

Nanny State: few notes on origin and political machine

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Abstract:

Conflict of interest of welfare dependent voter creates wrong incentives. These incentives inherent to universal suffrage, yield consequences, as predicted by John Adams back in the 18-th century. Historically the rise of the modern welfare state might be traced to the emergence of mainstream left parties, which promoted government care “from the cradle to the grave”. This paper will address the damages to Democracy caused by conflict of interest, which led to irresponsible leadership and permanent peacetime budget deficit. Historical examples from the 1990s show possible escapes from the trap of universal suffrage.

Key words: Universal Suffrage, Conflict of Interest, Left parties, Budget Deficit;

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Introduction

What Democracy is?

A popular assumption holds that universal suffrage is inseparable from the institution of democracy. This view is broadly accepted as common knowledge and very few take the risk to challenge it. We, alternatively, consider the voting right a privilege not a natural right. Our view is not new: the founding fathers of the US considered taxpayers'-only representation as a part of the social contract and natural right.¹ In general, during the

¹ In the modern context of extremely sophisticated taxation and government, taxpayers are those who pay the lion's share of the aggregate tax burden. In more specific terms, we define taxpayer as a person who pays more taxes than receives from the state budget.

age of classical liberalism the connection between payment of taxes and the representation in parliament seemed self-evident. For example, Adam Smith suggested establishing a quota for the colonies to resolve the conflict with them: the colonies would be represented in the British Parliament based on their contribution to general tax revenues.² Quotas also became the preponderant motivating factor in the voting rights reforms in Great Britain (1832 and 1867).

Rise of Universal Suffrage

Dahl (2000), Tilly (2007), Acemoglu and Robinson (2006) and many others categorically assert that no real alternative to universal suffrage can be found. Przeworski (2000) supports the same idea, albeit more cautiously. The principal argument of the above authors is essentially historical that the population groups that had been historically denied the right to vote, struggled and ultimately achieved this right.

Yet in a later work Przeworski (2009) suggests that frequently suffrage was granted by an "incumbent elite," rather than fought for by groups deprived of power. The latter suggestion is confirmed by the chronological study of decisions to extend voting rights. Such study indicates that with rare exceptions, the groups demanding suffrage posed no real threat of civil war or significant damage to the economy. The greatest likelihood of civil war arose in Great Britain on the eve of the Great Reform Act (1832). In this case, the threat originated from the wealthy industrialists (who demanded voting rights for themselves) rather than from poor workers or women.³

The following interests supporting universal suffrage seems convincing:

1. Competition between parties for new potential voters.

²"... Great Britain should allow such a number of representatives as suited the proportion of what is contributed in the public revenue of the empire, in consequence of its being subjected to the same taxes ... the number of its representatives to be augmented as a proportion of its contribution might afterwards augment..." See *ibid*, p. 482.

³The only large-scale incident known to the present authors took place in 1841 at Rhode Island (the so called Dorr war). The attempted uprising did . The uprising impacted increasing the number of voters in 1843, despite the fact that the 1843 Constitution extended suffrage based on a taxpaying voting qualification requirement: "all taxpaying native-born adult males."

2. Common interest of political parties as intermediaries between candidates and voters; growth of the number of voters essentially drives up a demand for party mechanism (Congleton, 2011 p. 176) both from voters searching for information on candidates and from candidates trying to reduce their electoral campaigns' costs.

Middle Class and Entrepreneurs in Favor of Universal Suffrage?

Of essence is the question: what prompted the middle class to share their voting rights and increase the burden of the state?

Evidently, for people of middle or higher income level, no short and simple set of interests can be compiled. The interests of millions of agents and households cannot be identical, especially if long enough periods of time are taken into consideration.

It is, of course, logical to suppose that people not restricted in the financial means they have at their disposal in the period preceding the creation of the universal welfare state, normally achieved their wellbeing by hard work or entrepreneurship. They were also partly indebted to luck (including the part contributed by inheritance). It is, accordingly, reasonable to assume that such people should be interested in both low taxes and reliable guarantees for property ownership.

At the same time, it is evident that situations arise in which, given certain conditions, these interests may be outweighed by others – short-term ones bound up with external shocks and quite independent of bureaucrats' interests, as we discussed this above. Such conditions may be:

Political circumstance; struggle with opponents and the attempt “to give the last squeeze” in a situation approaching a balance raise the demand for allies. Such allies may turn out to be precisely those groups whose contribution to the budget is minimal, but which may easily and quickly be bribed.

