## 18.3 Flaws in the Democratic System of Government

### Learning Objectives

By the end of this section, you will be able to:

* Assess the median voter theory
* Explain the voting cycle
* Analyze the interrelationship between markets and government

Most developed countries today have a democratic system of government: citizens express their opinions through votes and those votes affect the direction of the country. The advantage of democracy over other systems is that it allows everyone in a society an equal say and therefore may reduce the possibility of a small group of wealthy oligarchs oppressing the masses. There is no such thing as a perfect system, and democracy, for all its popularity, is not without its problems, a few of which we will examine here.

We sometimes sum up and oversimplify democracy in two words: “Majority rule.” When voters face three or more choices, however, then voting may not always be a useful way of determining what the majority prefers.

As one example, consider an election in a state where 60% of the population is liberal and 40% is conservative. If there are only two candidates, one from each side, and if liberals and conservatives vote in the same 60–40 proportions in which they are represented in the population, then the liberal will win. What if the election ends up including two liberal candidates and one conservative? It is possible that the liberal vote will split and victory will go to the minority party. In this case, the outcome does not reflect the majority’s preference.

Does the majority view prevail in the case of sugar quotas? Clearly there are more sugar consumers in the United States than sugar producers, but the U.S. domestic sugar lobby (www.sugarcane.org) has successfully argued for protection against imports since 1789. By law, therefore, U.S. cookie and candy makers must use 85% domestic sugar in their products. Meanwhile quotas on imported sugar restrict supply and keep the domestic sugar price up—raising prices for companies that use sugar in producing their goods and for consumers. The European Union allows sugar imports, and prices there are 40% lower than U.S. sugar prices. Sugar-producing countries in the Caribbean repeatedly protest the U.S. quotas at the World Trade Organization meetings, but each bite of cookie, at present, costs you more than if there were no sugar lobby. This case goes against the theory of the “median” voter in a democracy. The median voter theory argues that politicians will try to match policies to what pleases the median voter preferences. If we think of political positions along a spectrum from left to right, the median voter is in the middle of the spectrum. This theory argues that actual policy will reflect “middle of the road.” In the case of sugar lobby politics, the *minority*, not the median, dominates policy.

Sometimes it is not even clear how to define the majority opinion. Step aside from politics for a moment and think about a choice facing three families (the Ortegas, the Schmidts, and the Alexanders) who are planning to celebrate New Year’s Day together. They agree to vote on the menu, choosing from three entrees, and they agree that the majority vote wins. With three families, it seems reasonable that one producing choice will get a 2–1 majority. What if, however, their vote ends up looking like [Table 18.1](#Table_18_01)?

Clearly, the three families disagree on their first choice. However, the problem goes even deeper. Instead of looking at all three choices at once, compare them two at a time. (See [Figure 18.2](#CNX_Econ_C18_001)) In a vote of turkey versus beef, turkey wins by 2–1. In a vote of beef versus lasagna, beef wins 2–1. If turkey beats beef, and beef beats lasagna, then it might seem only logical that turkey must also beat lasagna. However, with the preferences, lasagna is preferred to turkey by a 2–1 vote, as well. If lasagna is preferred to turkey, and turkey beats beef, then surely it must be that lasagna also beats beef? Actually, no. Beef beats lasagna. In other words, the majority view may not win. Clearly, as any car salesperson will tell you, the way one presents choices to us influences our decisions.

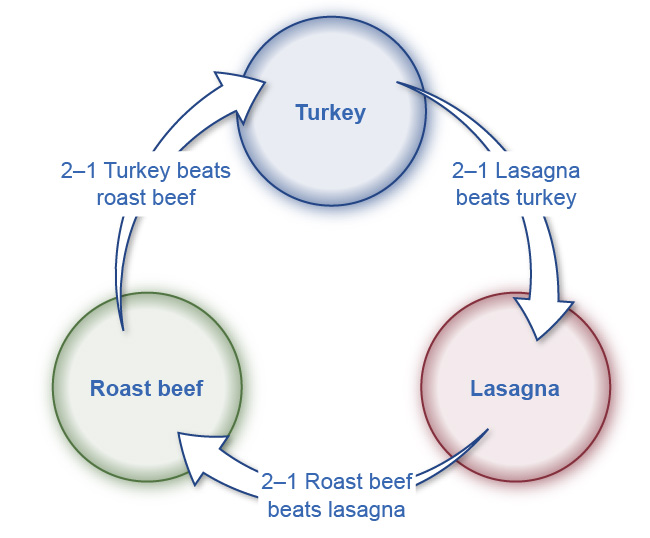


Figure 18.2 A Voting Cycle Given these choices, voting will struggle to produce a majority outcome. Turkey is favored over roast beef by 2–1 and roast beef is favored over lasagna by 2–1. If turkey beats roast beef and roast beef beats lasagna, then it might seem that turkey must beat lasagna, too. However, given these preferences, lasagna is favored over turkey by 2–1.

