

Strangers in Politics

The Market for Good Politicians in Medieval Italy and its Lessons for Modern Democracy

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Preliminary version, comments welcome.

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Abstract

Limited political competition ultimately leads to inefficient policy setting. Still contemporary democratic institutions cannot benefit from the healing forces of market competition because candidates have to be residents and wages are politically determined. In late medieval Italy, however, the prospering city-states mostly employed foreign executive politicians, the *podestàs*. Their history illustrates the forces of an open market in politics. Applying the method of analytic narrative, these insights are captured by economic theory of political competition, reputation building and career concerns. The paper concludes that the combination of both, electoral and market competition, substantially improves policy setting.

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1. Introduction

The city states of late medieval Italy are a promising area for research in political economy: Firstly, until the industrial revolution no region experienced such long and exceptional prosperity and growth. Secondly, perhaps until today, there have never been political structures so bold in conducting constitutional experiments, such as highly complicated election procedures and random selection. One of the successful experiments was the office of the podestà, a foreign official who was asked to govern the town for a limited period. This form of government dominated the political landscape of Italy during its most prosperous time, the 13th century. The podestà was a professional executive politician, who was appointed by the city council or one of the countless special committees. When his term ended, the podestà had to leave the town and move on to his next assignment. After a short period of transition around 1200, the new institution prevailed in most of northern Italy and the Tuscany. As a result and quite unintended, a market for good politicians was launched with several hundred participants and high gains for success, but also severe losses from failure. The examination of this market is at the core of this paper.

Unlike to medieval Italy, today such markets scarcely anywhere exists. There are examples which have some potential, such as the mayors in the German federal state Baden-Württemberg or the City Manager in the United States and some Scandinavian countries. But none of these examples develops the dynamics of the market for politicians in late medieval Italy. Moreover, the necessary constitutional changes, the admission of non-residents and foreigners for elections, have rarely been really established. Only in Baden-Württemberg elected politicians can run in elections while living outside the commune. Otherwise officials are allowed to be - to some extent - from outside if they get appointed like a bureaucrat and not elected. Of course the historic experiences with foreign rulers were rather daunting and as a result, the break-through of modern democracy was closely linked to the right of self-determination: foreign politicians were no option in such a set-up. Modern political economics however, convincingly established that political competition improves the citizens' welfare (e.g. Besley et.al. 2005) – and political competition is what you get when the political market is opened to non-residents.

Politicians should implement their constituency's preferences and increase the overall welfare of the citizens. Today there is a broad consensus that, of all political arrangements, democracy is the best to achieve such ambitious goals, but there are some drawbacks. Politicians, of course, are selfish individuals who have to be carefully selected and controlled. Regular

elections are the state-of-the-art answer to do so. But the lack of accurate information about the quality and performance of politicians as well as about the preferences of the citizens makes it difficult to choose the right ones and hold the ones elected accountable. Moreover, powerful interest groups distort the political process, whereas the majority of the citizens cannot get organized to claim the attention of the politicians.

In the interpretation of the Chicago school the forces of competition among political programs as well as among interest groups should compete the rents away, but all the empirical evidence suggests that this is just not quite enough. Political competition in fact is highly regulated, with high entrance barriers for politicians, letting plenty of opportunities for rent extraction – rents the politicians do not want to dispense with. It is thus no surprise that politicians have little interest to change the political institutions in order to enhance competition and expose their precious rents to the disciplining and information generating power of market competition.

Reiner Eichenberger therefore proposed in several articles (Eichenberger 2001, 2003) a program to open up the political market for non-residents and thus facilitate real market competition among politicians. He argues that the combination of both election and market control will improve the performance of today's political institutions. However, the argument is not that outside politicians are altogether better than insiders - there are up- and downsides - but that the opening of the political market will alter the incentives for both foreign and domestic politicians, and thus foster the advent of good politics.

In a landmark article *Eugene F. Fama* (1980) described the effect market competition has on managers in a firm. They “*face both the discipline and opportunities by the market for their services, both within and outside the firm*”. Moreover, “*the outside managerial labor market exerts many direct pressures on the firm to sort and compensate managers according to performance. One form of pressure comes from the fact that an ongoing firm is always in the market for new managers. Potential new managers are concerned with the mechanics by which their performance will be judged and they seek information about the responsiveness of the system in rewarding performance*” (Fama 1980, 289 and 292). Set politician for manager and state for firm and you get the idea.

To examine the historic phenomenon – the market for podestàs – with the instruments of modern economic research, we will apply the method of analytic narratives (e.g. Bates et. al. 1998). After a mainly narrative second section the partisan policy in the Italian city-states will be interpreted as an infinitely repeated game of complete information. In this set-up the

success and stability of the podestà government is credited to the career concerns of the individual podestà in an open market for good politicians. This interpretation then is confronted with the arguments of *Avner Greif* (1998) - one of the main promoters of analytic narratives - who analysed the podestà of 13th century Genoa as a player in a mutual deterrence equilibrium.

For the further analysis we will borrow from the broad literature in political economy on electoral competition and the differences between elected and appointed officials. We will employ a political economic model of partisan policy and reputation building first proposed by *Alberto Alesina* (1988), to translate the insights from the podestà game to modern representative democracy. The paper concludes that the combination of both, electoral and market competition, substantially improves policy performance.

2. The Narrative: Late Medieval Italia

In a schematic historic overview the age of the podestàs was squeezed between consulate and signora. The rise of the Italian communes was the result of complicate processes, its smallest denominator the unification of the secular nobility in each town against the rule of the representatives of the distant emperor. First these communes were governed by the old feudal nobility represented by a consular government. In the 12th and 13th century, due to growing conflict among the ruling families, the office of the podestà was introduced, a head of town, court and military, who was called from outside into the walls. The classical age of podestàs ended with the dawn of the 14th century, when powerful men, the signora, assumed and retained lordship over their city for lifetime.¹

In recent years historic research on the phenomenon of the foreign executive officials² in the Italian city-states has made significant progress. Due to an extensive research project headed by *Jean Claude Maire Vigueur* (2000) comparable accounts and figures of assignments and movements for most of Italy are available. Unfortunately there are some drawbacks: Firstly only the concluding chapter by *Vigueur* tries to process some figures in a consistent way, and the findings of the individual researcher have not been processed for database query and

¹ There are many very comprehensive accounts of the fascinating history of the late medieval Italian city states. Especially: *Larner* (1980), *Jones* (1997) and *Martines* (2002).

² The term Podestà was use for different kind of community officials - not only foreign ones. Podestà only meant the government of a single ruler. Furthermore, other titles such as rector, dominos etc. could also refer to a foreign official. Because the vast majority of the Podestàs were foreign, the term became a synonym for a single foreign official with executive power.

statistical analysis. Secondly the emphasis of the empirical work is not on the succession of podestàs in a city, but on the origin of the officials. The podestàs are examined as a mean of foreign politics, especially to describe the external relations of the city-states, but not as a constitutional phenomenon. Furthermore, one of the otherwise best-researched examples, the podestàs of Genoa, has not been included in the project.

