Today’s agenda

* Today we’ll look at a **basic dilemma** democratic societies face under capitalism: **why don’t the** ‘poor’ use their voting power to **expropriate the** ‘rich’?

* We’ll look specifically at **property rights**, how their enforcement can help to **stabilise democracies** and thus resolve the dilemma

* These arguments are **qualifiedly pro-capitalist**; critical voices will be heard next week when we discuss ‘principles of distributive justice’
Justifying property rights

At the most basic level, there are **two types of justification of property rights:**

- **Deontological**
  - Theological (7th Commandment: ‘Thou Shalt Not Steal!’)
  - Natural rights (Locke…)
  - Social contract theories

- **Consequentialist**
  - Effects on welfare
  - Effects on other freedoms such as civic and political freedoms
In his *Second Treatise on Government*, Locke asked by what right an individual can claim to own one part of the world, when, according to the Bible, God gave the world to all humanity in common?

He answers that even in the state of nature, in which there is no private property, *humans ‘own themselves’* and their own labour.

*When individuals ‘mix their labour’ with a natural resource – for instance, by cultivating land – *that resource becomes theirs*; individual property in the resource is thereby created.*

But that only under a qualification: ‘...at least where there is enough, and as good, left in common for others’ (*‘Lockean proviso’*)
Consequentialist defences of property rights

- Private property rights most certainly are **conducive to economic growth** because they provide a motivation to invest, work hard and use resources efficiently.

- This is a defence used by **Hayek**, for instance.

- Usher, however, proposes a different consequentialist defence of property rights.

- Essentially: with the entire allocation of jobs and the entire distribution of income at stake, **the temptation of majorities to exploit the corresponding minorities**, and of the party in office to use the full authority of the state to remain in office indefinitely, **would be irresistible** — **property rights prevent this**.
The basic dilemma of capitalism & democracy

- Minimally, **democracy entails majority vote ruling and broad franchise:**
  - **Franchise is never truly universal** – children (until what age?), mentally ill, prisoners…
  - **Restricting franchise to property owners would**, however, **constitute an oligarchy** rather than a democracy, so it has to be broader than that

- Under those conditions, **why don’t he poor soak the rich?** Why doesn’t the majority form a coalition to expropriate the minority?

- Usher proposes two mechanisms:
  - **Prevention of the formation of exploitative majorities**
  - **Limitation of the sphere of democratic rule**
The basic dilemma of capitalism & democracy

- The formation of a majority in order to exploit the minority requires compromise and sense of duty.

- One of the first results of ‘public choice theory’ (the use of economic tools to address problems of political science) was the ‘paradox of voting’: why do self-interested voters, for whom voting is costly and the chances of making a difference to the outcome minimal, vote at all?
  - This is an n-persons prisoners dilemma: everybody is better off if elections are held; but every individual is best off if everybody else is voting and s/he isn’t.
  - We need to have a ‘sense of duty’ or ‘public spiritedness’ (Tocqueville) in order to participate.

- However, that same spirit can make voters recognise that exploitation of minorities will mean the end of democracy.

- In addition, checks and balances can help to prevent unique coalitions from forming (through two chambers of parliament, for instance).
The basic dilemma of capitalism & democracy

- The second mechanism was the *limitation of the democratic sphere*
- While most government decisions have winners and losers, clearly there are some domains to which the majority rule should not apply
  - Trivially, the *majority rule itself*
  - Politicians in power must not be able to *punish their opponents or predecessors*
  - People’s *civil rights* and the *rule of law* must be protected
  - Usher argues also in favour of a ‘*system of equity*’ (which we’ll look at in a minute)
- Note that such a political system is sometimes referred to as ‘*republican*’ rather than ‘*democratic*’
Why a system of equity is needed

- Usher doesn’t mean ‘equality’ or ‘justice’ by the term, but rather something like ‘allocation according to agreed upon rules’ and focuses on income determination in particular

- **Income determination by a political process leads to instability:**
  - $n = 99$ citizens, all vote; $Y$ is the income they have to allocate
  - Would they allocate $Y/n$ to each citizen? Not if they’re self interested: a coalition of 50 voters can expropriate the rest and bag nearly twice as much ($= Y/50 = 2Y/(n + 1)$)

