

Chapter 6: Ethics and Majoritarian Public Policy

Like other tyrannies, the tyranny of the majority was at first, and is still vulgarly, held in dread, chiefly as operating through the acts of the public authorities. . . . Society can and does execute its own mandates: **and if it issues wrong mandates instead of right, or any mandates at all in things with which it ought not to meddle, it practises a social tyranny more formidable than many kinds of political oppression**, since, though not usually upheld by such extreme penalties, it leaves fewer means of escape, penetrating much more deeply into the details of life, and enslaving the soul itself. . . . There is a limit to the legitimate interference of collective opinion with individual independence; and to find that limit, and maintain it against encroachment, is as indispensable to a good condition of human affairs, as protection against political despotism. (Mill, John Stuart. *Complete Works of John Stuart Mill*. Minerva Classics. Kindle Edition.)

I. Introduction: On the Advantages of Law Creation and Enforcement in Relatively Large Communities

To this point, we have assumed that governments simply top up the existing norms or a given society. In effect, such organizations transform customary law into statute law and add fines and other punishments to those generated by internalization (guilt) and informal community enforcement through disapprobation, shunning, and so forth. A law-enforcing organization may add fines, incarceration, physical

punishment such as whipping and maiming, as well as the death penalty. All such penalties were routinely applied until a century or two ago.

A community may grant its government greater authority if it is widely believed that specialization in rule creation may improve customary laws that are already in place. Such governments may be given authority to refine existing rules and creating new rules that address social dilemmas for which no broadly accepted norms have emerged. Circumstances change from time to time, and a government may help a community respond to such changes by changing rules more quickly than the natural process of experimentation and copying and promulgation would generate on its own. In addition, the government may be delegated the task of financing and organization when norms are not strong enough to solve significant public goods problems.

Such organizations are clearly more powerful than the customary law-enforcing organizations analyzed in chapter 5. They do more than enforce pre-existing and well-known rules within the community. They create new laws that are not directly rooted in a community's internalized normative dispositions and principles. They may finance and produce public services directly rather than by encouraging citizens to do their duty.

Expanding the authority of governments to include law creation, taxation, and responsibilities to produce various services creates new temptations and abilities to provide favors for friends and family and to persons with the ability to bribe lawmakers to create laws that are advantageous to them. Examples include laws that reduce competition in

markets or exempt them from rules that apply to others. Thus, stronger internalized ethical dispositions are required for more encompassing governments than a government limited to customary law enforcement. There are more potential opportunities for mischief and extraction.

However, the focus of this chapter—as in the preceding—is “good” government, a government that generally advances the interests of its community or society. Such a government might emerge through a gradual transformation of formal customary law-enforcing organizations into more complex rule-making and -service providing organizations as communities grow and communities of communities emerge that supersede village and city governments. There are, however, as far as I know, no instances outside the New World where one can trace the evolution of a simple commonwealth into a liberal democracy. Most contemporary “good” governments previously went through autocratic phases as they were conquered by neighboring authoritarians and various opportunities for extraction exploited. Except for villages founded in North America, we have few instances where groups formed their own law-enforcing and -making governments that merged with others to become states and subsequently merged with others to become nation-states.¹

At this point we will fast forward, as we did in chapter 4, leaving the distant past behind and focusing on governments that have extensive powers and responsibilities of which their citizenry largely approves. In

the nineteenth century Europe, these were largely constitutional monarchies with an increasingly democratic components or constitutional republics grounded in broad suffrage as in France and North America. Elected chambers of parliament increasingly determined the broad outlines of public policies. To reach such a position involved centuries of experimentation and reform of both laws and procedures for making laws. That experimentation tended to favor procedures for governance in which public policies were jointly determined by a chief executive (king, prime minister, or president) and a parliament (Congleton 2011).

For the purposes of this chapter, the process of bargaining and reform that produced democratic governance in Europe is neglected to focus on dilemmas associated with governance grounded on elections. Such organizations must overcome number of dilemmas associated with majoritarian decision making in additions to others associated with all large organizations.

This chapter suggests that many of these problems are ameliorated with ethical dispositions—in this case, ideas about good government and the good society but also ideas about personal ethics that include prudence, honesty, and promise-keeping. Although a good deal of effort has gone into analyzing how democratic governments would operate without supportive ethical dispositions (see, for example, Congleton, Grofman, and Voigt 2019), mainstream public choice

¹ Historical narratives along these lines could be developed for the Dutch Republic and Swiss Confederation, but little is known about their early periods.

research leaves many puzzles unsolved, partly, although not entirely, because it has largely ignored the role of ethical dispositions in good governance.

II. Majority Rule, the Median Voter, and the Ethical Nature of Public Policy

As a point of departure, let us assume that a community has become a polity and selects its leaders or policies with majority rule—that is, by counting the votes of adult members of the community. The person(s) or policies receiving a majority of votes wins the election or referendum determines according to whether the issue voted on is selecting a leader or policy. Determining which person or policy to vote for is, of course, partly an ethical issue. In the case of a leader, it is partly a matter of assessing the character of the candidates for office, because character partly determines what a person is likely to do if elected to that office. The main issue regarding new laws and other policies concerns whether the consequences of new policies will generate improvements over the status quo ante or not, which as noted in chapter 4, is at least partly based on ideas about “the good society” that have been internalized by individuals in the community or polity of interest. In both cases, ethical considerations will affect voting behavior, electoral outcomes, and thereby the policies of the community or society of interest.

Similar considerations are also associated with other choices grounded in voting, such as when three friends choose a restaurant using majority rule. Each person’s ideal restaurant will partly be based upon

ethical considerations. Is the restaurant trustworthy? Is the food sourced in accord with his/her normative principles or not? Is the food itself consistent with his/her internalized dietary rules? Not all these are concerns for all consumers, but as indicated by chapter 3, judgements about the trustworthiness of the restaurants under consideration are likely to play a role in each person’s preferences over restaurants. This is not to say that ethical considerations fully determine which restaurant will be chosen, only that internalized ethical ideas affect that choice.

The relevance of ethical considerations in a particular choice setting depends on the nature of the theories, principles, and rules internalized and on the particular choice confronted. A vegetarian will be concerned about the nature of the food served. A utilitarian might be concerned with how producers of the food are treated, as well as his or her own and friends’ anticipated enjoyment of the food. A Jew might be concerned about whether the food is kosher or not, and so on. A pragmatist, in contrast, would only be concerned with the restaurant’s service, quality of its food, and its health effects on himself or herself.

