# L10 Ethics and Democratic Public Policy

To this point, the analytical narrative has explained the emergence of reasonably attractive viable communities with a bit of commerce and relatively simple law enforcing organizations termed governments.

**This chapter examines the roles of norms in the governance of larger more complex societies with larger more complex governments**. Its focus is again on productive as opposed to extractive governments. In particular it focuses on dilemmas associated with governance grounded in majority rule. Such rules may be used to select government leaders or to directly make policy decisions for a community, as with town or village meetings.

Such governments are not common historically, although autocracies are, which suggests that they are not naturally superior to autocracy as a method of governments.

This chapter provides a possible explanation for irrelevance for most of recorded history and for the emergence of states grounded on elections as viable alternative to various forms of autocracy in the nineteenth and twentieth centuries.

**The purpose of this chapter is not to explain the emergence of liberal democracy**—a topic tackled in a previous book (Congleton, 2011)—but to explain why democratic governance tends to be problematic when it is not supported by normative dispositions within both the citizenry and roster of government officials.

# Introduction continued

- At this point in the analytical history of rule-based governance, we fast forward to focus on societies with relatively powerful governments, leaving the distant past behind as we did with respect to markets in our analysis of commercial development in Chapters 4 and 5. Let us assume that the problems associated with customary governance have been solved and that law enforcement is done diligently and honestly, which is to say, mostly in accord with a community's prevailing normative dispositions. Having established an effective rule-reinforcing agency, the community may come to recognize advantages that can be realized by delegating other authorities to government. With that in mind, a community may extend its customary law-enforcing agency's authority to enforce laws and implement policies that do more than reinforce the community's ethos.

- Rather than also delegating rule-making authority to the law-enforcing organization, a separate procedure for selecting new laws is likely to be created. Such a division reduces the extractive temptations of both the law enforcers and law makers, although it does not eliminate them. The rule-making process is likely to be based on preexisting routines for making decisions in various subgroups of the community that undertake productive or amusing activities together, as in hunting coteries or story-swapping groups. With such "clubs" in mind, a rule-making council or community meeting may create new rules using consensus or majority-based decision rules.

- New laws may be adopted that reduce previously neglected or new externality problems, prescribe methods through which resources are made available to the government, and outline the manner in which government services are to be produced and distributed. The new government is thus, in effect, divided into a legislative branch that makes laws and an executive branch that implements the laws adopted, which is an instance of the template for divided governance referred to as the "king and council" template in *Perfecting Parliament*.

# The Median Voter Model

A series of hypothetical elections is modelled in Table 7.1 by posing alternative slates of candidates and using each voter's and candidate's index letters to assess their relative merits for each voter. Each voter casts his or her vote for the candidates on the ballot that is closest to his or her ideal candidate.

The first four elections illustrate that a variety of outcomes are possible, depending on the alternatives. However, note that Bernie always votes in favor of the outcome that is selected by the majority. His column of votes is the same as the outcome column.

**The votes for the first three ballots illustrate what has been called the weak form of the median voter theorem.** In pairwise elections, the median voter always votes with the majority. The median voter is the voter whose ideal point is the median of the distribution of voter ideals, which in this case is Bernie.

| | Table 7.1: Votes and Outcomes | | | |
|---|---|---|---|---|
| Alternatives | Al (L) | Bernie (N) | Cathy (R) | Majority Outcome |
| L vs O | L | O | O | O |
| M vs R | M | M | R | M |
| R vs Q | Q | Q | R | Q |
| O vs N | N | N | O | N |
| N vs L | L | N | N | N |
| N vs M | M | N | N | N |
| N vs R | N | N | R | N |

# The median voter model continued

- Notice that the right-hand column is the same as Bernie's votes. Bernie is not a dictator, he is simply "pivotal" in all elections. **The weak form of the median voter theorem allows many possible outcomes, but the winner is always the policy or candidate preferred by the median voter**, given the alternatives available.


- **The votes for the last four ballots illustrate the strong form of the median voter theorem**. In those cases, one candidate dominates all the others, namely Bernie's ideal candidate (N).