2.1. From Consulate to Podestà: The Advent of a Market for Good Politicians

The political and social structure of the Italian city-states in the late medieval period is anything but simple. The historic research revealed comprehensive insights but also consolidated some myths, which are almost impossible to be eradicated. Pitfalls lie everywhere: the regional differences were tremendous and it is, strictly seen, not even possible to deal with a historic and geographic entity of Italy. Furthermore, none of these city-states was at any given moment democratic in a modern understanding. Of course, they all introduced sophisticated constitutions employing electoral and random selection in order to balance power and control their leaders, but at the end of the day, in all the cities, always the same individuals from the same families ended up in the crucial offices and committees. These city-states were until their last fibre oligarchic. The important political matters were decided in small committees with very limited access and the main ability of the ruling families was to circumvent the constitutional restraints which, of course, only had been introduced to prevent election fraud and family rule.

The oligarchy, however, was shattered by violent internal conflicts, often engaged in endless vendetta, but after all driven by the ambition to seek control over government. At the centre of the political struggle were parties, mostly based on family rule, which kept together a much more complicated and broader entity of families, districts, markets and clientele. To make no mistake: these parties were formed for political combat, to seize and keep power, to exclude the opposite parties from power, or even better, to throw them out of the city altogether. Rivalry usually was absolute and so was victory and defeat. With very few exceptions, politics in the Italian communes was dominated by a two party antagonism. Almost everyone in the city was somehow affiliated with a party. Therefore, every little street fight could provoke a major eruption of violence, every legal act was under suspicion to be biased, every foreign messenger a sign of an alliance with an outside power (Heers 1977). Often, these conflicts expanded into the greater conflict between Papacy and Empire and dominated the foreign relations of the communes. At the turn of 13th century the conflicts further intensified, when

the Popolo - non-nobles such as successful bankers, traders and shopkeepers - claimed participation in the government (e.g. Lerner 1980).

These parties were never fixed entities: a feud, a vendetta, or a marriage but also every little election or appointment - and there were a lot of them - could disrupt the sophisticated system of dependency and clientele any moment. Around the family based core of the party temporary alliances were constantly formed and renewed, especially as there was no disjunction between the private and the political. Even though oligarchic, these cities were much more pluralistic than any other political entity at the time, especially concerning social mobility and political participation. Whereas in the feudal society the ruler was responsible to provide justice and public order, in the commune the volunteer federation of the citizen had to create stable political structures. As a result, horizontal ties got much more important than in the strictly authoritarian feudal society. Soon, driven by strong republicanism, countless special interests tried to get organised, such as geographically in neighbourhood- or tower associations, professionally in guilds, merchants- or market societies and even in religious- or parish organisations. These voluntary organisations formed the core of what *Putnam* (1993) described as the civic tradition of northern Italy. The most important source of power was the sheer size of the party, but sometimes some minor groups got powerful because they could tip the balance between two major parties. Sometimes, also the general assembly on the main square was used to tip the balances, as a conflict was staged in general public and left to the dynamics of the mob (Heers, 1977, 101-115).

Of course one reason for such grim party conflicts was commercial success. In the 12th and 13th century these vibrant and ascending communes experience an agrarian and commercial revolution with unprecedented growth and the advent of large-scale long distance trade with destinations from the Black Sea to Egypt. To get an idea of the scope of the development demographic growth may serve as a proxy. Within a few generations urban population increased from few thousands to some 50'000 in Palermo, Bologna, Siena and Pisa up to more than 100'000 in the medieval metropolis of Florence, Genoa, Milan and Venice (Jones, 1997, 153). The rewards for the control of such a city-state were immense: especially the monopoly revenues from trade privileges and favourite access to foreign markets.

Yet political compromise sometimes proved to be successful. Especially external threats or rivalry with a neighbouring town could unify a commune. Occasionally commercial success was placed over factionalism as the internal struggle substantially hindered trade and business. Then the commune unified forces to capture trade privileges and colonies or to fight

a common enemy. The institutional manifestation of such alliances, the consulate, was the result of a fragile compromise among the main parties. But violence and conflict could erupt any moment and decision-making was very painstaking.

Another compromise, voluntary or enforced by an outside party, was the podestà. The constitutional ideal of the podestà can be described as a foreign executive officer serving for six months or a year. He most likely was a respected nobleman mostly with military and administrative experience, but he should not have any local connections. He brought his own employees into the town, such as judges, lawyers and clerks but also police personnel, whom he usually had to pay from his own income. At the end of his term a commission evaluated the podestà's performance while he moved on to another city. To get a better understanding we have to look at the creation of the new institution in closer detail. For that purpose we first examine two of the most prominent and best researched examples: Bologna and Genoa.

One of the earliest appearances of the term podestà in Italian communal politics occurred in connection with the reign of *Guido da Sasso* in Bologna. Between 1151 and 1154 he was a powerful single leader and one of the earliest examples of a “monarchic magistrate” but he was not a foreign official. Yet there are some characteristics which make him a relevant example: he was a single ruler for a limited term that was bound by oath and had his own staff of qualified jurists. The motives for his assignment, though rather diffuse, can be best found in Bologna's need for strong leadership in a period of permanent warfare, and a fear of juridical claims from *Frederick I*. By appointing a member of the imperial party, Bologna sent a clear signal to the soon-to-be emperor (Ludwig 1973, 65-66). After a short consular interregnum the city appointed in 1165 its first truly foreign official, *Guido da Canossa*, who entered the chronicles as the first podestà of the town. The series of imperial podestàs ended in 1167 when Bologna joined sides with Milan. Afterwards officials originating from the Lega Lombard dominated the office. Still it has to be emphasized that consular structures and local officials remained parallel and alternating in place. Only during the last decade of the century, after some local podestàs rather fuelled than calmed the internal tensions, foreign officials were appointed on a regular base (Vallerani, 2000).

In Genoa³, after a prosperous period of communal and commercial development, conflict among the leading families erupted in 1164. In the next thirty years Genoa remained on the border of self-destruction. To end the seemingly endless conflicts and to please the Emperor

³ On the history of Genoa see especially, Epstein (1996), Vitale (1951).

