating multiple veto points is neither a necessary nor a sufficient condition for credible commitment.

Since all these conditions cannot simultaneously exist, neither in autocrat societies nor in young democracies, the option of changing the players could offer an alternative means of optimizing social welfare. We can therefore create a system that generates credible commitments without fulfilling the conditions stated by Stasavage (2003). In the face of

the problems of adverse selection and moral hazards, which turns politics into a tragedy of some sort, every society must be able to draw from this pool of ethically sound and competent people for the purpose of providing good governance. If we limit the competition for public office to these people, wasteful struggle for power, adverse consequences for economic growth can be avoided. Without necessarily downplaying the role of institutions in development, the approach of this essay is to fashion a reliable mechanism for African societies which would allow her best people to provide good governance. These are the people of character.

Kartik and McAfee (2005) mention these famous quotes from a number of American presidents and statesmen to buttress the place of character in public affairs. Galvin Coolidge asserts "character is the only secure foundation of the state" and Richard Nixon as a presidential spokesman for Goldwater campaign said, "you must not give power to a man unless, above anything else, he has character". Though, there are few men, according to George Washington, who have the virtue to withstand the highest bidder, there is a reason to believe that among us live a sizeable number of people who can secure public good even when the institution that can guarantee creditable commitment are absent (1

King 19: 14 &18- Check the Bible for details)<sup>3</sup>. The major challenge of this essay is to create a model which will eliminate or minimize the agency losses often associated with the relationship between the people and the ruling elites, with adverse consequences for both development and democracy.

We intend to achieve this by drawing a limited set of clear, simple, enforceable and inclusive rules to deter the participation in politics of those likely to impede economic development while allowing the risk-averse set of honest and competent people an incentive for participation. The model drawn here makes participation costs excessively prohibitive for the dishonest, and in respect of the rules drawn for this model, participation costs are zero for the honest individuals. If these rules can be successfully incorporated into a formal social welfare function, frequently called the constitution, dishonest individuals will fail to signal any intention to participate in politics due to huge entry costs while entry costs for the honest ones will be zero. The second part of the model imposes considerable costs on political parties that present incompetent individuals for public office apart from the risk of losing elections. The overall intention is to create an incentive system in politics that favors the active

participation of only the honest and competent individuals in politics and public sector governance. Finally, the last part of the model shows how the society can create organizations or exploit existing ones to help produce honest and competent individuals for both private and public sectors.

The rest of the paper is organized as follows.

Section two is a brief literature review of how signaling in economics and biology can help in the sorting process when information asymmetry exists. Section three establishes the theoretical foundation for the introduction of participation costs while the latter part of it discusses the essential features of the rules of participation. Section four presents models of first and second stages of the screening process which weeds out dishonest politicians at the first stage and weeds out incompetent politicians at the second stage. Section five develops a long-run model which shows how African societies can continuously provide honest and competent politicians using global ranking of universities as benchmark for the selection process. Section six presents a brief summary of this essay and draws the necessary conclusions

Because Akerlof (1970) classic paper indicates the problem that exists in private markets when information is not equally distributed between trading parties, Spence (1973) and Stiglitz (1975) show how parties in the contractual relationship try to mitigate the information problem. Spence's signaling theory is about how the more informed party or agent in a market can send honest signal to counteract the effects of adverse selection. Spence showed that individuals could acquire educational qualifications to signal their productive capacity when employers of labor cannot distinguish between low and high productivity workers. One fundamental feature of signaling theory is that the cost of signaling must be different among senders of signals or else employers will not be able to distinguish the low from high-productivity workers. Spence's work, however, yielded a possible set of signaling equilibria.

The theory of screening (Stiglitz, 1973) is similar to Spence (1973) except that the less informed agent in the market is the one making the move to acquire more information in order to counter the problems of adverse selection and moral hazards. In the literature, signaling and screening are regarded as the same thing and are used interchangeably.

For the models presented in this essay, we identify the society as setting the rules for screening potential politicians, and the politicians respond by sending appropriate signals for the purpose of revealing their true type.

Spence (1973a) gave another example which illustrates the role of setting rules to generate appropriate signals. His model has to do with parents giving their precious daughter out in marriage to whosoever is regarded as the best suitor. If the parents are profit-maximizers, they can auction their daughter via competitive bidding to the highest bidder. If they desire companionship for their daughter, in addition to a suitor with endurance, stamina and discipline, they can insist that the would-be husband should appear at the doorstep of the young lady for one hundred evenings and at the next visit, wait long enough to be admitted into the lady's house. If the price system is used, only a rich suitor gets the lady and if the time system is used, a jobless person with zero opportunity cost of time will likely win. To avoid these two extreme possibilities, the parents of the lady might use a mixture of time and price to get their daughter the appropriate suitor.

Rothschild and Stiglitz (1976) provide a model that further extends the screening theory. Their

model was specifically applied to insurance market characterized by problems of adverse selection and moral hazards. To distinguish low from high-risk individuals, insurance firms offer a variety of contracts, so that prospective agents can reveal their true risk type by self-selecting. Their model shows two positive equilibria: pooling and separating. Distinguishing the risk type is not possible under pooling equilibrium because individuals buy the same type of insurance. However, by offering a combination of premium and deductibles, individuals self-select into insurance type that reveals their true risk type to achieve the separating equilibrium. Thus, unlike the Akerlof (1970) model where sellers of high-quality product withdraws their goods because the price is too low, the equilibrium premium charge by firms would be too high for low-risk individuals if the Rothschild-Stiglitz model did not propose varying combinations of premium-deductibles for the purpose of identifying individuals' risk level. High risk individuals would self-select contracts with high premiums but low deductibles. Thus, high deductibles scare away high-risk individuals, who want to pay low premium, but cannot do so because of high deductible. However, the models in these essays, for at least the ones presented in the short run, will not offer a

menu of contracts. We are interested in admitting only honest individuals into politics and only competent people to run the public sector.

Stiglitz and Weiss (1981, 1983) offer a further attempt at showing adverse selection problems in credit market where lending institutions do not have information on the credit-worthiness of lenders. Their models advocated the rationing of loans rather than raising lending rate as neo-classical theory would predict. Optimality can be attained by rationing; since raising interest would attract high-risk and less credit-worthy individuals with the possibility of high default. A more recent work by Ben-Shahar and Feldman (2003) shows how borrowers imperfectly signal their credit worthiness by acquiring different credit records with different subsets of borrowers being formed. From each subset the lenders can offer different menus of mortgage loan prospect with different pairs of risk premium and maturity. Borrowers respond by self-selecting, with low-risk borrowers choosing contracts with shorter maturities and lower risk premium. Consequently, separating equilibrium is achieved.

The operation of revelation principle in economics is also meant to elicit information when perfect knowledge cannot be obtained. For any Bayesian Nash equilibrium of a game of incomplete

information, there exist a mechanism design which at equilibrium reveals players' true types. Vickrey's (1961) auction system is based on the highest bidder claiming the bid auction but would pay the price offered by the second-highest bidder. This prompts the highest bidder to reveal his maximum price than in traditional auctions.

Veblen (1899) asserts that the "conspicuous consumption", which is the lavish waste of resources, is often used by the rich to signal their class status. Since the poor cannot engage in such extravagant expenditure, the rich can easily distinguish themselves from the poor people through vulgar display of wealth. The intrinsic value placed on the price paid for the good is what is valued by the wealth and not the good itself.

Outside the field of economics, a number of investigations (in a related field of evolutionary biology or socio-biology) studied costly honest signaling in non-human populations. Though deception offers a better payoff for either party in a relationship, this option is never pursued because the marginal cost of doing so is larger than the gains of deception. This is the same as saying that signals are costly, particularly for those who are dishonest.