A subset are relevant considerations for all ordinary idealists but, of course, not their only concerns. They are also likely to be concerned with whether the restaurant can be trusted to provide tasty interesting food. The same is true of public policy in a democracy.

The Weak and Strong Form of the Median Voter Theorem

To illustrate how voting affects outcomes, consider a choice of restaurants to be made by three friends Anthony (A), Bernard (B), and Catherine (C). Assume that each has an ideal restaurant in mind and

prefers restaurants that are closer to his or her ideal to ones further away. For the purposes of illustration, it is assumed that the average cost of the restaurant serves as a useful proxy for the quality of the restaurant including ethical considerations. This assumption is unimportant for the result but makes it possible to illustrate voting with a relatively simple table of ideal points, alternatives and majority outcomes. What is important is that each person votes for the restaurant “closest” to his or her ideal, and that “closest” is determined using some internally consistent set of rules or metric. The use of dollars for all in the illustration simply reduces the amount of information needed to characterize each voter’s preferences over restaurants.

Table 6.1 lists each voter’s ideal restaurant at the top (Alfred’s is \$5, Bernie’s is \$9, and Catherine’s is \$12) and how they will vote with respect to the two alternatives on the left.

Table 6.1: Votes and Outcomes				
Alternatives	A (\$5)	B (\$9)	C (\$12)	Majority Outcome
6 vs 11	6	11	11	11
8 vs 11	8	8	11	8
8 vs 5	5	8	8	8
5 vs 12	5	12	12	12
9 vs 8	8	9	9	9
9 vs 10	9	9	10	9

² See, for example, Holcombe (1989) or Congleton and Bose (2010) for statistical evidence that a median voter model can account for the trajectory of both minor and major government programs in the West. See, for example,

The first four referenda illustrate that a variety of outcomes are possible. However, perhaps surprisingly, it turns out that Bernie always votes in favor of the outcome that is selected by the majority. These votes 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, here Bernie. Notice that the right-hand column is exactly the same as Bernie’s votes. Bernie is not a dictator, he is simply “pivotal” in all elections. If only the weak form of the median voter theorem holds, there are many possible outcomes, but the winner is the policy or candidate preferred by the median voter, given the alternatives available.²

The strong form of the median voter theorem is illustrated by the last two votes. In that case, a single outcome emerges, namely Bernie’s ideal restaurant. If the median voter’s ideal point is one of the two options voted on, it will always win. There is some tendency for majority rule to converge on the restaurant, policy, and candidate preferred by the median voter under majority rule, assuming that each voter votes his or her true preferences—here the restaurant that best reflects both his (or her) normative and pragmatic interests.

If the strong form of the median voter theorem holds for the voting process used by this trio, the restaurant with Bernie’s ideal

Fiorina and Plott (1978) or Palfrey (2016), for experimental evidence that moderate policies tend to emerge from majoritarian politics—albeit not always the median voter’s ideal predicted by Downs 1957).

combination of normative and pragmatic interests is chosen, and that is where they eat. The same would be true if there were three equally sized groups of voters with these ideal points and the alternatives were various pairs of policies or candidates.

Given this property, Anthony Downs (1957) demonstrated that there is a tendency for pragmatic candidates for high office to claim that their ideal policies are more or less the same as those of the median voter of the electorate of interest. In such cases, pragmatists tend to win elections but have promised to advance median voter interests. Whether they keep those promises or not depends partly on the institutions that shape their practical interests. If the median voter tends to vote against candidates who break their promises, this tends to encourage even pragmatists to keep their promises—much as pragmatic shopkeepers in chapter 3 kept their promises—because this is how one wins re-election.

This induces candidates to behave in a manner that is consistent with the ethical theories and dispositions of the voters they are attempting to win over, which is to say, with the ethos of their electorates. To do otherwise would require ethical voters to act in a manner inconsistent with their ethical dispositions, which of course they might do if the temptations were great enough but which they are not likely to do if the temptations are modest, which is often the case in competitive national elections. Scandalous candidates tend to lose to otherwise similar candidates whose behavior and platforms are consistent with the most widely held norms of the electorate.

Ethics and Selecting Among Candidates

In representative democracies, the most powerful office holders will make many substantive decisions, of which few, if any voters, will be aware. Selecting among candidates for such offices are thus analogous to the hiring of persons for difficult to monitor positions by firms discussed in chapter 3. Judgements about the ethical character of such persons will be among the most important considerations for voters. Voters are more likely to support a candidate if he or she can be trusted to make decisions that advance their interests (both idealistic and pragmatic) even when he or she is unlikely to be observed by voters. This is not to say that skills at policy analysis are irrelevant, only that competence does not completely determine a voter's rank order over candidates.

As in the hiring decisions of firms, voters make trade-offs between the perceived competence and ethical dispositions of candidates. This is largely because many of the decisions made by senior office holders are secret, unreported, or of too little interest to be worthy of news accounts. Voters need to be able to trust their elected officials to do the right thing in complex choice settings where they are largely unobserved.

Table 6.2: Voter Rankings of Candidates Making Similar Promises But with Different Ethical Disposition and Skill as a Policy Analyst or Supervisor of Such Analysts

	High Skill	Moderate Skill	Low Skill
Very Trustworthy	10	8	6
Moderately Trustworthy	7	6	5
Not Trustworthy	5	4	3

As a result of such considerations, electoral pressures tend to produce relatively ethical office holders (or at least persons who seem trustworthy to voters) and who support public policies that tend to be compatible with the normative and pragmatic goals of moderate members of their electorates. For example, a contest between an untrustworthy technocrat and a trustworthy but relatively unskilled candidate may well be determined by ethical considerations rather than by relative talent as policy makers. There is no telling what the technocrat would do behind closed doors.

