

**Ethics and Good Governance,
Does Rational Choice Politics Need Ethical Foundations?**

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Abstract. Public choice research has revealed a variety of political dilemmas associated with governance that tend to make good governance unlikely. This paper suggests that the good governments that we observe are likely to have cultural or ethical support—support that solves or ameliorates the dilemmas uncovered by public choice research. It demonstrates that five important impediments to good governance can be ameliorated by internalized ethical dispositions. Although good government is not generated by ethical conduct per se, some forms of conduct regarded to be ethical are supportive of good governance and arguably a prerequisite to it.

Key words: Ethical Dispositions, Good Government, Political Dilemmas, Cycling Problems, Corruption, Sustaining Democracy, Mystery of Democracy

JEL categories: D6, D7

I. Introduction: Ethical Predispositions as Internalized Rules

Rational choice politics prides itself on the use of the narrow self-interest conception of humanity that is widely used in economics and game theory. Narrowly self-interested persons advance only pragmatic interests in the choice settings of interest to most theorists and their intended audiences.¹ That model serves as the foundation for all three of the core

¹ Here and in other papers on the role of ethics in choice I use the term “pragmatic” in a manner that is a bit more severe than many would use the term. It is used as an antonym to behavior that is “idealistic” in the sense of being substantially determined by one’s internalized norms. This is one of its many definitions. It is not used in its philosophical

fields of public choice research, although models in which broader interests are pursued are occasionally developed. For many purposes, the assumption of pure pragmatism has advantages. It can be argued that “practical” interests are the most widely shared interests of humankind, while others are more idiosyncratic and so can be safely ignored by models that attempt to characterize “typical” choices and outcomes rather than all possibilities.

However, when broader goals are also widely shared and have systematic effects on the choices reached in choice settings of interest, ignoring broader interests will lead to mistaken conclusions about how rational agents behave in those choice settings. For example, it is well known that the outcomes of lab experiments with respect to small-number social dilemmas exhibit less conflict and more cooperation than implied by rational choice models that include only pragmatic interests—although more conflict and less cooperation than altruistic characterizations of human nature predict.²

Idealistic or ethical goals can be introduced into rational-choice models in several ways. For example, they may simply be included in the list of “goods” that individuals wish to acquire or pursue as characterized by their utility functions. Or, models of psychological behavior and learning may be adopted that imply that ethical considerations have behavioral implications that can be characterized with a utility function—at least within choice settings in which the associated behavior tends to be internally consistent. The latter has the advantage of bringing ethical aspirations into an individual’s choice calculus in a manner that is less arbitrary than the former, because it explains how and why normative ideas affect behavior. The former has the advantage that no specific assumptions about learning, mental processes, or evolution need be made before getting on with the analysis.

The *homo constitutionalis* model developed in Congleton (2019) is an example of how one might construct a model of mental processes that has implications for preference orderings and thereby utility functions. That paper suggests that much of our understanding of the world is a product of rules that individuals have internalized. Some internalized rules

sense, but as a term to capture a person’s immediate, practical, narrow interests in such matters as health, safety, comfort, wealth, status, and fame.

² See, for example, Plott (1979) or Ostrom (1998).

are genetically transmitted, some are socially transmitted (learned from others), and others are invented or revised by each individual, one at a time. Our “knowledge” of the world largely consists of rules in the form “if-then” relationships—what it is, how it can be changed, and rankings of such changes. These include rules for classifying facts (sensory impressions), such as “if an object is round and red colored and has a particular taste, then it is an apple,” as well as conclusions about the effects of alternative actions that an individual might take, such as “if I do A, then B is likely to follow;” if Adam throws an apple at Eve, she is likely to be surprised. The rules internalized also include many normative relationships, “If I am in situation X’, then I should engage in an action from set Y’ if I want to be “good,” “dutiful,” or promote the “good” society, where the meanings of the terms good and dutiful are characterized by other if-then relationships. A good person would not suddenly throw an apple at Eve.

For the purposes of the present exercise, it is not necessary to commit to a particular model of mentality—although it is useful to distinguish between how a person behaves with and without internalized ethical principles, moral maxims, and other rules of conduct. This allows the direct effects of ethical rules on individual behavior and social outcomes to be characterized. For example, it can be used to show how such rules can ameliorate social dilemmas. This, in turn, allows claims to be made about the existence of survivorship support for a subset of the systems of rules that individuals might internalize. The latter may provide evolutionary support—either biological or sociological—for a subset of principles and rules of conduct.

The main hypotheses of this research project are (1) that individuals confront an endless series of social dilemmas that must be overcome for economic and political progress to take place and (2) that changes—often very subtle changes—in the rules internalized by members of a community often provide the most plausible solutions to those dilemmas.

The focus of this paper is on dilemmas associated with achieving and sustaining “good” governance in democracies. Public choice theory has revealed a variety of dilemmas associated with democratic systems of governance, which makes the relatively good performance of Western democracies more than a bit surprising. How is it, with all the

dilemmas confronted, that Western democracies have created the most attractive communities in human history? This paper provides one possible solution to that mystery.

Five critical political dilemmas are analyzed to illustrate how a subset of ethical dispositions can contribute to good governance. The dilemmas include ones associated with the origin of legitimate governments, the dutiful enforcement of customary laws, avoiding majority rule indecisiveness, avoiding the problem of excess redistribution, and sustaining majoritarian procedures in the long run. In some cases, the ethical solution is one of many plausible solutions that one can imagine. In others, it is the only plausible solution. The latter cases suggest that both rational choice politics and theories of liberal democracy require ethical foundations.

This paper does not simply assume that voters in Western democracies are especially “good” in the sense that they are more devoted to ethical principles than others are; nor does it assume that Westerners simply want good government and so behave in a manner that produces it. Rather, it argues that the normative ideas they have internalized—often for reasons unrelated to politics—have allowed contemporary Western polities to avoid various traps that tend to lead to and sustain extractive governments.

Extractive regimes are not nearly as puzzling for public choice theory. Regimes in which a ruling group uses governmental authority to advance their own interests are, for example, a direct implication of the rent-seeking and rent-extraction literatures. However, such regimes are ignored in this paper except as outcomes that tend to emerge when a political dilemma is not solved or ameliorated. Reasonably good governments, in contrast, are likely to be pleasant surprises for most public choice analysts.