Henry IV, who asked for naval assistance, in 1191 the Genoese nobility appointed – as other cities had done before – for the first time a foreign podestà. After a successful and peaceful first term the city returned to consular government. But conflicts resumed and in 1194 Genoa again installed the podestà, this time - with short interruptions - for more than a century (Epstein, 1996, 54-95). Though it is formally not quite clear how the podestà was elected each year, there is no doubt it happened mostly unanimously by a small committee dominated by the most powerful families. To prevent one clan from domination a sophisticate election and drawing system was introduced and the election procedure itself was governed by the leaving podestà. The leading families further established a committee of eight rectors to serve and, of course, to control the podestà. In Genoa like in many other places the age of the podestà was a period of relative political stability and commercial prosperity. When the external threats rose again, the town returned in 1207 to consular regime only realising that as soon as such a threat decreased, factional conflicts escalated again. The reaction of the oligarchy was now already routine: in 1216 the office of the podestà was re-established.

Of course the historic circumstances and incidences which led to the establishment of a podestà regime varied widely: It was introduced to negotiate a peace treaty (e.g. Imola), to please or deter a distant or approaching emperor (e.g. Bologna, Modena), to legalize the rule of the commune by appointing a nobleman (e.g. Siena), to control an other city (e.g. by Milan, Florence), to strengthen an alliance and above all to pacify internal conflicts (e.g. Genoa, Crémona, Ferrara). No wonder there is no consensus among historians how this new and somehow unorthodox institution emerged, and how it became for more than a century the principal form of government (Artifoni, 2000, 31-36). Especially puzzling is the alternating, parallel existence of consulate and podestà in most of the communes. Moreover, many cities first employed domestic officials and only changed after some decades to foreigners. Only in the early 1220s the institution of the podestà prevailed in the Lombardy and even later in the Tuscany and other regions.

Still some common patterns emerged which repeated all over Italy. The podestà was established as an alternative to the consular government, he was a single ruler who received his legitimation from a communal assembly or committee to which he was bound by oath, and he was mainly occupied with legal matters and foreign politics. The first assignments almost always occurred in time of external or internal crises. The approach of a distant emperor, the hegemony of a nearby city, the strengthening of diplomatic ties, or internal conflicts convinced the ruling clans to hand over the executive power to a foreigner even though they

renounced privileges, honours and compensation. Thus, the early podestàs were all a compromise to overcome some crises, to settle a peace treaty, to solve a temporary problem. The appointment of a podestà was not thought as to be an institutional chance but an emergency measure. Of course a foreigner, somehow in a function of a mediator, was more effective in appeasing a town. But that was not the end of the story: the outsiders proved to be very good politicians, judges and administrators. Moreover, even clearly partisan podestàs succeeded in unifying towns and improving the citizens' welfare. They brought stability, the rule of law and order, they proved successful in foreign policy and enhanced the local trade.

To explain the phenomenon of the podestà the singular examples do not provide the key. Because the foreign officials usually had to leave their assignments after one year or an even shorter period, they had two options: either they exploited the city, aligned with one party and played hit and run, or they aimed for a new, more lucrative and honourable assignment in another city. Most of them chose the latter – in fact there are almost no reports of the former - and therefore they quite unintentionally launched a market for successful politicians - unintended, as the communes made singular independent decisions to cope with various specific and regional problems when adopting the new institution. Gains for being a good podestà were direct revenues and new lucrative and honourable assignments in other, wealthier cities. Moreover, a successful podestà acquired high reputation - some of them had a dozen assignments - not only for himself, but also for his family and his hometown. The tremendous success of the foreign officials in medieval city-states therefore has to be credited to the strong market forces *Fama* (1980) describes.

2.2. The Market Forces at Work

To get an idea of this market it might be useful to learn more about the individual officials. *Sante Bortolami* (2000) examines some prominent podestàs from the city of Padova, what allows looking at their careers in closer detail. As a general pattern, they belonged to the small and medium nobility or the ascending bourgeoisie and had some military background. Furthermore, most of their families had been traditionally involved in leading the affairs of the commune and they had access to crucial institutions to launch a career as podestà: the military and the law schools.

A typical example was *Aldevrardino Mezzabati*. Like his father and grandfather he aimed for a career as jurist and attended the local “collegio dei giudici”: He was first appointed podestà of Imola in 1288, a city of minor prominence. After a short occupation as jurist, he returned in

1295 as podestà of Vicenza and in 1300 as podestà of Feltre. There he violated local law and as a result, he did not get any assignments anymore. Another podestà, *Giovanni Caligine*, whom *Bortolami* (2000) describes as a real “self made man”, was admitted to the “collegio” even he did not origin from a wealthy family. Like many officials from Padova, he had his first assignment 1302 in Vicenza, then in Verona and Mantova. In 1311 he was appointed “capitano de popolo” in Modena, went afterward as an imperial official to Arezzo only to return some years later to Modena, this time as a regular podestà. Some officials had up to a dozen assignments in their lifetime such as *Simone Enghelfredi*, one of the most prominent podestà who even wrote a manual for his colleagues: he was employed in Bergamo, Vicenza, Todi, Orvieto, Pisa, Trieste, Bologna, Verona, Modena and Arezzo. Early already some families began to pass down the profession to their children and grandchildren and gained a high family reputation. Of the *Buzzaccarino* family, for example, three generations served as podestà and capitano del popolo in more than two dozen cities. *Jean-Louis Gaulin* (2000, 342) finds for the podestàs from Bologna that they almost all belonged to a family which had at least one other podestà.

Some officials acquired specific reputations and competences such as for being a determined military leader, a good mediator in internal conflict, an outstanding financial expert or an excellent reformer (Vigueur 2000, 980). Sometimes not talent but the affiliation to the right faction or town provided the reason for an assignment, but those were not the officials which really got ahead in their career and hold successive assignments. As a result of the increasing career concerns, politics experienced a rapid professionalisation, which demanded of would-be podestà the attendance of a law school or an university. Moreover, an administrative class emerged including particularly lawyers, justices, and notaries, who became a regular organized profession (e.g. Jones 1997, 412).

Of course a podestà aimed also for material gains. Generally the foreign officials earned comparably high salaries, but like in every market, there were enormous differences. An employment in one of the metropolis like Genoa was much more lucrative than in small towns. The podestà of the commune of Pera, for example, got only a fourth of his Genoese colleague whereas the one of Andora got more than twenty times less (e.g. Epstein 1996, 190). The really successful ones could even negotiate their compensation as part of the contract. As a result salaries could explode in times of shortage of candidates, such as in 14th century Siena, where - in a quite modern way - a bonus system had been introduced to attract candidates (Bowsky 1981, 30).

It is evident that the individual and family reputations as well as the high compensations were the driving forces of the market for foreign officials. Further evidence for the market hypothesis provides the sheer size of the phenomenon: *Viqueur* (2000) estimates the number of assignments of foreign officials from the 12th until the 14th century between 8000 and 11000. The whole research project accounted for 6500 assignments of some 2500 officials. Especially the last figure confirms what an important asset reputation was: even though plenty of officials dropped out of the market after only one term, the average podestà had some three assignments. More evidence for the market hypothesis provides the timing of the breakthrough of the new institution. Only when the number of officials crossed a critical size in the early 1220s, the sheer amount of opportunities and choices truly launched the market for good politicians and it was possible to rely on the incentives and information the market provided in order to select the best ones and offer the chosen ones incentives through career concerns.⁴ Only then the supply of good podestàs enabled the transition from an emergency measure to a stable institution.