Evidence of the importance of ethics in elections can be taken from campaigns for high office, which normally emphasize the moral appeal of a candidate’s own policy and their own honesty (while arguing that their opponents are on the “wrong side” of relevant policy issues

³ Readers should keep in mind that the ethos of pivotal voters may well differ from his or her own. Both cultures and subcultures tend to have their own ethos: their own list of virtues and assignments of relative importance. They may also differ in what is considered to be the domain of moral choice. For example, what might be called “tribal” theories of ethics imply that behavior

and exhibit character traits that are far from moral). In a contest between a trustworthy, honest, or genuine man or woman and a technocrat with an untrustworthy secretive character, the more trustworthy man or woman is likely to win, especially among candidates for executive offices such as a president, prime minister, or governor. Persons occupying executive positions in government make a broad range of policy decisions on their own, whereas most members of a parliament or legislature have relatively little influence over policy on their own.³

The Possible Magnification of Ethical Considerations Under Majority Rule

The above discussion assumed that voters cast their votes in a sincere manner, that is, in a manner that accurately reflects their overall interests in restaurants, candidates, and policies—including both ethical and pragmatic considerations. There are several theories of strategic voting that imply that voters will not cast their votes in a sincere way, especially when a sequence of votes will determine the outcome. Voting in favor of an outcome that is not one’s true favorite in a sequence of votes can sometimes improve the final outcome. One might, for example, vote in favor of a weaker candidate in a primary election, because if the person wins the primary, one’s preferred candidate from the opposite party will have an easier time winning the final round.⁴

with respect to one’s own group should be moral, but this is less important (or inappropriate) with respect to persons outside the group.

⁴ See Farquharson (1969) for the introduction of the strategic voting concept and speculations about its implications. This has led to a very large literature on

There is another strand of strategic voting of greater interest for the purposes of this book called “expressive voting.” The idea behind expressive voting is that a single voter has weak incentives to vote sincerely because he or she is unlikely to determine or even much affect the final outcome in elections with large numbers of voters. However, how an individual voter votes will definitely affect what has been termed his or her “expressive” interests—one’s interests in affiliating oneself with positions that are deemed virtuous either for oneself or for the group in which one belongs or seeks membership in. In that choice setting, voters have good reasons to ignore their practical interests and vote in a manner that makes them feel virtuous or appear virtuous to members of their group or community. In other words, they vote as if they are moral zealots, rather than ordinary idealists—even when this is not the actually the case.

Although the expressive voting literature makes it appear as if moralistic voting is a problem (Brennan and Hamlin 1998), it does have the property that persons tend to behave more virtuously in voting booths—more in accord with their internalized normative theories—than they would in their day-to-day conduct. This “over”-emphasis on moral consideration would lead to problems if ethical theories and their associated policies generate outcomes that are not as attractive (even to expressive voters) as ones guided by a combination of ethical and practical considerations. If, however, the moral ideal is truly ideal, the

results would be better than generated by voting one’s true interests or by voters that focused only on their pragmatic interests.

If many or most voters do behave strategically and vote according to their expressive interests, ethical dispositions will play an even more important role in the determination of governmental policies than they play in private life.

III. Majoritarian Dilemmas: The Cycling Problem

The median voter model implies that in democratic commonwealths, moderate ethical dispositions will play a role in many, perhaps most, policy decisions. Indeed, if one accepts the reasoning of the expressive voting literature, the ethical dispositions of moderate voters will tend to determine essentially all electoral outcomes.

Some of these assertions may be discounted, because they are based on models, and models always abstract from many details, some of which may affect the predictions of models were they properly included. Models nonetheless serve useful purposes. By focusing on essential features of various choice settings, they reveal underlying tendencies in outcomes that would otherwise pass unnoticed. These implications in turn can be tested in various ways to determine whether the real world exhibits properties that are consistent with the predictions of the models. A good many tests of the median voter models have been undertaken

strategic voting and various tests of its propositions. For early experimental results on the existence of strategic voting, see Eckel & Holt (1989).

that suggest that they do capture something important about majoritarian politics.

That said, there is a theoretical problem with median voter models. Namely, there are policies for which a median voter is very unlikely to exist, and these include ones that are important for both the usefulness of majority rule as a decision-making process and economic development. The problem of majoritarian cycling has been known since the rational choice literature on elections emerged after World War II with Black's (1948) and Arrow's (1951) path-breaking work, but the way the cycling problem has usually been presented makes it look like a rather odd problem associated with weird preferences, rather than a problem that is central to democratic governance.⁵ The cyclic majority problem is not just a theoretical peculiarity but rather a fundamental problem that must be overcome if majority rule is to be a useful method of collective choice.

When governments have the authority to finance public programs and to distribute the costs of those programs more or less as they please, it turns out that there is no median voter if voters are all pragmatists who vote their own narrow economic interests. The same is true for policies that redistribute existing income or wealth and others that affect the relative paths of wealth accumulation by individuals and families. Since virtually all public policies have such effects, this implies

⁵ See, for example, Black (1948, 1958). See Mueller (2003) for an overview of this literature.

that there is rarely a median voter even in relatively simple choice settings, such as the one discussed below.

The majority cycling or indecision problem, like the ones explored in previous chapters, is another that can be ameliorated through shared ethical dispositions.

To illustrate the problem, imagine a village located in a territory where roving bandits exist. The community unanimously agrees that a defensive wall would solve problems associated with such raiders and agrees to construct such a wall. Suppose that the wall can be constructed with 1,200 hours of labor. The issue is how to divide up the burden of constructing the wall. Suppose that the burden is to be divided among three equally sized groups in the village—shepherds, masons, and merchants. The division is to be chosen using majority rule at a village assembly. Various groups make proposals about how to divide up the burden of constructing the wall.

One proposal might be simply to divide up the costs equally among the three groups. 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 $(T_{\text{shepherd}}, T_{\text{mason}}, T_{\text{merchant}})$, 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 those already

skilled at wall construction. Some might argue that the middle-class masons should be public spirited and construct 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 the community should take account of wealth differences among citizens. The actual labor might be hired from neighboring communities, rather than provided by the villagers themselves. The payments collected would pay for hours of labor, rather than directly provide it, but can nonetheless be represented in terms of the hours worked to fund those payments, as with (100, 400, 700). 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 public good of interest is provided (the defensive wall), and all are Pareto efficient. Thus, any division will serve.⁶ Unfortunately, majority rule fails

⁶ A Pareto-efficient tax system has the property that any reduction in the financial obligations of one group necessarily reduces the welfare of other taxpayers, holding revenues and planned expenditures constant.