- If the median voter's ideal candidate is one of the two options voted on, he or she will always win. The median voter's ideal may emerge from the voting process if, for example, the winner of the previous round is always one of the two candidates running for office. Once the median voter's ideal candidate is on the ballot, he or she will win all future elections unless the median voter changes his or her beliefs about the nature of an ideal candidate or the characteristics of a candidates on the ballot.

- **An electoral system in which convergence to the median voter's ideal often takes place is one in which two candidates actively compete for votes by adjusting their policy positions, while holding skill and character constant (neither of which is easily manipulated in the short run).**

- As the two candidates adjust their policy positions, it turns out that candidates tend to converge on the policies favored by the median voter, because the candidate that is closest to the median voter's position always wins.

# Majority Dilemma (1) Indecisiveness/the cyling problem

- **Unfortunately, median voter results are not automatic—they require either particular distributions of voter preferences or particular types of policy choices**.  The following series of votes demonstrates that majority rule may not have an equilibrium

- **Imagine the problem of paying for a defensive wall in a medieval village.** One proposal might be simply to divide the costs equally among the three equal sized groups that populate the village. Such an apportionment may be plausibly justified by the common interests advanced by the wall. The distribution of the tax burden or cost shares can be written as ($T_{shepherd}$, $T_{mason}$, $T_{merchant}$), which in this case is (400, 400, 400). **A second proposal for funding the wall's** construction might be based on comparative advantage. Perhaps, the wall should be provided by those best able to provide the needed services, which in this case would be the masons, who are already skilled at wall construction. Some might argue that the middle-class masons should be public spirited and undertake most of the work of constructing the wall for the city, while the other groups contribute toward the materials (200, 800, 200). **A third proposal might be developed** based on differences in the ability of the townspeople to pay for the wall. Proponents of that view might argue that laborfor constructing the wall might be hired from neighboring communities, rather than provided by the villagers themselves. Taxes would be collected to pay for hours of labor, rather than directly provided. In this case, it might be suggested that the community should take account of wealth differences among citizens. **A very progressive tax schedule might be suggested** that implies burdens of (100, 400, 700), with merchants paying the lion's share. Proponents of a fourth proposal might argue that the shepherds could benefit from learning the craft of masonry and, moreover, have more free time available for undertaking the required work. The shepherds arguably have the most to gain (here new skills and higher future incomes) and the least to lose by undertaking most of the work. Indeed, it might be argued that the merchants are already carrying the burden of expanding the town's cathedral (600, 500, 100).

- **All four burden-sharing systems are sufficient to assure that the wall is built but each proposal can be defeated by an alternative division of the costs.**

# Ethical Anchors may stabilize democratic outcomes

- Recall that all of four proposals had normative justifications. **If two of the groups have internalized normative theories that imply that only one of the proposed distributions is fair or distributionally just, voting in favor of that distribution of cost shares would be deemed virtuous, and those voting to adopt it would benefit from a virtue supplement—**and additional subjective reward from voting morally (v)—that reduces the net burden of that allocation of burden. The virtue supplement reduces the effective cost of their share of the burden and increases support for the morally favored option. For example, if two of the three groups had internalized a norm favoring equal burdens, the burdens of the equal-share rule change from (400, 400, 400) to (400-v, 400-v, 400).

- **The more strongly the norm is internalized, the less costly is the normatively preferred apportionment is. If $v$ is large enough, suggestions to shift away from the equal burden distribution would be unsuccessful, and the wall would be built—although the virtue supplement (or guild decrement) would have to be fairly large in the series illustrated to completely stabilize the outcome**. A widely shared norm concerning fair or just taxation tends to narrow the scope of cycling and may generate a unique stable division of net benefits when it is strongly held.

- **Other types of norms can also stabilize or contribute to majoritarian stability. These include, for example, procedural norms**. Minor refinements may be rejected for normative reasons such as "do not let the perfect be the enemy of the good" or "compromise makes the best policy." In large scale elections, the effects of moral expressive voting make the virtue supplement even more important, because it alone determines how expressive voters would cast their votes. In such cases, the norm would not have to be strongly internalized to be decisive.