There have been numerous cases of costly signaling. Most of these studies were prompted by

the seminal contribution of Zahavi (1975), whose work firmly established what is called 'handicap principle'. These signals include the development of bright plumage and long flamboyant tails by male peacocks to attract desirable mates (Grafen, 1990), the use of costly begging calls by baby birds to convey their feeling of hunger to their parents (Godfray, 1991, 1995), prey deterring a predator by showing off its ability to run to safety (Yachi, 1995) and the display of aggressive intention and fighting ability of animals when contesting food, territories, mates or other resources (Zahavi, 1975; Geist, 1966).

In our model, signaling is only excessively costly for dishonest politicians but cheap for their honest counterparts, at least for the range of costs identified. This will allow only honest politicians to signal at little or no cost to themselves. But as socio-biology studies have established, one party in non-human relationships sets the rules to which the second party responds. For example, the female peacock as a rule wants a high-quality male partner and the male who desire a relationship signals his quality via the development of costly and elegant ornaments. For the same reason, baby birds use costly begging calls to show that they are hungry since as a rule, their parents would only give food to

those that are genuinely hungry. What constitutes a critical assumption in Spence's model, which is also relevant to us, is that signaling costs are negatively correlated with productivity<sup>4</sup>.

### SELECTION MODEL

It is useful to start by ascribing some values to each of the four categories of persons identified from public offices for two groups (H and D). CH, ID, CD and ID are numbers of politicians in each category. These values represent their social marginal productivity (SMP) from holding public office, the equivalent of the growth in national output. These values are as follows: competent and honest (CH)  $4\theta$ , incompetent and honest (IH)  $3\theta$ , the group of competent and dishonest (CD)  $2\theta$  and the last group, the incompetent and dishonest (ID) the social marginal productivity is 0. Note that  $4\theta > 3\theta > 2\theta > \theta$ . CH and ID are part of group H while CD and ID are part of group D. These values are arbitrarily attached but they represent the author's subjective but reasonable evaluation of each group. Clearly noticeable from this evaluation is the greater weight attached to the integrity of those who hold public office rather than their competence<sup>5</sup>.

If each of these four subgroups which are equally represented in the public space is randomly chosen

for public office, the mean performance at any given time is 2.50 with a disturbing standard deviation of 2.24. Over time, we should expect mean performance to fall as bad politicians, defined in terms of being corrupt, drive good politicians (i.e. honest and competent) out of politics. When all honest politicians have been driven out of politics (that is, CH and IH), and the remaining group D have equal representation of competent and incompetent individuals, the mean performance if random voting is used to pick candidates for political offices falls by one unit to 1.50<sup>6</sup>. When the growth rate of social output is less than the growth rate of the group benefits, overall social welfare falls. This happens when group D wields political power.

Equilibrium Participation Costs: The next thing to ask is that how do we implement the screening strategy to yield a socially desirable outcome. The important starting point is to impose participation costs on intending participants in the political markets, rather than make it an all-comers affairs as we have it presently. The set of rules imposed on intending participants is what creates the participation costs ( $P_c$ ). If there are N intending participants, given that  $N_D$  and  $N_H$  are the numbers who are dishonest and honest, the introduction of

participation costs as rules of entrance into politics can take the form of equation 1.

$$N = N_H * P_C + N_D (1 - P_C) \quad (1)$$

$$U = -d \left| X - \ddot{X} \right| - aX^2 + bX + c \quad (2)$$

$$N = N_H * P_C + N_D (1 - P_C)$$

$$0 < P_C < 1$$

The introduction of an effective set of participation rules as well as their faithful enforcement will drive  $P_C$  towards 1. When  $P_C = 1$ , we then would have succeeded in eliminating all dishonest persons intending to participate in politics. We then would have returned to the era before the public choice revolution, when public finance viewed government as a benevolent social planner, even though that was not often the case. The mere fact that  $P_C = 1$  does not necessarily imply social welfare, by whatever parameters it is judged, will be optimized. But we would be at least close to it. If honest but incompetent people are allowed to lead the political unit of the public sector, we would be guaranteed a social marginal productivity (SMP) of  $3\theta$ , just a unit less than the social optimum of  $4\theta$ , had honest and competent people being voted into power.

If SMP of  $3\theta$  or  $4\theta$  is placed under the context of an environment with weak institutions having  $P_C = 1$  guarantees that we have political leaders who would permit steady growth in the institutional capacity of their society, even at the risk of limiting the exercise of their political power in the future. With the set of leaders in group H, the problem of credible commitments constituting an impediment against the emergence of growth promoting institutions do not arise. The self-interest of those in group H is compatible with the interest of the larger society. In the absence of conflict of interest between public sector political leaders and the society as a whole, the only way to close the gap between  $4\theta$  and  $3\theta$  is either to raise the capacity of the honest but incompetent members of group H or to allow them to participate in politics but prevent them from holding public offices. In the short run, the latter option would be better and in a later section we would explain the mechanism for sorting out the competent from incompetent members of group H. Under the weak assumption that leaders from H group will commit to building society's institutional capacity, there is another reason to expect that SMP will rise above  $4\theta$  after a period of time.

While SMP of  $3\theta$  or  $4\theta$  seems to be only

possible when  $P_c = 1$ , since that is what members of group H can deliver, however, it is still possible to achieve  $3\theta$  or  $4\theta$  when  $P_c$  is nearly 1 or a small fraction of the political leaders are made of those from group D. With a culture of honesty already well-entrenched in the political system at every level of government, few members of group D who find their way into government tend to act as if they themselves are honest. This is possible even when institutions that curtail or penalize predation are absent or weak. The heavy stigmatization of corruption or any act of predation will be a sufficient deterrent against it.

The aggregate decisions of members of group H crystallizes into norms and values of society, forcing few of those who have managed to creep unnoticed into the political arena to act as if they believe in the values of integrity shared by majority of political leaders. That is a positive externality to society when members of group H dominate the public sector space. They create sufficient social pressure for few members of D wielding power to adopt a socially beneficial policy.

The Akerlof (1997) model of social decision shows why people are firmly rooted in a social space and why class structure tends to be stable. People within a specific social space have a distinct identity

that distinguishes them from members of other groups. In the context of our discussion, when  $P_c$  is near 1, the social group that dominates politics give it a positive image, forcing other groups, and in our context, members of group D, to either move out of politics or conform to the prevailing norms in the political enterprise. Akerlof (1997) presented a utility model given below:

$$U = -d \left| X - \bar{X} \right| - aX^2 + bX + c$$

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Where  $d \left| X - \bar{X} \right|$  represents the loss of utility for nonconformity. The symbol  $\bar{X}$  stands for the choice of the group while  $X$  represents the choice of an individual. When individuals conform to group norms in equilibrium,  $X = \bar{X}$ , and everyone is alike. In respect of politics, it does not matter which group the individual making the choice of  $X$  belongs to. It is the prevailing social norms that matter and these norms are dependent on which group (H or D) is dominating the political landscape. However, whichever value  $P_c$  assumes is not dependent on the luck of draw; it is consciously determined by members of the larger society. It therefore implies that we may wait in vain or even forever for a brand new set of leaders to emerge without the society as

a whole making conscious effort to make this happen.

Both Akerlof (1997) model and the one presented here show several groupings with unique and distinct identities in a society. We further argue that there must be one unique political culture whose character is essentially determined by prevailing norms established by the dominant group, either H or D. Without necessarily losing their specific ethnic, religious or social identities, the challenge facing heterogeneous society is how to rise above the challenges of diversity and set common rules of participation for those who intend to govern them. That way,  $P_c$  will either be 1 or very near it. Though conventional economic theory views man as being essentially self interested, a large amount of literature has also proved that a considerable number of people are actually fair-minded too (see surveys by Camerer (2000) and Fehr and Schmidt, (1999). It is therefore the primary duty of society to screen those who are interested in providing her with public leadership, so that the wheat can be separated from the chaff.