II. Escaping the Jungle: from Hobbesian to Lockean Anarchy

Whatsoever therefore is consequent to a time of War, where every man is Enemy to every man; the same is consequent to the time, wherein men live without other security, than what their own strength, and their own invention shall furnish them withal. In such condition, there is no place for Industry; because the fruit thereof is uncertain; and **consequently no Culture of the Earth**; no Navigation, nor use of the commodities that may be imported by Sea; no commodious Building; no Instruments of moving, and removing such things as require much force; **no Knowledge of the face of the Earth; no account of Time; no Arts; no Letters; no Society**; and which is worst of all, continual Fear, and danger of violent death; **And the life of man, solitary, poor, nasty, brutish, and short.** (Hobbes, Thomas. (1651). *Leviathan* (pp. 70–71). Neeland Media LLC. Kindle Edition. Bolding added by author)

A logical place to begin the analysis of the role of ethical dispositions in governance is Thomas Hobbes' famous characterization of the state of humanity before governments emerged. Three parts of this quote from the *Leviathan* are relevant for this paper. The last part characterizes the life of individuals in the equilibrium state of the world: life is poor, brutish, and short. The middle section characterizes the state of society and knowledge of the persons in the choice setting imagined. This part is often neglected in rational choice theories of anarchy. Notice that Hobbes argues that humankind would be ignorant of all aspects of an orderly society. In the Hobbesian jungle, there is no agriculture, no knowledge of geography, no history, no writing and no true society. The first part suggests that individuals are uninhibited in a state of nature. Their behavior is not constrained by internalized moral rules nor external rules that might reduce conflict.

In such a condition, it would be impossible to imagine (1) a flourishing society, (2) social contracts, and (3) improvements that could be achieved by the creation of a government. If we accept Hobbes' characterization as the initial state of humanity, it would require a great stroke of genius by all the persons involved to recognize the source of the problem and overcome all of the dilemmas necessary to create a government that improves the life of the average person (as opposed to reducing everyone outside the ruling group to abject slavery). Such simultaneous strokes of genius are sufficiently unlikely that they rule out social contracts as a plausible explanation for the emergence of governance in the Hobbesian circumstances.

A more plausible scenario is one in which a few persons, perhaps just two neighbors, agree to forego attacking one another and to help each other out with mutual defense. Buchanan (1965) argues that adhering to such agreements about rules of conduct could initially be motivated by reciprocity. As such rules are followed, they gradually become habitual—undertaken without much conscious thought—and thereby become internalized in the sense discussed above. Violating such rules would become associated with feelings of wrongness or guilt and following them with feelings of rightness or virtue. As this process extends outward such, ethical dispositions might become commonplace within the region of interest, although probably not universally so.

Through such a process of rule adoption, innovation, and internalization, the worst features of the Hobbesian dilemma would gradually be ameliorated. Indeed, such solutions may be a sufficiently important for humanity that predispositions for conditional cooperation are, or come to be, genetically transmitted—although that is not the main mechanism of interest in this paper.³

In this Lockean (1690) state of nature, individuals know what is “right” because most have internalized the same or similar rules of conduct. In this choice setting, rules and enforcement of rules are no longer completely beyond experience. Thus, it is plausible that a group of individuals may imagine advantages associated with establishing a government that reinforces its customary laws by adding various external punishments to those associated with internal feelings of guilt and informal chiding by fellow members of the community.⁴

³ That evolutionary support for such rule internalization exists is implied by a variety of simulation studies, beginning with the simple round-robin tournaments among rules for (computer programs for) participating in prisoner’s dilemmas organized by Axelrod (1980). The first application of simulations to study norms for participating in social dilemmas (with exit) were undertaken by Vanberg and Congleton (1992), who subsequently extended the approach to multiparty prisoner’s dilemmas with exit possibilities in Congleton and Vanberg (2001).

⁴ Issues of cosmology are beyond the scope of this essay, but it bears noting that a Deistic theory of the divine would allow Locke’s theory of natural law to be compatible with both genetic and social transmission of rules of conduct from one generation to the next. Disagreements among deists, physicists, and biologists boil down to whether there is a first mover or not—which of course is not a testable proposition.

The state of nature has a law of nature to govern it, which obliges every one: and reason, which is that law, teaches all mankind, who will but consult it, that being all equal and independent, no one ought to harm another in his life, health, liberty, or possessions ... (Locke, John (1690). *Two Treatises of Government* (p. 5). MacMay. Kindle Edition.)

But I moreover affirm, **that all men are naturally in that state, and remain so, till by their own consents they make themselves members of some politic society;** (Locke, John (1690). *Two Treatises of Government* (p. 8). MacMay. Kindle Edition.)

III. The Simplest Possible Government

In the Lockean circumstances, written language may or may not exist, but language itself would be well developed.⁵ Along with language, rudimentary agriculture and trade may emerge, and accounts of history may be developed. In such a setting, it is plausible that an organization to reinforce customary laws would be imagined and adopted. The specific form of organization adopted would vary to some degree with the norms, customary laws, and size of the community that agrees to create such an organization, as would the extent of the agreement upon which such an organization would be based. The specific forms are beyond the scope of this paper, although it bears noting that preexisting norms doubtless facilitate the process of creating a rule-enforcing organization. However, it is possible to speculate about the general organization or architecture for governance that would emerge.⁶

A customary law-enforcing organization is the simplest possible form of government. It has the power to impose penalties on persons who violate community norms but no other

⁵ A variety of social dilemmas have to be solved for all this to happen, but these are beyond the scope of this paper. They are addressed in the book manuscript mentioned in a previous footnote on ethics and prosperity.

