

**VOTING RIGHTS AND REDISTRIBUTION: IMPLICATIONS  
FOR LIBERAL, DEMOCRATIC GOVERNMENTS**

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"Individuals have rights, and there are things no person or group may do to them (without violating their rights). So strong and far-reaching are these rights that they raise the question of what, if anything, the state or its officials may do." Nozick's (1968, p. ix) defense of individual freedom opens with these words. What do the words mean?

As a positive proposition about the limits to government's control or influence over property, income distribution, and the allocation of resources, Nozick's statement is rejected everywhere. In countries where people choose their political leaders directly or indirectly in competitive elections, what government "may do" -- its command over resources by taxing, regulating or other means -- has expanded for at least a century. Redistribution across groups, both temporally and intertemporally, is the major reason for the growth of government budgets in developed, market economies with near universal suffrage. In totalitarian systems, where competitive elections are restricted or prevented, as in the Soviet Union, China, or Eastern Europe, most property rights vanish, and the state is the dominant influence on income

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distribution or redistribution.

Nozick's proposition also fails as a relevant statement about what governments ought to do, or not do, about resource allocation in practice. The reason is that the proposition has no application to totalitarian societies, and it does not take account of voting. Neither Nozick's statement, nor the book that follows it, proposes a means by which voters can restrict the role of government to activities that do not violate some individual's rights to his property and income. Evidence suggests that no major political group supports Nozick's proposals. In many countries liberal parties that once exhorted voters to protect property rights and restrict the role of government have either declined to insignificance in this century or changed their programs.

The assignment of tasks to a collective body -- the state -- and the use of coercion has generated a large literature. A problem with much of this literature is that, like Nozick, it does not take account of voting. Near-universal suffrage provides voters an opportunity to redistribute property, income and wealth. Once voting rights are granted, voters have the right to redistribute, subject to some limitations in law or custom. Often the limitations are reinterpreted or removed when there is sufficient public support for change.

The paper takes a positive approach to the role of government in redistribution. In contrast, much previous literature on the role of the state is normative and, most recently, has been written from a constitutional or contractarian perspective. The following section reviews a small part of this literature to highlight differences in the approach taken here. Then, I discuss the process of change and its relation to coercion and redistribution, summarize some earlier work on the relation of voting rights to property

rights and redistribution and some implication of that work for liberal, democratic society. Finally, I restate some main conclusions.

### Constitutions, and Contracts

The future of liberal democratic societies, depends on the functioning of the market process, the political process, and the interaction between the two. Perceived failure of the market process, as in the depression of the 1930s, was followed by restrictions on markets; tax rates and redistribution increased; a search for alternatives to the market most often shifted decisionmaking from the individual to some collective body. Perceived failure of socialist economies and sustained growth of the market economies, as in the past forty years, has been followed by increased reliance on individual decisions and the market process. In democratic countries, shifts of this kind reflect the voters' consensus; they are based on the consent of the governed or, at least, of those who vote. A less orderly process occurs in non-democratic countries. Outcomes are less predictable. Physical force has been used to maintain tyrannies, and it is far from certain that force will not be used again in Eastern Europe, as in China, to prevent voters from making social decisions.

A key difference between democratic and non-democratic processes governing change arises from the presence or absence of an accepted constitutional order. An operative constitution specifies how changes in rights and obligations may occur legally, in a way that is acceptable to the relevant group. A constitution provides a means by which citizens can change the allocation of rights, including the right to vote and participate in the

process of change.<sup>1</sup>

The theory of constitutional order has been treated in philosophy and in the social sciences, most recently in work on public choice or political economy. In his Nobel lecture, James Buchanan (1987) pointed out that, at the turn of the century Knut Wickseil (1958) was one of the first to provide a foundation for choices involving individual and collective action. That foundation has three elements. Methodological individualism recognizes that choices are made by individuals acting according to their own preferences under constraints, including rules or social norms. Economic man posits that individuals make the choices purposefully to achieve their objectives. Politics as exchange treats the political process as a means of achieving private objectives through collective decisions. Wickseil retained the criterion of efficiency as a basis for judging outcomes of the political process, so he favored unanimity, or near-unanimity, in political decisions.

Two of Buchanan's contributions were to revive concern for these issues in economics and to shift the focus of discussion from policy actions or decisions to the rules under which the decisions are taken. Buchanan analyzed constitutions as rules that specify the process by which society makes or changes the rules under which it is governed. If the rules are tightly drawn and enforced, they reduce uncertainty about whether property will be confiscated or wealth redistributed differently in the future than in the past and present. Rules may provide for due process and restrict what governments can do. They determine who votes, how the rules for voting and for changing the constitution can be altered, and how rules may be enforced and

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<sup>1</sup>The term operative constitution is important. Countries like the U.S.S.R. have constitutions that do not restrict government; countries like the U.K. do not have written constitutions, but government is restricted.

interpreted.