When this common set of rules is not enacted and strictly enforced, the political space is overtaken largely by members of group D. The various mechanisms by which these are achieved have

been explained briefly before now. These mechanisms are effective because the larger society has failed to invest in appropriate political leadership for the public sector. Though the people of ancient Athens choose from among their citizens to fill the seats in their legislative council (Manin, 1997), they prevented members of group D from occupying seats in their law-making council by holdings confirmation hearing about the character and competence of the citizens drawn to occupy such posts (Besley, 2005).

As  $P_c$  falls below half or  $P_c$  tends towards zero, shared values across ethnic groups are aligned along the lines of those promoted by members of group D. In other words, the governance ethics of members of group D become the unwritten code of conduct for members of the larger society. Because these people operate in the public domain, their activities generate some form of salience<sup>7</sup>, which may systemically alter the existing general code of conduct until a socially pernicious and economically harmful set of values emerge, and overtime may become cast in concrete.

Thus, while the rents extracted from the public till by members of the group inhibit growth, the situation is made worse by members of the larger society, who take a cue from their political leaders. In the

words of Banerjee (1992) herd externality is the consequence of choosing political leaders from groups D or H; except that it is a negative externality when leaders are drawn from group D and positive when they are drawn from group H. In the Banerjee's model, rational individuals abandon information available to them, or in our case values attached to specific actions under the impression that their leaders have superior information. They therefore take a cue from their leaders if they do not know the way to the city. Banerjee did prove that more often than not, herd externality result in inefficient equilibrium.

Banerjee's (1992) restaurant example poignantly illustrates the argument made here. There are 100 prospective customers of two restaurants (A and B), very close to each other. If 99 people have received signals that restaurant B is better than A, that leaves us with one person that favors A. If the first person to approach the restaurant is the one who favors A, the second person who has prior signals that B is better abandons that information and would subsequently enter restaurant A. The third person follows the second, abandoning his own information and others do the same in turn<sup>8</sup>.

One other lesson to learn from equation 1 is that the value assumed by  $P_C$  determines which group

dominates the public sector and how the composition of the public sector will be altered with time. If  $P_C$  is less than half ( $P_C < 1/2$ ), group D will dominate. Since risk-neutral members of group H now have less than half a chance of being made a candidate for election, they will withdraw and join members of the larger society. Thus,  $P_C$  will fall further, leaving an increasingly smaller fraction of group H in the race for public office. When risk-averse and risk-neutral members of group H withdraw, only risk-loving members of this group will remain. When norms of group D become the entrenched values of the larger society, the pressure will be on the remaining members of group H to join those in group D<sup>9</sup>. Figure 1, which exploits a leadership duopoly model, would help to illustrate this better.

Figure 1 depicts what happen when  $P_C$  tends toward zero. Group D remains the dominant group and hence the leader as long as  $P_C < 1/2$ , while group H remains the follower. Since group D intends to maximize rents for its members, it would produce output  $Q_1$ , where marginal cost equals marginal revenue, instead of output  $Q_2$  where marginal cost equals price. Rectangle GBEF represents the rents transferred to members of group D, while triangle BCE is the total deadweight costs associated with

the sub-optimal choice of output level of group D. The difference between  $Q_1$  and  $Q_2$  represents significant output loss when figure 1 is used to depict political parties entrusted with the assignment of running the state. While figure 1(a) shows the output choice ( $Q_1$ ) of group D, figure 1(b) depicts the choice of output ( $Q_2$ ) of group H. If the two groups are acting independently of each other, and they have separate jurisdictions entrusted in their care, the output level of group H mitigates the welfare loss of the whole society, though a specific area enjoys good governance and the other area under group D does not.

The situation is not however as simple as that. When  $P_c < \frac{1}{2}$ , not only do group D dominate, they control more areas or jurisdictions while group H controls less. In fact as  $P_c$  tends to zero, areas controlled by group D increases while that of group H declines. Since members of group D code of conduct generate salience for the larger society, there is a lot of pressure on group H, with significantly lesser members in the public space, to conform to existing dominant paradigm. There is therefore a utility loss associated with producing output level  $Q_2$  rather than  $Q_1$ . Thus, when  $P_c < \frac{1}{2}$ , the existing paradigms create a situation where it seems stupid to be honest. Since honesty is not a

virtue in a society dominated by group D, group H acts as group D, producing  $Q_1$  in figure 1(b) rather than the welfare maximizing level of  $Q_2$ . The larger the utility loss associated with non-conformity by members of group H, which in any case increases as  $P_c$  tends toward zero, the more likely it is that members of group H will act like those in group D. Paradoxically, members of the larger society who suffer considerably more when members of group D wields power, follow in the steps of the dominant political group whose activities constitute the general code of conduct for the rest of the society. Those who deviate from that general code of conduct suffer substantial loss of utility<sup>10</sup>.

The situation described here is not permanent underdevelopment equilibrium. Any society in this situation can always reinvent itself, particularly when welfare loss associated with the dominance of political space by group D becomes considerable. The Grossman and Kim (2000) general equilibrium model shows how generations can be subject to bouts of moral decay and revivals at specific intervals. Their model contains two categories of persons: the 'moral' people who choose to be producers even when predation is far more rewarding and the 'amoral' people who decide to be either producers or predators on the basis of the

reward associated with the choice. As long as the ratio of amoral to moral people is low, predation will be rewarding. However, predation becomes increasingly less rewarding as the ratio rises, or in the context of our model as more people from group D enjoy the rents (depicted by GBEF in figure 1(a)) extracted public till. The rise in the ratio of amoral to moral people is often associated with a decline in moral standards which also makes predation increasingly less rewarding.

However, unlike Frank (1987) who argues that there exists a long-run equilibrium where the ratio of amoral to moral people would be such that both predation and production will be equally rewarding, the Grossman and Kim (2000) model in fact explains why a society need not get that far. Their theory of moral revival explains why we would not have to get that far. Their model of moral revival introduces the factor of joy into the utility function of the previously amoral who participate in moral revivals<sup>11</sup>. The relevance of this to our discussion is the need for society to rediscover itself, set simple and enforceable rules that make participating cost ( $P_C$ ) equal to one (1) or very close to it. It is to this set of rules that intending politicians can respond in a way that would allow us to sort out the honest from the

dishonest politicians. Our own moral revival could start with an attempt to make  $P_C = 1$  or close to it.

The challenge therefore remains finding the set of rules that can generate a separating equilibrium with a unique outcome; a set of honest politicians<sup>12</sup>. This is a huge challenge in the face of asymmetric information and credibility problems for organizations that will enforce the rules. The set of rules could serve both the short run and long run purposes. However, formally structured organizations can evolve overtime to provide the larger society with ethically sound and competent individuals to lead private and public organizations for optimal social welfare. The set of rules is for the purpose of screening potential politicians by provoking honest signals from would-be participants. We can in fact call this a screening-signaling game in a principal-agent setting. This is in tandem with the broader interest of society which is best served by screening out dishonest politicians.

Like the employer who first makes wage offer to which intending employee responds by acquiring commensurate level of education to match the offer, society also sets rules which determine the participating costs for the two categories of politicians. This represents the first stage of the

screening process which in any case determines who is allowed to participate in politics. At the second stage of the screening process, the most competent ones are sorted out and allowed to vie for political offices or hold any form of political appointments. In the second part of section three, we would discuss the essential features of these rules of participation in politics and those which qualify politicians to vie for political offices or hold political appointments.