Yet the stability is the most astonishing phenomenon of the institution of the podestà, especially if one takes into account how fluid other institutions in late medieval Italia usually were. But even today one cannot imagine a political system in which at least once a year the central executive politician and his leading staff, the jurists, policemen and chief administrators are replaced. But it was well established in a society which was agonized by mistrust of all accumulation of power, a society which believed the division and fragmentation of power on all levels in countless offices, councils and committees would secure the fragile balance of power. However, because not the checks and balances of the political system but the alternation of the actors' incentive structure were decisive, the new institution survived most of the challenges of a truly troubled century. Moreover, this market worked despite of the fact that many foreign officials were still appointed by the strongest party of the city and therefore were clearly biased (Jones 1997, 585). Sometimes two parties even elected each their own podestà. It was also not very important how exactly the foreign officials got elected. In many towns the election rules regularly changed without affecting the institution of the podestà. Despite of all the troubles, the institution proved to be very successful and stable, as the competitive market disciplined the officials' private ambitions.

⁴ All numbers from *Viqueur* (2000). The breakthrough of the new institutions in the 1220 can be illustrated for example by the sheer number of assignments: in the decade from 1201 until 1210 *Viqueur* counts 131 assignments, 1211-1220 already 198, and 1221-1230 a total 309 assignments.

The frequent changes from imperial to papal party, for example, went very well with the new regime, as cities could signal much more credibly their commitment to a new alliance by electing a podestà from that party. Quite generally the podestà became an important asset in the cities' foreign relation. Very common was for example the exchange of officials between allied towns or the submission of an occupied town to a podestà of the conqueror. In many cities the election body first chose the region or hometown before approaching the individual candidate (e.g. Viqueur 2000, for Bologna: Gaulin 2000). Other political developments such as the advent of the popolo in the 13th century even strengthened the market for foreign executive officials because once again they could mediate between the factions. Some authors even relate the break-through of the podestà regime to the rising of the popolo (e.g. Jones 1997, 583). Moreover, the new office of the “capitano del popolo” was soon an additional opportunity for ambitious foreign officials. Even the signoria, the single rule of a family, which prevailed during 14th century, could not eradicate the foreign officials. The signori used the title and offices of the podestà to seize the executive power, but they kept on employing foreign officials as chief magistrates especially for police and justice (e.g. Lauro 2002, 106). Only at the dawn of the 15th century the opportunities and merits for professional politicians diminished sharply and as a result the market for foreign officials shrank and finally vanished.

The podestà failed only when it came to the big power policy, when it was challenged by a major fraction of the oligarchy or a powerful outside force. A podestà alone did not have the resources for such political struggle and above all, he desperately needed the support of the main forces in the commune. Consequently he was very limited in his capacity to abuse his office, for example, to seize the power in a town for good. Then again, the oligarchy was also limited in challenging the podestà, because a town, which failed to fulfil its part of the obligation, did not get any good candidates anymore (e.g. Ludwig 1973, 8). *Steven A. Epstein* (1996) reports an incident from Genoa, which illustrates how serious these limitations were. In 1231 *Frederick II* summoned the Italian communes to hold court in Ravenna demanding that no loyal city should have a Lombard official. The Genoese, however, had already elected their podestà which happened to originate from Milano. Thus the Genovese asked for an exception claiming that it would be illegal and dishonourable to cancel an election. They even stuck to their decision when the emperor ordered to seize their goods, and trade with the emperor's allies shrank to almost zero (Epstein 1996, 121).

To stick to the rules of law became in the market for podestàs the most important benchmark (Viqueur 2000, 994), more precisely as *Christoph Dartmann* (2004a) convincingly argued,

the written statutes of the town. The enormous growth and therefore the increasing complexity of social and political life made written legislation and records indispensable. Especially the short-term offices such as the podestà heavily depended on a written culture in government because it allowed frictionless transfer of office (e.g. Jones, 1997, 412). The trauma of the communes was the lawless chaos of the internal conflict, when written law was not yet common and one party after the other seized power to rule after its discretion. During the consulate the citizens and the consuls swore each other loyalty at the general assembly, but of course, loyalty was not exactly a sharp yardstick. Through the time of the podestà, however, the oath and the written status were much more sophisticated and prominent. Even before entering the town the new podestà had to swear to obey the law of the town, to accept his salary and the evaluation at the end of his term. At his inauguration the podestà had to take an oath by swearing on the sealed statutes of the town, often even before he was allowed to read them. The message of this ritual was straightforward: the podestà had to obey the law and enforce it, but he must not alter it. Thus the written law became the benchmark to evaluate a foreign podestà as a good official enforced the law even he had popular sentiments or a faction of the oligarchy against him.

The main evidence for this interpretation provides the very widespread evaluation of the podestà at the end of his term by a committee of the town (e.g. Hyde 1973, 102). In Genoa, for example the old podestà had to stay for 15 days in the city to allow a special committee, the “syndicatio”, to assess his performance. The benchmark for this evaluation was, whether the podestà had broken the communal law. In case of conviction, the “syndicatio” could impose a fine, which was taken from his salary. At the end of the procedure the podestà received a special document he could use as reference for future assignment (Caro 1891, 37). This evaluation provided reliable and comparable information about the qualities of a podestà, what is after all an indispensable ingredient of an efficient market.

3. From the Narratives to Analysis

Economists and other social scientists proposed the analytic narrative⁵ approach, in order to get an analytical framework for research problems not accessible to empirical methods. From a dogmatic point of view, a systematic approach was hitherto not possible if consistent data

⁵ For an introduction see: Bates et.al. (1998) and Levi (2003).

were lacking. Especially historical examples, which often promise vital insights, could not be properly applied because such data are just not reliable enough.

When the “analytical narratives” were first proposed, it was for practical purposes. Instead of lingering with theory the authors gave a brief introduction in order to pass quickly to the concrete problems. They never thought to produce a methodological breakthrough but a handy tool. Their aim was to combine historical and comparative research with rational choice, especially with game theory. The historic account, the narrative, should provide the bases for the economic model; it should elaborate the key decision points of the individual actors, and the institutional framework. By considering situations that can be described as strategic games, the dynamics of the narrative are captured in a systematic analytical manner.

3.1. Party Competition and Cooperation

The narrative of the podestà regime in late medieval Italy allowed a unique opportunity to study how political agents act, when they are exposed to the forces of a competitive market. Yet, the starting point for any systematic analysis of this market for podestàs has to be the prior political system in the communes, the consolat.