⁷The four-step cycle is contrived for purposes of illustration. Such cycles are associated with every “dividing a pie” decision among pragmatists under

to settle on one of these tax systems when votes are cast entirely on the basis of narrow self-interest. There is a majoritarian cycle. The first proposal loses to the second, the second by a vote of two to one. The second similarly loses to the third, the third to the fourth, and the fourth to the first.

As a consequence, no defensive wall may actually emerge from majoritarian deliberations. And, the town will continue to be ravaged by the roving bandits or may be annexed by a neighboring extractive regime.⁷

Internalized norms can eliminate by inducing all three groups to favor one of the alternatives, despite their pecuniary interests. For example, a consensus that taxes should be based on ability to pay limits tax systems to a relatively small subset of tax systems. Only proposal 3 is consistent with that norm. Alternatively, a cooperative view of the group enterprise might favor equal contributions, which only proposal 1 satisfies, and so forth. Useful norms for cost sharing are not unique. To make majority rule a useful method of choosing policies, the shared norms merely have to concentrate voter interests on a relatively small

majority rule. If each voter wants a larger slice of the pie (or smaller part of the tax burden to pay for a desired service), there is always another division of the pie that can achieve majority support. The four divisions of tax burden used are simply one of the infinity of possible cycles.

subset of cost-sharing (tax) systems in a manner that increases the decisiveness of majority rule.⁸

Cycles may also be curtailed by procedural norms. For example, it may be widely regarded as improper, unfair, or unsportsmanlike to reintroduce cost-sharing schemes that have already been rejected. In such cases, deliberations among the four proposals would end in the third round, but the order of voting, rather than the merits of the proposals, would determine the result. Decisive majoritarian policies might also emerge if there is a customary method of public finance, and a tendency to defer to tradition when funding new projects.⁹

A variety of internalized norms—although not all—can stabilize day-to-day democratic politics by increasing consensus and reducing the politically feasible domain of policy deliberations. In the illustrating example, a unique outcome emerges if at least one of the two groups has internalized norms that yield a total burden (including guilt or loss of honor) for a particular tax system that is greater than that of the other three proposals. If only one type of tax system is broadly supported by a community's dominant normative theory, others would be rejected,

⁸ Usher (1981) demonstrates that tax systems that preserve the pretax rank order of income tend to be more stable under majority rule than those that do not.

⁹ It bears noting that most median voter models of public policy determination assume that the tax system used to finance the policy will not be changed by the policy of interest. Such preexisting customary form of taxation are prerequisites for median voter outcome to exist for essentially all plausible distributions of voter interests, as in the model developed in the next section of the chapter.

because they yield burdens that are “improper” or “unfair,” or ones that could only be adopted by “improper” or “unfair” procedures.¹⁰

Without such norms, majority rule would not be a useful or usable method of making collective decisions. It would tend to be indecisive on nearly all policy issues, because nearly all public policies affect the distribution of income or wealth among community members.

IV. Majoritarian Dilemmas: Redistribution and the Poverty Trap

Given a customary or ethically based tax system sufficient to assure that majority rule generates unique choices for tax and services levels, the next major problem confronted by democracies involves whether the choices reached are ones that tend to support an attractive society. Not every majoritarian choice does so. This was, for example, evidently a concern for both Aristotle and Montesquieu, who were skeptical about the prudence of some voters. For example, severe economic problems may emerge when voters cast their votes in pragmatic manner with respect to redistributive policies. Rather than producing an attractive society, the result of such voting tends to be an impoverished community, because radical redistribution eliminates

¹⁰ In this manner, what might be considered morally expressive voting can eliminate the cycle and yield a definitive majority choice. Brennan and Lomaski (1997) argued that most voters tend to vote expressively, which implies that their ethical theories tend to have greater weight in the voting booth than in ordinary life. Although Brennan and Lomaski are most interested in cases in which problems emerge from such voting behavior, the above analysis implies that the results can be better than what would have emerged from narrowly self-interested voting.

financial incentives to invest in skills, work hard, accumulate capital, and innovate.

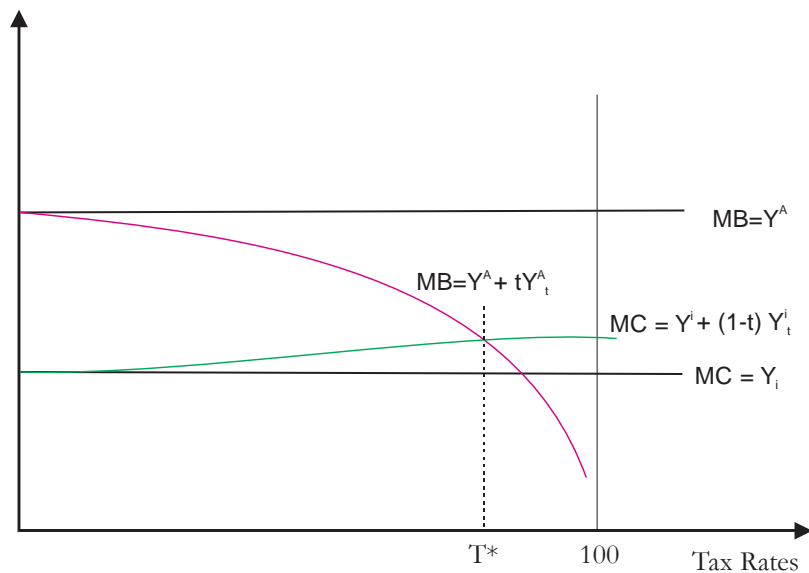
The redistributive dilemma can be illustrated with a few equations and a diagram based on the influential Meltzer and Richard (1981) model. Consider, for example, votes over policies with respect to a demogrant program of redistribution. Suppose that the demogrant is to be financed with a uniform proportional 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 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. Because G is paid for through taxes, $NG = \sum tY_i$, which after dividing both sides by N implies that the grant financed is simply t times average income, $G = tY^A$, where Y^A is average income. If individuals are pragmatic income maximizers, they will favor the tax-grant combination that maximizes their own after tax income, which is the grant that sets their marginal benefits from the demogrant equal to their marginal tax cost. However, this equality, perhaps surprisingly, may never occur.¹¹

¹¹ This demogrant program is a slightly simplified version of that used in Meltzer and Richards (1981). Meltzer and Richards, however, fail to point out the possible corner solutions to a demogrant program when voters cast votes entirely based on their pecuniary interests. (They focus on case 2 below, where the tax base falls as taxes increase.) Majoritarian stability and a median voter outcome emerge from the assumed structure of the transfer program: equal grants financed by a proportional tax, which implies a single control parameter (either the tax rate or demogrant size).