### **Properties of Rules of Participation**

Since the rules of participation are set primarily to eliminate dishonest and incompetent individuals from the pool of intending politicians, it is important from the outset, not to attempt eliminating anybody on the basis of ethnic and religious affiliations, nor on account of beliefs or gender identity. Thus, no form of stereotyping or preconceived prejudices should be employed to assist or impede any individual who intends to participate in the political leadership of the public sector.

Equally important is that the enforcement costs of the rules must not be prohibitive relative to the gains that will be realized from their enforcement. That is, the promulgation and enforcement of the rules of participation must lead to pareto-superior outcomes

or should have a positive net benefit on social welfare.

If the rules are meant for the benefits of the entire society, then popular participation is of utmost importance. People must not only be involved in the making of the rules, they must be involved in its enforcement within a legally specified jurisdiction.

The institutionalization of the process should be such as to encourage popular participation so that collective action problems could be overcome. Properly formulated, the rules should make free-riding or nonparticipation the least attractive strategy or bluntly put, nonparticipation should produce pareto-inferior outcomes, not only collectively but individually. Participation in the process by adult members of a given jurisdiction should be the dominant strategy. In the last three decades, tons of evidence has made it abundantly clear that individuals may not necessarily pick an option, even if the option is the most attractive. (See Dawes and Thaler, 1988)

The rules must also elicit correct information about the past of those who intend to provide political leadership for the rest of the society. Since information about the past activities of politicians is hardly brought before the public, the rules must be able to generate sufficient information about them.

The information must be adequate enough for us to label the politician as being honest or dishonest, competent or incompetent. This of course leads us to the golden feature of our set of rules.

The rules, which must not only be simple, clear and enforceable, must also impose differential costs on the honest and dishonest potential politician at the first stage of the screening process and in the same breadth impose differential costs on competent and incompetent politicians at the second stage of the screening process. This is the golden feature of the rules of participation. It is this feature of the rules that produce separating equilibria at both stages of the screening process. If effective and enforceable rules are adopted for the screening processes, only honest politicians will signal their desire to participate in politics, those with past records of dishonest conduct will find signaling too costly (i.e.  $P_c = 1$ ) and will withhold their participation. If loss at the point of entry into politics would be substantial for the dishonest politician and for the two groups that supported her candidature, the resulting equilibrium will yield a pool made up of only members of group H. Except we can push it that far, there is no hope that the decades ahead of Africa in general, and for Nigeria in particular, will produce nation builders. Nearly two decades after

Adamolekun's (1988) optimistic paper, there is nothing in the horizon to suggest a new crop of successful nation-builders will emerge out of Africa, much less Nigeria. It does appear that while individuals do look out for the best marriage partners, and employers search for the best workers to engage in the workplace, our society, for curious reasons, has not clearly articulated the qualities those who intend to govern her should possess.

It is for this reason that participation costs should impose differential constraints on would-be entrants: whether they are honest or dishonest, competent or incompetent. Iannaccone (1992) model of religious behavior shows how some religious groups can successfully screen committed members from members who barely want to free-ride. To do this, these groups make alternative activities that compete for members' attention very costly, in a bid to discourage less committed members and raise average level of participation for the committed ones. There is an inverse relationship between cost of membership for such groups and members commitment. The costs of membership is prohibitively high for less committed members but less much so for the committed ones.

This subsection is meant to outline the process of reversing the situation depicted by Akerlof (1970) in his Nobel Prize winning article titled "Market for Lemon". In one of the examples given in that paper to illustrate his model, there is the issue of dishonest dealings driving out honest dealings because the cost of dishonesty is considerably lower than the cost of honesty. To raise the cost of dishonesty or more appropriately put, to deter the entry of dishonest politicians into politics, we have identified some elements of costs to be borne by both the dishonest politicians and the groups that support their entry into politics<sup>13</sup>. For the intending politicians, they must be willing to temporally surrender accumulated lifetime endowments and assets ( $E_p$ ) to the state while they remain in politics. Dishonest politician must refund ( $R$ ) extracted from the public till multiplied by a number  $x$  (i.e.  $xR$ ) in addition to bearing other non-pecuniary costs; like going to jail ( $C_pN$ ). Presently, the Nigerian legal system has taken care of some of these, but politicians are never requested to surrender their entire lifetime endowments at the point of entry into politics.

The proposition here is therefore a step ahead of what presently obtains, though effective enforcement of existing laws could have reduced the

present level of corruption in Nigeria. The self-enforcing nature of the rules outlined in our model could partly address the enforcement inertia which will have experienced in the past. Explaining the full enforcement mechanism will require another paper, but the model outlined here makes enforcement a shared responsibility between the people and the government agencies. It is vital that we note from the outset that intention of the model presented here is not to penalize politicians by seizing the assets they have surrendered to the government, send them to jail and ask them to return a multiplied sum ( $xR$ ) of the rents stolen from the public till, but to deter their entry in the first instance.

In order to secure this deterrence, we have devised a mechanism that allows the negative consequences of dishonesty to be disproportionately directly borne by certain categories of people, whose approval intending politicians must secure before their participation in politics is allowed. The first category of people is made up of a small group of reputable guarantors consisting of  $n_1$  number of persons and each with a given level of endowment ( $E$ )\*. The total endowment of this small group is  $n_1E$ , which they risk losing to the state if the politician they have supported fails to secure the approval of the second group. Even if the politician secures the

permission of the second group, the total endowment of the first group  $n_1E$  must be left in the custody of the state as a guarantee against moral hazard problems that may arise after entry into politics is secured. In addition, members of the first group must bear substantial non-pecuniary costs, not only in terms of stigmatization but in terms of taking vicarious responsibility for the acts of dishonesty committed by the politician they have supported. Stated in plain terms, members of this group should be jailed for the corrupt activities of the politician they have supported. This group's non-pecuniary cost is estimated to be  $n_1C_n$  where  $C_n$  is the non-pecuniary cost per member of the group.

For the first group, the total cost ( $C_1$ ) of supporting a dishonest politician is  $n_1E+n_1C_n$ , where  $n_1E$  is the total monetary cost and  $n_1C_n$  is the total non-pecuniary costs. For every member of group1,  $n_1E$  is the only pre-entry cost (i.e.  $C_{b1}= n_1E$ ) while  $n_1E+n_1C_n$  are post-entry costs of approving a dishonest politician ( $C_{a1}= n_1E+n_1C_n$ ). The total costs ( $C^{b_0}$  or  $C^{a_0}$ ) of participation for the dishonest politician is her lifetime endowment ( $E_p$ ), the multiplied sum of rents to be returned to the state in case of theft ( $xR$ ) and the non-pecuniary costs of dishonesty while in politics ( $C_{pn}$ ). The intending politician must also bear the cost of conducting the

screening process ( $S_c$ )<sup>14</sup> multiplied by a certain sum  $x_1$  (i.e.  $x_1S_c$ ). The total cost of participation for the dishonest politician can be broken down as follows:

$$C_0^b = E_p + x_1 S_c \text{ or } E_p + C_n^p$$

$$C_0^a = E_p + xR + C_n^p$$

$E_p + x_1S_c$  or  $E_p + C_{pn}$  are pre-entry costs ( $C^{b_0}$ ) to deter dishonest politicians while  $E_p+xR+C_{pn}$  are post-entry costs ( $C^{a_0}$ ). Politician who secures less than 50 percent of majority votes will forfeit their lifetime endowment ( $E_p$ ), pay for the cost of organizing the screening process ( $x_1S_c$ ) or risk going to jail ( $C_{pn}$ ). Thus, point of entry cost could either be  $E_p+x_1S_c$  or  $E_p+ C_{pn}$ , the latter case being the situation that obtains where the politician cannot pay  $x_1S_c$  and so has to go to jail while  $E_p+xR+C_{pn}$  are post-entry costs ( $C^{a_0}$ ) of dishonesty.

