

EC411: L11: Choosing a Good Society

The arguments developed in this chapter draw on the results of the previous chapters, so no new game matrices or social dilemmas are introduced.

Rather, additional applications and implications of results worked out earlier are drawn on to reach conclusions about the nature of the “best” constitutional designs when “best” is characterized by both the ethical and practical interest of those who will be subject to them. Some evidence of the importance of ethical dispositions in the productivity of governments is provided toward the end of the chapter.

Until the second half of the 18th century, it could be argued that a region’s political-economic system of a region was largely a product of initial circumstances, chance, and social evolution. Where and to whom one was born determined the natural resources and environment confronted. Most knowledge of nature and norms were learned from fellow members of one’s community. These included rules that characterized nature, what could be changed by human efforts, and how to evaluate those possibilities. The rules that were taught were mostly old rules that their teachers believed “worked” in that they produced relatively attractive results. A few useful appearing innovations occurred and a subset of the new understandings were passed along. A subset of the most commonplace normative rules determined the community’s customary laws and various combinations of its normative assessments and experience largely determined the community’s formal organizations, including both firms and governments.

By the 18th century, however, the idea that individuals could design entirely new social, political, and economic systems had started to become commonplace among intellectuals and, during the next two centuries, commonplace among nonintellectuals. The perceived scope of human possibilities had expanded, and the possibility of progress in all things, including socio-politico-economic systems, had come to be taken for granted.

An Illustration: Utilitarian Choices Among Political-Economy Systems

- **To illustrate how perceptions of a community's ethos affect conclusion about the "ideal" scope of governmental authority, it is useful to focus on a few broad categories of governmental authority and their associated political economy systems.**
- A government may have unbounded authority (or nearly so) or it may have authority that is bounded but nontrivial, or it may have very limited authority. The consequence of a particular delegation of unbounded authority to government is termed the social democratic outcome, that of intermediate delegations of authority is termed a mixed political economic system and that associated with very limited authority is termed a laissez-faire society.
- Obviously, there is a continuum of authority and outcomes that is being illustrated and these descriptions of the outcome may be less than the best possible. The use of three categories simplify and sharpen the conclusions and the discussion.
- **All three of the types of governments in the matrix below assume that democratic procedures are themselves open and competitive and that the bounds of authority are respected by government officials because of various combinations of electoral incentives, internalized norms, and divided authority.**
- The illustration also assumes that a normative theory similar to utilitarianism has been internalized by the persons undertaking the evaluation. Such a theory does not start with a particular notion of the good society or good life, but rather provides a basis for choosing among proposals. Such ethical theories are also likely to be the most widely known to readers of this book. (A chapter-length overview of 19th century utilitarianism is undertaken in chapter 12.) According to utilitarian theory, a good government maximizes or generally increases aggregate utility. A good life is simply one that maximizes lifetime utility: one's satisfaction, contentment, or happiness as imagined by the voter, voters, government official or officials of interest.
- **At the level of system choices, there is an irreducible element of uncertainty because the necessary information and science required for a complete and detailed description is beyond the ability of any single analyst or small group of analysts, whether political philosophers or social engineers. Agreement among pivotal voters or government officials about general rules or constitutional principles may be possible, but not specific details. In such cases, the coarse categories of governmental authority analyzed**
- Table 8.2 may be a reasonable characterization of decision reached.

Choosing a Political-Economic System

Table 8.2: Trustworthiness and the Ideal Political Economy System

Table 8.2: Trustworthiness and the Ideal Political Economy System				
		Moral Character of Governmental Policy Makers		
		Excellent	Mediocre	Poor
Moral Character of Market Participants	Excellent	Laissez-Faire	Laissez-Faire	Laissez-Faire
	Mediocre	Mixed	Laissez-Faire	Laissez-Faire
	Poor	Social Democracy	Mixed	Laissez-Faire

The matrix explained

- The conclusions characterized by Table 8.2 are intended to be illustrative, rather than logically necessary. They are consistent with the analysis above and are in the spirit of arguments by **Ludwig Von Mises and John Rawls, who both argue that good governance is more dependent on ethical dispositions than effective markets are.** Thus, when ethical men and woman are equally influential in both systems, relatively fewer government interventions are useful or desirable. **The more ethical private actors are, the fewer externalities, and lower crime rates tend to be. In addition, products tend to be of generally higher quality and charity more generous and well organized. Thus, there are fewer reasons for governments to intervene.** (Those skeptical of that conclusion might want to re-place Laissez Faire with Mixed in the upper left and middle cells.) In cases in which the typical gov-ernment official is more ethical than the typical market participant, governments generally improve on market outcomes by ameliorating neglected social dilemmas. In such cases, a clear utilitarian case for more extensive government interventions exists.
- In cases in which market outcomes are always poor because market participants are not particularly ethical (large externalities, a good deal of fraud, or extensive monopoly power) and government officials are generally more ethical and so their policies are always excellent, very broad authority should be delegated to government. In cases, in which market outcomes are poor but government policies are imperfect, less authority should be delegated. In cases in which public policies are gener-ally poor—whether because of random errors, ignorance, or moral depravity—a watchman state is likely to do the least damage. In general, the more virtuous the character of government agents are relative to market participants, the broader the scope of governance should be.
- Analysis from a contractarian perspective tends to reach similar conclusions. (See the appendix of Chapter 12 for a short overview of contractarian analysis.) If citizens generally expect government policies to increase their own net benefits, which in most cases are correlated with social net bene-fits, they will be disposed to delegate more authority to their community's government. If significant agency problems exist or voter ignorance is anticipated to be extensive, governments would be granted authority only in policy areas in which gains appear to be largest and most likely. In cases in areas in which few or no personal net benefits are anticipated, authority would be withheld. Redistri-bution might, for example, be limited to various community insurance programs that are likely to advance the interests of all subscribers, rather than demogrant or universal income programs.