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# Majority Dilemma (2) Excessive Redistribution

The redistributive dilemma can be illustrated with a few equations and a diagram based on the influential Meltzer and Richard (1981) model. **Consider, for example, votes over policies with respect to a demogrant or universal income program of redistribution.** Suppose that the demogrant is to be financed with an earmarked proportional tax on everyone's total income of $t$ percent. **The tax revenues are used to provide equal lump-sum payments (demogrants) to each person in society.** Voter "i" would have an after-demogrant income of $X_i = (1-t)Y_i + G$, where $Y_i$ is voter i's pretax income, t is the tax rate, and G is the demogrant received. The total tax revenue generated by the tax is $NG = \sum tYi$. The demogrant paid out is simply total expenditures divided by the number of residents (N), which implies that the grant received (G) is simply t times average income, $G = tY^A$

Figure 7.1 The Majoritarian Poverty Trap
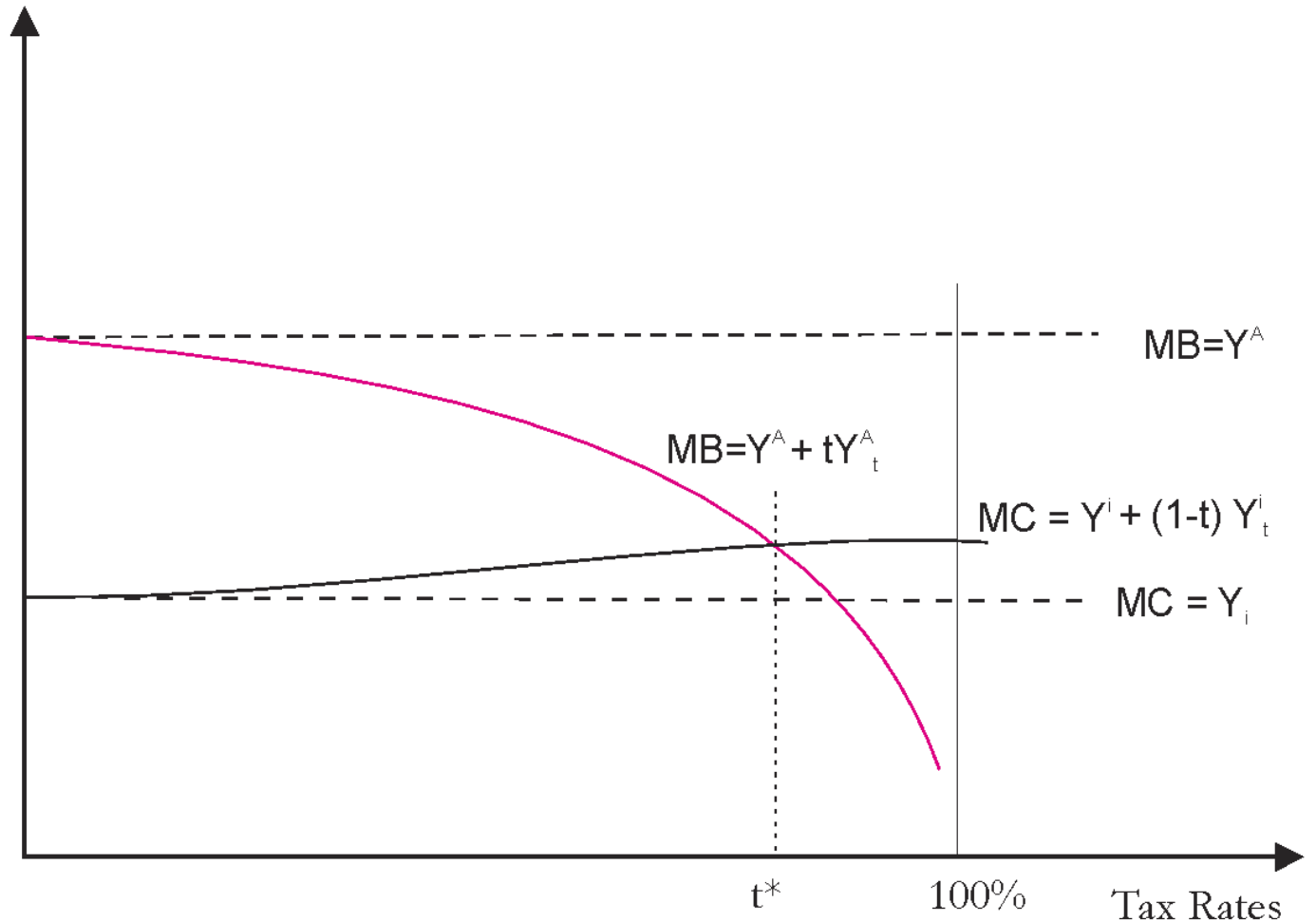


