# Section 3: Tyranny of the Majority

The concept of Pareto-optimality has been introduced in Lecture 23. Regardless of the transaction cost of the institution, which can be Pareto-optimal, the market, democracy or dictatorship?

Market transactions are voluntary and mutually beneficial. Even if there is cheating, under the specific constraints (including ignorance caused by information cost), the interests of each individual are protected by his self-interested nature and the legal system of protecting (delineating) PPRs that supports the establishment of price criterion. In other words, the interests of all individuals can be expressed and protected in the market system, so it is Pareto-optimal.

However, the choices in the market are private choices. For public choice, how can the interests of all individuals be expressed and protected?

Review the previous example. Multiple tenants decide the use and cleanliness of public space through negotiation. As long as they can reach an agreement, everyone’s interests must be expressed and protected by the self-interested nature, which is direct democracy. Although the specific means is not necessarily voting, if voting is adopted, since an agreement is reached, the result must be a unanimous vote. But what if an agreement cannot be reached? It means that if there is a vote, at least one casts opposing vote. In other words, a unanimous vote under direct democracy will be certainly Pareto-optimal that means no one’s interests are harmed.

However, in politics of reality, it is difficult to achieve the result of unanimous vote, or else market transactions where all parties involved in the market have to reach an agreement can have been used. Precisely because the transaction cost of reaching an agreement by all is too high, people give up market transactions and turn to the principle of the minority obeying the majority. If public choice is made according to the voting result, the interests of the minority who cast opposing votes cannot be expressed, nor can be protected, which is precisely the reason why democracy will cause tyranny of the majority. In fact, this problem is not as simple as what is mentioned here, and more will be discussed later.

If it is just the case of renting a house, the minority can choose to move away, or rent the whole house by paying more rent to eliminate public space. In other words, although there is problem in the use of public space of renting in groups, which involves public choice without market, there is still a market outside the house. Voting (democracy) will inevitably harm the interests of the minority unless it is unanimously, but as long as there is a market outside, the minority can always vote with their feet or with money to protect their interests.

Similarly, if the use and cleanliness of public space is decided by the owner of the house, on the one hand, the owner’s interests are directly related to the tenants’. If the use of public space is not appropriate, and the tenants feel that their interests are harmed, they will require a rent reduction or simply move away, thus reducing the owner’s rent or income. On the other hand, there is also a market outside the house, and tenants who feel that their interests are harmed can choose to move away. Therefore, there may be wrong decisions through the arbitrary dictatorship of the owner instead of the market and misjudgments of the tenants’ interests (and ultimately the owner’s own interests) due to the lack of guidance of the price, but as long as there is a market outside, the tenants who are harmed can always vote with their feet or with money to protect their interests.

Turn to the case where the owners of a community authorize a PMC to manage the public space. Owners committee is equivalent to a parliament, and the members in it are not all owners, but elected from all owners by voting, and then they vote to make decision. Unless it is a matter that greatly affects the interests of the owners, the general daily affairs are decided by PMC. A PMC signs a service agreement (contract) with the owners committee that grants and define the authority of it, so the service agreement is equivalent to the constitution of a country. Then, the PMC also formulates a series of conventions on the use of public space in the community approved by the owners committee, and all owners are required to abide, so the conventions are equivalent to the laws of a country.

Thus, the PMC will manage the community dictatorially according to the conventions within the authority granted by the service agreement. Even if there will inevitably be some cases unfavorable to individual owners and seemingly harming the interests of them, since the PMC is authorized by the owners committee and the relevant conventions have been approved, the harm can be regarded as acceptable. If they think the harm is actually not acceptable, they can express their appeals through the owners committee, which is equivalent to the boss of a company asking the manager to make corrections. Thus, the focus of the problem is whether the owners committee can fully represent the interests of every owner.

For example, if there is a convention of prohibiting dogs from excreting at will, the owners’ right to use the public space to walk dogs is obviously greatly restricted. And if most owners in the community have dogs, since the members in the owners committee are elected by voting, they may think the benefit of restricting the excretion of dogs in public space is higher than the cost of cleaning. Therefore, with the majority rule, they will approve to abolish this convention. A few owners who do not raise dogs have to bear the cost of cleaning dog excrement, but they do not enjoy the benefit of walking dogs, so their interests are harmed. Obviously, there is a divergence between private and social costs, because the property rights of the public space in the community are not clearly delineated, and the owners decide the use of the public space not through market transactions but voting. In other words, the members of the owners committee are elected according to the majority rule, so the interests of every owner cannot be fully represented, which is precisely the problem of indirect democracy.

However, there is a market outside the community. If a minority feels that his interests are seriously harmed and he is unable to change the situation under the one-man-one-vote election, he can move away from this community to a community where few have dogs, so there is the convention prohibiting dogs from excreting in public space at will.

If the votes are allowed to be for sale, and the interests of the minority who do not have dogs are more than those of the majority, the minority will pay to buy the votes from the majority. In this case, the votes have actually become transferable shares, or the property rights of public space have been clearly delineated to all owners in the form of shares (one share for one vote), so there can be market transactions, and the institution of voting has become the voting with money. In theory, with market transactions, everyone’s interests can be protected. However, the problem is that the principle of determining the outcome of vote is still the majority rule, so those who buy the votes will not buy all the votes, but only buy enough votes to ensure they can win. And they will not choose to buy those who strongly oppose them, because they need to pay a higher cost to buy these opponents’ votes, but the interests of these opponents are harmed the most seriously! It is precisely the reason why votes are not allowed to be for sale in democracy.[^1]

What is more, the representatives in the owners committees are also self-interested, so they may vote not according to the interests of all owners, but to their own personal interests. When public affairs are complicated, it is not easy to understand what the interests of most owners are, so the representatives in the owners committee can cheat the other owners with sweet words (just as sellers in the market make use of their information to cheat buyers) and serve their own interests under the banner of serving the interests of all. Therefore, democratic voting, which is originally intended to satisfy at least the interests of the majority (although at the expense of the interests of the minority), will probably degenerate into serving the interests of the minority under the banner of representing the majority.

No wonder the political philosophers (such as Rousseau) opposed indirect democracy. Although the direct democracy they advocated is impractical in modern society with a high degree of specialized division. The political philosophers who advocated indirect democracy pointed out that direct democracy would lead to tyranny of the majority, but in fact the key is not whether it is directly or indirectly democracy, but whether the division between private space and public space is correct and clear, which will be discussed later.

Extended to the politics in reality, it is not easy to change a government, and it is also difficult to vote with feet by leaving a country, and there is no market outside a government or a country. Thus, the harm of democracy to the interests of the minority is an inevitable cost.

- - - -

[^1]: Votes are allowed to be for sale, which is equivalent to returning to the price criterion where there is no rent dissipation, so it has an overwhelming advantage over the non-price criterion that votes are not allowed to be for sale, and attracts self-interested people to try to detour and return to the price criterion, just as what people will do under price control. Therefore, the democratic countries actually allow votes to be for sale in disguise such as political contribution and log-rolling.