|  |  |  |  |
| --- | --- | --- | --- |
|  | The Ortega Family | The Schmidt Family | The Alexander Family |
| **First Choice** | Turkey | Roast beef | Lasagna |
| **Second Choice** | Roast beef | Lasagna | Turkey |
| **Third Choice** | Lasagna | Turkey | Roast beef |

Table 18.1 Circular Preferences

We call the situation in which Choice A is preferred by a majority over Choice B, Choice B is preferred by a majority over Choice C, and Choice C is preferred by a majority over Choice A a voting cycle. It is easy to imagine sets of government choices—say, perhaps the choice between increased defense spending, increased government spending on health care, and a tax cut—in which a voting cycle could occur. The result will be determined by the order in which interested parties present and vote on choices, not by majority rule, because every choice is both preferred to some alternative and also not preferred to another alternative.

Link It Up

Visit this [website](http://www.fairvote.org/rcv#rcvbenefits) to read about ranked choice voting, a preferential voting system.

### Where Is Government’s Self-Correcting Mechanism?

When a firm produces a product no one wants to buy or produces at a higher cost than its competitors, the firm is likely to suffer losses. If it cannot change its ways, it will go out of business. This self-correcting mechanism in the marketplace can have harsh effects on workers or on local economies, but it also puts pressure on firms for good performance.

Government agencies, however, do not sell their products in a market. They receive tax dollars instead. They are not challenged by competitors as are private-sector firms. If the U.S. Department of Education or the U.S. Department of Defense is performing poorly, citizens cannot purchase their services from another provider and drive the existing government agencies into bankruptcy. If you are upset that the Internal Revenue Service is slow in sending you a tax refund or seems unable to answer your questions, you cannot decide to pay your income taxes through a different organization. Of course, elected politicians can assign new leaders to government agencies and instruct them to reorganize or to emphasize a different mission. The pressure government faces, however, to change its bureaucracy, to seek greater efficiency, and to improve customer responsiveness is much milder than the threat of being put out of business altogether.

This insight suggests that when government provides goods or services directly, we might expect it to do so with less efficiency than private firms—except in certain cases where the government agency may compete directly with private firms. At the local level, for example, government can provide directly services like garbage collection, using private firms under contract to the government, or by a mix of government employees competing with private firms.

### A Balanced View of Markets and Government

The British statesman Sir Winston Churchill (1874–1965) once wrote: “No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except for all of the other forms which have been tried from time to time.” In that spirit, the theme of this discussion is certainly not that we should abandon democratic government. A practical student of public policy needs to recognize that in some cases, like the case of well-organized special interests or pork-barrel legislation, a democratic government may seek to enact economically unwise projects or programs. In other cases, by placing a low priority on the problems of those who are not well organized or who are less likely to vote, the government may fail to act when it could do some good. In these and other cases, there is no automatic reason to believe that government will necessarily make economically sensible choices.

“The true test of a first-rate mind is the ability to hold two contradictory ideas at the same time,” wrote the American author F. Scott Fitzgerald (1896–1940). At this point in your study of microeconomics, you should be able to go one better than Fitzgerald and hold three somewhat contradictory ideas about the interrelationship between markets and government in your mind at the same time.

First, markets are extraordinarily useful and flexible institutions through which society can allocate its scarce resources. We introduced this idea with the subjects of international trade and demand and supply in other chapters and reinforced it in all the subsequent discussions of how households and firms make decisions.

Second, markets may sometimes produce unwanted results. A short list of the cases in which markets produce unwanted results includes monopoly and other cases of imperfect competition, pollution, poverty and inequality of incomes, discrimination, and failure to provide insurance.

Third, while government may play a useful role in addressing the problems of markets, government action is also imperfect and may not reflect majority views. Economists readily admit that, in settings like monopoly or negative externalities, a potential role exists for government intervention. However, in the real world, it is not enough to point out that government action might be a good idea. Instead, we must have some confidence that the government is likely to identify and carry out the appropriate public policy. To make sensible judgments about economic policy, we must see the strengths and weaknesses of both markets and government. We must not idealize or demonize either unregulated markets or government actions. Instead, consider the actual strengths and weaknesses of real-world markets and real-world governments.