Interest in redistributing in one's favor the property of the more wealthy property owners by means of taxes (the case of Washington returning upon retirement to Virginia only to discover his landed property to be “dried up” – DeSoto 2004), or not to allow

competition, preventing newcomers entering a market imposing more government regulations on business (Stigler 1970, De Soto 2008);

Risk of losing in a competitive fight; hence the interest of any not overly lucky entrepreneur in weakening the one who has proven strong, talented, lucky (examples of the previous case: struggle of small producers of oil products against Rockefeller, of small railroad transporters in the US against the large ones who owned railroad networks, of weak farmers against the strong, and so on);

Temptation for the entrepreneur and the inventor to provide the country with the fruit of his or her genius at the expense of budget guarantees (this is much more convenient and reliable than conducting one's own business at one's own cost and risk; the example of Wickers and his cannon, Cobden, 1864⁴);

Wish of rich people to avoid responsibility and moral "fetters" by relegating the care for those unable to help themselves to the state (Deepak Lal 2007 cites the description of this state of affairs in Magnet 1993, p. 198);

"Kindness" at another's expense, and occasionally even the wish to enjoy the same discounts along with the needy. As a result, the middle class often found that it, and not the poor, had become the winner after a redistribution policy would go into effect; moreover, at times the poor would be the ones to have to pay for the redistribution. Lal (2007) cites contemporary studies by the OECD on the "capturing of discounts" by the middle class; this particular but important case of redistribution is, naturally, treated by Stigler (Stigler 1970).

A significant reason for the success of pro-redistribution coalitions in the business of distorting the foundations of taxpayers' democracy may have been the weakening of the barrier which had existed on the level of basic institutions: the Constitutions (both written and informal) and "soft infrastructure like the family, morality, and religion.

⁴ See the speech "On State Production Plants and Workshops," made by R. Cobden in the English Parliament, on July 22, 1864. EconLib, Volume I
FINANCE. Speech VII.
House of Commons , July 22, 1864 <http://www.econlib.org/library/YPDBooks/Cobden/cbdSPP33.html> #Vol. I, Finance, Speech 7

Historically it became the case that in Europe, the establishment of ideas of freedom (both economic and political) and institutions supporting it, proceeded as part of a struggle against religious institutions (De Tocqueville 20005). Formal European church leaders most often rejected (and continue to reject today) the ideas of freedom. This is partly explained by their claim to a special relationship with the state, a relationship rooted in a centuries' old tradition of "whosever authority – his, too, the faith." In the US, where religion became an exclusively personal matter, while religious leaders typically shied away from politics, this conflict proved possible to avoid. The success of Europeans in their struggle against the religious imperative, which we have already mentioned above inevitably distorted the foundations, that "soft infrastructure" supporting the institutions of freedom and the market.

Outcomes of Universal suffrage introduction

The following seems to be a reasonable reconstruction of the historical sequence of events. Universal conscription during the First World War fueled the demand for universal suffrage. Universal suffrage, once adopted, ensured the rise of powerful leftist parties. Leftists in power caused the expansion of ("mandatory") spending.

In this paper, "left" is defined as follows: parties or leaders that prioritize the provision of mixed public goods over pure public goods; those choosing "happiness promotion" instead of "just preventing evil".⁶ Such parties and leaders promote government "from the cradle to the grave" and mock (since Ferdinand Lassalle) the "night-watchman state".

Government liabilities' expansion led to problems with state finances: budgetary deficits, the onerous burden of state debt, and inflation, all sometimes beyond control. E.g., the phenomenon of a budget deficit at wartime was well known from the beginning of the history. A peacetime budget deficit is a rather new phenomenon which demonstrates a decreasing demand among voters for restraint. Taxpayers are a shrinking percentage of

⁵A. de Tocqueville wrote:

Philosophers of the 18th century explained the weakening of religious beliefs very simply. Religious devotion, in their view, inevitably extinguishes as freedom and knowledge blossom. Vexingly enough, the facts do not confirm this theory... I knew that religiosity and love of liberty differ from each other among us. But here I saw their intimate connection: in this country, they rule together.