⁶ In many respects, this approach is similar to that developed by Nozick's classic 1974 book, who also begins with the Lockean state of nature. However, the point of this paper is that ethical predispositions are necessary—or at least the most plausible explanations—for solutions to political dilemmas that tend to make extractive regimes more commonplace than productive ones, even in cases in which governing institutions are adopted through largely consensual means. Nozick, in contrast, simply assumes that all agents behave in accord with a specific interpretation of natural rights and explores what types of governments and governmental policies are consistent with such rights.

powers. It does not provide other public goods, address externality problems not already covered by customary practices, nor does it adopt tax laws or new regulations. It is simply an organization created to enforce laws that are obvious to all community residents except its psychopaths. Such law-enforcing organizations can be productive to the extent that customary laws ameliorate various social dilemmas including the problem of violent conflict over scarce resources posited by Hobbes. Better enforcement of such laws can make life in a community more attractive.

To illustrate the enforcement dilemma confronted by a community that wants to establish a customary law-enforcing agency, it is sufficient to consider the enforcement of any customary law.

Let us focus on a problem that is relevant for economic development. Consider a community in which norms against fraud exist but are too weak to solve all fraud problems. Table 1 illustrates the dilemma of fraud.

Table 1: The Dilemma of Fraud

		Gordon (buyer)	
		Accept or Solicit Offer	Ignore All Offers
Richard (seller)	Fraudulent Offer	(R, G) (3-g, -3)	(R, G) (-1, 0)
	Honest Offer	(2+v, 2)	(-1+v, 0)
	Do Not Make Offers	(0, -1)	(0, 0)

The numerical payoffs in Table 1 are the pragmatic ones that economists focus on: profits for sellers and consumer surplus for consumers. There are transactions costs associated with making and accepting offers. Thus, offers made, but not accepted, or sought, but not available, produce negative payoffs for the one making the offer never accepted or seeking an offer that is unavailable. The lower-case letters g and v are guilt and virtue payoffs associated with violating or adhering to the community's norms against fraudulent offers. In

this setting, only seller norms are of interest and these are assumed to be too weak to solve the problem confronted. The sum of g and v is assumed to be less than 1, and thus the profit associated with the fraudulent offer is sufficient to make fraudulent offers attractive for sellers. (Sellers in the market of interest may have only weakly internalized the norms against fraud or in support of honest offers, or they may face extraordinary profits in the market characterized.) The only Nash equilibrium in this type of product market is the one at the lower left-hand corner. No trade takes place, although there are unrealized gains to trade.⁷

According to Becker's (1968) model of the motivation of criminals, the problem of fraud can be ameliorated with an appropriately targeted fine on fraud. Enforcement of customary laws against fraud is illustrated in Table 2. Let capital letter F denote the expected value of the fine imposed on sellers making fraudulent offers. If the sum of F , g , and v is greater than 1, fraudulent offers will never be made, and if trade takes place after fine-assessing institutions are created, it will be through honest offers. The weaker the internalized norms and greater the profits, the larger the expected fine must be in order to deter fraud.

Table 2 Effect of Well-Enforced Laws Against Fraud

		Richard (buyer)	
		Accept or solicit offer	Ignore all offers
Gary (seller)	Fraudulent offer	(G, R) ($3-g-F, -3$)	(G, R) ($-1-F, 0$)
	Honest offer	($2+v, 2$)	($-1+v, 0$)
	Do not make offers	($0, -1$)	($0, 0$)

⁷ The game assumes that consumers cannot immediately recognize the difference between a fraudulent offer and an honest one. The equilibrium for such markets is very similar to that of Akerlof's (1970) lemons dilemma, as demonstrated by Table 1 without the differential equations. Note also that this and the other game matrices developed later in the paper can be used to characterize the subgame perfect equilibria of finitely repeated versions of the same games.

This is a case in which more effective customary law enforcement can make members of a community better off if it can be provided at a sufficiently low cost. To simplify the discussion, it will be assumed that customary law enforcement can be produced at a zero cost. However, there are problems, even in this case. An important dilemma is neglected by the law and economics solution to fraud. It assumes that law enforcement is always “good,” which is to say honest and diligent.

Unfortunately, if law enforcers have only pragmatic interests, this would not be the case. Law enforcers would accept bribes (or profit-sharing arrangements) from a subset of firms making fraudulent offers or extort payments from honest sellers by threatening to accuse them falsely of fraud. Such processes were termed rent extraction by McChesney (1987), and they would be commonplace within even the simplest law-enforcing organizations staffed by pragmatists.⁸

The law and economics response to the problem of corruption would be to create another level of law enforcement—an anticorruption agency that would punish law enforcers who take bribes. However, after a moment’s thought, it should be clear that anticorruption agencies suffer from the same problem as the antifraud agency. Those subject to the enforcement efforts of the anticorruption agency may simply offer to share their bribes with those charged with enforcement. The result, as illustrated in Table 3, would be poorly enforced systems of fraud and anticorruption laws and increased wealth (and power) for the law enforcers. The payoffs in Table 3 are a combination of salaries (S), bribes (B), and expected fines (F). Bribe sharing occurs at the Nash equilibrium.

⁸ Rent extraction requires the existence of economic profits, which is to say rents that can be extracted or shared without bankrupting the merchant or commercial organization of interest. Such markets would be commonplace when, for example, production processes are Ricardian rather than Marshallian, or markets diverge from perfectly competitive and monopolistically competitive equilibria. The unincluded enforcement game with bribery tends to generate a stochastic pattern of law enforcement that is sufficient to make the threat of punishment credible but low enough to maximize the bribe revenue collected.

Table 3: The Enforcement Dilemma:
Enforcing Laws Against Fraud and Bribery

		Gordon (enforces anticorruption law)	
		Enforce law	Accept bribe
Andrei (enforces antifraud law)	Enforce law	(A, G) S, S	(A, G) S, S
	Accept bribe	S+B-F, S	S+B/2, S+B/2

An alternative public choice solution would be to create a standing procedure through which corrupt officials could be replaced. However, such a process would gain little unless one could find honest law enforcers—which is to say, officials with predispositions to enforce the law as it is, rather than taking personal advantage of the authority associated with law enforcement. If there are only pragmatists to choose among, such dutiful law enforcers would not exist, and there would be no advantage to creating a customary law enforcement organization. Even the simplest of governments requires moral support to be productive.