It is safe to state that politics in the Italian city-states was dominated by a two parties antagonism. Or more precise in the language of game theory: two long living players in repeated interaction. They struggled for domination of the city in order to maximize their gains from privileges, especially from long distance trade and territory rule. Therefore they invested in military capability, recruited new clientele and forged new alliances. But such policy could provoke violent confrontation or even escalate into to long-term civil war, which was - as most parties had historically experienced - very costly and its outcome uncertain, especially when the two parties were equivalent.

However, these parties had also common interests. Firstly, when the town faced an external threat, it was worthwhile to cooperate and to defend the city against a common enemy. Secondly, especially in the early days of the commune, the parties needed allies to consolidate the position of the city, for example by conquering or raiding. Finally, trade and commerce promised high gains as long they could rely on a stable political environment. Therefore, these parties had high incentives to cooperate, knowing that the costs of non-cooperation - meaning violent confrontation - were truly soaring.

It is easy to think of the two parties following a trigger strategy in an infinitely repeated game. They stuck to a cooperative strategy as long as their adversary did not deviate from the cooperative rule. Deviation, however, was punished by reversion to the non-cooperative strategy, that is violent confrontation. From the Folk theorem we know that in infinitely repeated games a subgame-perfect equilibrium will hold, if the parties' discount factor is sufficiently close to one. That is, the subgame-perfect equilibrium of this game holds if the difference between the present cost of cooperation and the cost of deviation - the temptation - is smaller than the difference between the future cost of non-cooperation and the cost of the cooperative rule - the enforcement.⁶

In the 12th century many cities, most prominently Genoa, played this game in a truly exemplary way: cooperation and conflict alternated depending on the expected gains from cooperation and losses from non-cooperation. The institutional manifestation of this cooperation was the consulate, whereby government agents of the parties negotiated the distribution of the gains from cooperation. The resulting policy was a bargaining solution between the parties' consuls, a solution which had to be permanently renegotiated. The transaction costs of this process were enormous. One of the main concern of the consuls was the enforcement of the cooperative rule, not only among the main parties, but also among the other citizens and clans, whose private ambitions always threatened to distract the sensible equilibrium. No wonder the maintenance of public order became the dominating policy issue in all the Italian communes.

Yet, even the parties favoured a longer perspective, there was a major problem: they could not credibly commit to such long-term objectives, because their agents had a much shorter perspective. Indeed prior to the constitution of the consulate, each party committed itself to cooperation, but such compromise was very fragile. The consuls, of course, were party members who were tempted to deviate from the cooperative rule and to follow their own ambitions. This moral hazard problem could be solved by incentive contracts between a party and the agent, for example by promising land or privileges. But privileges and land could also be won by deviation and catering for informal contracts inside the clan.

In the Italian city-states this agency problem was especially grave because of the popularity of short-term offices. For simplicity we consider government agents with exactly the same policy preferences as the parties. They only differ in their attitude towards time: whereas

⁶ Though much simpler, this game is similar to the mutual deterrence equilibrium applied by Avner Greif (1998). See 3.3. for an extensive discussion.

parties had an infinite live span, such an assumption is unrealistic for the agents. As *Alesina* (1988) pointed out for a similar game of electoral competition, uncertainty about the strategic behaviour of the agent has the same effect as a low discount factor. That is, even when the parties aimed for cooperation, the agents had little incentives to follow the party's objectives, while the parties in turn could not credibly commit to welfare improving cooperation. Therefore, neither the equilibrium condition of infinitely time horizon nor the high discount factor is plausible. Whereas the parties were in an infinitely repeated game, the agents were in a finite bargaining game with all its strategic temptations and high transaction costs (e.g. Schelling 1966). The agent, therefore, had nothing to gain from cooperation. Only extracting private rents promised tempting revenues.

Consider for example the challenge of maintaining public order. The cooperative solution was to provide security for all citizens along the written law. The true preferences of the parties in a one-shot game, of course, were highly biased towards providing security and justice only for party members. Still the parties wanted to enforce the mutual agreed law because in a longer perspective, they expected higher gains from cooperation. But even the parties wanted to enforce the mutual agreed law, their consuls might not have the same long-term objectives, and followed their most preferred policy. The ultimate response to such incident in the trigger game had to be deviation from the cooperative rule, that is violent confrontation.

3.2. ...and Agents with Career Concerns

Because the agents did not share the parties' reputational considerations the consulate was anything else but stable. Only when the outside threat was high enough the individual agent could be tied to the parties' objectives and cooperation prevailed. The parties in medieval Italy, the principals, solved this commitment problem and the resulting instability of the political system in a rather original way: they enhanced career concerns of their agents by creating a market for good politicians. That is, they chose agents which were concerned about the effect of their current performance on future compensation and reputation.

To be precise, the parties did not deliberately introducing career concerns. They were just looking for an emergency measure in times of crises, especially when an internal or external conflict threatened the very existence of the commune. In such a situation the high transaction cost from bargaining could hinder a necessary firm response. Furthermore, they needed someone without any internal links, who could stand impartial between the parties without any interests in the distributional issues. Such an agents can best be thought of as a mediator

or a strong a military leader. The parties cut down the high transaction costs from bargaining and the permanent danger of deviation of a government agent by introducing one early bargaining process: they only had to decide which podestà should lead the city for the next term. Still the strongest party dominated and ultimately decided the appointment of the new podestà and it was still worth to gather supporters. But they did not anymore negotiate about every little policy issue.

An other way to think about these early podestàs is as an implicit constitutional arrangement. In the fluid political landscape of the Italian communes the parties were confronted with permanent uncertainty about future coalition and distribution of power. In order to be able to credibly commit to an agreed policy platform, the parties had to choose outsiders with strong personal preferences corresponding with the cooperative platform, e.g. in Bologna a powerful member of the imperial party. Because they had strong own preferences, these officials stuck to the cooperative platform even the parties later preferred a different policy. As a result, for the short reign of the podestà, the commune stood on a stable constitutional ground.

However, soon there was a second, much more powerful reason, why these agents stuck to an agreed policy platform: the market expected them to do so. On the first glance these podestàs were rather similar to appointed bureaucrats who had to execute a coalitions' policy choice. But there was one crucial difference. They only stayed for one, very short term in the same office - afterwards they had to move on and were forced to look for further employment. When the number of officials and professional opportunities grew, the podestàs began to compete for lucrative and honourable post, whereas the cities tried to hire the best candidates. Their mission was to implement the mutual agreed policy platform, what usually included the maintenance of the public order no matter who threatened it. Soon the common forces of supply and demand caused a fine discrimination of compensations and reputational gains. There can be no doubt that in late medieval Italy a highly competitive market for good podestàs emerged. In a sense it was an artificially fuelled market because the short term offices launch reputational considerations directly into the center of the agents utility function, which was earlier dominated by potential gains from catering to a single faction. Therefore, the subgame-perfect equilibrium of the earlier described cooperation game was stabilised by the additional opportunity cost of the podestà. Even many podestàs were clearly biased and allied to the strongest party of the commune, they faced high cost of deviation from the cooperative platform, much higher indeed than any resident agent.