⁶ Like welfare payments, Education expenditures, Health expenditures, etc. The formula coined by W. von Humboldt (1792).

voters: fiscal irresponsibility of welfare clients is natural, and such irresponsibility is not the only component of their opportunistic behavior (being just best measurable). The rise of "we'll care for you" parties was caused by enfranchising such opportunistic voters. These voters are not concerned too much with the morality of their elected representatives and are easily bribed (or even ready to surrender their franchise as show the examples below).

There is an abundance of literature exploring the connection between universal suffrage and an increase in budget expenditures. In this paper, we suggest a link based on the incentives of voters and bureaucrats. This link is significant and qualitatively evident, and in estimating the impact of leftist parties on the budget deficit we get statistically significant results.

Before universal suffrage, military spending dominated state budgets (Eloranta, 2007). Introduction of the universal suffrage comes at a budgetary cost (Meltzer, Richard, 1981⁷; Aidt et al., 2006). Women's suffrage (Lott and Kenny, 1999; Funk and Guthmann, 2006) also caused growth of government⁸. The enfranchisement of American blacks (after 1964) and their political empowerment presented by Seigle (1997) created an increase in wealth redistribution and budget deficits.

A Sub-national government case study (Saxony, 1896-1909) shows a similar effect. Suffrage extension in 1909 had negative effects on the stock market (Lehmann, Hauber, Opitz, 2012). The effects were measured through stock market prices of Saxon firms listed on the Berlin stock exchange. The same factor accounts for public sector growth (Boix, 2001).

Based on the surveyed sources, we suggest the existence of link between growing (even at peacetime) public debt, chronic budget deficit and inflation and the universal suffrage. It seems logical that in democratic states (where the voting right is real) the

⁷ They developed theoretical model; all further mentioned papers are empirical studies.

⁸ Chilean researchers (Bravo-Ortega, Eterovic, Paredes, 2014) present their findings which challenge the above mentioned conclusion. We think that the dataset used by Chilean colleagues is not suitable for the case: 46 countries most of which never experienced taxpayers democracy. Women "married with the state" (not married, never married, single mother heavily depended on budget) are natural clients of welfare state and naturally interested in Big Government vs. small Limited Government (Shestakov et al, 2014)

principle of universal suffrage yields a multitude of incentives for opportunistic behavior. We are going to verify the above hypothesis with both qualitative and quantitative analysis.

Robert Barro (1979) showed a natural wartime deficit increase and close-to-zero overall deficit between 1866 and 1916. He stressed the wartime increase in deficit, but nevertheless considered the deficit as a kind of natural phenomena. His focus on 1916-1976 data made such a conclusion nearly inevitable, so earlier data becomes crucial for our analysis to explain a peacetime deficit.

Barro did not focus on trends of defense / non-defense expenditures, assuming "the ratios followed random walks" (Barro, 1986)⁹.

Yanovskiy, Zhavoronkov et al (2016) used sample of 13 established democracies with past experience of census (taxpayers') Democracy (1791-2011).

The hypothesis on the left parties' strength as the reason for peacetime government finance destabilization and regulatory burden increase has been also verified quantitatively. The statistical analysis showed strong relationships between budget deficit and universal suffrage introduction, as well as between the deficit and voting for the left.

Statistical analysis supports hypotheses on the following chain of dependencies. Universal suffrage begot powerful Leftist parties. The Leftists had started generous spending to care about everyone. Generous spending caused peacetime budget deficit. Wars responsibility for deficit is obvious, while economic crisis, recoveries and booms lose their significance for Budget Deficit explanation (compare with Barro, 1979; Barro, 1986) as soon as Taxpayers Democracy epoch data included in the sample.

Sorrentino (1983) pointed out the trend of a decrease in males' participation in labor force, simultaneously with the female's participation increase. The simplest interpretation is that "cradle to grave" government causes the gradual deterioration of the male labor ethics. Deteriorating family responsibility and declining breadwinner's duty discourages man to work. Female employment reflects the growing uncertainty of women within the family and a generally weakened family institution. The connection of the declining family

⁹ "Shifts in the ratio of federal non-defense expenditures to GNP and shifts during peacetime in the ratio of military spending to GNP were treated as predominantly permanent (in the sense that the ratios followed random walks)." Meantime, the trend in peacetime expenditures structure not looked like "random walks" since late 1950-ties – (see Zatskovetsky et al, 2013, figure 8).

institution and the universal suffrage was studied by Shestakov et al (2014). The data collected for our statistical analysis support grave concern about voters' morale and responsibility trend under the universal suffrage¹⁰.