$MB = Y^A$

$MB = Y^A + tY^A_t$

$MC = Y^i + (1-t) Y^i_t$

$MC = Y_i$

t*     100%     Tax Rates

If the median voter is poor, taxes can approach 100%, even if average personal income levels decline toward subsistence levels. The result of a demogrant program in such communities is a population of more or less equally poor persons engaging in a good deal of leisure.

- Figure 7.1 illustrates two choice settings. In the first case, voters do not expect taxes to affect work effort or income. In that case, the marginal benefit from the tax is $Y^A$ and its marginal cost is simply the voter's own income, $Y_i$. Thus, if a voter has below-average income, $Y_i < Y^A$, the marginal benefit of the demogrant exceeds its marginal cost over the entire 0%–100% range of possible taxes. In that case, their preferred tax rate is 100%, the upper bound of this tax and transfer program. (This is the case illustrated with the dashed lines at the top and middle that characterize marginal benefits and marginal costs for persons with below-average income.) If a voter has above-average income, the reverse holds and his or her preferred tax rate is 0%. The distribution of voter preferences is bimodal, and the median voter is determined by median income, if taxes have no or very small effects on work effort, investments, or innovation. If the median voter has below-average income, as is usually the case, **the tax chosen will be 100% and the demogrant program assures that every voter's income is the same and equal to the average income i.n the community of interest**

- **In the second case illustrated in Figure 7.1**, voters expect work, investment, and innovation to be reduced by taxation, and the marginal benefits and marginal costs are no longer horizontal straight lines. The demogrant system reduces each individual's own work effort so his/her marginal cost (reduction in after-tax personal income) rises with the tax rate. It has a similar effect on others in the economy and thus the marginal benefit (average income) falls as the tax rate increases. The red MB line characterizes the new marginal benefit curve ($MBi = Y^A + tY^A_t$ with $Y^A_t < 0$). The darker MC line characterizes a below average income voter's marginal cost for the program, including his/her own reduction in work effort and income ($MCi = -Y_i + (1+t)Y_{it}$). These incentive effects tend to reduce the voter's ideal tax rate ($t^* < 100\%$), **although it may still be quite high if the voter's income is well below average.**

- **If the median voter is poor, taxes can approach 100%, even if average personal income levels decline toward subsistence levels. The result of a demogrant program in such communities is a population of more or less equally poor persons engaging in a good deal of leisure.**

# Majority Dilemma (2) Excessive Redistribution

**A variety of internalized ethical dispositions and other norms can reduce a community's tendency to fall into the democratic poverty trap**—although not all normative theories do so. For example, it may be widely believed that market rewards reflect "just desserts" or that transfers undermine the virtue of recipients, or that private property is sacred and involuntary tax and transfer programs are tantamount to theft. **Other norms may limit the types of transfers deemed acceptable.** For example, tax-financed insurance services may be regarded as useful risk sharing, rather than redistribution, and redistribution per se may be regarded to be immoral except in extraordinary circumstances. Tax and transfer systems also tend to be reined in by utilitarian and contractarian norms.