Figure 6.1 illustrates a voter's net benefit-maximizing choice under two scenarios. In the first, taxes do not affect work effort or income. In that case, the marginal benefit from the tax is always tY^A and its marginal cost is simply Y_i . If a voter has below-average income, $Y_i < Y^A$, the marginal benefit from the demogrant exceeds the marginal cost of the tax over the entire 0%–100% range, and their preferred tax rate is 100%, the upper bound of this tax and transfer program. (This is the case illustrated with the straight black 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%. In the case in which taxes have no or only very small disincentive effect, the distribution of voter preferences is bimodal and the median voter is determined by median income. 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 in the community of interest. This egalitarian outcome is also the utilitarian optimum in cases where taxes have no incentive effects (or deadweight losses).¹²

¹²The analysis implicitly assumes that voters are either perfectly informed or that the information problems confronted by voters are indirectly solved through aggregation. The Condorcet Jury Theorem implies that if a sufficient number of voters are diligent policy analysts and gather enough information to cast reasonably intelligent votes (e.g., ones that are likely to advance their pragmatic and moral interests), then competitive electoral outcomes provide unbiased estimates of the policies that most advance the interests of the median voter (Congleton 2007a).

Figure 6.1 The Transfer Poverty Trap



In the second case illustrated in Figure 6.1, work, saving, and investment are all affected by the private returns from those activities, as illustrated with the colored curved lines. In this case the demogrant system tends to reduce effort and average income. This incentive effect tends to change the ideal tax rate for voters of intermediate levels of income, because it reduces the marginal benefits associated with the demogrant program. A given tax rate now produces a smaller demogrant than before, because average income falls as the tax rate increases. The red MB line characterizes the new marginal benefit curve ($MB_i = Y^A + tY_t^A$,

with $Y_t^A < 0$). The green MC line characterizes a typical voter's marginal cost for the program, including his or her own reduction in work effort and income ($MC_i = -Y_i + (1+t)Y_{it}$). Higher taxes now reduce work effort, income levels, and the tax base available for the demogrant program.

When the incentive effects are taken into account, some voters will prefer intermediate levels of taxation and transfers, as in the case illustrated. This is the case focused on in Meltzer and Richard's classic paper on majoritarian redistribution (1981). The poorer the median voter is relative to average income, the higher taxes and transfers tend to be. With very poor median voters, taxes can again approach 100%, and personal income levels again may 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.¹³

Thus, a community in which the median voter is initially poor relative to average income is likely to become poorer still if a demogrant program is adopted and voters cast votes based on their short-term pecuniary interests. This outcome is the democratic poverty trap. Such communities undertake more redistribution than would maximize aggregate utility.

A variety of internalized ethical dispositions and other norms can reduce a community's tendency to fall into the democratic poverty trap.

¹³ Aristotle recounts an instance in Megara, where redistribution led to the end of democracy. The democracy in Megara was also overthrown in a similar way. The popular leaders, in order to be in a position to confiscate their goods,

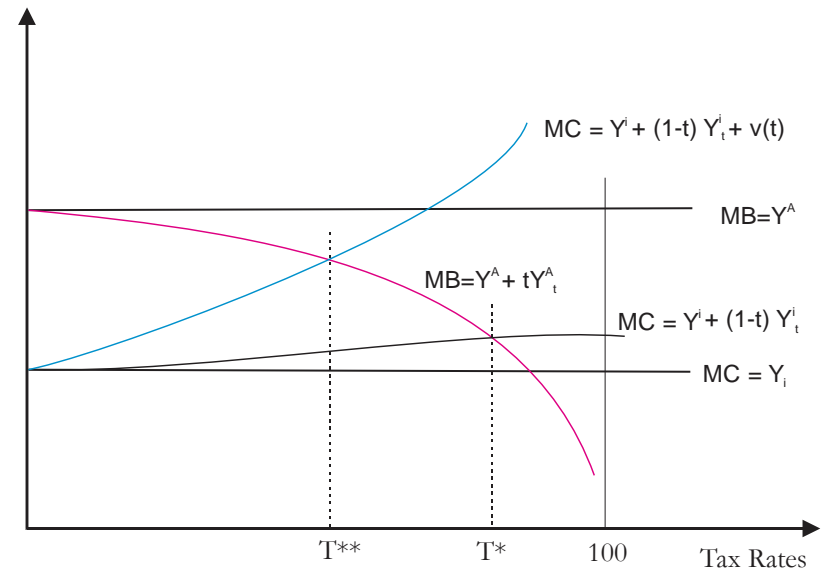
expelled many of the notables, until they had created many exiles, who then returned, defeated the people in battle, and established an oligarchy. [*The Politics*, Second Edition (p. 139). University of Chicago Press.]

Internalized tax and fairness norms that reduce the domain of redistribution tend to be commonplace in democratic societies with flourishing commercial systems. For example, it may be widely believed that market rewards reflect “just deserts,” or that transfers undermine the virtue of recipients, or that private property is sacred and tax and transfer programs are tantamount to theft. As one violates such internalized norms by increasing the magnitude of redistribution, there is a virtue or guilt premium that must be borne. Tax and transfer systems also tend to be reined in by utilitarian and contractarian norms insofar as they oppose redistribution that reduces the average well-being of persons in the community of interest. Utilitarian and contractarian logic support redistribution but also support constraints when there are tendencies for excessive redistribution to take place.¹⁴

If the median voter has internalized such norms, less redistribution will be demanded, taxes will tend to be lower, and economic output higher. Figure 6.2 illustrates the marginal cost increasing effects of such internalized norms on the demogrant program. The norms internalized by moderate voters are assumed to increase their subjective burdens for tax and transfer programs by amount $v(t)$, which represents the marginal guilt or loss of self-esteem associated with inappropriate types of taxation or transfers (the blue line). As a consequence, a voter’s ideal demogrant program tends to be smaller than ones based on economic interests alone, $T^{**} < T^* < 100$. The greater the

guilt or loss of self-esteem associated with redistribution is at the margin, the smaller is the ideal demogrant program. The new ideal tax rate is characterized by tax rate T^{**} in the diagram.