A social order that avoids both the tyranny of a minority and mob rule restricts the actions of the government and the governed. By what principles can, or should, such restrictions be established? John Rawls (1971, 1974) proposed two principles that have received much attention. First, Rawls treats the constitution as a contract, voluntarily entered into, that is binding once it is accepted. Second, he assumed that agreement is reached behind a "veil of ignorance"; individuals choose the rules for redistribution before they know their income, wealth or position in society.

Rawls and those who use the Rawlsian approach take a contractarian position. The constitution is the product of a voluntary agreement that is binding on the participants. The contractarian position obviously fails as a positive explanation of the development of states and constitutions. Nation states did not evolve in this way, and constitutions are subject to change. As a normative statement, without foundation in a relevant, positive framework, the contractarian argument lacks a clear indication as to where it applies. If individuals have the right to vote, they can alter their prior decisions, for example by choosing higher taxes and more redistribution in one case or lower taxes and less redistribution in another. Such changes are the outcome of a constitutional process -- for example majority rule -- that specifies how changes can be made. A very similar process, possibly requiring a super majority in place of a simple majority, permits voters to change the constitution. If, at some future dates, voters change the voting rule to enfranchise persons who previously could not vote, both the voting rule and the extent of redistribution may change. The constitution is altered by a process that is part of the contract. The normative proposition that this change is unjust neglects prior agreement on the process by which the rules

can be changed. And the process by which rules are changed can be changed also.

For Rawls, justice is a state or outcome achieved by a process that maintains the welfare of the participants when judged by a particular rule for redistribution. Rawls' (1971) rule maximized the position of the poorest in society. Others have modified his assumed social welfare function but have retained the veil of ignorance, the contractarian foundation or both.<sup>2</sup>

Buchanan and Tullock (1962) use a concept of uncertainty similar to Rawls' veil of ignorance to develop the case for constitutional rules. Buchanan and Bush (1974, p. 153) are explicit that for them the "veil of ignorance" is a positive proposition about man's position when making binding choices of rules. However, unlike Rawls, they recognize not only that agreements may be broken once information about income, wealth or status is revealed, but also that individuals will take into account the prospect that some rules will be broken. Since many different rules for redistribution may be consistent with majority rule, the rule that survives must have some means of enforcement.

Brennan and Buchanan (1985) define a constitution as a set of rules governing procedural matters, specifying rights and restricting the actions of governments. People establish governments "for the purpose of guaranteeing and protecting the rights agreed on in the contract" (1985, p. 26). All members of the groups must accept the contract; the rules are made binding by unanimous consent (ibid., p. 27). A broad agreement of this kind on the constitution creates a public good.

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<sup>2</sup>See Musgrave (1989) and Buchanan (1987) as examples where parts of Rawls' framework are accepted explicitly.

To avoid some pitfalls of the contractarian position, Brennan and Buchanan treat the term "contract" as a metaphor for the process by which the constitution is accepted by the public. They explicitly reject the idea that the contract emerged or was universally accepted at a particular time. But they continue to use the Rawlsian veil of ignorance as applicable to rules. They argue that people choose rules unaware of the consequences that will follow from their choice but willing to accept those consequences.

Actual choice of rules is a continuing process, not a one-time event. There is no need to invoke the artificial assumption of a veil of ignorance to recognize our inability to predict the substantive outcomes that follow from any particular set of rules.

The problems of choosing, sustaining or enforcing rules for redistribution raise difficult and, as yet, unsolved problems of political economy. Notions of justice, equity and fairness attached to some principles for redistribution should be seen as appeals for social consensus about decisions to tax and spend. Without some agreement on the outcome of the voting rule that is acceptable or enforceable and about what is or is not enforceable, it is difficult for heterogeneous individuals to reach a consensus.

In the standard economic welfare analyses of taxation and transfers, considerations of justice and fairness are never explicit. Optimal tax and spending decisions are derived by maximizing welfare subject to a budget constraint. The process of achieving consensus or majority decision and the institutions of government do not restrict decisions. Choices are made by a government of goodwill that seeks to achieve only efficient outcomes. More recent works by Becker (1983) and by Shepsle and Weingast (1984) are part of a growing literature that considers explicitly some of the deadweight losses

arising from institutional practices such as the activities of pressure groups and log-rolling in the Congress. Earlier, Niskanen (1971) used bureaucrats' desire for increased span of control as an alternative mechanism generating excess burden.

By introducing relevant institutional features, models of this kind move away from the relatively barren theory of welfare economics. Log-rolling, pressure groups, legislative staff, and bureaucrats are features of democratic government in many countries. Models with these features help to explain why there are pressures to expand the supply of public services and spending for redistribution in many countries. But growth in spending for redistribution has occurred in many countries operating under widely different governmental structures. Since these models lack voters, they do not explain why voters accept or choose redistribution.

Appeal to costs of information does not justify neglect of voting. The reason is that often voters do not require information about the details of specific programs. Past experience can be informative. Upon announcement of programs for redistribution, public education, health, or child care, a voter with relatively high income, or without children, knowing the past, can be reasonably certain that he will bear a net cost. Voters with moderate or low incomes or large families know that their net benefit is likely to be positive. Upper income voters are usually represented by a party or parties that speak in favor of efficiency, growth and incentives. Representatives of lower income voters advocate "social justice" and "fairness," by which they often mean redistribution. Voters' agents, including elected representatives, understand how redistributive programs coerce some voters to incur costs in excess of benefits to provide net benefits to others.