In the Lockean environment, such dutiful persons may be found and asked to serve. Although a customary law-enforcing organization works best when it is completely staffed by persons with a strong predisposition to enforce community’s laws and abide by their oaths of office, it is sufficient to have the highest level of law—here the anticorruption agency—staffed by such persons.⁹ In the Hobbesian setting, such persons are unlikely to exist, partly because there is little or no evolutionary support for such ethical persons in the Hobbesian circumstances and partly because there are no preexisting laws to be enforced. An equilibrium-based on “might makes right” requires no ethical support, although it may be given one, as with a power-based theory of just deserts.¹⁰

⁹ Congleton and Vanberg (2001) demonstrates that evolutionary support exists for such enforcers. Somanathan and Rubin (2004) provide a social evolutionary theory of the emergence of honesty.

¹⁰ It bears noting that internalized norms also improve the performance of extractive organizations: as with promise keeping, deference to authority, and bravery, which may also be reinforced by rule-enforcing aspects of such organizations. The contracts adopted by pirate ships (Lesson 2007), for example, clearly relied upon internalized norms for much of their effect on the behavior of both officers and members of the crew.

IV. Dilemmas Associated with More Powerful Contract-Based Governments

Let us assume that a few honest or rule-following or promise-keeping persons have been found and recruited and that law enforcement is done diligently and honestly, which is to say mostly in accord with a community's prevailing normative dispositions. Having established an effective rule-reinforcing agency, the community may come to recognize advantages that can be realized by delegating other authorities to government. With that in mind, a community's customary law-enforcing agency's authority may be extended to enforcing new laws.

Rather than also delegating rule-making authority to the law-enforcing organization, a separate procedure for selecting new laws is likely to be created. This would reduce the extractive temptations of law enforcers. Such a process is likely to be based on preexisting routines for making decisions in various subgroups of the community that undertake productive or amusing activities together, as in hunting coteries or story-swapping groups. With such "clubs" in mind, a rule-making council or community meeting may be created to make new rules using consensus or majority-based decision rules. New laws or regulations may be adopted that reduce previously neglected or new externality problems, raise money for new public services, and proscribe methods by which tax-financed services are produced and distributed.¹¹

The rule-making body confronts new problems, as well as the temptation to use new laws to advance narrow interests. Both consensus and majoritarian decision rules have their problems. The use of consensus for adopting new rules minimizes extractive temptations, but the problem of holdouts reduces the number of useful rules that may be adopted, because a single person or small group can block rules favored by a large supermajority. This problem is often addressed with what might be called "anti-hold-out norms," which imply that one should not hold out unless he or she believes that many others in the group agree

¹¹ An institutional structure for divided governance emerges if such rules are to be enforced (executed) by the preexisting customary law enforcing agency. There are advantages to such divisions (Congleton 2010, 2013), but these are beyond the scope of this paper.

with his or her opposition to a rule. (Such norms are commonplace in faculty meetings in my experience, where disagreements with the main opinion or the administrator's opinion are often greeted with chiding or simply ignored.)

Majority rule is by now a commonplace procedure and is assumed to be the choice system used by the rule-making branch of our more powerful community government. Majority rule may emerge as a procedure for allowing a fuller discourse to take place, to reduce the authority of subgroups of the community that are especially good at chiding, or because its jury theorem properties produced better decisions. It would be impossible to count votes before arithmetic and counting emerged, and so it is doubtless a method of group decision-making that emerged long after consensus or supermajority rules were used (along with various supporting norms).¹²

Public choice research has identified a variety of dilemmas associated with majority rule. Three of these are analyzed below. Again, the focus is on accounting for the existence of relatively good governments, rather than extractive or perfect governments.

Majoritarian Dilemma (1): Indecisiveness

The problem of majority cycles is usually introduced as a troublesome property of preferences (Black 1949, Arrow 1951), but it is more often a problem associated with choice settings than preferences. Any decision that affects the distribution of a community service's costs or benefits can generate cycles even when preference orderings are all essentially the same, single peaked, and essentially single dimensional. Pragmatists all want more net benefits for themselves—the more the better, and nothing else matters.¹³ Table 4 illustrates three possible divisions of cost shares among typical members of three equal-sized

¹² Congleton (2020) suggests that agreement-based governments are likely to rely upon consensus or supermajority rules. Majority rule is used in the examples that follow, because it is so widely regarded to be the best rule for collective action—where “best” is used in its normative sense. Such majoritarian norms are likely to play a role in solving the last majoritarian dilemma examined in this paper.

¹³ To be fair to Black, he would have regarded such choices as multidimensional in which each person's net benefit share is a separate dimension. However, as far as pragmatists are concerned, such choices are essentially single dimensional.

homogeneous groups of voters that differ by income, with group A having relatively high income, group B having middle income, and group C having relatively low income.

Table 4: Majoritarian Indecision Over Cost Shares

		Group A	Group B	Group C
Cost Shares	(i) Equal Cost Share	.33	.33	.33
	(ii) Pragmatic Coalition	.25	.5	.25
	(iii) Proportional Income Tax	.55	.35	.10

The three cost shares listed in Table 4 illustrate one of an infinite number of cycles that are possible among pragmatists. The second distribution of cost shares is majority preferred to the first, the third to the second and the first to the third. If the cycles take place in real time, the series of offers and counter offers able to obtain majority support is endless and no final decision is reached.

In many cases, this would not be a problem—some minor laws would go unadopted, some minor public services would go unprovided; but there are cases in which indecision causes major problems. For example, one might imagine a community in a rough neighborhood (one surrounded by extractive regimes) agreeing to finance a wall or other defensive barrier around the community but, while dithering over how to finance it, is conquered by one of its neighbors. When decisions are critical, an endless process of offers and counteroffers tends to undermine majoritarian-based governance.

A variety of distributive and procedural norms can ameliorate this problem. Internalized principles of fairness, theories of distributional justice, or utilitarianism may generate a consensus for particular tax or cost-sharing rules even when pragmatic interests do not. For example, either the first or third system of finance may be supported by the internalized norms of a majority of voters in the community. If a sufficient “virtue” or “justice” payoff is subtracted from the cost share of a majority of the voters, the cycle tends to end, and the cost-sharing system deemed fair or just will dominate the others. Similarly, procedural norms may limit the number and magnitude of the alternatives that can be

introduced in a manner that generates closure, although without the definite result implied by the distributive justice example. Many combinations of fairness and procedural norms—although not all—can fully resolve the cycling problem.