Finally, there is a second group consisting of voting-age members of an electoral constituency (perhaps at the ward level) whose approval<sup>15</sup> is required for intending politicians to be involved in partisan politics. This is intended to involve the larger society in the recruitment process as well as provide carrot and sticks depending on which type of politician is voted for. If for instance, the second group vote against a politician, their constituency stands a chance of appropriating the lifetime

endowments of both the politician and members of the first group. That is, they can get  $n_1E+E_p$ , which can be used to provide local public good for the electoral constituency. For accepting or approving a dishonest politician which they should normally reject, which in statistics is called type II error, they pay what economists call "Sin Tax"<sup>16</sup>. For an electoral constituency made up of  $n_2$  number of voting age adults, registered or not registered for the voting process, sin tax or total cost ( $C^{a_2}$ ) of approving a dishonest politician is  $n_2t$  per politician, where ' $t$ ' is the sin tax per member of the electoral constituency per politician. Sin tax for the second group ( $n_2t$ ) must be equal to  $xR$ , the multiplied sum of the rents stolen by the dishonest politicians from public till.

The total cost of approving a dishonest politician for the second group can be represented as  $C^{a_2} = n_2t = xR$ . The whole process explained thus far is to elicit correct information about intending politicians by involving two sets of persons. The first group must be very close to the intending politicians whose approval can be interpreted as a signal of honesty and the second group, which is not too distant from the intending politician could also vote in a way that honest signals can be distinguished from dishonest signals. An added advantage to the model explained

here is that none of the cost outlined can be borne by honest politicians or the groups that support them. As long as the legal process for the enforcement of the process has been instituted, the process itself becomes self-enforcing, able to continuously generate a unique separating equilibrium. Members of the second group can vote against the participation of politicians when members of the first group can be identified as godfathers whose role has all the possibilities of producing pareto-inferior outcomes.

The total costs of participation ( $P^{bc}$ ) for a dishonest politician at the point of entry and the groups supporting him can be written as:

$$P_c^b = ( E_p + x_1 S_c ) + (n_1E) \tag{2a}$$

And post-entry costs ( $P^{ac}$ ) will be

$$P_{ac} = (E_p + xR + C^{p_N}) + (n_1E + n_1C_N) + n_2t \tag{2b}$$

Or simply is

$$P_{bc} = C^{b_0} + C^{b_1} \tag{3a}$$

and

$$P_{bc} = C^{a_0} + C^{a_1} + C^{a_2}$$

One other unique thing about this model is that none of the elements of cost outlined here would be

incurred by honest politicians. It therefore implies that the high cost of honest signaling, as frequently discussed in evolutionary biology and economics (Spence, 1973; Stiglitz, 1975; Zahavi, 1975), could be avoided. If practical politics could approximate what is described here, then we would expect even risk-averse politicians to participate in politics and help to nurture democracy.

From equations 3a and 3b, it is clear that the summation of costs incurred by dishonest politicians is the equivalent of the participation cost ( $P_c$ ) in equation 1. What equation 3a and 3b have done is to show us the components of participation costs. One thing we have done before now is to normalize  $P_c$  so that the range of values it can assume is between 0 and 1. At the maximum,  $P_c$  must be equal to one (i.e.  $C^{b_0}+C^{b_1}=1$  and  $C^{a_0}+C^{a_1}+C^{a_2}=1$ ), if positive separating equilibrium is to be achieved. It is possible to integrate equations 3a and 3b into equation 1 to show the relationship between these identified elements of participation costs and the number ( $N$ ) of potential politicians wishing to participate in partisan politics. This is shown in equation 4 as:

$$N=N_H (C^{b_0}+C^{b_1}) +N_D (1-[C^{b_0}+C^{b_1}]) \tag{4a}$$

$$N=N_H (C^{a_0}+C^{a_1}+C^{a_2}) +N_D (1-[C^{a_0}+C^{a_1}+C^{a_2}])$$

(4b)

It is the possibility of heavy pre- and post-entry costs that will deter group 1 from supporting dishonest politicians. The opportunity cost of appropriating the wealth of members of group 1 for the common good of the community and the substantial post-entry 'sin tax' they will incur, equal to  $(n_1t)$  or  $xR$ , that will deter group 2 from offering support to any dishonest politician. Both works to push  $P_c$  towards one (1). These are in addition to the pre- and post-entry costs imposed directly on dishonest politicians. When dishonest politicians and members of group1 are highly risk-loving, group 2 could serve as a barrier against entrance, either because they are thinking of the immediate benefits of appropriating the wealth of a group perceived by them to be backing the wrong person or the huge 'sin tax' that would have to pay in the future if they endorse dishonest politicians.

Differentiating with respect to any element of cost shows that rising costs of participation decreases the number of dishonest politicians who can participate in public sector leadership while raising the number of honest politicians in the political industry. Differentiating equation 4 with respect to  $C^{b_0}$  yields:

$$\frac{\partial N}{\partial C_o^b} = N_H - N_D$$

(5)

Equally true here is that no unique separating equilibrium can be achieved if we fail to enforce all elements of participation costs discussed earlier. If just one, say  $C_o^b$ , out of the sets of costs are enforced, the political space will be shared equally between honest and dishonest politicians, an obviously pareto-inferior position to a pure separating equilibrium with zero dishonest politicians in the set.

### Second Stage Screening Process

If the first stage of our screening process was successful, the separating equilibrium would yield a set of honest politicians which would be allowed participation in partisan politics. But we are not there yet because group H is made up of both competent and incompetent politicians. Having competent politicians wield political power is obviously pareto-superior to allowing incompetent individuals run the government. In terms of the marginal productivity of the two subsets of politicians within group H, there is a gain of a unit of  $\theta$  in having a competent politician in place of his incompetent colleague. The attainment of optimal social welfare demands that competent individuals be allowed to run the affairs of

the state, aside the important factor of honesty that political leaders must possess.

Our definition of competence is measured in terms of ability to translate potential to actual output. The further below the actual is from the potential level of output, the lesser the competence of politicians in charge, even when the initial divergence is due to exogenous shocks to the economy, something entirely outside the control of those in power. Competent managers of the state must know how to respond as quickly to shocks as possible. The major assignment is therefore how to develop screening strategy, so that political parties can present the most competent individuals for public office, even when members of the larger society do not have insiders' information about candidates' ability.

The critical objective of this model is to yield a set of competent leaders who can seek political offices or be given political appointments. To do this, we can revisit equation 1 and recast it in order to reflect the essential objective of this part of our model. This is presented as equation 6 below:

$$N_H = N_C + N_{INC}$$

$$N_H = N_C \cdot S_C + (1 - S_C) N_{INC}$$

(6)

The Screening Equilibrium: The total number ( $N_H$ ) of honest politicians who passed through the first screening stage is made up of both a given number of competent ( $N_C$ ) and incompetent ( $N_{INC}$ ) politicians.  $S_C$  represents the screening variable which can allow the sorting of competent from the incompetent ones. It can take on values ranging from zero to one (i.e.  $0 \leq S_C \leq 1$ ). A pooling equilibrium is possible when  $S_C$  is less than 1 or greater than zero. Both 0 and 1 stands for a unique separating equilibrium that either yields a complete set of incompetent individuals or another set of incompetent individuals. However, the only socially desirable point in terms of optimal social welfare is when  $S_C$  equals 1. The challenge remains the mechanism which can generate a screening variable which is exactly equal to one.