My purpose is not to deny that institutional structure can influence

outcomes and encourage coercion and redistribution. As Buchanan has emphasized, the problem is to explain why voters sustain such outcomes when faced with repeated choices. A full explanation must include voter response and the choice of rules governing legislative or administrative processes. Ignorance, myopia, and lack of information are not sufficient to explain why rational voters in many countries have permitted redistribution and taxation to rise from decade to decade for a century.

Hayek has given extensive consideration to the principles of social organization and their relation to freedom, liberty, and progress in an uncertain world. From the Constitution of Liberty (1960) to The Fatal Conceit (1988), he analyzed these relations, emphasizing the dynamics of change and the role of chance. In Hayek's works, societies evolve in response to unforeseen and unpredictable changes. Each new circumstance gives rise to incentives and opportunities that cannot be foreseen in their entirety by anyone, so the consequences of rules or constitutions differ from those that are expected by their authors.

Economic and social development in this framework becomes a process of trial and error, groping and searching, accepting and discarding. In a Hayekian world, search, adaptation, and adjustment replace Rawls static veil of ignorance. Progress consists of abandoning rules that produce outcomes that restrict the liberties enjoyed by members of the group. Hayek emphasizes that "evolution cannot be just" (1988, p. 74) if justice is defined as a state or outcome as in Rawls. The environment in which decisions are taken changes; standards of judgment adapt or change. A static rule for income distribution, as in Rawls, will produce different levels of satisfaction and acceptance at different times.

Hayek's choice of liberty as a criterion introduces a normative element;

in practice, liberty has not been the only principle guiding change. Alchian (1950/1977) proposed a broader principle for a particular set of institutions. He suggested that survival is the standard by which to judge the success and failure of business firms. Under conditions of uncertainty, distributions of returns from different strategies or decisions generally overlap. Individuals and firms make choices using available information, including knowledge of the outcomes of previous decisions made by others. These outcomes provide opportunities to copy successful strategies or to attempt to improve upon them. Some successful strategies will arise by chance; so copying or continuing a strategy observed to have been successful does not guarantee success.

With uncertainty, some firms' decisions will be profitable by chance, and others will produce losses by chance. Observers, using this information, will make errors -- adopting decisions or arrangements that will not be profitable and rejecting arrangements that could succeed. In the long-run, the effects of chance are minimized. Successful strategies persist and are profitable. Survival becomes the test of success.

Brunner and Meckling (1977) extended and applied Alchian's analysis to other institutions as part of what they call the REMM model. Resourceful, Evaluating, Maximizing, Man [REMM] makes decisions under uncertainty, using available information. He strives to improve -- to maximize utility -- given his preferences and the circumstances he faces. In this model, as in Alchian's, long-run survival of an institution is the measure of success. Success of an institution or arrangement such as the firm, the family or a voting rule is, of course, always relative to alternative arrangements.

The emphasis on the long-run is critical. In all social processes there are short-run costs of change and costs of acquiring information. Changes are

difficult to interpret with precision, in part because it is difficult to control environmental or background conditions, but also because it is difficult to separate persistent from temporary changes in the environment. The social sciences and theories of stochastic processes are not yet able to specify the relevant conditions to be held constant or to identify the shape of the distribution of changes applicable to many choices. In the long-run, these factors have less significance. Rules and institutions survive if voters or consumers prefer the outcomes they help to generate.

### Coercion and Change

Hayek's (1960) definition of a liberal or free society is a society without coercion. Coercion occurs when "one man's actions are made to serve another man's will (ibid., p. 133). Hayek treats a free society as an ideal that cannot be fully realized in practice. If unanimity is not achieved, force or threat of force must be used to collect taxes and defend freedom or liberty. Decisions about taxes or defense require some type of coercion to prevent free riders. There is no operational principle that separates free riding from serving "another's will." Friedman (1962, Chapter 2) would limit the role of government to maintaining law and order (to prevent coercion), enforcing contracts, defining, interpreting and enforcing property rights, and providing a monetary framework. He recognizes the problems of monopoly, where technical considerations permit only a single producer, and neighborhood or third party effects, but he draws no general conclusion about the role of government in these cases.

The recommendations of Friedman and Hayek and many similar recommendations, are normative statements about the properties of a liberal society.

In practice there appears to be a conflict between democracy and the requirements of a liberal, non-coercive society. Democracy gives voters some rights to require all members of the community to pay for goods, services and redistribution that some do not want and would willingly forego. Neither the decisions to spend nor the rules or constitution under which the decisions are made can be regarded as a contract freely entered into and to which all have consented. On the contrary, many would like to change the rules and the decisions but they are unable to do so.<sup>3</sup> The only alternatives open to them are other societies with different degrees of coercion, since there are no fully liberal societies in the sense of Hayek or Friedman.