Some Evidence of the Importance of Ethical Dispositions in Democracies (1)

- Evidence of such differences is provided in Table 8.3. It lists the 13 poorest and 13 richest democracies using the most recent Polity Index for Democracy (Polity IV, 2018, categories 8, 9, and 10) to determine which countries are democracies and the most recent World Development Indicators data (March 2020) for real per capita gross national product (using the PPI method of calculated inflation and cost of living adjusted GNP) to determine their relative incomes. Polity's index tends to focus on various constraints on a nation's most powerful government official (its prime minister, president, dictator, etc.), rather than on a government's internal institutions but is adequate for the purposes of this section and remains among the most widely used indices of democracy in empirical research.
- Table 8.3 also includes two indicators of ethical dispositions or political culture: perceived corruption (from Transparency International's Corruption Perception Index 2019) and generalized trust (from Bjørnskov and Méon 2013). Higher scores on the corruption index denote lower levels of perceived corruption.
- Table 8.3 and some of the discussion is taken from Congleton (2020), which in turn was based on an earlier version of this chapter.
- Table 8.2 omits one even higher-income state (Luxembourg) regarded as a democracy because its PPP per capita RGDPs were implausibly high. Including it would not have changed the basic results.

Some Evidence of the Importance of Ethical Dispositions in Democracies (2)

Table 8.3: On the Variety of Democratic Outcomes								
13 Poorest Democracies (Polity 8,9,10)				13 Richest Democracies (Polity 8,9,10)				
	Trust WVS+	RGNPpp WDI	Corrupt TI			Trust WVS+	RGNPpp WDI	Corrupt TI
Liberia	17.37	1161	28		Norway	68.18	65389	84
Sierra Leone	22.67	1421	33		Switzerland	49.56	68060	85
Solomon Islands	NA	2149	42		United States	40.57	55719	69
Nepal	22	2741	34		Netherlands	56.94	49787	82
Kenya	9.49	3076	28		Denmark	69.24	48419	87
Kyrgyzstan	27.37	3446	30		Sweden	64.34	47717	85
Nigeria	21.01	5315	26		Austria	39.59	46260	77
Myanmar	19.1	5922	29		Germany	39.53	45393	80
Moldova	16.75	6452	32		Australia	48.01	45377	77
Cape Verde	5.42	6614	41		Canada	47.73	44078	77
India	30.62	6888	41		Belgium	31.9	43582	75
El Salvador	13.12	7393	34		Finland	60.59	42060	86
Guatemala	21.5	7508	26		United Kingdom	37.06	40522	77
Average	18.87	4622	32.62		Average	50.25	49412.54	80.08
Standard Deviation	6.80	2350.20	5.43		Standard Deviation	12.02	8586.25	5.09

Some Evidence of the Importance of Ethical Dispositions in Democracies (3)

- Chapters 6 and 7 have argued that democratic institutions work better when supportive ethical dispositions are commonplace. The data provided by table 8.3 suggest that this is in fact the case. The lower is trustworthiness, the higher is corruption and the lower average income tends to be. Political culture matters as well as institutions.
- Notice that “vintage” is not necessarily decisive. India’s and Germany’s democracies are of approximately equal age and in force long enough to have influenced the political culture of their politicians and parties but are still very different in terms of their effects on average income and perceived corruption. However, it also bears noting that India exhibits the highest generalized trust of the poor democracies and Germany has among the lowest generalized trust of the rich democracies.

Further Evidence: Poland vs England (1)

- Figure 13.1 illustrates the great acceleration by plotting data from the 2018 Maddison Data Set using estimated real per capita gross national product for England and Poland—two countries for which long data sets have been worked out by economic historians. (For the years after 1870, Maddison's data for the United Kingdom are used.) Poland was not part of the same Western European culture nor a significant participant in its trading networks or politics. Poland remained Catholic and so was not much affected by the Protestant Reformation, and it is distant enough to have been only weakly connected culturally to English or Western European philosophical and scientific developments. Thus it is not surprising that the data plots indicate that the great acceleration took place far earlier in the England than in Poland. It is in Western Europe and cultural fellow travelers that new ethical disposition emerged.
- Notice that in both cases, there is a long stable period on the order of 400 years with essentially unchanging and low average income. In England, there is a modest acceleration in the late seventeenth century—the period in which La Cour, Locke, and Baxter were writing. The acceleration increases further in the early nineteenth century at about the time that utilitarian theories and classical economics were gaining sway. No similar accelerations take place in the Polish data set, although it too begins to accelerate around 1850—by which time the per capita income of England was approximately four times that of Poland.

Futher Evidence Poland vs England (2)

Figure 12.1 Real Per Capita GNP 1275-1940, England and Poland