Conflict of Interest

People who benefit by the redistribution of taxpayers' moneys have no moral right to vote in elections. Below we list some such interest groups.

A large and growing group of voters is made up of bureaucrats, other public servants (Buchanan, 1975¹¹) and "professional" welfare recipients. Bureaucrats are interested in maximizing spending (Tullock, 1965) and obtaining more discretionary power, excessive authority. Some entrepreneurs obtain their principal income from the government by providing goods and services for state needs (sometimes through the extraordinarily fortunate sequence of won tenders). Public mass-media and public education employees interested in obtaining their budget "fair share" both reliable and independent of quality of the work performed. They enjoy privilege and opportunities (funded by taxpayers) to influence elections' outcomes. They participate in elections to impose higher taxation and restrict political and media competition. Finally, in many countries a large group of immigrants arrive with the expressed purpose of receiving welfare (Borjas , 1999; Hansen, Lofstrom, 2009; Azarnert, 2010).

The above listed groups (and the list is far from complete) tend to force taxpayers to pay for their existence "for the sake of the public good" supported by the claim of "moral duty to help". This claim is poorly reasoned (private charity spends every dollar of aid better than government - Edwards, 2007). This claim is even less well reasoned regarding those who can work and earn, are responsible for their dire condition (Spencer, 1884). The real reasons for such "generosity" are easily explained by the interest increase the number of voting recipients of mixed public goods and welfare. Smith (1980) considered the absence of such a tax-extorting coalition and modeled financing of public

¹⁰ "The traditional American virtues – of liberty, hard work, free enterprise, private initiative and aspirations to moral greatness – no longer inspire or animate a majority of the electorate... it is impossible to compete against free stuff" (Pruzansky, 2012).

¹¹ Chapter 7, para 9.36

goods. He concluded that taxpayers are capable of developing a private mechanism (agreement) for financing even pure public goods. Our present suggestions do not go this far.

A Universal and eternally relevant recipe for prosperity was given by Adam Smith:¹² "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things." With this in mind we are compelled to affirm the following. Universal suffrage opens the door for bureaucrats to capture the government, building a political machine driven by electoral clientelism and vote-buying. Thus bureaucrats are being empowered to extort taxpayer's money, escalating taxes to fund state expenditures. The volume of mixed public goods provided by the state has risen sharply since universal suffrage was introduced. And historical statistics of the dynamics of state debt and inflation¹³ leads to the same conclusions. Before universal suffrage, budgetary problems were almost exclusively due to military shocks or other exogenous upheavals of a similar magnitude. In the era of universal suffrage, a budget deficit, growing state debt, and inflation became the norm.

A tremendous increase in legislative action in old democracies must be emphasized (the problem addressed by Hayek, 1982), as parties "vied for the support of the new working-class voters by enacting legislation to buy their votes" (Green, 1993, p. 15).

Introducing universal suffrage has led to drastic growth in state expenditures (Aidt et al., 2006, Funk and Gathmann, 2006, Tavares and Wacziarg, 2001). Tavares and Wacziarg (2001) even argue that modern democracy in general has a negative impact on economic growth¹⁴.

¹² Lecture in 1755, quoted in: Dugald Stewart, Account of the Life and Writings of Adam Smith LLD, Section IV, 25. <http://www.econlib.org/library/Smith/smWN0.html>. See also: Adam Smith, The Wealth of Nations, Chapter V of Book IV.

¹³ See the paper's Dataset

¹⁴ The present paper deals with a shorter period: 1970-89, working with more detailed specifications of channels of influence upon growth. Magnitude of state consumption is among influence channels of this kind, having an obvious and significant impact upon growth rates. At the same time, magnitude of state

Growth of state expenditures took place thanks to redistribution programs and programs for providing “mixed” public goods (education, health, and, to a lesser extent, projects in infrastructure, science, culture, and so on).

Boix (2001) stressed that public sector expansion is a feature immanent to modern democratic regimes with "high participation" (which he equates with universal suffrage). He shows that the public sector burden is minimal under "low participation" democracy, the heaviest under "high participation" democracy and intermediate under autocratic government.

Growing body of empirical studies provide evidence of positive correlation between public spending and per-capita GDP which is consistent with the so-called Wagner’s law (Lamartina, Zaghini, 2011).