The conflict arises because a liberal society requires near unanimity, and all democratic societies have some type of modified majority rule. Observation suggests that where governments do not allow the majority to rule, force must be used to maintain authoritarian control. Either voters have the authority to exercise control by choosing outcomes or public officials, or they must be prevented from choosing by physical force or threat of force. An authoritarian government that is unwilling to use force gives way either to another authoritarian government or to some type of rule by the voters.

Recent history provides many examples. Stalin used force and the threat of force to maintain compliance with his decisions. In 1989 events in South Africa, Eastern Europe, and China showed that a perceived reduction in the threat of physical force leads to demands for a more democratic government. But China subsequently demonstrated also that the alternative to permitting democratic rule is a system maintained by physical force and the threat of

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<sup>3</sup>The changes can be toward more or less coercion and redistribution, as discussed more fully below. Generally, people have migrated from more coercive to freer societies.

force. The evidence, old and new, is so extensive and well-known that further discussion seems unnecessary to establish that, if they are given the opportunity, people choose to make collective decisions by some type of majority rule with universal suffrage and one vote per adult person. Other rules do not survive.

Majority rule is rarely, if ever, absolute. There are restrictions of various kinds. The legislative branch is often bi-cameral with one chamber based on geographic location, personal standing, inheritance, or some other criterion that overrepresents particular groups. The members of the more popularly elected branch may win their seats in the legislature by a plurality rather than a majority, and the districts they represent may not be equal in size of population. The chief executive may be chosen by the legislature in parliamentary systems, by the electoral college in the United States, or by some other indirect method. A judiciary, appointed for life often has power to nullify laws and broaden or restrict their application. Changes in a written constitution, and passage of specific types of legislation and treaties with foreign governments, may require super-majorities. These and other restrictions on rule by a simple majority are often intended to protect minority rights, including rights to property and income, or to reduce the influence of momentary passions or "mob rule."

Differences in the methods of choosing officials and in the organization of government may be important for understanding particular outcomes in particular countries. Observation suggests that majority rule produces income redistribution in all democratic countries; voters do not restrict the role of government to supplying public goods or eliminating market failures so as to equate private and social costs and benefits. Governments intervene with tariffs and restrictions on internal and external trade. Governments impose

distortive taxes, subsidies and regulations and supply goods or services that can be produced privately. Education, health care, and pensions are examples of goods supplied by governments in all developed, democratic countries, but governments also collect garbage, treat sewage, and supply electricity in many countries. In each of these examples -- and many others -- part of the aim may be to redistribute the costs and benefits of the good or service. Often greater efficiency would be achieved if redistribution was separated and private production substituted for public production of the good or service. Governments in many countries also set minimum or maximum prices for agriculture, labor, interest rates and other goods or services. Again, the redistribution of wealth or income achieved by these programs could usually be achieved with smaller efficiency loss; there is an excess burden.<sup>4</sup>

The evidence, of which these examples are a part, supports two propositions. First, although there are many differences in the detail of regulations and restrictions, there are many similarities across countries in the choice of goods and services that are publicly supplied or regulated. Second, voters redistribute income in ways that are costly. They do not choose least cost redistribution.

### **Choosing and Changing the Rules**

There are two possible interpretations of these outcomes of the political-economic process. Contractarians take the position that the rules are part of a contract to which all individuals consent. Since some vote against these outcomes, or against candidates who favor the outcomes, it is

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<sup>4</sup>This differs from Becker (1983).

clear that there is not unanimous consent to the outcomes. Further, since it is the rules under which they are governed that repeatedly produce the outcomes they dislike, voters must learn that remedy lies in changing the rules or constitution. Hence, all do not agree to the contract. To assume otherwise denies that people learn to associate outcomes with the rules under which the outcomes occur.

The alternative view of the political process is that neither political decisions nor constitutions are based on unanimity or near-unanimity. All societies have some degree of coercion; the relevant set excludes non-coercion. In democracies "consent of the governed" means rule by a (modified) majority (or super majority) that chooses and changes the rules or constitution. Those who oppose the rules may still decide to live under the rules in preference to available alternatives. In this limited sense, they may be said to consent. Notwithstanding this weak form of consent, some will work to change the rules.

Once we admit costs of information and costs of organizing to protest, it becomes useful to distinguish between active support of the rules (or decisions) and passive acceptance. The former uses resources while the latter does not. A consensus in support of rules or decisions includes those who organize and actively support the decision or rule and those who take no action to oppose. In addition, there are those who dissent; this group actively opposes rules or decisions and works for change.

The Vietnam war protest is a recent example. A relatively small number of dissenters worked to change the minds of many who initially did not dissent from the government's position. By focusing attention on their protests, they helped to change many passive supporters into active opponents and, thus, influenced the policy. The dissenters recognized that costs of distributing

information can be reduced by marches, public rallies, draft card burning and other activities that attract media attention. The change was not limited to the particular decision. Enough members of Congress accepted the general position to change the policy toward military intervention for at least a decade and to pass legislation like the War Powers Act limiting presidential discretion.