This suggests that majority-rule-based systems of governance is feasible because of preexisting norms—including internalized rules worked out while majority decision-making was tried out in various informal settings before being extended to community rule making.¹⁴

Majoritarian Dilemma (2): Excessive Redistribution

Given solutions to the law enforcement and indecision problems—both of which are likely to rely on internalized ethical dispositions (sometimes referred to as political culture)—we next shift to the problem of excessive redistribution. The concern that democracies might engage in “excessive” redistribution is ancient. Aristotle, for example, mentions an instance in which excessive redistribution undermined the democratic institutions of one of the city-states of Greece (Megara). Similar arguments were raised by conservatives every time that suffrage was expanded in Europe during the nineteenth century. Although there are a few cases where this concern seems to have been realized (as, for example, in contemporary Venezuela), it has not yet been a problem among Western democracies. Why? Most likely, it is because of the internalized norms of middle-class voters.

The redistributive dilemma can be illustrated with a few equations and a diagram based on the influential Meltzer and Richard (1981) model. Suppose that a demogrant or guaranteed income level is to be financed with a uniform proportional tax on income of t percent. The tax revenue is to be devoted solely to providing equal lump sum payments (demogrants) to each person in society. Voter “ i ” would have after-demogrant income $X_i = (1-t)Y_i + G$, where Y_i is voter i 's pretax income, t is the tax rate, and G is the universal

¹⁴ Shepsle and Weingast (1981) and Weingast, Shepsle, and Johnson (1981) propose a series of procedures that can stabilize majoritarian systems, which may provide an alternative to the norm-based one suggested in the text. However, such institutionally induced equilibria require that such institutions be formally adopted, which would tend to be subject to the same cycling problems. Moreover, their associated rules have to be faithfully followed. The same reasoning applies to other mechanism design solutions as well. Such solutions thus also ultimately rest on the existence of rules for solving majoritarian cycling problems and supportive “rule-following” norms after the institutions are adopted..

demogrant.¹⁵ Because all the demogrant are financed with the same proportional tax, the total outlays and tax revenues are $NG = \sum tY_i$, which after dividing both sides by N implies that the grant is simply t times average income, or $G = tY^A$, where Y^A is average income.

Optimal Demogrant for Middle-Income Voters

If voters are pragmatic income maximizers, they will favor the tax and grant combination that maximizes their own after-tax income. Given the assumptions above, this occurs when the tax rate satisfies the first-order condition for a voter i 's optimal tax:

$$[-Y^i + (1-t)Y^i_t] + [Y^A + tY^A_t] = 0 \tag{1}$$

Where superscript i denotes a particular voter's income and subscript t denotes partial derivatives of voter income and average income with respect to the tax rate. The latter is a measure of the overall marginal deadweight loss of the tax system. The first term in brackets is a voter i 's marginal tax cost for the demogrant system and the last bracketed term is his or her marginal benefit from the demogrant. The ideal tax rate from the perspective of voter i sets the marginal benefits from the demogrant equal to his or her marginal tax cost. The associated ideal demogrant is $G^* = t^*Y^A(t^*)$. This is the outcome focused on in the Meltzer Richard paper and others based on their results.

However, the equality condition of equation 1, perhaps surprisingly, may never occur—which is to say, corner solutions are possible. In cases in which the tax system has only modest incentive effects and median income is less than average income (the usual case), moderate pragmatic voters will prefer radical redistribution funded by 100% tax rates. This possibility is neglected in the Meltzer and Richard paper.¹⁶

¹⁵ Support for such demogrant programs comes and goes in the West. Such programs—sometimes termed negative income taxes—were favored by both mainstream political candidates in the 1972 U.S. election and have returned to prominence as proposals for universal basic income in the past decade.

¹⁶ This model can be easily generalized to account for life cycles and economic growth. In a generalized model, pragmatists would maximize the present value of lifetime income, where economic growth would be affected by the size of the demogrant program. The first order conditions for ideal tax rates and demogrant would be conceptually very similar to those developed above, although the mathematical characterizations would be somewhat

Figure 1 illustrates both possible equilibria. In the case in which the tax has no excess burden and median income is below average income, and full income equalization takes place. In that case, the two terms with t subscripts disappear from equation 1 (they have the value 0), the median voter's marginal cost is his or her own income, and his or her marginal benefit is the average income in the polity of interest. In this and other cases in which the excess burden is "small," the median voter's marginal benefits are always larger than his or her marginal cost; thus, even moderate voters prefer $t^* = 100\%$ and $G = Y^A$, because these maximize their net of tax and demogrant income. Conservative fears are reasonable whenever voters are all pragmatists and tax distortions are very low or expected to be very low.