These three insights seldom lead to simple or obvious political conclusions. As the famous British economist Joan Robinson wrote some decades ago: “[E]conomic theory, in itself, preaches no doctrines and cannot establish any universally valid laws. It is a method of ordering ideas and formulating questions.” The study of economics is neither politically conservative, nor moderate, nor liberal. There are economists who are Democrats, Republicans, libertarians, socialists, and members of every other political group you can name. Of course, conservatives may tend to emphasize the virtues of markets and the limitations of government, while liberals may tend to emphasize the shortcomings of markets and the need for government programs. Such differences only illustrate that the language and terminology of economics is not limited to one set of political beliefs, but can be used by all.

Bring It Home

Chinese Tire Tariffs

In April 2009, the union representing U.S. tire manufacturing workers filed a request with the U.S. International Trade Commission (ITC), asking it to investigate tire imports from China. Under U.S. trade law, if imports from a country increase to the point that they cause market disruption in the United States, as determined by the ITC, then it can also recommend a remedy for this market disruption. In this case, the ITC determined that from 2004 to 2008, U.S. tire manufacturers suffered declines in production, financial health, and employment as a direct result of increases in tire imports from China. The ITC recommended placing an additional tax on tire imports from China. President Obama and Congress agreed with the ITC recommendation, and in June 2009 tariffs on Chinese tires increased from 4% to 39%. In addition, tariffs on Chinese tires increased further as part of President Trump’s increases on a broad range of Chinese products.

Why would U.S. consumers buy imported tires from China in the first place? Most likely, because they are cheaper than tires produced domestically or in other countries. Therefore, this tariff increase should cause U.S. consumers to pay higher prices for tires, either because Chinese tires are now more expensive, or because U.S. consumers are pushed by the tariff to buy more expensive tires made by U.S. manufacturers or those from other countries. In the end, this tariff made U.S. consumers pay more for tires.

Was this tariff met with outrage expressed via social media, traditional media, or mass protests? Were there “Occupy Wall Street-type” demonstrations? The answer is a resounding “No”. Most U.S. tire consumers were likely unaware of the tariff increase, although they may have noticed the price increase, which was between $4 and $13 depending on the type of tire. Tire consumers are also potential voters. Conceivably, a tax increase, even a small one, might make voters unhappy. However, voters probably realized that it was not worth their time to learn anything about this issue or cast a vote based on it. They probably thought their vote would not matter in determining the outcome of an election or changing this policy.

Estimates of the impact of this tariff show it costs U.S. consumers around $1.11 billion annually. Of this amount, roughly $817 million ends up in the pockets of foreign tire manufacturers other than in China, and the remaining $294 million goes to U.S. tire manufacturers. In other words, the tariff increase on Chinese tires may have saved 1,200 jobs in the domestic tire sector, but it cost 3,700 jobs in other sectors, as consumers had to reduce their spending because they were paying more for tires. People actually lost their jobs as a result of this tariff. Workers in U.S. tire manufacturing firms earned about $40,000 in 2010. Given the number of jobs saved and the total cost to U.S. consumers, the cost of saving one job amounted to $926,500!

This tariff caused a net decline in U.S. social surplus. (We discuss total surplus in the [Demand and Supply](http://openstax.org/books/principles-microeconomics-3e/pages/3-introduction-to-demand-and-supply) chapter, and tariffs in the [Introduction to International Trade](http://openstax.org/books/principles-microeconomics-3e/pages/19-introduction-to-international-trade) chapter.) Instead of saving jobs, it cost jobs, and those jobs that it saved cost many times more than the people working in them could ever hope to earn. Why would the government do this?

The chapter answers this question by discussing the influence special interest groups have on economic policy. The steelworkers union, whose members make tires, saw increasingly more members lose their jobs as U.S. consumers consumed increasingly more cheap Chinese tires. By definition, this union is relatively small but well organized, especially compared to tire consumers. It stands to gain much for each of its members, compared to what each tire consumer may have to give up in terms of higher prices. Thus, the steelworkers union (joined by domestic tire manufacturers) has not only the means but the incentive to lobby economic policymakers and lawmakers. Given that U.S. tire consumers are a large and unorganized group, if they even are a group, it is unlikely they will lobby against higher tire tariffs. In the end, lawmakers tend to listen to those who lobby them, even though the results make for bad economic policy.