The same process has been used to change judicial decisions. Those who dissent from a Supreme Court decision rarely persuade a super-majority to amend the constitution. There are exceptions such as womens' suffrage and prohibition. An alternative is to make an issue so prominent in national elections that a candidate may promise to appoint justices who are willing to reverse the decision. Abortion is a recent example of an issue where strong opinions and active organization by those who opposed the Supreme Court's Roe v. Wade decision had an effect through the political process. Gradually, the composition of the courts changed until the rule was changed. Political activity did not cease. There is now a different group of active dissenters who seek to change the rules without amending the Constitution.

These examples provide no support for the contractarian position. People do not unanimously consent to the rules for pornography, prohibition, abortion, school prayer, or war powers. Some favor a constitutional amendment to limit government spending or to require a balanced budget except in emergencies. On these and other issues, there is no prospect of near-unanimity. Some live under laws and rules that they oppose. They are coerced to permit and finance activities of which they do not approve or are prevented

from engaging in activities that they favor.<sup>5</sup>

At the state level in parts of the United States, and at the federal level in Switzerland, voters can use initiative or referendum to adopt or reject rules. They can change tax rates, spending or regulation, so they can redistribute income. In the 1970s, voters in several states reduced tax rates and limited future increases. In 1988, a majority of the voters in California decided to reduce the price they pay for property and casualty insurance. They amended the constitution by initiative to reduce insurance rates by 20% and to remove insurance companies' exemption from the state's anti-trust laws. The state Supreme Court upheld their right to do so, subject only to requirements of due process and "adequate" profit.

In each of these cases, and in many others, the contractarian position fails and classical liberalism does not occur. In a system based on some form of majority rule, rights and obligations are assigned by the ballot in ways that differ from the classical liberal prescription. Some individual rights are taken away; others are granted by the ballots of a majority.

There are two processes at work in democratic, market economies. One is the market where allocations are made by agreement, and there is unequal distribution of wealth. The other is the political process where allocations are made by majority rule, and everyone has an equal vote. It is not surprising that the two processes produce different outcomes and allocations than either process alone.

If the voters were unconstrained by incentives and market responses and didn't care about the future, the political process would transfer wealth from

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<sup>5</sup>Decisions can require near unanimity, but few do. An example is the requirement in the U.S. constitution that a state cannot be deprived or equal representation in the Senate without its consent.

the rich to the poor until incomes were equalized. Democratic, market economies do not reach this outcome. The reason is that voters recognize the disincentives in any system of taxes and transfers that would equalize income.

If we assume that people use the same framework to make decisions in the polling place as they do in the marketplace, voters seek to maximize utility by allocating consumption over time. By raising taxes and redistribution, a majority can increase its current consumption, but higher taxes reduce investment and effort, so future income and consumption is reduced. If the majority votes to reduce taxes and transfers, aggregate consumption may increase while current consumption for the majority falls. The political problem is to find an equilibrium that the majority accepts. The idea, from welfare economics, of having the gainers compensate the losers, would make the democratic process of redistribution futile. Instead, the majority choose a tax rate that maintains equilibrium in the polling place and that redistributes income both currently and intertemporally.

The political-economic process produces a stable equilibrium outcome in many democratic countries, but there is no evidence suggesting convergence to a unique equilibrium tax rate common to all democratic countries. Actual tax rates, redistribution and other features of the political-economic process differ over time and across countries. The political economy model implies that the differences should be related to differences in voting rules, distributions of ability and productivity, past experiences as they affect attitudes to work and leisure, and to the incentives or disincentives arising from regulation, details of tax and subsidy arrangements and the like.

Some examples illustrate how differences may arise. Switzerland and Japan have had very stable political systems. The same party (or parties) has been elected to fill major offices for many years. Switzerland also gives

voters the opportunity to vote directly in referenda. These features of Japanese and Swiss political arrangements are consistent with greater stability in the share of taxes and government spending for redistribution than in countries like Germany, Britain or the United States where political parties representing different majorities (or pluralities) alternate in office.

Larger differences become apparent if we compare Belgium, Canada, Lebanon and Switzerland. Each is a small country with major religious and cultural differences. The political-economic outcomes in these countries range from highly stable to intermittent civil war.<sup>6</sup> Farther removed are the so-called socialist countries where political power is concentrated narrowly, and there is a weaker interrelation between the political and economic processes. As tyrannical restrictions are relaxed, people demand the right to vote in contested elections. Notably absent are demands for a liberal, democratic society that is free of coercion. Even where people have experienced these tyrannical governments for fifty years or more, most proponents of reform seem to favor majority rule and a reduction in coercion, not elimination of the role of the state in the economy and an end to coerced redistribution.