Figure 7.2  Avoiding the Majoritarian Poverty Trap
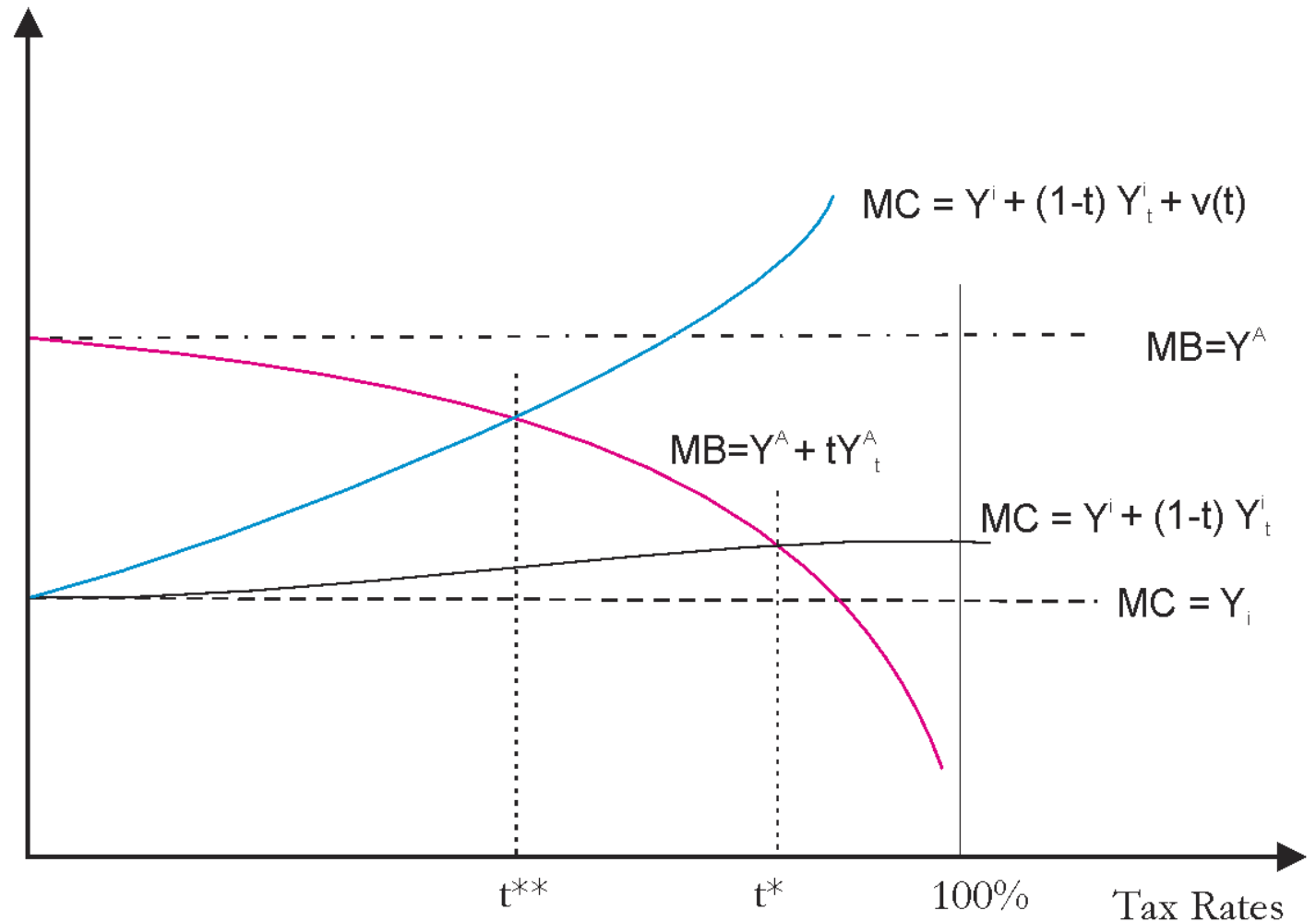
# Majoritarian Dilemma (3) Holding the Next Election