It must be possible to implement this process in the short run, because in the medium and long term it should be possible that both public and private organizations can evolve to identify and train future political leaders who are both competent and honest using carefully designed curriculum. Thus both the first and second screening mechanisms are tentative short run approaches or models. To tackle the leadership failure identified earlier, we would have to

integrate these approaches into a *long run leadership production model*.

The best indicators of competence would be the level of educational attainment and previous performance in either (or both) previous private or public job assignments. Past awards or honors from a credible organization is an indication that candidates seeking political offices are in fact high quality individuals. Those with higher level of education will be more informed about appropriate policy choices and will likely implement them as cheaply as possible barring any significant exogenous shocks to the economy. Thus for a start, candidate seeking political offices or wishing to be appointed into government public offices (like ministerial appointments) must at least have a bachelor's degree or its equivalent. This will push us to the upper limit ( $4\theta$ ) in the MSP spectrum. If we use the education signal parameter alone, it will yield multiple equilibrium points; producing political officers or appointees whose social marginal productivity (SMP) ranges between  $3\theta$  and  $4\theta$ . If the offices are equally divided between competent and incompetent politicians, the expected SMP will be  $3.5\theta$ .

Since political parties are an important part of the

democratic system, their involvement in the screening of politicians under appropriate incentive system could induce them to produce more competent candidates for public office. The advantage they have over the larger public is that they have insider's information about the candidates' competences and skills<sup>17</sup>. Appropriate screening strategy will make  $S_C = 1$  or close to it.

To move the society towards  $\theta$ , which in our example is the upper limit of SMP, political parties which sponsor candidates for elections or make them available for other political appointments can be made to bear the cost of policy mistakes caused by the incompetence of those wielding political power. This implies that the inability to reach previously specified socio-economic goals could be due to exogenous or endogenous factors. The spiraling oil prices in the 1970s that prompted stagflation in the West and the slump in the price of crude oil which prompted economic recession in Nigeria in the early 1980s are obviously exogenous shocks to the economy, outside the control of policy makers. However, the policy responses to the shocks are clearly not.

*Example:* It should therefore be possible to outline appropriate guidelines; clear, simple and enforceable, to differentiate between exogenous and

endogenous factors that have caused actual performance of policy makers to fall below potential performance. Under a well-structured constitution, political parties or any other organizing units should directly bear the estimated cost of the policy mistakes. For instance, where wrong privatization programs of the government have been identified to lead to needless job losses, the party in power will pay the legally determined costs of such losses. Members of other political parties in the legislature which endorsed such a policy should equally be banned or made to pay part of the costs. Over two or three elections, we would be left with a set of honest and competent politicians that can help push the "national project" to the socially desirable level. This rule is self-enforcing because individuals or groups affected by the incompetence of the policymakers can take up the case in a court of law.

Policy change necessarily produces winners and losers, but policies produced by competent politicians must maximize the difference in the numbers of winners and losers, where social policy of the government should be for the good of the greatest number and equity in resource distribution.

A constitutional court, in our case the Supreme Court, should be empowered to interpret what constitutes policy mistakes due to incompetence and

what is not. Parties unable to pay losers could be permanently proscribed and their members at the time the policy was introduced banned from seeking political offices and a new election could be conducted immediately. If the funding of the political parties by government is to ensure their continued existence, penalizing them for the policy mistakes of their members wielding political powers will help keep only socially relevant political parties in existence. Even where policy change will eventually produce net positive social gains, the policy implementation process must incorporate appropriate compensation packages to mitigate the losses of policy losers, irrespective of the numbers of people affected. This kind of rule will protect minority rights or a large majority of politically powerless people.

The real intention here is not to ban political parties, but to induce them to pick the most competent individuals in their midst for public offices. If such a stipulation were in place—the Ujamaa, the operating philosophy which promotes agrarian socialism would not have lasted so long in spite of its obvious lack of visible gains for the society. Though economic underdevelopment in Africa is in part due to corruption, which the first part of our screening mechanism was meant to tackle, the

incompetence of policy makers is also a part of it. Parties facing the risk of ban from partisan politics will set up an internal democratic mechanism for picking competent candidates for public offices. Political parties constitute the third group involved in the screening process which receives some level of public funding for continued existence if they do well or severely suffers the consequences of policy mistakes due to incompetence. If post-election cost of incompetence is high enough, parties screening process will make the screening parameters ( $S_c$ ) approximately one. Figure 2 summarizes the screening processes that eventually yield only honest and competent political leadership if the screening is successful.

## SUMMARY AND CONCLUSION

This paper identified the failure of political leadership as the bane of economic development and democracy in Africa, has outlined mechanisms for selecting high-quality leaders for public sector governance. In the first stage of the screening process, some elements of costs are imposed on the intending politicians so as to deter the entry of dishonest politicians into politics. This is accomplished via the inverse relationship between the degree of honest and the costs of participation.

The unique thing is the separating equilibrium that makes participation costs zero for honest individuals and one for their dishonest counterparts can be obtained. Interestingly the mechanisms that generate information about the past of intending politicians also impose heavy costs on groups which supply this information. The second stage of screening is to sort out the incompetent from the competent by making the political parties to bear the considerable costs of presenting incompetent individuals for public office. The screening techniques are designed to complement each other to ensure that high quality leaders are always in charge of public governance. This is to ensure social optimum. But more importantly, is it a faster way of building formal political and economic institutions required to accelerate prosperity.

This paper is following the foot-steps of the new political economy, which is now laying greater emphasis on policymakers rather than the public policy to be implemented. If the quality of public policy is fundamentally dependent on the quality of policymakers, improving the quality of those who make policies on behalf of the state will definitely raise the quality of public policy formulated and implemented.

Closely related to this is the need to create platforms for issue-driven electioneering campaigns. Elections free of violence before, during and after the elections. The fact that electoral campaigns in Nigeria, or probably in sub-Saharan Africa, are devoid of issues of importance to development and are frequently characterized by violence, are linked to the quality of those who seek to govern us. To entrench democracy in Africa, reduce the costs of establishing efficient political institutions and simultaneously accelerate economic development, we need a new breed of leaders for Africa; courageous, visionary, competent and honest. This is important because Africa has lost decades to underdevelopment and has become the slums of the world. Years of massive borrowings and huge development grants have exacerbated the development strategies of Africa. Her economic growth has not only stagnated for too long, and is just showing modest signs of recovery in the last few years, there is still widespread poverty, internal conflicts, collapsed institutions, decayed infrastructure and worsening health concerns of HIV/AIDS, malaria and preventable diseases. New leadership is required to provide economic governance in the public domain and corporate

governance in the private sector. The mechanism design outlined here is therefore required to produce a new set of leaders with ethical and human capital skills to fast-track development.

A note of caution is appropriate here. The model outlined in this essay is descriptively simple enough to show developmental leadership is dependent on the collective effort of the society. The model has reflected the bias of a Nigerian, but the general implication is that any given society must deliberately create its own leadership, if economic development is one of the key objectives of the state. The peculiarities of each society may however inform its own selection system. Thus the model presented is just a guide and perhaps a wake-up call for Africa to rise up to the challenges of its leadership crises. What is presented here remains a model of social progress, avoiding the complexities of modeling politics but nevertheless containing enough to chart a new direction for Africa.