The forces at work here were exactly the ones *Fama* (1980) and *Holmström* (1999) suggest solving the moral hazard problem of managers. The main idea of their approach is that agents produce output - e.g. public order - which depends on the agent's talent and his effort. Talent is assumed to be unknown to the market and the agent⁷, whereas effort can fool the market over talent; but effort is also costly. In equilibrium no incentive contract is needed for the agent to provide positive effort because she wants to affect the market perception of her talent. *Holmström* further showed that the effort of the agent is driven by uncertainty on talent, and that *Fama's* suggestion, that no incentive contracts are needed to solve the moral hazard problem only holds when their time discount factor is close to one. However, effort decreases as the market learns about the agent's true talent. Only because observed talent varies as the result of external shocks, a steady equilibrium with positive effort will hold. In *Holmström's* words, reputation will work better if talent is realised more stochastically and observation on outputs is more accurate.

Applying this model to podestà regime allows some surprising insights. The model predicts that career concerns will only solve the agent's moral hazard problem, if talent is uncertain. In the market for podestàs indeed such external shocks were very common, because the podestàs had to move to another city after only one very short term. There was no chance for the market to learn the agent's true talent because again and again, the podestà was confronted with a different political environment. Therefore effort remained positive what can be also interpreted in terms of smaller rent extraction (e.g. Alesina & Tabellini, 2004). High talent, of course, was still important because the shocks are supposed to be normally distributed around the agent's true talent. As a result the most capable agents were selected for the most lucrative offices.

In this context, political economics draw considerable attention to the obvious trade-off caused by uncertainty in the political process: high transparency about the agents' talent reduces their effort whereas it enhances the selection of capable candidates (e.g. Besley & Smart, 2003). In the market for podestà again the short term offices combined with the market opportunities were the key to smoothen this trade-off. During a term the podestà provided high effort to appear talented in order to get other lucrative assignments. Obviously at the end of a term the market's knowledge of the agent's talent was at its best and the principals could very well select a good podestà. This was especially true when the former principals publicly evaluated the podestà's performance at the end of the term. The moment the podestà started a

⁷ This assumption makes the model different from the standard signalling model.

new assignment, the new environment provided the much needed external shock on the market's perception of the agent's talent and as a result, the podestà would supply high effort also in the subsequent term. These "institutionalised shocks" are the key to understand the surprising success and stability of the short-term offices in medieval Italia.

An other question is how the observed uncertainty over talent effects the agents' time preferences.⁸ Usually high uncertainty reduces an individual's discount factor. But again, as long uncertainty is related to the stochastic realisation of talent, time preferences will not be affected because talent is expected to be normally distributed, and its perception can be manipulated by high effort. Only uncertainty about the way output affects future compensation will influence time preferences, that is if the market fails to properly assess and compensate the agents' output. In medieval Italy the podestàs provided high effort because they expected the other cities to observe and esteem good performance. Consider the case when a podestà's career opportunities were only in his hometown. He would clearly have uncertainty about the proper perception of his performance, especially because the principals of the commune as monopolists could afford to undervalue an agent. In a market, however, where several communes compete for the best podestàs, future assignments solely depended on observed output. That is, in a market the agents discount the future much less than any resident official outside the market. This would be especially true if they additionally cared for the reputation of their family or hometown.

The podestà regime transferred the repeated interaction between the principal and the agent, which is essential to enhance reputational considerations, to an anonymous market. This rather original institutional arrangement had three major effects: firstly, it facilitated welfare enhancing political cooperation between the parties, enabled by the agents' longer time preferences as well as higher opportunity costs; secondly, the agents had strong incentives to provide high effort - what can be interpreted as lower rent extraction - because of their career concern; thirdly, the market provided essential information about the agents' performance what enabled the communes to select good podestàs.

The perception of the podestà's talent and therefore his wage as well as his reputation depended on the amount of public goods - e.g. public order - provided. In absence of binding quality measures, the communes needed a benchmark to evaluate the talent's output. Such

⁸ Unfortunately, in most models the discount factor is given exogenously. However, there are some authors who mention the effect of uncertainty on time preferences (e.g. Alesina 1988, Acemoglu et. al. 2004; for a general treatment see Frederick et. al. 2004).

benchmark became the established law of the city, representing the mutual agreed compromise and the cooperative policy platforms of the parties. Special interest policy by the agent, such as collusion with one party, was no option in this market. It was punished by exclusion. Moreover, as the market valued talent along narrow policy expectations, agents were more independent from local pressure groups because they traded explicit market compensation for performance against rent extraction from catering special interests. It is little surprising, therefore, that even originally biased podestàs wanted to appear talented and governed “their” city in respect of the established law. The formation of the written law during the podestà regime also has to be seen in this context.

The process of market formation was mainly driven by the sheer number of officials looking for new assignments and cities providing them. Furthermore, market formation depended on the ability to focus on one comparable good to measure output and to reward talent. The literature on career concerns convincingly established that principals as well as agents are interested in a narrow mission (Dewatripont et. al. 1999). We would therefore expect a specialisation in a political system depending on career concerns. Indeed, whereas the first podestàs were appointed to solve an acute crisis with almost dictatorial authority, the podestàs of a later period were more specialists for security and justice. Such specialists could be much better evaluated because their output was easily observed. This specialisation, as predicted by theory, even led to the promotion special education. Because the market did not esteem multiple performance dimensions, the agents did not have incentives to provide effort for other issues than the market expected. In extremis, the preferences of the local constituency, if different from the market expectations, were not relevant to the podestà.

Of course, the communes had installed some precautions. Firstly, the major parties could overrule or even dismiss a podestà at any time as long as they mutually agreed to do so. Secondly, the evaluation of the podestà at the end of his term by a committee of the town ensured that he could not too much deviate from local preferences. Finally, the podestà had to announce important decisions in public, the most important ones, such as going to war, even in front of a general assembly. Although such public assembly did not have the institutional competence to overrule the podestà, it publicly acclaimed or condemned the official’s decision, and sometimes even decided to take the matter in its own hand.

The narrative of a major street battle between clans in Siena provides the anecdotic evidence (Dartmann, 2004b). The committee of the “Nine”, the actual government of Siena at this time, feared further escalation, especially the arriving of outside support for the parties. The “Nine”

therefore prohibited the inhabitants of the hinterland to enter the city. Delinquents should get cut-off a foot. The next day, some persons were captured by the podestà and brought to the piazza for punishment. There a furious crowd gathered as the majority of the inhabitants thought the punishment far too hard, and freed all but one prisoner. The podestà then decapitated his last prisoner, threw his body on the piazza and hung his head in the window. He thought to execute a just punishment according to the law whereas the citizen preferred a more moderate solution. Only the intervention and mediation of the “Nine” prevented the incident from total escalation.