Figure 1 The Transfer Poverty Trap

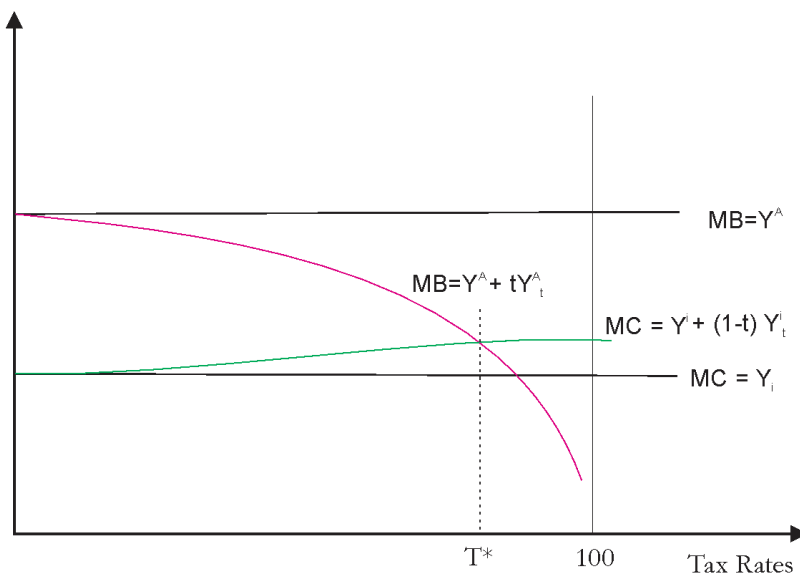
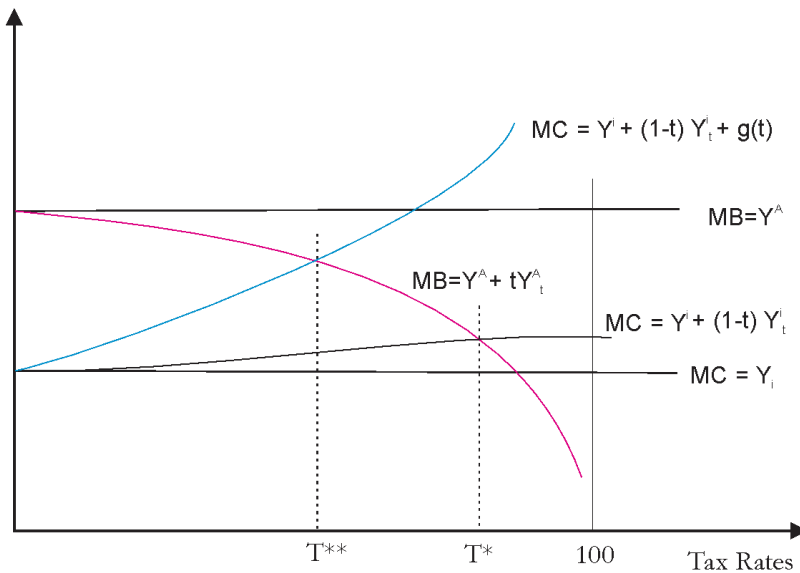


Figure 1 also illustrates the case where excess burdens are significant, as assumed in the Meltzer and Richard paper. In that case, the median voter's assessment of his or her marginal costs and benefits is less extreme but may imply demograts that significantly reduce economic activity because of the associated incentive effects of high taxation and generous demograts. The farther median income is below average income, the more likely are such cases. This is the majoritarian poverty trap.

more complex and include new terms for time horizon, discount rates, and growth rates. The steady state model examined is thus sufficient for the purposes of this paper.

The majoritarian poverty trap may be avoided or moderated if, for example, voters believe that the current distribution of income is just, as would be the case if they accepted the marginal revenue product theory of income in competitive markets and regarded wage rates equal to a person’s marginal contribution to his or her polity’s total output to be fair or distributionally just. In that case, most voters would experience marginal guilt from “excessive” redistribution. This would not necessarily eliminate a voter’s interest in redistribution but would tend to moderate it. This effect is illustrated in figure 2 with the higher subjective marginal cost curve for a voter with internalized norms that includes the additional term $g(t)$. Note that both the tax rate ($T^{**} < T^*$) and extent of the transfer are lower in this case [$t^{**}Y^A(t^{**}) < t^*Y^A(t^*)$], which reduces the reduction in average and national income associated with the demogrant or universal income program.

Figure 2 Escaping the Transfer Poverty Trap



Of course, the marginal-revenue-product theory of just deserts is only one of many possibilities that can generate feelings of guilt from excessive redistribution or illegitimate takings. Similar aversion to high levels of redistribution may be generated from a “property rights” perspective and from a utilitarian perspective. Other norms may have the opposite effect. For example, the Rawlsian case for redistribution and the existence of an internalized work ethic both tend to increase rather than reduce redistribution through effects on subjective marginal costs and benefits associated with a universal income program. However,

only the former tends to generate a majoritarian poverty trap. A work ethic reduces the deadweight loss of taxation by reducing the effect of higher taxes on the supply of labor.¹⁷

Norms that ameliorate the majoritarian poverty trap are supportive of majoritarian practices because higher aggregate income generally increases a society's ability to overcome temporary shocks from military, health, or environmental threats. A democracy that is too poor to defend itself or generate necessary health services during a pandemic would tend to be short lived.

V. **A Digression on Ethics and Ongoing Electoral Politics**

Having ameliorated problems associated with law enforcement, majoritarian decision-making and poverty-inducing redistribution, our good government is now up and running—more or less as posited in classic books by Downs (1960) and Buchanan and Tullock (1962) but with ethical support that solves problems neglected in those classic works. Many other dilemmas exist than those analyzed above, but before turning to the last one examined in this paper, consider how ethical considerations affect day-to-day politics in a representative democracy.

Candidates compete in elections every few years and voters choose which candidates to vote for. Voter decisions are partly based on a candidate's stated policy positions as developed by Downs but also based on character assessments that help voters determine whether they can trust a candidate or party to implement (or at least try to implement) their promised policies. Character assessment also helps voters to imagine the kinds of policies a candidate for office is likely to adopt behind closed doors, where few if any voters will ever know of the decisions reached.

To illustrate this effect, suppose that several candidates are running in a primary election, and being all from the same party, they all adopt similar positions on most issues. In this case, voters can only distinguish among candidates by assessing differences among their skills as policy analysts and character. Does a candidate have the talent and experience to choose the “best” policies? And would his or her understanding of the “best” be the one

¹⁷ For an early analysis of the effects of norms on the politics of a welfare state, see Lindbeck, Nyberg, and Weibull (1999).

that advantage me directly or indirectly by advancing my concept of the “good” society? The latter are not entirely matters of skill but include assessments of candidate ethical disposition(s). Can this candidate be trusted to do the “right” thing even when I am not looking?

Table 5 characterizes a series of imaginary candidates with various combinations of skill and trustworthiness. The ideal candidate is one that is both skilled and trustworthy. However, the candidates actually running for office are often less than ideal. In a choice between a highly skilled but untrustworthy candidate and a less skilled but trustworthy one, a typical voter (at least the one characterized by Table 5) may well vote for the less-skilled but more trustworthy candidate, because he or she is anticipated to be a better agent for that voter, in spite of his or her lack of skill as a policy analyst.