Figure 6.2 Escaping the Transfer Poverty Trap



In such cases, a community’s ethos inhibits both large demograts and their associated high taxes. Indeed, under some norms, tax and transfer programs per se may be ruled out entirely, in which case only social insurance programs might adopted.

According to the prevailing ethical theories in the countries that experienced extensive commercialization during the late nineteenth

¹⁴ Brennan and Buchanan (1980) analyzed a variety of such constitutional constraints on taxation.

century, government income-support programs should only target persons experiencing unusual bad luck (unemployment or ill health), rather than below-average income, per se. Such norms indirectly increase the size and rate of growth of their commercial societies by reducing the disincentives effects of taxation, rather than by directly reducing transactions costs, increasing human capital, or encouraging innovation (although such policies were often also undertaken). Contrariwise ethical theories that encourage redistribution tend to reduce the size and growth rates of a community's commercial society.¹⁵

Another possible solution to the democratic poverty trap is the adoption of formal institutions that limit redistribution. Constitutional constraints, such as takings clauses and restrictions on tax rates or tax base, can also reduce the risk of a democratic poverty trap by reducing the extent to which a community's economic wealth is available for transfer or other government programs. Such possibilities are taken up in chapter 7.

V. Majoritarian Dilemmas: Pragmatic and Ethical Interest Groups

Having solved the previous two problems, an attractive community with a government grounded in elections and majority rule may emerge. It does so partly because of institutional design—elections tend to focus attention on issues of broad interest—but also because of ethical dispositions that tend to support both majority rule and policies

¹⁵ The incentive effects of high taxes may be offset by other norms, such as a strong prevailing work ethic, as appears to be the case among contemporary

that tend to produce attractive results. We now turn to another source of problems associated with voter ignorance.

We are all a bit ignorant of things that we might usefully know and open to information provided by others in our communities. Learning from others is arguably the main way that we learn about the world—although we do not always believe what we are told or interpret what we are told in the way as intended. Information provided by others is also an important source of information about public policies, especially about the “problems” that exist and “solutions” to those problems that might be adopted by our governments.

The problem faced by voters and government officials is that in areas of ignorance we may be manipulated to some extent by groups who may exaggerate (or minimize) problems in order to profit from their favored policies in one way or another but fail to generate broad benefits for members of the community (Congleton 2001). It is the latter that provides the justification for pragmatists who try to fool voters into favoring particular policies that are actually not in their interests but are profitable for the groups advocating them (and/or their sponsors).

The right to assemble and petition government is assured by all liberal democracies and is also possible for most groups in all but the most authoritarian of dictatorships. This right allows groups to form and lobby in favor of or against all manner of political, social, and economic purposes. Such political rights characterize legal methods through which

Scandinavian countries today. Thus, the analysis undertaken in this subsection is of the “other things being equal” variety.

groups can attempt to affect public policy through persuasive campaigns inside and outside of government in a manner disproportional to their numbers.

Rent Seeking and Rent-Seeking Losses

The policies favored by pragmatic groups are often—although not always—narrow ones that confer net benefits on a group’s members and net costs on persons outside the group in the form of higher prices, increased transactions costs, higher taxes, or unfavorable regulations. Commercial groups, for example, often lobby for entry barriers of various kinds that shield their members from competition. Public policies that do so include explicit grants of monopoly privilege, protective tariffs, regulations with grandfather clauses (which impose higher costs on new entrants), licensing, and narrowly targeted subsidies. Suppliers of government services also often lobby for better contract terms than possible in more competitive markets.

In all of these cases, persuasive campaigns consume time, talent, and attention. The costs of such rent-seeking activities include both the less than ideal policies adopted and over investments in political activities and the opportunity cost of all the resources used in the lobbying process.¹⁶

¹⁶ Political-economy models of losses associated the activities of pragmatic groups (economic interest groups) emerged in the decades after World War II. Mancur Olson (1965) developed analytical models that explained why relatively few interest groups attempt to advance general interests. Gordon Tullock (1967, 1980) more fully accounted for the losses associated with such efforts. The

Table 6.3 illustrates the escalating tendency of persuasive campaigns undertaken by lobbyists and the effects that competition among interest groups have on the profits from engaging in such contests. The Nash equilibrium implies relatively high lobbying efforts and relatively low profits from such contests. In evenly matched contests of the sort illustrated, each organization would benefit if all could credibly agree to limit the extent to which their resources are invested in this process. However, no other outcome is stable. The rivals all benefit from violating such informal agreements, both if they expect others to adhere to them and if they do not.

Table 6.3: A Rent-Seeking Contest and the Dissipation of Profits
Arye

	1 Lobbyist	10 Lobbyists	50 Lobbyists
Gordon	(G , A)	(G, A)	(G , A)
1 lobbyist	(6, 6)	(4,8)	(1, 10)
10 lobbyists	(8, 4)	(5,5)	(2, 6)
50 lobbyists	(10,1)	(6,2)	(3, 3)

When economic interest groups succeed in their persuasive campaigns to obtain privileges, those outside the contest are often made

losses associated with the process of lobbying and similar activities came to be called rent seeking, a term coined by Anne Krueger (1974). (To an economist, a “rent” is unearned income, rather than an amount paid to use a room or house.) Tullock (1967) argued that resources are consumed by the process of seeking privileges and other policies that reduce social net benefits are part of the deadweight loss of socially unproductive policies.

worse off through higher prices, higher taxes, or less variety, all of which tend to reduce the size and scope of commerce. A total accounting of the losses from lobbying by narrow interest groups includes reductions in social net benefits generated by exchange and the cost of the nonproductive efforts to obtain protection from competition.

The “crony capitalism” that emerges from successful rent seeking tends to both reduce the extent of the commercial society and increase inequality.¹⁷ Such results would be opposed by both utilitarian and contractarian analysts.

Illegal Forms of Rent Seeking: Ethics and Corruption

Although, there are often gains to trade between buyers and sellers of political influence, there are external costs beyond those transactions. Those costs usually exceed the benefits realized by those buying and selling government favors. For example, taxes may rise for most other persons in a community if more is paid to government contractors than required to elicit their services. The prices of goods and services rise for consumers of services sold in less competitive markets than would have existed without protective tariffs and other laws that reduce competition. It is to avoid such losses and also to conform to community norms of fair and just procedures that laws against some forms of lobbying and influence (such as bribery) are nearly universal.