3.3. Could the Podestà have tipped the Balance?

The temporary cooperation of the main parties in the consulate and the role of podestà in preventing the parties from confrontation can also be interpreted as mutual deterrence equilibrium. This is the starting point for *Avner Greif's* (1998, 2005) treatment of the politics in Genoa. It can be recapitulated as follows: In the early days of the commune Genoa's political institution were self-enforcing, as the two major clans deterred each other from confrontation by continuous investments in military strength. They dominated the consulate and extracted rents from raiding, piracy and commerce as well as by collecting positions for their clientele. In equilibrium each clan invested the minimum to deter the adversary from challenging, while maximizing its gains from cooperation. Especially in the short period from 1154 until 1164 the two clans sat jointly in the consulate and revenues from trade exploded. The close cooperation resulted from the growing external threat by the emperor. This mutual deterrence equilibrium lost its stability as soon as the external threat decreased. At the same time the possession from trade, which had exploded during the last ten years, got increasingly tempting. Consequently civil war started. The equilibrium was only restored by installing a podestà. *Greif* attributes the institutional stability to the podestà's ability to foster interclan cooperation, threatening to collude with the attacked party. According to *Greif*, case of interclan confrontation the podestà's about thirty armed officers would tip the balance in favour of the attacked party, what in turn, deterred the parties from attacking in first place.

Greif's approach allows a fascinating insight of the political institutions of medieval Genoa. There are, however, two main problems with this interpretation. Firstly, considering the scale of internal conflicts, it is very improbable that the podestà's about thirty soldiers could have made such a difference and there is almost no evidence for such a coalition - namely between the attacked party and a podestà - having formed. If in interclan confrontation the podestà's

thirty men could tip the balance, this would have been easily compensated, for example, by a temporary alliance with a minor clan. The Podestà did try to prevent confrontation but if a major conflict erupted, it is not clear which side the podestà would have taken. Most probably, he would do everything to avoid taking side, because in case of failing cooperation he had nothing to win but everything to lose: his salary as well as his most valuable asset, his reputation. Secondly, even if the mutual deterrence equilibrium might explain some parts of Genoa's history, it struggles to explain the overall phenomena of the foreign officials in the Italian city-states. Most strikingly, the institution of the podestà was also successfully introduced in cities with completely different set-ups. The highly sophisticated mutual deterrence equilibrium was far too fragile, to have dominated more than a century in one of the most vibrant political environment ever.

Our interpretation concentrates on the effects of market incentives on the podestàs' performance. In the early period the foreign officials were an emergency measure to overcome a crisis, such as a factional conflict or an external threat. Because these outside officials were so successful, more and more cities followed the example and turned themselves to a podestà regime. After a rather short transitory period, a veritable market for good podestà was launched. This market provided the officials with incentives to provide high effort and enable the parties to commit credibly to a cooperative policy platform. The crucial institutional arrangement for the success of this market was the admission of non residents and the short term offices. The resulting good governance was one reason for the unprecedented growth of the Italian city states in the age of the podestà. However, the system did not prevail because rather sooner than later the prize for domination of such a city got very high and powerful lords were tempted to size power for good. With the signori the podestà regime ended, even the cities went on to appoint foreign officials. But lacking the high compensations in terms of money and reputation as well as the strict term limits, they resembled rather today's bureaucrats than the energetic podestàs of the not so distant past.

4. Lessons for Modern Democracy

Politicians in today's representative democracies are selected and held accountable by regular elections. There is, of course, electoral competition among candidates and parties, but the extent of such competition is highly regulated. High entry barriers prevent a truly competitive market to evolve, especially as politicians only have very limited numbers of future opportunities. Therefore career concerns are not as important as, for example in the market for

managers. To make career concerns work properly, non-residents have to be admitted for election. Additionally the compensation of politicians has to allow for market mechanism.

Models of career concerns have been successfully applied in political economics (e.g. Persson & Tabellini, 2000). However, because these models do not include a market, which permanently evaluates a politician's performance, the usual result are electoral business cycles. Still, it is evident that politicians have some career concern as they aim for higher office or an employment in the private sector. Especially, in federalist states we would expect politicians to perform significantly better because of additional career concerns. Yet, some two or three government levels might not be enough for a market to evolve, especially when only vertical advances are possible.⁹

Before we turn our attention to the task of applying the insights from the market for podestàs to modern representative democracy, the extensive literature on the subject of elected versus appointed decisions makers has to be shortly explored for helpful references. The next paragraph briefly summarises these arguments from the literature.

4.1. The Manager, the Bureaucrat and the Politician

Let us first consider a manager of a firm, who is only motivated by career concerns. The model suggests that a stable positive effort level can be achieved, depending on the manager's true talent and the stochastic realisation of this talent as perceived by the market. Only if uncertainty decreases over time, the market will learn about the true talent, but consequently the manager will continuously reduce effort. Therefore, managers are expected to perform worse in the later years of their career, an argument supported by empirical evidence (Gibbons & Murphy 1992). Further limitations might be that career concerns will work better if firms are similar. Only then performance can be cheaply compared and poor managers easily identified. Such limitations are often compensated with additional incentive contracts. But recent scandals in corporate governance illustrate that such contracts have to be carefully designed, in which the corporations might even learn from public governance (e.g. Benz & Frey 2005).

A paradigmatic bureaucrat is also exposed to career concerns, but never to the same extent as a manager. Whereas for managers the value and profit of the firm can be evaluated, this task is much harder for the bureaucrat's performance. Therefore, theory suggests that a specialised

⁹ Cooter (2000) and Myerson (2005) discuss the effect of federalism on the selection of politicians.

bureaucrat will perform better than a bureaucrat following a wide range of tasks (e.g. Alesina & Tabellini 2004). The bureaucrat's main interest is to fulfil the goals of its principals, the politicians. In this sense the podestà was very much a bureaucrat, but there is one very important difference: The podestà had to leave his office after a very short term, whereas bureaucrats stick to their assignment. Therefore, career concern cannot provide long term incentives for a bureaucrat to yield effort, as talent lacks the essential uncertainty caused by external shocks.

Politicians are mainly interested in re-election. They only want to overcome the re-election threshold, which might be rather low if the political market is regulated. There are no incentives for a politician to perform better than the best opponent. If a politician happens to be more talented than her adversary, rent seeking is indeed very easy. Moreover, because politicians only face re-election after a longer period, they are tempted to follow electoral cycle and short-term goals. This is especially true for a politician's final term. Whereas term limits fuelled the market for podestàs, they have quite the opposite effect in a representative democracy, because politicians neither have re-election incentives nor do they have sufficient career concerns (for empirical evidence Besley & Case 1995).