### **Some Implications**

An economic model without voting specifies social or political choices as a possibility frontier showing tradeoffs. To find a preferred position, a social welfare function must be added. In the political economy model with a

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<sup>6</sup>I make no claim that a parsimonious model predicts or explains all of these differences.

voting rule, this is not so. The relevant social choice is the decision made by the voters. Once the voting rule is specified, the model generates an equilibrium outcome or path for that voting rule.<sup>7</sup>

I have argued that the main implications of the political economy model are not the kind of outcomes favored by proponents of a liberal democratic society. Government, acting in response to voters, engages in redistribution and coercion. It grants and reassigns rights. Taxes are distortive, and redistribution is not paid in the form most preferred by the recipients, so there are disincentives and excess burdens. This section first sketches these and other results from a body of more formal work that extends the Meltzer-Richard (1981) model of political economy.<sup>8</sup> Then I offer some conjectures about a few issues that have not been analyzed formally.

The key difference, in the model, between the economic process and the political process lies in the importance of redistribution. To a first approximation, economic activity produces income and opportunities for consumption. Political activity is mainly redistributive. Individuals work and vote. In the Meltzer-Richard model, people differ in ability, productivity and income. Their abilities and their efforts in the market place determine their own and society's income. Taxes are proportional to income, and redistribution is equal per capita. High income earners pay more than they

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<sup>7</sup>The voting rule can be complex in dynamic problems. The judiciary can overturn a law favored by a majority, but the public can influence the choice of judges with a lag that may require decades.

<sup>8</sup>Using a very different model, Browning and Johnson (1984) estimated the cost of redistributing income. The net cost depends on disincentives and varies with the elasticity of labor supply with respect to tax rates. They estimate that the cost of redistribution is relatively large per dollar redistributed. For moderate elasticities, Browning and Johnson report the losses to the net payers are more than \$9 for every dollar received by the net beneficiaries.

receive; low income earners and non-workers receive net transfers. Decisions in the polling place determine the size of the government budget for redistribution and the taxes that must be paid to balance the budget. The interaction between the political and economic process arises through the effects of taxes and redistribution on effort and output.

In the political economy equilibrium, the distribution of income, tax rates and transfers are determined simultaneously. Since decisions are by majority rule, taxes and redistribution are pushed to the point at which the voter (or voters) on the margin achieves a preferred position. All voters with higher incomes prefer lower taxes and less redistribution; all voters with lower incomes prefer more redistribution and taxes. The former may complain about the burden of taxation, the insufficiency of incentives, the excessive amount of redistribution, the demise of liberalism and the triumph of egalitarianism. The latter group has the opposite complaints; they argue for greater "equity", more concern for "social justice" and increased taxation of the rich. Both groups are coerced by the voting rule (and the requirement that the budget be balanced) to accept an outcome that they would prefer to change. Observations suggest that, despite rather common complaints of both types, the tax rate and the share of income spent on redistribution change slowly. In this framework, stability is a consequence of the relative constancy of the distribution of income (or wealth) and of the voting rule.

As in well-known versions of Wagner's law, the Meltzer-Richard model implies that tax rates and redistribution increase with income. Long-term changes in taxes and spending result from higher income but also from changes in the voting rule and shifts in the distribution of income. The first two factors have increased tax rates and redistribution in all democratic countries since the late nineteenth century. Income has increased and the

franchise has been extended to all citizens, regardless of income, wealth, property or literacy. In the United States, the spread of the franchise and voting rights to minorities in the 1960s contributed to the increase in redistribution and tax rates in the 1970s. Slow growth and an apparent compression of the distribution of income worked to lower the growth of redistribution in the U.S., and possibly in Britain, at the end of the 1970s.

Many economists, following Friedman (1962), have proposed replacing the current welfare system with a negative income tax that would make cash payments to welfare recipients. The proposal, if adopted, would remove burdensome costs and permit transfer recipients to choose the goods and services they prefer, increasing their utility.

The negative income tax has not been adopted anywhere. Cash payments are typically limited to persons who do not work for reasons of age, infirmity, or unemployment. A large share of the transfer budget pays for in-kind transfers of goods and services such as health, food, housing, and education. Recipients are restricted from trading these transfers to achieve a preferred bundle, although these rules cannot be fully enforced.

An extension of the Meltzer-Richard model (1985) shows that reliance on in-kind transfers ceases to be puzzling in a political-economy model. The appeal of the negative income tax to the recipients of the cash payments is not sufficient to gain adoption unless a majority of voters subsist on transfers and do not work. Typically, voters who work, not welfare recipients, are on the margin that chooses the type of program. In-kind transfers are preferred by a majority of voters because they increase work, output, and tax payments by the recipients. Additional work permits the recipients to buy goods and services that are not received as in-kind benefits. Cash payments of equal value would have lower deadweight loss in

consumption but would reduce recipients' incentives to work.

Recent legislation is consistent with the model. States and the federal government have adopted work requirements. Proposals to introduce an earned income tax credit are intended to encourage more work. Proposals for a negative income tax to replace existing welfare systems are not on current political agendas.