Table 5: Voter Rankings of Candidates Making Similar Promises but with Different Ethical Disposition and Skill as a Policy Analyst or Supervisor of Such Analysts			
	High Skill	Moderate Skill	Low Skill
Very Trustworthy	10	8	6
Moderately Trustworthy	7	6	5
Not Trustworthy	5	4	3

If this is a reasonable characterization of how voters rank candidates, we would expect to see many advertisements during campaigns for high office that focus on character—perhaps even more frequently than advertisements that provide detailed information about a candidate’s policy positions. Such advertisements might, for example, tout a candidate’s own character and/or denigrate that of their opponents. Without having spent a lot of time watching and tabulating such advertisements, it is certainly my impression that candidate ads rarely mention specific policy positions and very often mention a candidate’s “outstanding” character and/or note the “defects” of their rival’s character.

Insofar as voters accurately assess candidate character, the candidates elected would tend to be among the most trustworthy, although not necessarily very good policy analysts. This in turn provides a selection mechanism through which relatively ethical agents tend to occupy the highest posts in government—as required to address the problems discussed above.

This is not to say that the persons elected to high office are saints, only that they tend to be relatively ethical, trustworthy, and predictable. Such outcomes are consistent with the theory developed above but are not consistent with an entirely pragmatic view of voters and politicians—whose campaigns would tend to be more policy oriented, although their post-election behavior would be less trustworthy or predictable. The latter would be especially true of pragmatists in cases in which term limit are binding because reelection aims would fail to constrain their behavior but would tend to be true of all pragmatic officeholders with respect to unobserved decisions. That most candidates do not shift their positions radically in their last term of office suggests that their behavior is more grounded in ideology and promises made in the past than a pragmatist’s tends to be.¹⁸

Majoritarian Dilemma (3): Why Hold the Next Election?

The last dilemma or mystery of democracy taken up in this paper is one of the core constitutional mysteries of governments grounded in elections. Why do elected officials hold the next election? Clearly, the next election can only make incumbents worse off. If they win reelection, they retain their positions and arguably are no better off. If incumbents lose, they return to other careers and lives that they regard to be inferior to those associated with retaining their elective office.

One might be tempted to say that elected officials hold the next election because “they have to.” But why? Would their supporters object if they have been doing a “good” job—e.g. consistently representing their interests? Incumbent supporters can only lose from holding the next election in such cases. Their supporters prefer the current trajectory of policies (assuming that their elected representatives have been trustworthy and not entirely

¹⁸ Lott and Bronars (1993), for example, find little or no evidence of significant policy or voting changes in a candidate’s last term of office.

incompetent) and would be made worse off if their favored team of representatives lost the next election. Only their opponents and voters that have changed their mind about the relative merits of the incumbent and his or her likely opponent in the next election directly benefit from holding the next election. Incumbents in the United States nearly always win reelection, which implies that there is majority support for their policies (and character) relative to the alternatives.

For electoral pressure to support the next election, at least a subset of the voters favoring incumbents must regard electoral politics to have intrinsic worth—to be normatively significant—or distrust their own judgement with respect to the trustworthiness or competence of the parties or candidates currently in office.

Table 6 illustrates the ranking of three different electoral strategies for three types of voters—pragmatists, weak constitutionalists, and strong constitutionalists. The last two types of voters have internalized norms that support holding the next election to various degrees—strong constitutionalists would feel far more guilty postponing elections or disenfranchising their opponents than weak constitutionalists, $G > g$. Pragmatists would be indifferent among the alternatives, except to the extent that the alternative strategies affect their practical interests in income, health, safety, wealth, comfort, status, and power.

Table 6: Majority Coalition Member Support for Holding Next Election or Not, with and without Moral Support for Democracy			
	Pragmatist	Weak Constitutionalist	Strong Constitutionalist
Hold Next Election	6	6	6
Postpone Next Election	8	8-g	8-G
Disenfranchise Minority Voters	9	9-g'	9-G'

The constitutional outcome—holding the next election—depends on which of these voter types is pivotal for the majority coalition and the strength of the internalized norm. Pragmatic voters that favor the status quo policies would favor steps that keep the present regime in office. Voters who have internalized constitutional norms favoring electoral politics may or may not favor completely open and fair elections. This depends on the strength of the norms internalized and the practical advantages associated with their preferred party continuing to dominate policy formation. For example, if $g' > 1$ and $g < 2$, weak constitutionalists would tend to favor changes in suffrage laws that favor their own party but oppose cancelling the next election. Open and fair elections will be electorally supported only if $g' > 3$ and $g > 2$ if weak constitutionalists are pivotal, or $G' > 3$ and $G > 2$ if strong constitutionalists are pivotal. Only self-interested voters who expect to make mistakes when assessing candidates or who anticipate that the trustworthiness of their preferred candidate would diminish in the absence of electoral pressures would have any hesitation with respect to adopting suffrage laws that favor their own party or cancelling the next election.

And, if constitutional norms are both commonplace and relatively strong and thus pivotal in the previous election, the persons holding office would have explicitly or implicitly promised to hold the next election. Furthermore, elected officials would take steps to make sure that elections are held, because they have committed to do so in the past, and, as more or less trustworthy agents, they would be inclined to keep their commitments.

If we ignore mistaken assessments and trembling hand problems, pragmatists favor ending fair elections after their side wins. In that case, their candidate would also tend, explicitly or implicitly, to favor disenfranchising the minority parties or endlessly postponing the election (although they might not announce such policies during the electoral campaign). After winning, pragmatists would adopt the electoral policy that is most likely to assure continuation in office. In many cases, this would be disenfranchising enough of their opponents (or overweighting the votes of their supporters) to assure victory in future elections.

If this possibility is taken into account by the weak constitutionalists on the other side, they may well reach a similar conclusion. Electoral contests in such cases resemble a centipede game and have a Nash equilibrium in which only one fair and open election is held—as was the case in most African countries after independence. Holding elections routinely requires ongoing support from pivotal voters.