¹⁷For early models of equilibrium rent-seeking efforts see Tullock (1980), Congleton (1980), or Hillman and Kats (1984). For an accessible overview of

Unfortunately, antibribery and similar laws are difficult to enforce. This is partly because the enforcers of such laws are often among the potential beneficiaries of corruption. Those who enforce anticorruption laws normally have discretion over how the laws will be implemented. Discretion is exercised over the extent to which a possible instances of corruption are investigated, whether to bring particular persons or organizations to trial, the strategies used in court proceedings, and the stringency of punishments imposed on persons found to be guilty.

As in other areas of law, this discretion can be used to increase the effectiveness of law enforcement and to reduce the losses associated with violations of and exceptions to existing laws. Alternatively, it can be used to shield friends, families, and the powerful from the laws others must follow. Pragmatists seeking privileges will naturally attempt to influence the decisions of government officials with relevant discretion.

In general, the further up the chain of responsibility for creating and enforcing the law one goes, the more difficult it is to detect and punish favoritism and corruption. This is in part because the methods of bribery and extortion employed at higher levels are often more roundabout and less easily observed by persons outside an agency. It may simply involve the trading of favors, the opening or closing of doors of opportunity, job offers, valuable information about investment opportunities, and the like. The more subtle the means, the more difficult

the rent-seeking literature that emerged during the next several decades, see Congleton and Hillman (2015).

it is to detect corruption and the more difficult it is to write laws that discourage it.

The effectiveness of anticorruption laws, like most others, depends partly on the formal reward and recruiting systems of the law-enforcing agencies, and partly on the normative dispositions of those attracted to government service. An anticorruption agency staffed by lazy and untrustworthy persons and given few resources is unlikely to enforce anticorruption laws very well. An anticorruption agency staffed by hard-working pragmatists might tend to amass personal fortunes from those violating the laws (and those who can be made to appear so), rather than enforce the law. Indeed, without internalized norms against taking bribes, legislation and regulations might well be mainly adopted with opportunities for rent extraction, graft, and favoritism in mind.¹⁸

Internalized norms provide politicians and bureaucrats with ethical reasons to pass anticorruption laws and to refrain from accepting bribes or engaging in favoritism. In the broader society, such norms can reduce the extent to which bribes are offered or rent-seeking lobbying undertaken. Firm owners, for example, might prefer to earn their money “honestly,” rather than as a consequence of a regulatory privileges or subsidies. Widely held norms against favoritism may also produce political pressures for reforms that discourage such possibilities.

¹⁸See McChesney (1987) for illustrations of such rent-extracting policies in the United States, a relatively well-run and honest government.

Ethical Interest Groups

It also bears noting that not all interest group activity is intended to increase profits. Ethical interest groups have a long history and often are able to succeed in their reform agendas. Ethical dispositions often encourage lobbying efforts by groups with aims grounded in moral philosophy. Participating in such campaigns is often considered praiseworthy or virtuous behavior. For example, a long series of economic and political reforms in the nineteenth and twentieth centuries were advocated by utilitarians and other groups with similar normative goals. Their persuasive enterprises helped induce the reforms that created the legal framework for contemporary commercial societies and democratic governance in nineteenth century Europe (Congleton, 2011).

Public interest lobbying often counters the efforts of pragmatic rent seekers by undermining their arguments and pointing out the narrow interests being advanced. An indication of the success of campaigns by such groups against corruption and rent seeking is that it is often difficult to determine whether a particular group is a rent-seeking or an ethical interest group. To reduce opposition from idealistic groups, pragmatic groups often find it useful (more persuasive) to argue that their preferred policies are public spirited and advance general interests, rather than being simply one of their many strategies for maximizing profits or power. It is a very rare group that will publicly argue that a particular policy should be adopted simply because it increases their member's

profits. Moral narratives are thus nearly always part of the public campaigns of interest groups. Such rhetoric would not be used, of course, unless it was widely believed that moral arguments were persuasive. This is most likely when the relevant ethical dispositions are already commonplace within the electorates of interest. Indeed, coalitions of ethical and pragmatic groups often lobby for the same policies.

Although ethical systems tend to agree on many public and private issues, they do not agree on all points. For example, not all ethical groups have goals or only use methods that are consistent with the aims of welfare economics, utilitarian ethics, or contractarian theories of legitimacy. The policy aims of many ethically grounded interest groups tend to undermine, rather than support democratic governance and/or the commercial society. Moreover, contests between ethically motivated groups can also consume enormous resources and without benefiting others outside the contest.

That ethical interest groups are important at the margin tends to reinforce or extend the ethical foundations of public policy and constitutional governance.¹⁹ However, whether net benefits or losses are produced by the activities of ethically motivated groups depends on the magnitude of the net benefits produced for others through their efforts

¹⁹ To the extent that trust increases with the extent to which policies advance moral rather than pragmatic ends, such “reformed” governments are likely to be more trusted than ones that lack “proper” incentives or are staffed by persons without widely accepted values.

²⁰ For a mathematical examination of the efforts of ideological and pragmatic interest groups, see Congleton (1991). It bears noting that many international

and the resources consumed by the rival groups in the process of generating those effects.²⁰

VI. Majoritarian Dilemmas: Why Hold the Next Election?

Although governments in a sense “make the rules” that everyone in a community is supposed to follow, most democratic governments are not themselves above the law. Instead, governments are supposed to follow another level of law that characterizes procedures for making new laws and constraints on the types of laws (and other policies) that can be adopted. Constitutional documents, case law, and customs characterize the standing procedures through which laws should be created and revised. Constitutional laws are productive, in large part, because they reduce the extent to which resources are consumed in conflict over policies and positions of authority, and also because they reduce the likelihood that extractive policies are adopted rather than policies that tend to benefit most persons within the territories governed.²¹ The various written and unwritten rules that determine how policies are actually made are themselves subject to revision through a constitution’s standing amendment procedures.

and civil wars have been fought between rival ethical groups, as with the many religious wars of Europe, the Levant, and North Africa. It is doubtful that any of these produced aggregate net benefits for those involved.

²¹ Both policy volatility and conflict can be represented as higher level social dilemmas, but these are beyond the scope of the present chapter. See for example, Congleton and Tollison (1999) and Congleton (1980).