4.2. Re-election Incentives and Career Concerns

The insights from the analysis of the market for podestàs in the Italian communes may help to understand the policy implication of a truly open market for politicians. There are two main handicaps in order to apply this example to today's representative democracy: Firstly, neither the podestàs nor the parties were elected in a democratic - but also not completely undemocratic - way. Secondly, the podestàs only served for one, very short, term and therefore did not have any re-election incentives.

The analysis of the podestà departed from the observation of two parties in an infinitely repeated game. A similar route followed *Alesina* (1988) when he proposed a model of electoral competition in a two-party system. The parties offer convergent policies in order to maximise their popularity, but at the same time they experience divergent forces in order to please their constituencies. These preferred policies can be considered as ideological. Because the parties are not committed to their announced platforms, they have incentives to follow their preferred policy after election. But rational and forward-looking voters anticipated such incentives and vote according to the parties' true preferences. As a result, in a one-shot electoral game, the only consistent equilibrium is one where the parties follow their most

preferred policies. The model further suggests that in infinitely repeated interactions the parties can achieve better solutions. Especially when their time discount factor is sufficiently close to one, they are able to reach the first-best solution, which implies full policy convergence.

Of course the model cannot overcome the inherent problem that - like in the consulate - the political agents do not share the parties' long-term considerations.¹⁰ The example of the market for *podestàs* suggests that additional career concerns might defuse the problem by introducing reputational considerations, and therefore substantially extending the agents' time horizon. As a result politicians have higher incentives to supply cooperative, welfare enhancing policies, whereas deviation from the citizen's preferences would become very costly. In fact, the policy setting might get close to the first best solution.

In today's representative democracies, however, the political establishment usually tries to hinder the entrance of new rivals in order not to share the political rents. They truly act like a cartel, regulating market entrance and prices. As a result, good performance can not be compensated and incumbents have little incentives to provide more effort than the expected re-election threshold requires. Today's political careers are characterised by climbing a strict party hierarchy, not for good performance, but for serving the right interests. From this point of view, modern democracy is still very much a system of clientele and obedience - just like in medieval Italy. Only during elections political competition starts to show its strength.

If the political market is deregulated, politics will finally benefit from the healing forces of career concerns. An open market for politicians would enhance vertical and horizontal competition, and provide politicians with incentives to perform well and stick to the preferences of their constituency. Moreover, a market would provide all actors with better and more reliable information about the politicians' performance. The analysis of the market for *podestàs* suggest additional effects of introducing career concerns to modern democracy. Whereas earlier only the incumbent could be properly evaluated, in a market environment, the additional information on the challenger will facilitate a truly competitive contest for office. Therefore the electors can better select candidates of their choice. The permanent interaction on an anonymous market yields reliable information about the agents' performance, which enables the electorate to select the good ones and punish lame ducks.

¹⁰ Alesina & Spears (1988) propose a model of overlapping generation to solve this agency problem.

Yet, career concerns alone do not necessarily enhance better policymaking. The market for *podestàs* was fuelled by the short-term offices, which forced the officials to constantly align their performance to the market expectation and provided the external shocks much needed to keep the level of uncertainty. Without these shocks - as discussed for bureaucrats - the true talent might get known to the market, and effort decreases. *Avinash Dixit (2002)* suggests two additional reasons, why career concerns may not properly work in politics. Firstly, politicians have to fulfil multiple missions, what substantially hinders the electorate's ability to evaluate the agent's performance. Secondly, the agents can not properly assess the principals' preferences because there are just too many of them.

In modern democracy, however, the election-process itself can provide the additional incentives. Politicians are elected in direct competition with their challengers. The outcome of such contest does depend on the electorate's perception of the politicians' earlier performance as well as the proposed policy platforms. Elections, furthermore, enhances the political discourse. This discourse – similar to the *syndication* in the *podestà* regime – gives the electorate crucial information about the ability of politicians, not only in absolute terms, but in direct comparison of the opponents. Furthermore, in a political system depending on career concerns the politicians as well as the constituency are interested in a clear mandate. Such mandate will then be the crucial dimension to evaluate the politician's performance during the next term. The election campaign, therefore, will also be an contest for formulation of a policy mission, which will be, most probably different from the previous one. In this sense election also provide a slight external shock on the realisation of the politician's talent, even she is the re-elected incumbents. Then, innovative policy proposals may pay off, because candidates have to differentiate their talent from market evaluation, and align to the preferences of a new constituency.

Like in the *podestà* regime the engine of this market would be again the sheer size, that is, the number of candidates and job opportunities. Future expected compensation and uncertainty over talent will provide the politicians with strong incentives to work hard, even if the re-election threshold seems, at first to be rather low. A politician is most of the time uncertain about the future competitors. As soon the market realises that in an election the threshold is low compared to the expected compensation, more talented politicians from outside will enter the race. Moreover, there will be an increasing specialisation of politicians because the market needs comparable policy dimensions. This in turn will enhance the professionalization of politics.

The example of the *podestàs* - but also the market for managers in business and professional sports - suggest one additional, perhaps less obvious implication of a deregulated market for politicians. Outside officials always were, and still are of particular importance and value when serious crises occur. Only in politics this is no option. Instead in time of crises, when the traditional political forces have lost their credibility, not an impartial outsider, but extreme parties from the far ends of the political spectrum can enter the political arena.

5. Conclusion

Today's representative democracies can learn some essential lessons from the market of *podestàs* in late medieval Italy. Market incentives indeed can play an important role in enhancing politicians to stick to the citizens' preferences and ultimately implement better policies. Moreover, the selection of talented politicians and the exclusion of lame ducks are much more effectively achieved, because the market provides with regular interaction and better information. The crucial question is not, whether elected officials are better than appointed ones, but how the two accountability mechanisms - re-election and career concerns - can be effectively combined. The history of late medieval Italia suggests that a deregulation of the political market by allowing non-residents for offices might be the answer to this question.

Of course, this research is only at the beginning and much more work has to be done to understand the phenomenon. One important open question is, how today's proto-markets for politicians perform. Especially in the German federal state of Baden-Württemberg and in the Swiss canton of St.Gallen non-residents are already admitted for the election into the highest community offices. In Baden-Württemberg, for example, only 18% of the majors are residents and only half of them members of one of the major German parties (Wehling 2003). Significantly different are the city managers in western local government. They are full-time professional executive administrators who are appointed by the city council. In the USA such a government form was first introduced in 1913 in order to prevent corruption and ease internal conflict. Today, among the cities with more than 25'000 inhabitants, it is the most common form of government. The results from a comprehensive research project on city managers in western local government might provide some further insights. Especially the extensive dataset, which has been collected for this project, hopefully can be employed for empirical analysis (Klausen & Magnier1998).

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