Introducing universal suffrage weakened safeguards of private property (Acemoglu, Robinson, 2006) as feared by Aristotle (who warned against "ochlocracy" – the sort of the "mob rule") and conservative-minded Founding Fathers like Madison¹⁵ and

consumption is positively and statistically bound up with democracy in a significant way (see Table 10 on p. 1371). Przeworski et al. (2000) reach somewhat more optimistic conclusions based on 1950-90 data.

¹⁵ The Federalist №10: "Hence it is that such democracies have ever been spectacles of turbulence and contention; have ever been found incompatible with personal security or the rights of property ... Theoretic politicians, who have patronized this species of government, have erroneously supposed that by reducing mankind to a perfect equality in their political rights, they would, at the same time, be perfectly equalized and assimilated in their possessions, their opinions, and their passions."

Adams. The latter wrote:¹⁶ "Perhaps, at first, prejudice, habit, shame or fear, principle or religion, would restrain the poor from attacking the rich, and the idle from usurping on the industrious; but the time would not be long before courage and enterprise would come, and pretexts be invented by degrees, to countenance the majority in dividing all the property among them, or at least, in sharing it equally with its present possessors. Debts would be abolished first; taxes laid heavy on the rich, and not at all on the others; and at last a downright equal division of every thing be demanded, and voted" ("Defense of Constitution...").

Some modern cases prove that “prejudice, habit, shame or fear, principle or religion” do not always restrain people even for the time being. In many cases we see a “one man, one vote, one time” phenomena: in countries without a democratic tradition, universal suffrage often brings to power despotic regimes that abandon any kind of democracy (so that voting becomes a “one-time” act). This experience by itself should raise grave concerns about the sustainability of democracy under universal suffrage (see for example Blaydes, Lo, 2012). For the appropriate survey, see Przeworski (2010), pp. 80-84. In his essay on “The Law”, Frederic Bastiat (1850) presented universal suffrage as one of the ways to introduce "legal plunder" (pp. 6-7). John C. Calhoun warned of the nation’s dividing into taxpayers and tax spenders (Calhoun 1811/1992; Lipford, Yandell 2011). His forecast is now becoming reality, though the private property institution is not yet completely destroyed (as Karl Marx hoped).

¹⁶ Besides danger of incentive to redistribute, Adams addressed the voters' qualification issue, the problem of lack of dependant person's capacity to make responsible decision (Letter to James Sullivan, 1776): "Your idea, that those laws, which affect the lives and personal liberty of all, or which inflict corporal punishment, affect those, who are not qualified to vote, as well as those who are, is just. But, so they do women, as well as men, children as well as adults. What reason should there be, for excluding a man of twenty years, eleven months and twenty-seven days old, from a vote when you admit one, who is twenty one? The reason is, you must fix upon some period in life, when the understanding and will of men in general is fit to be trusted by the public. Will not the same reason justify the state in fixing upon some certain quantity of property, as a qualification".

Introducing universal suffrage lowers the civic competence, skill, and overall quality of the voter, making voters on average considerably more dependent, less educated, less experienced in life etc (Somin, 2013). Individual voter's irresponsibility yields national financial irresponsibility: new voters do not demand government to live within its means and balance the budget, for them the main criterion of success is the scale of redistribution and personal access to its results. A property-related or tax-related qualifying requirement does not deprive people of their democratic rights, but rather creates an additional stimulus to achieve economic self-sufficiency (Przeworski, 2010, p.75).

Knut Wicksell was concerned about a different risk: the likelihood that well-to-do voter taxpayers would be able to transfer part of their expenditures onto the shoulders of poor taxpayers, using their political preponderance for leverage (Blankart, Fasten 2013). However, the indicated problem – the existence of a significant stratum of taxpayers not represented in parliament – may lead to an extremely unwanted outcome: revolution (as in the US in 1776) or credible threat of thereof (as in Great Britain in 1832). Taxpayers, even if they are poor, may prove strong and organized enough to resist the “legal plunder”.

Incentives and some Cases

Incentives of the voter-taxpayer

Taxpayers hates to waste money. Extensive discussion on the expedition against Tripoli pirates at the turn of 18-th century lasted for many years. The government control programs and resource mobilization in the US after the WWI were abandoned, proving the relative strength of taxpayers' incentives even after the transition to universal suffrage in the USA.

Civic bureaucrat's incentives

Civil officials' utility depends on the managed budget size (share) – pointed out initially by William Niskanen (1971). We believe that the discretionary powers are principal component of bureaucrats' utility too. Therefore a conscientious and enlightened official should submit a statement about a conflict of interest, and abstain from voting until retirement or demotion.