To finance spending for redistribution and other activities, governments use taxes that also introduce coercion and distortions. Progressive income taxes, though widely used, are generally not an optimal type of taxation in economic analysis. Widespread reliance on progressive taxes is puzzling, as Blum and Kalven (1953) noted long ago. Some recent work, Koester and Kormendi (1989), deepens the puzzle by showing that increases in marginal tax rates, holding average tax rates constant, lower average per capita income.<sup>9</sup> Why are voters willing to lower income in all democratic countries?

Cukierman and Meltzer (1988) show that this puzzle, too, vanishes in a political-economy model. The decisive voter chooses the marginal and average tax rates and the amount spent for redistribution. With universal suffrage and mean income above median income, a majority favors redistribution and progressive taxes even if the choice is costly. A majority is willing to pay a positive price to increase its own current consumption.

The implications of this framework are broadly consistent with common observations about the operation of the political-economic process. Voters typically have a choice between two types of programs. On one side are the proponents of "social justice" who favor more spending for transfers and

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<sup>9</sup>For developed countries, they estimate the effect of a 1% increase in the marginal tax rate, given the average tax rate, as a 0.75% reduction in per capita income.

higher taxes on "the rich." On the other are proponents of growth and "incentives" who favor tax and spending reduction. The pivotal voter chooses between these programs according to his preferences and his position in the income distribution.

Observation suggests that generally a majority of voters chooses one view or the other, and it does not shift frequently from one to the other. Frequent shifts in the tide of opinion would produce comparable shifts in taxation and spending. We would observe greater variability in taxes and spending and in the share of income taxed and redistributed.

These shares are not constant, however. At times, there are large, discrete changes in majority opinion. These changes result from shifts in the distribution of income and changes in the level of income. Periods of rapid growth (relative to anticipations) provide new revenues as well as opportunities for political entrepreneurs with new or revised programs. A widening spread of the income distribution creates opportunities for new taxes and increased redistribution.

Although the effects of taxation and redistribution are distributed over time, most of the formal analysis I have summarized neglects both these intertemporal responses and intergenerational redistribution. A common practice in all developed countries is to require the current generation of workers to provide pensions for retired persons. In return, they receive pensions that are paid by a future generation. This rule, or social contract, is clearly redistributive. Wolff (1987) found that for the United States the direction of redistribution for old age assistance was from workers to all recipients, but low wage workers benefited disproportionately.

Cukierman and Meltzer (1989) analyze the political economy of intergenerational redistribution. They find conditions under which rational

maximizing voters choose these programs under majority rule. The programs transfer income to the current generation by increasing current consumption and reducing the capital stock. As Wolff found, the benefits go to the current poor whose consumption increases disproportionately.

In the political economy model, redistribution helps to explain why the government provides pensions. There is a critical difference between the government and individuals; legally, individuals cannot leave net liabilities to their heirs. This restriction limits the opportunity for individuals, acting alone, to redistribute from the future to the current generation by spending and leaving debts. Using government debt to finance transfers relaxes the restriction. If the current poor are part of a majority, they can vote for a deficit financed by selling debt. This permits the current generation to increase consumption by raising interest rates, crowding out real capital and by other means.

Political economy models of this kind may be applicable beyond the range of problems to which they have been applied. One example would be an agreement permitting the United Nations to levy taxes by majority vote in the General Assembly. An international tax would be likely to have effects broadly similar to an extension of the franchise. Redistribution from relatively wealthy to poorer countries would increase. Another example concerns the stability of the political economy equilibrium. If available data are reliable, in Peru and Brazil the distribution of income is relatively skewed. There are comparatively many low income recipients and comparatively few high income earners and comparatively large differences between mean and median incomes. Universal suffrage with majority rule voting has proved to be unstable. The political economy model suggests a reason; in Peru and Brazil, the income of the median voter is farther below the mean than in countries with similar per

capita income. Votes for redistribution raise tax rates, reduce incentives and thus reduce growth of output and investment. Those with high productivity leave or send their assets abroad to escape taxation or confiscation. Spending then exceeds revenues, the deficit is financed by money creation, so inflation increases. An authoritarian government may take charge to restore stability, reduce spending and inflation.<sup>10</sup>

The World Bank (1988) provides data on income distribution in developing countries. The data are almost certainly crude, and the observations are for different years, so conclusions drawn from these data must be tentative. I have selected countries with per capita incomes in 1986 in the middle income range, between US \$800 and \$2400. The World Bank does not give median income; instead I have summed the shares for the two lowest quintiles, the lowest 40% of the income distribution. Table 1 shows these data in two columns. On the left are countries that have income distributions similar to those of democratic, developed countries. Using only the distributional criteria, these countries should be capable of maintaining stable voting democracies. On the right are countries that, on this same criterion, may be unable to do so. Also shown, is the year the income distribution was observed. Comparable data are shown for three democracies below the table, two with relatively high income and one with low income.

Many factors other than income distribution affect the survival of democratic government. Yet, countries with great diversity in language, religion, and culture manage to prosper and remain democratic while countries

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<sup>10</sup>The model has no implication about the policies of the authoritarian government. It may choose policies that increase incentives and encourage expansion, as in Brazil in the 1960s, or it may accede to some of the pressures for redistribution, as in Argentina at various times.