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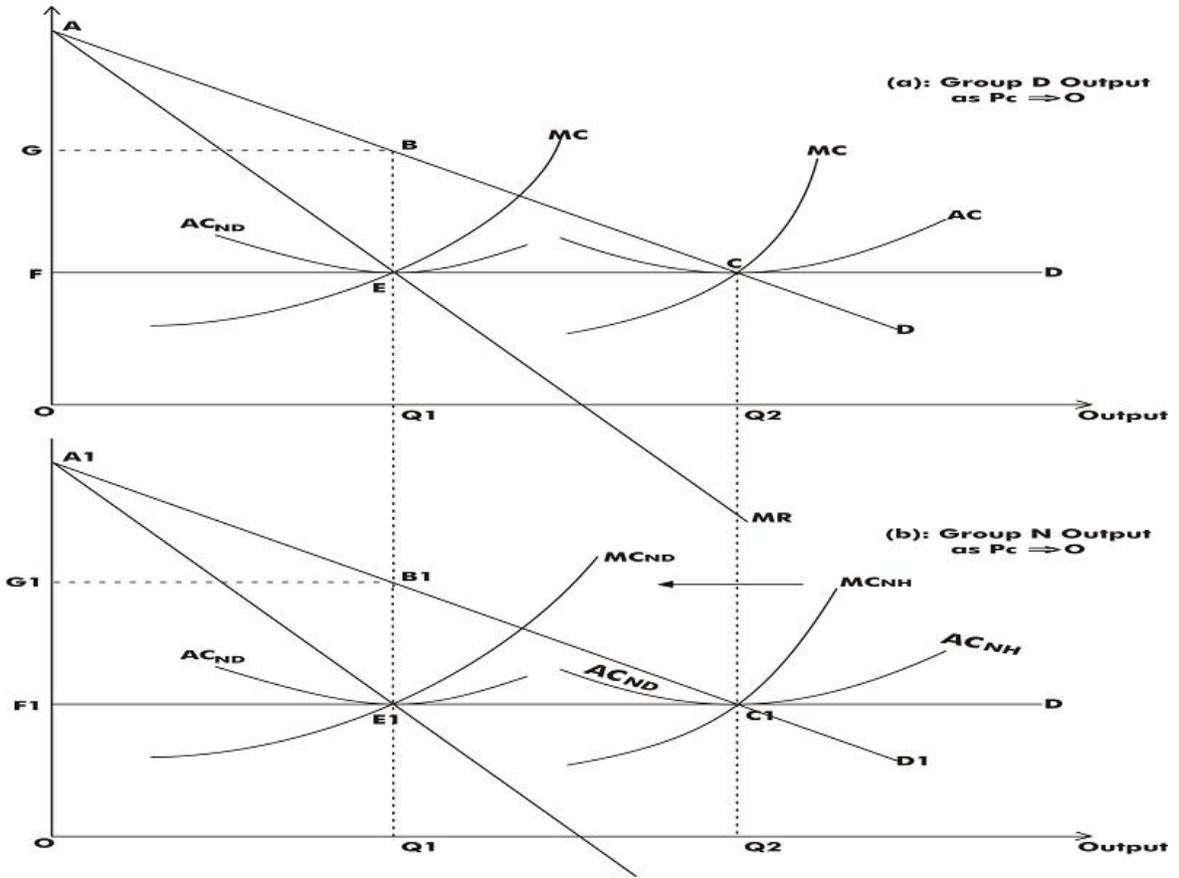
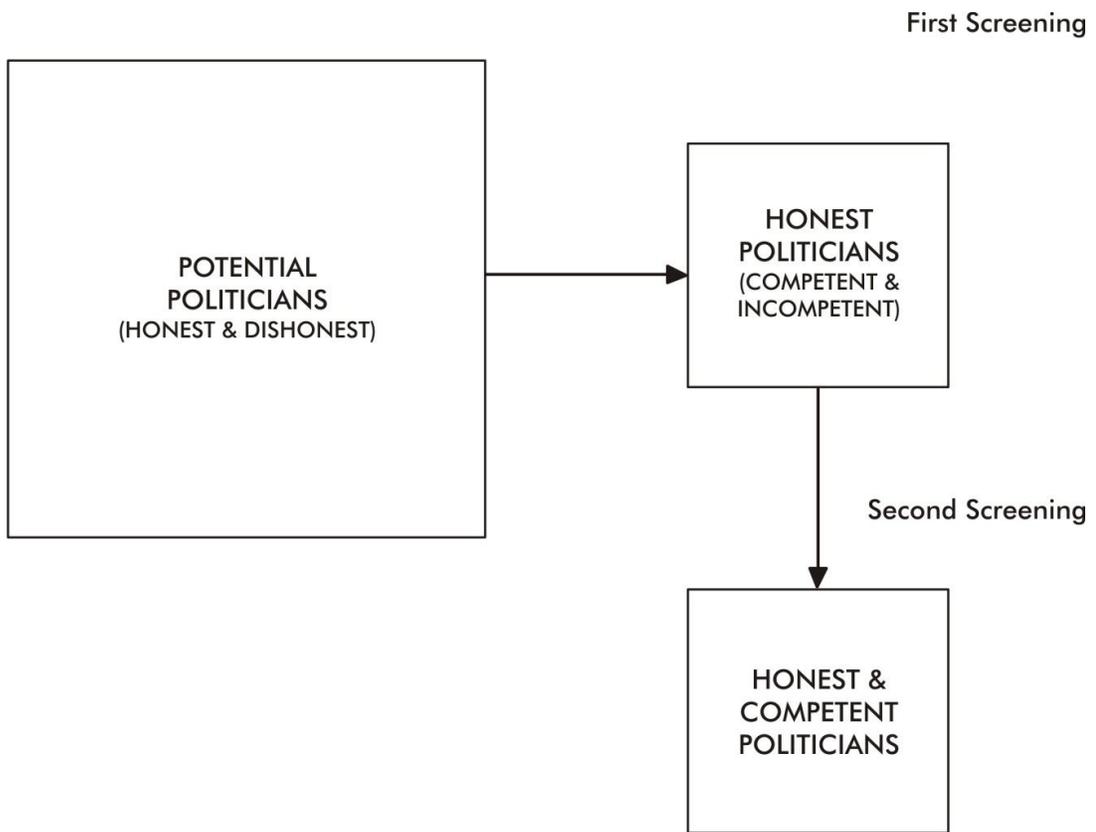


Figure 1: Leadership duopoly model



*Figure 2: Screening processes yielding honest and competent political leadership*

## Footnotes

<sup>1</sup> This is a mere assumption, adopted for the convenience of the analysis carried out in this study.

<sup>2</sup> See Carnes and Lupu (2014) for empirical results that ran counter to Besley *et al.* (2011).

<sup>3</sup> When Elijah thought he was the only righteous man left, God told him there are still seven thousand men yet to compromise their faith.

<sup>4</sup> Some other studies have reported cases where high ability firms or individuals do not signal at all. Schmalensee (1978) model was concerned with equilibria in markets in which goods of varying qualities are sold and firms also advertise. His model shows that firms with lowest-quality brands have the largest equilibrium market shares, have highest advertising budgets, and most profits. Orzach, Overgaard and Tauman (2002) examined the role of prices and advertising expenditures as signals of quality when buyers are either fastidious or indifferent. A unique separating equilibrium is one in which both types of consumers set their full-information prices. In this situation, firms which produce high-quality product cut back on advertising budgets below the full-information level of the low-quality firm. This will happen even when the full-information advertising budget of the high quality firm is larger than the low quality one. Buyers are able to recognize high quality firms when they cut back on their budgets, perhaps to a modest level. Hvide (2003) model predicts the possibility of individuals with intermediate ability getting education while the most able avoid getting education. The Nigerian situation, and probably the African context, approximates the situation where honest and competent do not signal the desire to participate in politics; when participation costs discourage high quality people from being involved in politics. Since this near separating equilibrium is socially undesirable, what this essay seeks to accomplish is to turn the situation around, i.e. making only honest and competent individuals respond to our screening rules.