VI. **Some Empirical Evidence on the Variety of Democratic Outcomes**

To this point, the paper has provided an analytical history of how a good government might emerge, gradually be accorded an expanded domain for rule-making and -enforcing authority, and sustain itself by avoiding poverty traps and holding regular elections. There are a few historical cases in which nation-states arguably emerged through paths analogous to that described in the analytical narrative. For example, Switzerland, the Dutch Republic, and the United States were all initially confederal systems of governments that emerged through formal agreements to provide common defense. Each confederation arguably became more powerful through time as consequences of relatively broad support by voters within their territories. The more common route to democratic government, however, is the one outlined by Congleton (2011), in which an initially extractive regime based on the king and council template is influenced by normative innovations, technological changes, and external economic or military pressures that create bargaining paths to more democratic and liberal forms of government.

Such constitutional bargains do not necessarily address all the problems required to solve the various dilemmas associated with majoritarian governments and may lack the supportive ethical dispositions necessary to address dilemmas not solved by institutional designs. Thus, one should expect to observe differences among even relatively well-functioning democratic governments, because of differences in commonplace ethical dispositions that affect the behavior of government officials and voter demands for public policies.

Evidence of such differences is provided in Table 7. It lists the 13 poorest and 13 richest democracies using the most recent Polity Index of 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 (PPI) 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 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 7 also includes two indicators of ethical dispositions or political culture: perceived corruption (from Transparency International's Corruption index, 2019) and generalized trust (from Bjørnskov and Méon (2013)). Lower scores on the corruption index denote higher levels of perceived corruption.¹⁹

Table 7: On the Variety of Democratic Outcomes

	Poorest Democracies (Polity 8,9,10)			Richest Democracies (Polity 8,9,10)			
	Trust	Rgnp/pop	Corrupt?		Trust	Rgnp/pop	Corrupt?
	WVS+	WDI	TI		WVS+	WDI	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
St. Deviation.	6.80	2350.20	5.43	St. Deviation.	12.02	8586.25	5.09

Table 7 demonstrates that democracies are not all the same and suggests that political culture is a determining factor. The poorest democracies have much lower generalized trust

¹⁹ Table 7 leaves out two even higher-income states regarded as democracies because their PPP per capita rgdps were implausibly high: Luxembourg and Norway. Including them would not have changed the basic results.

and higher corruption than the wealthiest ones. If generalized trust can be used as a proxy for the ethical and related normative dispositions that are most commonplace within a country—as argued by Bjørnskov and Méon (2013), among many others—and if supportive ethical dispositions are necessary to solve the various dilemmas associated with democracy as argued in this paper, then the data tabulated in table 7 provide indirect evidence of both resolved and unresolved social dilemmas. If, for example, the political culture of a country has failed to solve the rule of law problem (e.g., the corruption problem developed in Table 3), corruption would be higher, markets would be less developed, and relatively lower average incomes would be the predicted consequence.

The two groups have similar political institutions but quite different economic and cultural characteristics. Note the data sets do not overlap. The differences in the averages between the rich and poor democracies for the three variables tabulated are more than 2 standard deviations apart from one another in all 3 cases. For 2 of the 3 variables, the difference in means is more than 3 standard deviations. Insofar as culture changes more slowly than economic development and public policies, the causality tends to run from culture to the other two variables, rather than in the opposite direction—although some degree of long-run feedback from consequences to a nation’s ethos is likely to play a role in the evolution of the most commonplace ethical dispositions in a given territory or region of the world.²⁰

This paper has argued that democratic institutions work better when supportive ethical dispositions are commonplace. The data provided by table 7 suggests that this is in

²⁰ Bjørnskov and Méon (2013) provide persuasive econometric support for the generalized trust causality explanation. Insofar as generalized trust characterizes trustworthiness and trustworthiness is generated by a community’s most commonplace ethical dispositions, the main body of this paper can be regarded as providing one plausible theoretical explanation for their results.

As I had not read their paper before constructing Table 7, their results can also be regarded as a further test and affirmation of the hypotheses developed above.

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.²¹

VII. Some Tentative Conclusions

A wide variety of economists—from Arrow to Hayek to Buchanan—have suggested that ethical dispositions have economic effects. However, there have been very few efforts to bring ethics into rational choice models of markets or to explain exactly why they are economically or politically important. For the most part, economists simply begin their analysis with internal consistency and forward-looking assumptions about human behavior and go on from there. However, if some types of commonplace preference orderings produce significantly different behavior than others, such differences should be taken account of both in theory and in empirical work.

“Ordinary idealists” behave differently from “pragmatists in many relevant market and political settings. These differences affect behavior within grocery stores and other economic choice settings. The same differences affect behavior in political settings, which makes them relevant for public choice, rational choice politics, and the new political economy.

What is most important for the analysis undertaken in this paper is the assumption that political dilemmas are commonplace, rather than rare. If they are commonplace, there are many potential roadblocks to good governance that have to be overcome to avoid extractive regimes of the variety predicted by the rent-seeking strand of public choice. This paper has demonstrated that a subset of the rules of conduct that individuals may internalize can solve or ameliorate many of the dilemmas confronted.

The analysis does not simply assume that voters prefer the “good” outcome, whatever that may be, but that the good outcome emerges because of norms internalized for

²¹ 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 is among the lowest of the rich democracies.

other purposes. Alternative institutional solutions exist for many such problems, but these also implicitly rely upon honest and diligent implementations of rules and of course that such rules can be formally adopted. The theory outlined is consistent with empirical work that explores the effects of “trust” and “ideology” on public policies and economic development.²²

Keep in mind that it not ethical behavior per se that solves political dilemmas, but the subset of ethical dispositions that ameliorates political dilemmas. Although there are many systems of ethical ideas that can ameliorate the dilemmas of democracy, not all ethical theories and maxims do so, and some do so better than others do. Which specific dispositions are most important for good governance is left for future research, but that rational choice politics needs to take such dispositions into account seems clear—even if, in the end, they prove to be less important than argued in this paper.²³

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²² See Bjørnskov (2019) for an overview of public choice research on trust and Potrafke (2018) for an overview of public choice research on ideology. Evidence of the effects of internalized norms is also indicated by the various “demographic” variables commonly used in statistical studies, although they are rarely grounded in explicit behavioral models.

²³ A previous version of this talk was delivered at the Political Economy of Democracy and Dictatorship conference in Muenster Germany in February 2020, where several useful comments and questions helped push its development forward.

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