The lifetime utility of a bureaucrat depends on his (her) tenure. All components (tenure, budget and discretionary powers) heavily depend on two institutions: civil service autonomy and universal suffrage. Civil service autonomy pushes up tenure, and universal suffrage drastically extends non-military spending (Aidt et al, 2006, Zatskovetsky et al, 2013). Both long-lasting tenure and budget-dependent voters' political power, increase bureaucrats' opportunity to obtain greater discretionary powers. Several cases of voting behavior of budget-dependent voters are discussed below. The Niskanen model predicts bureaucrats' strong support for the party of generous spending and "cradle-to-grave" care.

A clear example of the bureaucracy's interference in the electoral results can be seen in the attempt of Works Progress Administration to recruit voters among the clients in 1938.¹⁷ The Hatch Act addressed this very problem.

Bureaucrats turned to be staunch fighters against private discrimination (see for example Federal Contract Compliance manual¹⁸). Anti-discrimination legislation enforcement are widely used against private entities for two principal ends: to restrict severely freedom of contract and to promote special interests of the groups predominantly voting for Nanny state and Big Government (Yanovskiy, Zatskovetsky, Zhavoronkov, 2015).

Welfare's beneficiary's incentives

This large and growing group of voters consists of “professional” recipients of welfare. It seems evident that persons, whose interests include the redistribution of the taxpayers' money in their own favor, have no moral right to make decisions by voting in elections. This applies in part also to those entrepreneurs who derive most of their income from the state budget.

The infamous NGO ACORN, which heavily relied on budget support, was rather sincere about its moral constraints: "The broad vision of ACORN as a movement to unify

¹⁷ <http://www.u-s-history.com/pages/h1599.html> For more data and examples of civil service use for electoral ends see Folsome, 2008

¹⁸ http://www.dol.gov/ofccp/regs/compliance/fccm/fccm_final_508c.pdf

the powerless in pursuit of economic justice was not shared by all the members... to become a force for social justice in America."¹⁹

Cases of electoral behavior welfare clients under situation "conflict of interest"

Voters of Detroit and New Orleans support their mayors even after catastrophic failures. New Orleans mayor Ray Nagin was successfully re-elected in 2006 after his failure to provide relief after Hurricane Katrina (2005).

Detroit mayor Kwame Malik Kilpatrick was successfully re-elected in 2005 after numerous scandals²⁰ (McGraw, 2008). The mayor's reelection was heavily supported by the budget-dependent citizens.

Federal Judge Alcee Lamar Hastings was impeached in 1988-89 after he was found guilty²¹ in bribery and perjury.²² Nevertheless he was elected (re-elected) 11 times as a US Congress representative since 1992 (Democrat, 20th congressional district, Florida).

Voters' low sensitivity to a politician's moral standard, as detected in the last third of the 19th century could be explained as an aftermath of the US Civil War.²³ Ideologically motivated volunteers of the both armies - "the natural aristocracy", public morality keepers - suffered disproportionately high casualty rates during the War. Modern peacetime offers no satisfying explanation other than reduced incentives of the historically-new voters to supervise their representatives. The latter is perfectly rational if representatives are considered as lobbyists for additional voter's income, taken from someone else's pocket.

¹⁹ <http://www.acorn.org/early-growth.html?id=12342> retrieved July 21 2013; See the same: Power to the People: Thirty-five Years of Community Organizing <http://www.sonoma.edu/users/w/wallsd/community-organizing.shtml>. It provide the reader due translation the term: "Social Justice" (tracing from Russian expression "socialnaya spravedlivost", as in Russian very word "spravedlivost" – "justice" loaded by meaning "redistribution to benefit poor"), this statement in some extent reminds us the standard Conflict of Interest Statement "I have involvement, affiliation and financial interest..." with inverted conclusion: "so I full of resolution to vote in spite of my personal interest dominates the common goods' considerations."

²⁰ <http://www.freep.com/article/20080905/NEWS01/809050448/The-rise-fall-Kwame-Kilpatrick>

²¹ <http://www.fjc.gov/servlet/nGetInfo?jid=996&cid=999&ctype=na&instate=na>

²² [http://www.csmonitor.com/1988/0804/ahast.html/\(page\)/2](http://www.csmonitor.com/1988/0804/ahast.html/(page)/2)

²³ By the way, the war almost coincided with universal (white) male suffrage that came into effect by 1860.