Table 1

Share of Income, Lowest 40%<sup>a</sup>

Year	Potentially Stable Name	%	Year	Unstable Name	%
1970	Argentina	14.1	1972	Brazil	7.0
1971	Costa Rica	12.0	1973	Panama	7.2
1976-77	El Salvador	15.5	1972	Peru	7.0
1976	Korea	16.9			
1985	Philippines	14.1			
1973-74	Portugal	15.2			
1975-76	Thailand	15.2			
1973	Turkey	13.5			

<sup>a</sup>For comparison: 1975-76, India 16.2%; 1979, United Kingdom, 18.5%; 1980, United States, 17.2%.

with seemingly greater homogeneity on these dimensions fail to do so. In the left column, we find three types of countries. There are stable democracies like Costa Rica, countries that made the transition from authoritarian to democratic government in recent years, such as Portugal, Thailand and Turkey, and several countries that are now in the process of transition to democratic government -- Argentina, Korea, Chile and the Philippines. On the right are countries that have had difficulty maintaining democratic governments where competitive elections and majority rule are used to choose political leaders and programs.

### Conclusion

This paper attempts a positive explanation of the prospects for liberal,

democratic societies. I define democratic to mean near universal suffrage and liberal to mean the absence of coercion, as in Hayek (1960). Using these definitions, I find that liberal order and democratic processes are in conflict over the distribution of income, rights and responsibilities; the conflict is resolved by different means in different places but never produces a classical liberal outcome.

A positive analysis of political-economic interaction is used to reach this conclusion. In contrast to the more common normative approach, the positive, political-economic analysis does not introduce a social utility function or rely on a social planner to determine the optimal equilibrium tradeoff between output and redistribution. Once a voting rule is selected, the equilibrium combination of output and redistribution is determined by the voters given their relative and absolute incomes or productivities, the distribution of votes or voting rule, and some structural features of the economy. The political economy model can be used to show why voters chose to redistribute wealth or income temporally and intertemporally, why much redistribution is in-kind rather than in cash, and why voters choose progressive income taxes instead of the non-distorting, lump sum taxes of economic theory. All of these outcomes are departures from a liberal economy; they involve coercion. In democratic countries, the voters decide on the extent of coercion; in non-democratic governments, the rulers have the power to decide, but enforcement may require physical force or the threat of force.

The prospects for democratic government are brighter than the prospects for a liberal economy. The principal alternative to a voting rule is an authoritarian state where coercion, or the threat of coercion, is used to compel agreement. Experience in many countries, including recent experience in Poland, Hungary, the Soviet Union, Romania, and China, suggests that

governments that are unwilling to use physical force to coerce their citizens must accept a voting rule under which the public can affect decisions. The voting rule differs across countries, but much history suggests that the evolution, if physical force is avoided, is toward some type of modified majority rule and near-universal suffrage.

Is the political-economic equilibrium stable? Evidence suggests that if permitted to do so, people choose some form of universal suffrage and modified majority rule. In the absence of major changes affecting the voting rule, output, growth, or the distribution of income, the share of income taxed and redistributed in democratic countries changes slowly. Shifts of the ruling party or coalition typically do not produce major shifts in the tax rates paid and the share of income spent.

The political-economy model implies that the choice of tax rates and redistribution depends on the difference between the distribution of votes and the distribution of income. Mean income is everywhere above the income of the median voter, but the difference between the two is not subject to rapid, major change in developed economies. The analysis suggests that changes in the voting rule that extended the franchise down the income distribution and growth of per capita income are principal forces behind the long-term rise in tax rates and income redistribution observed in developed economies, but changes in the relation of mean to median income have had a role also.

There is less experience with voting for taxes and spending in middle and low income countries. I conjecture that the political-economy model applies there also, if voters are allowed to choose between competing parties or candidates in free elections. Some evidence is presented to suggest that, once established, democratic government may remain if the income of the median earner (voter) is not too distant from the mean income.

The rules for distribution and for voting are constitutional but not contractarian. A majority or super majority can change the rules. Pressure for change is always present; there are always some who dissent from the rules. Some prefer higher taxes and more spending. Others want lower taxes and less spending. Some would like to make voting easier; others oppose such changes. Some want increased regulation of commerce or personal behavior; others want less. In stable democracies, these differences are resolved by processes that are acceptable to a majority. Usually, there are some restrictions on majority rule, but unanimity, or near unanimity, is rare. Hence, individuals pay for services and redistribution that they do not choose. The liberal alternative is nowhere chosen.

The paper has been concerned with the determinants of taxation and redistribution and, more broadly, with changes in rights to property and income. The forces affecting these rights also affect so-called personal rights to expression and action. Casual observation suggests that rights to property and income have been restricted in democratic countries while so-called personal rights have expanded. I conjecture that the expansion of personal rights also reflects the decisions of voters operating under the constitution or voting rule. A major challenge for the political-economic model in the future will be to show that changes of this kind are the result of processes similar to those discussed here.

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