<sup>5</sup> The reason for placing greater weight on integrity is that corruption more than anything else, has had adverse effects on development. It has been identified as a major reason for underdevelopment in many countries (Treisman, 2000) via the channel of lower investment and growth (Mauro 1995; World Bank 1997). The innate and acquired talents of men who hold either public or private offices are never used for the common good of all, except they are constrained by existing institutions. Murphy, Shleifer and Vishny (1991) offered us the example of Chiang Kai Shek, the Chinese leader who fled to Taiwan when he lost in a power tussle to Mao Song. While the resource rich China was under his leadership, he was widely known for corruption and China's economic woes could be attributed to his corrupt style. Having lost out to Mao, his competence and that of his supporters only became useful as he relocated to a resource poor Taiwan,

with comparatively fewer opportunities for corruption. The following words from Murphy, Shleifer and Vishny (1991) can further convince any skeptic that the competence of public office holders is socially unproductive when prevailing institutional arrangement draw men towards corruption.

*In many other countries, talented people do not become entrepreneurs, but join the government bureaucracy, army, organized religion, and other rent-seeking activities because these sectors offer the greatest rewards. In Mandarin China, Medieval Europe, and many African countries in this century, government service with the attendant ability to solicit bribes and dispose of tax revenue for the benefit of one's family and friends, was the principal career for the ablest people in the society. In Latin America and parts of Africa today, as well as in many other countries through history, the most talented people often joined the army as a way to access the resources from their own countries (as well as foreign conquests). In eighteenth century France, the best and the bright also became rent seekers. The great chemist Lavoisier's main occupation was tax collection and Talleyrand was a bishop with a large tax income despite his prodigious entrepreneurial skills which became evident when he escaped to the United States after the French Revolution (p. 505).*

In Nigeria, an estimated sum of US \$220bn had been stolen since 1966 till 2000 (Okojie and Momoh, 2005). Acemoglu (1995) says that rent-seeking, a euphemism for corruption imposes negative externality on productive agents.

<sup>6</sup> Actual voting is never random. The mechanism through which bad politicians drive out good ones has been a subject of recent interest in the political economy literature of citizen-candidate selection for public office. In Osborne and Slivinsky (1996) citizen-candidate model, bad politicians may get sponsorship of political elites who currently enjoy rent and would want it sustained. Since the costs of seeking political offices tend to generally reduce the number of people seeking such offices, bad politicians' budget constraints could be eased by sponsors in return for patronage. Caselli and Morreli (2004) discussed the role of information asymmetry which makes the sorting of politicians difficult. More importantly, high quality politicians prefer the more rewarding private sector, leaving bad politicians to dominate the public sector arena. Besley and Coate (1997) model is about the possible polarization of society along a policy divide making coordination difficult among the voting public. In that case bad politicians may woo a section of the voting public with certain policies, which are not necessarily growth enhancing.

<sup>7</sup> The author's first encounter with the application of the concept of salience to economics came from the Akerlof's 1991 Richard Ely lecture. Salience as a central principle

of modern cognitive psychology asserts that individuals attach a lot of weight to pictorial or vivid events while little importance is attached to non-salient events. Drawn from Nibsett *et al.* (1980), Akerlof (1991) made this quotation:

“Let us suppose that you wish to buy a new car and have decided that on grounds of economy and longevity you want to purchase one of those Stalwart middle-class Swedish cars-either a Volvo or a Saab. As a prudent and sensible buyer, you go to Consumer reports, which informs you that the consensus of their experts is that the Volvo is mechanically superior and the consensus of the readership is that Volvo has the better repair record. Armed with this information, you decide to go and strike a bargain with the Volvo dealer before the week is out. In the interim, however, you go to a cocktail party where you announce intention to an acquaintance. He reacts with disbelief and alarm; “A Volvo!” You’ve got to be kidding. My brother-in-law had a Volvo. First, that fancy fuel injection thing went out, costing 250 bucks. Next, he started having trouble with the rear and had to replace it. Then, the transmission and the clutch. Finally, he sold it in three years for junk” (Nisbett and Lee, 198, p.15).

<sup>8</sup> It is common knowledge that hawkers of food in the popular Lagos commercial vehicle “Molue” often plant buyers as commuters in these buses. Hirshleifer (1995) in the same vein said that new restaurants at times employ people to hangout and eat long meals to make their restaurant look popular, musicians and stage firms hire claquees to provide enthusiastic response to the music or to shut down that of their competitors. Some at the outset of their businesses charge low prices to induce early purchasers or new products could attract considerably low prices when just introduced in the markets.

<sup>9</sup> We hear one often repeated dictum, “if you can’t beat them, join them”.

<sup>10</sup> Akerlof (1980 and 1997) contain brilliant expositions of how adverse social customs may persist when heavy sanctions or reputation loss exist when individuals deviate from them. Apart from this, Rabin (1995) offered an alternative explanation of what happens when individuals pursue activities that benefit them though offend their moral sensibilities. In that case, the individuals avoid and interpret relevant evidence so that the moral constraint on their actions can be relaxed. Thus, when they are involved in rent extraction which benefit them though offend the moral pride, they rationalize their action.

<sup>11</sup> Wilson (1983) argues that the cycle of peaks and troughs in the crime rates in the U.S often coincided with specific events. Downward trend in the crime rate is due to “revival moments, temperance societies, uplift organizations, and moral education... that gave effect to a widespread view that self-restraint was a fundamental element of character”. Fogel (2000) classic was a great attempt to weave the history of America’s religion in to her history of social reformation and drive towards

equality. In Fogel thesis, America witnessed three large scale religious revivals in both the 18<sup>th</sup> and 19<sup>th</sup> centuries with profound social reforms. The first prepared the way for America’s revolution, the second, which began in 1830 led to the abolition of slave trade and the third led to the creation of a welfare state. The fourth awakening is currently underway, though it began in 1960, and is a rabid attack on materialist corruption, campaign for value-driven school curriculum, return to equality of opportunity principle and rise in groups against abortion, supporting good family values and promoting fundamental media reforms among others.

<sup>12</sup> Because (P<sub>C</sub>) is low in Nigeria, many of our present day politicians are dishonest. A study sponsored by National planning commission(NPC) alongside international organizations such as World Bank, UNDP, DFID, USAID and CIDA carried out a performance rating of the state governments and the Federal Capital Territory(FCT). Only Bayelsa state refused to participate. On account of ‘communication and transparency’ which has a maximum score of 20 points, and which approximate our label of honesty, only Enugu (10.02) and FCT(12.55) had average and above average score respectively. Twenty-one (21) states had below 20 percent of the maximum score, representing 60 percent of the total number of states and FCT considered in the report. So on the honesty score, more than 95 percent of states scored below average (Check Ajani (2005) report in the Vanguard for details). Even as at present, the immediate past governor of Enugu state is being tried for abuse of office while the former minister of the federal capital territory is said to have sold some of government houses sold to himself. The Africa story in general has not been any different (Adamolekun 1998).

<sup>13</sup> We have specified two categories of persons that must approve at great costs to themselves if they are wrong, the entry of certain citizens into politics. The first set is made up of a given number of guarantors and the second is composed of voting age adults from a clearly electoral area, the “ward”.

<sup>14</sup> The screening process involves referendum where members of the second group must openly approve or disapprove the participation of intending politicians in politics.

<sup>15</sup> Expressed in terms of simple or super majority in a referendum done at the ward level, the smallest electoral district.

<sup>16</sup> Sin taxes are taxes levied on socially prohibited goods such as alcohol and cigarettes. Though mobility across the country could be, appropriate arrangement should be made to tax on members of group2 that votes for any dishonest politician.

<sup>17</sup> Note that the system proposed does not exclude independent candidates with no political parties. Where

the constitution permits independent candidacy, the organizing campaign team becomes the equivalent of our political party.