**•Incumbent Disinterest in Holding the Next Election**

•       For those living in well-functioning democracies, it may be a surprise that it is not usually in the interest of pragmatic office holders or their supporters to hold the next election. Holding the next election can only make current office holders and those supporting them worse off. If current office holders lose that election, they return to careers that they find less attractive than their current offices. If they win, they are no better off than they currently are. The same is true for their supporters. They are worse off if their preferred incumbents lose, because of policy changes adopted by their successors. If their preferred incumbents win, the same policies or trajectory of policies remain in place and they are no better off. This disinterest in holding future elections tends to be true for both pragmatic and many moral voters in the coalition that elected the current incumbents. As long as incumbents are considered trustworthy and reasonably competent, and their supporters care more about government policy than constitutionality or democracy, per se, why bother holding the next election?

•The word "trustworthy" is an important caveat. If there is a significant risk that those elected to high office would cease promoting the interests they promised to support during their campaigns, holding regular elections would reduce losses from official malfeasance. In cases in which incumbents are not deemed sufficiently trustworthy, even pragmatists will support elections, although they would prefer elections in which opposition interests are underrepresented or counted.

# Majoritarian Dilemma (3) Holding the Next Election

The pragmatists of the party out of power would all favor holding the next election, as would their constitutionalists. Thus, if there are a sufficient number of constitutionalists among the members of the ruling coalition, a coalition of legislators from the party out of power and the constitutionalists of the majority party would have veto power over major procedural reforms. Reforms that end future election would be blocked if pivotal members of this blocking coalition are weak or strong constitutionalists. Reforms that favor the present majority over the minority would be blocked if pivotal members of the blocking coalition are strong constitutionalists.

**It is important to note that continuing support for elections does not require that a majority of legislators be constitutionalists**, but it does require that a substantial minority of the legislators in all significant parties to be constitutionalists rather than pragmatists

| Table 7.3: Majority Coalition Member Support for Holding Next Election or Not, With and Without Moral Support for Democracy | | | |
|---|---|---|---|
| | Pragmatist | Weak Constitutionalist | Strong Constitutionalist |
| Hold Next Election | 6 | 6 | 6 |
| Disenfranchise Some Opposition Party Voters | 8 | $8-g_1$ | $8-G_1$ |
| Cancel Next Election | 9 | $9-g_2$ | $9-G_2$ |
| Note: If strong constitutionalists are pivotal, voter rights and elections will be sustained when $G_2>G_1>2$. | | | |

or idealists who are indifferent to constitutional procedures. **The greater the differences in the anticipated policies of the parties in and out of power, the stronger the requisite normative support by incumbent constitutionalists has to be for "antidemocratic" reforms to be blocked.**

# Review: Not All Norms Generalize to Democratic Politics

- **In the very long run, social evolution would tend to favor the emergence of normative systems that support market and political systems that generate attractive communities**. Emigration patterns, for example, are nearly all from societies with less commercial activity to those that have more and from countries where corruption is commonplace to countries where it is less so.

- **However, large-scale non-extractive governance and commercial societies are relatively new; thus, the norms that support such systems cannot have emerged through trial and error within such social systems.**

- Rather, it is likely that such systems emerged from innovations and experimentation with normative theories worked out in earlier political economic systems that resolved other older dilemmas that turned out to provide useful support for both liberal democracy and commercial societies.

- **That such systems are extraordinarily rare in human history and that extractive governments and mercantilism are historically commonplace suggests that the norms required to support the new systems are historically rare**.


- Norms that support voluntary exchange and competition in markets tend to make communities more attractive by increasing the benefits associated with commerce. In contrast, norms that support the same activities in political systems tend to make communities less attractive, for reasons noted above.

- When exactly the same ethical principles are applied to commerce and rent seeking, they can have opposite effects on the attractiveness of a community. Although norms that support honesty, diligence, and promise keeping are useful in both systems, not all ancient norms generalize to democratic politics or commercial systems.