# Section 1: The Nature of Nation from the Perspective of Economics

The traditional economics focuses on individual as the starting point to study human’s behaviors: how a self-interested individual chooses the most beneficial behavior under specific constraints. Although the market is formed by the joint behaviors of many individuals, and although the so-called macroeconomics needs to sum up all individual choices in an economy, they are all based on individual’s choice. Economists notice that the area where market (price criterion) does not apply is the public domain. The choice in the public domain is called public choice.

For example, it is the owner of a house to decide how to allocate the spaces in his house, such as how big the bedroom, study and hall are respectively, and how to place the beds, tables and chairs. If he has exclusive ownership of the house, then it is his Robinson one-man world and there is no market within it because there is no society. However, if he chooses to rent the house to more than one tenant, each of whom rents a part of the house, there is a market within it. If a tenant wants to increase his living space, he can negotiate with the owner (landlord) of the house and pay more rents in exchange for the increase in space.

When multiple tenants rent a house, it is inevitable for them to share some spaces, such as kitchen, toilet, bathroom, passageway, etc. All tenants need to jointly decide how to allocate the use of these shared or public spaces, and undertake the cleaning of them. The landlord may take the responsibility to formulate a convention which is written in the lease contract, requiring all tenants to obey. He may be also responsible to clean the public spaces, but the rent he charges will definitely be higher. Here the landlord has actually become a government. The convention he formulates is equivalent to laws, and tenants who do not obey it will be deported by him. The higher rent he collects is equivalent to tax. As mentioned in the previous Lecture 23 about Coase Theorem, “rent” and “tax” in ancient times were often synonymous.

Of course, the tenants may negotiate to formulate a convention themselves, and each is assigned the responsibility of cleaning the public spaces in turn. There are not too many tenants in a house, and neither are there too many public spaces. Since everyone lives under the same roof, it is convenient to jointly make decisions by all together sitting down and having a talk to reach an acceptable agreement. Here it is direct democracy where all participate in making decisions on public affairs.

Let’s extend the analysis of multiple tenants in a house to multiple owners in a building or community. There are much more owners now, and they live in their own houses, so it is far less convenient to jointly make decisions than the tenants living under the same roof. Moreover, there are also much more public affairs than before, such as the security measures for the building or community, the maintenance of elevators, lights, greenings, and the color of the building's exterior walls to be painted and maintained ... Under such circumstances, owners committee is often set up to handle these public affairs. What’s more, because there are too many owners with different opinions, it is difficult even impossible to reach an agreement that everyone accepts, and a vote needs to be taken to decide. Obviously, here it is indirect democracy where the owners committee is equivalent to the government or parliament.

In reality, buildings or communities are often managed by property management companies (PMCs) which have more professional knowledge and skills than owners. Here PMC is equivalent to a government, and the property management fees it collects are equivalent to taxes. If there is no owners committee in a building or community but only a PMC which designated by the developer instead of the owners, the government is autocratic. However, it does not mean that the owners cannot get rid of a PMC that they are extremely dissatisfied with. It is not unique in reality that the owners unite to drive out the original PMC and hire a new one, which is equivalent to an uprising to overthrow the existing government that people are extremely dissatisfied with, and establishment of a new one. If there are both an owners committee and a PMC in a building or community, the former is equivalent to parliament while the latter government.

It can be concluded from the above examples that a nation is only an expanded community. Every owner (people) has his own house (private property). Whoever wants to increase his living spaces can buy from another owner through market transactions. In other words, the private affairs such as the use of private spaces are handled by individuals through the market. However, it is PMC (government) that deal with the affairs in public spaces which should not intervene with the affairs in private spaces. Owners committee (parliament) should represent the owners to make public choices on the affairs in public space. Unless there is a proprietor (dictator) who has clear PPR of the whole community just like the landlord of a house, the PPR of the public spaces actually belongs to the owners. In theory, PMC should manage the public spaces in the community according to the will of owners' committee.

In brief, there are three ways to make decisions (choices) on different affairs: market, dictatorship and democracy. Among them, the market is used to deal with private affairs where the PPRs are well delineated, while Dictatorship and democracy are used to deal with public affairs where the PPRs are not well delineated, so the properties are shared or publicly owned.