What is of interest for the purposes of this subsection is the extent to which ethical theories and dispositions affect the likelihood that constitutional rules are actually followed. The selection and modification of constitutions and other grounding institutions are taken up in chapter seven.

Consider, for example, a pragmatist’s very limited interest in holding the next election if his/her preferred party currently controls the government. Holding an election in such circumstances can only make those supporting the current government worse off. If their preferred government remains in power, they are no better off. If it loses, they are worse off, which is to say their preferred policies will be less likely to remain in force. This is of course also true of the persons presently holding positions of authority. Moreover, this disinterest in holding future elections tends to be true of both pragmatic and moral voters in the majority coalition who care more about policy than constitutionality or democracy, per se. The policies of most interest to such voters can only be placed at risk by future elections.²²

Table 6.4 illustrates a plausible rank order of informal or formal constitutional reforms that might be adopted by a majority coalition, with the plausible assumption that disenfranchising minority voters is a better option than cancelling future elections because of possible agency problems associated with the elected officials currently holding office. A

²² The word “trust” is an important caveat. If there is a significant risk that those elected to high office will cease promoting the interests they promised to support during their campaigns, future elections can reduce losses from official

weak constitutionalist ($1 < g < 2$) would oppose disenfranchising the minority but might favor postponing the next election. A strong constitutionalist ($G > 2$) would oppose both reforms.

Table 6.4: 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-g	6-G
Cancel Next Election	8	8-g	8-G
Disenfranchise Minority Voters	9	9-g	9-G
<i>Note:</i> The outcome depends on which of these voter types is pivotal for the majority coalition. If strong constitutionalists are pivotal, voter rights and elections will be sustained when $G > 3$.			

Notice that it takes relatively strong support for democratic procedures to sustain competitive elections. This problem is increased by the possibility that the next majority coalition may have fewer “constitutionalists” among its members and so be more inclined to disenfranchise voters or cancel future elections. Members of the majority who anticipate being in the minority in the future, would be inclined to “lock in” their advantages rather than take a chance on the constitutional

malfeasance that may be greater than those associated with the next majority’s policies. In such cases, even pragmatists will support elections, although they would prefer elections in which opposition interests are underrepresented or counted.

norms of future majorities. Such “centipede” constitutional reform games increase the benefits of overturning or ignoring constitutional rules (by avoiding future “lock outs”), tend to induce reforms that can effectively end democracy after a single election—as happened in many African countries after independence.

Thus, ongoing democratic governance can be said to have normative foundations. Its constitutional rules are no more self-enforcing than other laws. In the absence of supportive normative dispositions among pivotal voters and elected government officials, majority coalitions would have little reason to resist temptations to disenfranchise those out of government or cancel the next election. And, of course, they would be inclined to ignore other constitutional constraints that reduce their abilities to adopt such reforms and/or their preferred policies.

Ethical solutions to the problem of constitutional law enforcement do not require that all voters or elected officials be strong constitutionalists. Only pivotal voters and senior government officials need have the habits of thought and action that support democratic constitutional procedures and constraints. Nor is this to say that other aspects of constitutional designs do not matter. Clearly some standing of constitutional review and procedures for impeachment are also helpful.

Normative support is likely to be a necessary but not a sufficient condition for constitutional democracies to retain their competitive elections and respect the rights of those out of government.²³

VII. Conclusions: Ethics, Good Governance, and Economic Development

This chapter has accepted the widely held hypothesis that “good” governments have electoral foundations, but also demonstrated that such governments work best if they also have ethical support—indeed it was argued that such governments are possible only if they have such support. This chapter has reviewed a number of dilemmas that must be solved to have a well-functioning democracy. Without solutions, these dilemmas can cause electoral based governments to be far less than “good,” as that term is understood by contemporary ideas about effective, efficient policies that broadly advance the shared interests of a polity’s citizenry. The use of majority rule for policy making is no more natural than the emergence of reasonably peaceful attractive communities, extended markets or diligent law enforcement. It too benefits from the support of a subset of normative dispositions. Without solutions to these dilemmas, election-based governments would tend to produce unattractive societies. Democracies would otherwise tend to be indecisive, tend to over-redistribute (and thereby undermine incentives to work and to accumulate capital), and even to undo themselves by

²³ In their classic book on constitutional theory, Buchanan and Tullock (1962) demonstrated that a democratic constitution may be supported by the pragmatic interests of voters who wish to solve public goods and coordination problems.

They did not, however, discuss the ongoing support for elections or explain the emergence of democracy at other than a hypothetical constitutional convention in which property and civil liberties already exist.

cancelling future elections—as they are never in a current majority’s interest to hold.

The analysis has shown that public policies adopted by well-functioning democracies—those with a median voter—tend to reflect the interests of moderate voters, including both their pragmatic and moral interests, and that moral interests may be relatively more important for public policies than they are in personal lives insofar as a subset of voters vote expressively. With or without expressive voting, ethical considerations will drive both the selections of persons to high office in representative democracies and the selection of policies in direct democracies. Ethical considerations are generally not the only ones voters have, but as in private life, they tend to influence a wide variety of choices by most voters.

With respect to economic development, these results in combination with those from chapter 3 suggest that the policies of democracies may reinforce or impede commercialization. Whether they do so or not is partly a consequence of the prevailing ethical assessments of moderate voters regarding the merits of economic development and also their pragmatic interests in redistributive policies. If a polity’s prevailing ethos is broadly supportive of economic development, then policies that assist or at least do not impede commerce are likely to be in place and, if supportive norms for law enforcement are in place, markets

are likely to be more extensive and innovative than they would otherwise be. If the opposite ethos hold, commercialization will be impeded by the policies of well-functioning democracies.

Moreover, if supportive norms for good government are lacking, a good deal of rent extraction is likely to be associated with public policies—which is to say that most policies will be selected with the narrow interests of persons in government officials in mind rather than the shared interests of the community governed.²⁴

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²⁴ Evidence in support of these contentions can be found in De Haan and Sturm (2003), who found a weak correlation between democracies and economic freedom, and Gwartney, Lawson, and Holcombe (1999), who found a strong correlation between a vector of policies that they regard to be market

supporting (summarized as an economic freedom index) and income and growth rates. Mauro (1995) provided convincing evidence that corruption reduces investment and economic growth rates. See Aidt (2016) for a discussion of connections between rent seeking and corruption.

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