Taxation rate sensibility for this group turned to be insignificant; at least we failed to find such evidence while exploring the electoral history.

Democracy betrayed by Voter

In the era of the universal suffrage, a phenomenon of mass voting for anti-democratic parties emerges. We actually witness voting for the abolishment of the democracy per se.

We observed it in Weimar Republic during the elections in the 5th, 6th and 7th Reichstag (last free elections took place in 1930-32). Then, 31%, 52% and 50% of voters respectively voted for openly totalitarian parties: communists and Nazis²⁴.

During the Reconstruction, a sizeable share of black voters turned to be uninclined to preserve their franchise and essentially sold their votes, paving the way to the 1877 Compromise, commonly blamed for disenfranchising of free men (Woodward, 1991, p.155²⁵). These black voters easily gave up their franchise, since people tend to value free goods pretty low. Such low-valued goods (suffrage not backed by the paid taxes) can be easily exchanged for just a promise of encompassing lifetime care or even of national prestige. On the other hand, we never observed voluntary suffrage give-up by those who paid for it.²⁶

Intended consequences

The introduction of new entitlement programs is in an elected politician's self interest under universal suffrage. A well-designed program significantly benefits targeted voters while remaining quite affordable for the rest of the voters (the machinery is very similar to special interest groups, Olson, 1982). The incentives to "buy" voters by entitlements or by the expansion of the public sector to ensure re-election is extraordinary.

²⁴ <http://www.gonschior.de/weimar/Deutschland/index.htm>

²⁵ Liberal C. Vann Woodward (1991, p.16) wrote: "... The reformers, offended by the Carpetbaggers' record of corruption, did not stop to ask who bribed the Carpetbaggers, nor did they stop to reflect that the New York legislature, which had no Negro and Carpetbagger members, had probably been during the Reconstruction period as corrupt as any state legislature in the South." Carpetbaggers' corruption, supported by 700,000-strong corps of new voters, was taken by Woodward for granted.

²⁶ See above for more cases (one man, one vote, one time).

Tax burdens under progressive rates are far from equal, so 5-10% of voters usually pay the lion's share of taxes²⁷. The political power of such taxpayers and their ability to fight back are restricted, but significant. Thus a politician's attempt to pay for new spending with additional taxes or a higher taxation rate could be rejected by voters and damage his political career (or aspirations).

The toughest challenge is to cut spending and cancel entitlement programs.

Mass civil unrest is routinely created by any attempts to cut spending. The protests and opposition to new or higher taxes' are not unique. But it is difficult to find examples of the public or elected officials objecting to new and costly entitlement programs despite the possibility of a financial crises and heavier taxation in long run.

The various governmental departments compete for their "fair share" of budget allocations, a difficult if not impossible balancing exercise when every department, special interest group and political faction demands additional funding. Political leaders can seldom reconcile the competing demands, preferring to "kick the can down the road" and defer the problem to a future government or generation, leading to a chronic budget deficit and rapidly increasing national debt.

Balancing the budget is further confounded by the "logrolling," i.e., agreements among factions to reciprocally support legislation, and attendant funding.

So, the balance of political power under universal suffrage is poorly designed to balance the budget in the long run. Universal suffrage creates a highly politicized budget process unlikely to result in a balanced budget.

Competition for budget shares among departments is regularly accompanied by the creation or invention of new governmental programs, which must be financed, new responsibilities and respective powers (the more discretionary, the better). The government's regular failure to balance the budget indicates the success of special interest groups.

The paupers' franchise naturally leads to the presumption of the "bounded capacity" of the consumer and worker who need to be protected by business regulations.

The natural alliance of civil bureaucrats and paupers stokes anti-capitalist ideology or sentiments. The prevalent ideology creates the legal presumption that businesses are acting in

²⁷ See for example <https://www.cbo.gov/publication/49440> and <http://www.ntu.org/foundation/page/who-pays-income-taxes> ; retrieved May, 5 2016

bad faith (*mala fide*). Naturally, the representatives of welfare-dependent voters – their elected politicians — claim that there is an urgent need for more business regulations. The expansion of various business regulations and, more broadly, the belief and willingness to cure every social vice by extensive legislation indicate the acuteness of the problem. (David Green, 1993, p.17; Walsh, Joslyn, 2010).

Is a Return to the Democracy of the Taxpayer a Feasible Option?