- Democratic government works when the outcome of majority rule voting is accepted as binding by majority and minority alike

- Therefore, if the majority behaves in this way, the minority will either find non-parliamentary ways to overturn the decision or the majority will try to prevent the coalition from breaking by dispensing with elections altogether

- Either way, democracy will not be preserved; only if income is determined outside of the political process can democracy survive
**Why a system of equity is needed**

- The **problem of faction** can, to some extent, be ameliorated by:
  - **decentralisation** (cf. Tocqueville!) – because power is divided and it is unlikely that the same people form coalitions in the central government and in the states
  - Representative government too can help because **representatives have to win majorities in constituencies**, not among ‘people of a kind’ (but of course sometimes the interests of people in a constituency are very homogeneous)
  - **Lack of permanence of the majorities** (also, cf. Tocqueville!)
  - Many issues are **single peaked**, and if they are there are good chances that policies designed to be preferred by the median voter find wide approval
Why a system of equity is needed

- But all four defences work at best partially and sometimes
- Hence we need a different kind of defence: don’t let the parliament/politics decide incomes at all – separate economic and political spheres in this respect
- If democracy is limited in this way, people will accept majority decisions because what they can lose is limited
- Ideally, issues of common concern to all citizens are resolved in the public sector while the allocation of the national income among citizens is determined outside of the political realm
- This is an ideal indeed as all political decisions benefit some and harm others
Which system of equity?

- Idea: take the allocation of income out of the public sector as far as possible and use the allocation reached in the private sector as standard when the public sector cannot avoid influencing income distribution.

- General Equilibrium Theory shows under what conditions this is possible (and assumes that property rights have already been assigned).

- There must be a stable core of rules determining who gets what if the private sector is to supply a standard of equity at all (e.g., rules of property transfers, inheritance etc.).

- The standard can change over time but not too frequently or for bad reasons.
What do property rights entail?

- In Roman law, owners of what was called ‘dominium’ were said to have ‘absolute’ rights over their possessions.

- But no right is absolute: an owner of a chainsaw is not free to commit a massacre.

- An owner of property normally has the right to consume, alter, share, redefine, rent, mortgage, pawn, sell, exchange, transfer, give away or destroy it, or to exclude others from doing these things.

- But there are limits even on that: building regulations, animal rights, externalities…

- When does property cease to fulfil its socially beneficial functions?
Porous boundaries

- If the state owns a resource (such as rare metals or oil), it has to decide how to allocate the benefits of owning the resource.

- When an ‘all-purpose’ resource such as water and the irrigation system is state-owned, the same problems arise as in a nationalised economy: majority rule voting is unsustainable because government has full authority to determine who shall prosper and who shall not (‘hydraulic state’).

- Regulations are required for:
  - Externalities
  - Monopolies
  - Product and workplace safety standards

- But such regulations always have distributive consequences (for different individuals; strata of society; present vs future generations)
Redistribution vs reallocation

* Usher distinguishes two kinds of effects of these policies:
  * The *redistribution* of income – the narrowing of the spread between rich and poor
  * The *reallocation* of income – the reassignment of individuals on the scale from rich to poor

* Redistribution doesn’t threaten democracy (and in fact can have a stabilising effect because poor people have less incentive to vote for a dictator), but reallocation may

* Extensive reallocation of income creates a serious exploitation problem
Civil rights vs property rights

- As civil rights apply to everyone equally and property rights entail inequality, there is an inevitable conflict of interest between rich and poor when it comes to civil rights.

- Are health care, a minimum standard of living or ‘economic security’ civil rights? Protection from environmental damage? Workers’ rights?

- Eminent domain – where to draw the line?

- Imprisonment or fine?
In sum, …

- In his book *The Economics of Voting*, Dan Usher has presented a novel defence of individual property rights (and thus, of capitalism):
  - Without property rights, democracy is ultimately not viable because majorities will form to exploit minorities which, in turn, will not accept the democratic outcome and seek means to revise it.

- Redistribution from rich to poor is benign, as long as it is rank-preserving.

- A problem arises because it is unavoidable that some aspects of the economy be regulated; all regulations have distributive consequences, however.

- The reallocate consequences of regulation should be limited because the greater the extent to which individuals are reassigned on the income scale, the less stable democratic government will become.