# Section 7: Three Utopias

In MSE, it has been proved that, an omniscient and selfless dictator, who arranges production and consumption according to everyone’s preference and capacity, can have the same result (Pareto-optimality) as that everyone produces and consumes according to the guidance of price in the market. MSE realizes that the dictator must be completely wise (having all the information and knowing that the overall interests of the society are his own interests), but it does not realize that the transaction cost of using the market must be zero.

With the addition of the analysis in this lecture, if direct democracy is used and everything is approved by unanimous voting, the result will be the same as that of the market with zero transaction cost or dictatorship with complete wisdom. Since it is direct democracy, all have participated in the decision-making, and since everything is approved by unanimous voting, no one’s interests will be harmed, which must be Pareto-optimal.

As mentioned in section 1, there are three ways to make decisions (choices) on different affairs: market, dictatorship and democracy. Corresponding to these three ways, there are three utopias: the market with zero transaction cost, the dictatorship with complete wisdom, and the direct democracy with everything approved by unanimous voting. They are all utopians because the results of them are all Pareto-optimal, but they are all impossible in reality.

It is impossible to use the market without transaction cost, and there will be no market when the transaction cost of it is too high relative to the benefit of it. It is not easy to delineate the property rights of public space. Although they can be delineated and distributed in the form of shares in theory, if there are too many people involved (there are hundreds or thousands of owners in a community, not to mention the eligible voters in a country), the transaction cost of negotiation will be very high. Due to the information cost (a kind of transaction cost), no dictator can be completely wise. Also due to the information cost, it is impossible for all in a society to have a deep understanding of all affairs and know how to vote for their own interests. And the cost of negotiating with every voter and modifying the proposal to satisfy everyone is as high as that of negotiating in a market transaction. In other words, it is transaction cost that determines there are three different ways (market, dictatorship and democracy) to make decisions, and it is also transaction cost that determines there are three corresponding three utopias!

The final conclusion: political economics is a difficult field, not because the theories are different from those in other fields of economics, but because studiers need to try their best to get rid of the interference of subjective feelings (such as ideology) on objective analysis. Nowadays, too many take democracy for good and dictatorship for bad without thinking. They completely ignoring that the political institutions or the modes of public choice in most times of human society is dictatorship, and also completely ignores that even in modern times, people seldom make decisions or choices by voting except in politics.