If returning to the democracy of the taxpayer is *a priori* unrealistic, does it make any sense to focus on the flaws inherent in universal suffrage? It seems that the overwhelming majority of economists ignore the problems associated with this institution precisely because of their implicit belief that no feasible alternative to universal suffrage exists²⁸.

Yet the experience of post-communist transition shows that depriving a significant part of the adult population of voting rights (privileges) is quite realizable.²⁹ Moreover, it can be done even under the pressure of economic hardship and unfavorable foreign political circumstances. E.g., in Estonia and Latvia in 1991, one-quarter to one-third of the adult population lost their voting rights as a result of due parliamentary procedure, by Law. The formal grounding for this was that those people were not descended from citizens of the independent republics (1918-1939) but had settled in the Baltic countries illegally as Soviet colonists.

²⁸ A distinguished critic reacts on the paper (missing to read this paragraph): "... other than armed rebellion, it is impractical to think that a democratic polity ever would support any narrowing of the franchise. In fact, we now see proposals to allow convicted felons to vote!"

²⁹ Cases of the restriction of the given franchise are recorded several times (Congleton, 2011 p. 550). For example, in several southern states of the US, following 1877 Compromise electoral qualifications were introduced to restrict voting by African Americans. In more recent times French Legislative Assembly by its edict of 31 May 1850 introduced residential and taxpayers qualifications. Qualification prohibited to vote to approximately one third of the male population (Berenson, Duclert, Prochasson, 2011 p. 32). Formal abandonment of the qualification by Louis-Napoleon was impaired by the coup and the end of the Second Republic and democracy.

Such criterion is much worse (in the economic sense) than the criteria of taxpaying or property-owning. Inside the “citizen descendants” group, the principles of universal suffrage remained unchanged.

A large number of those who had lost the right to vote (retired USSR military and like) were soon granted Russian citizenship. In 1996, they took part *en masse* in the Russian presidential elections. G.Zyuganov, the communist candidate, got 66.7% of the votes cast by the 65,182 Russian voters in Latvia and 62.3% of the 74,046 votes in Estonia. Another 14% in Estonia and more than 10% in Latvia voted for the (Russian) nationalist candidate A. Lebed. This considerable number of votes would have been sufficient to form strong anti-market parties in both countries. In reality, in the absence of these voters, the elections in Latvia and Estonia saw right-centrist and rightist parties competing each other. The level of demand for free market ideas and, given crisis conditions, for strict economy policies turned out to be unusually high for countries of the Central and Eastern Europe, to say nothing about the post-Soviet states. It should be also noted that introducing an universal qualifying requirement at the time of naturalization posed no obstacle to substantial increase in the number of voters in these countries during the years 1991-2013³⁰.

This historical experiment suggests that the number of voters will decline when the taxpaying qualification is introduced, but in long run (within 1-2 generations), more people will meet the requirements to vote, so the share of enfranchised adults will eventually reach (converge to) the level of approximately 80-90 percent of the adult population. In addition, the new voters’ incentives will be qualitatively higher because they will have no conflict of interest.

Conclusions

The introduction of universal suffrage created, first and foremost, ethical problems (conflict of interest) and ultimately, unwanted economic consequences. Universal suffrage

³⁰ See Supplemental materials for data and references . No significant civil disobedience of disenfranchised people took place, even despite numerous attempts of Russian officials and their affiliate structures to incite and to organize thereof – see Supplemental materials for references.

creates and reproduces wrong incentives of budget dependent voters, their representatives (Left parties, elected leaders) and civil bureaucrats. Universal suffrage - shaped institutions infantilize people, destabilize public finances and contribute rise of regulative burden.

Electoral support of political left rose as a result of the universal suffrage.

The left parties' strength explains peacetime government finance destabilization and regulatory burden increase. The dependencies has been demonstrated by incentives quality analysis and also verified quantitatively.

It looks like the forecast made by John Adams and John C. Calhoun came true: universal suffrage caused incentives to redistribute (though with a significant lag, as actually predicted by Adams). Therefore, the suffrage of voters facing permanent conflict of interest should be revoked.

Old democracies from our past proved the feasibility of balanced state budget. So taxpayers' democracy of the "old school" could alleviate the conflict of interest for a long time though not forever. Probably, new democratic nations just cannot afford universal suffrage.

Historical cases, including post-socialist transition path of Estonia and Latvia prove existence of political opportunities of escape from universal suffrage trap.

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