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How Much Benevolence is Benevolence Enough?

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Abstract

Political agents in charge of policy under democracy confront a dilemma like that faced in 'stag hunt' games. The absence of an effective enforcement mechanism for punishing politicians who cater to special interests gives political agents strong reason to doubt the commitment of their fellow statesmen to the public welfare. As a result, even when policy makers are partially benevolent to the public, they are still led to cater to special interests and society fares no better than if politicians were strictly self-interested. Political agent benevolence is thus an all-or-nothing proposition. Unless benevolence is total, policy looks the same.

The ideas presented in this research are the author's and do not represent official positions of the Mercatus Center at George Mason University.

1   Introduction

Public choice theory has elaborated a long list of arguments for why democracy fails to deliver 'good' policy. These arguments rely predominantly upon the assumption of strictly self-interested political agents. In most cases this amounts to political agents as strict money, power, or vote maximizers. For instance, the theory of special interests demonstrates how self-interested political agents are able to concentrate benefits on well-organized, well-informed interest groups while dispersing the costs of bestowing this privilege among the rest of society, which is unorganized and ill-informed. In this way, strictly self-interested political agents are able to thwart the wishes of the median voter and deliver 'bad' public policy for their own private benefit.

We do not wish to dispute the tremendous insight that the strictly self-interested politician assumption has shed on issues of political economy. Instead, we suggest that by attacking the 'harder' case in which political agents are assumed to be *partly benevolent* towards the public, an even stronger argument can be made for why democracy delivers bad policy. In addition, assuming some benevolence may address an important concern of individuals who find the assumption of strictly self-interested political agents unrealistic or extreme.

2   The Policy Maker's Dilemma

For the sake of simplicity, assume that there are only two political agents—*R* and *D*—who comprise government in our hypothetical democracy. Further, assume that both agents have equal control over the creation of policy. Each agent is capable of either

making 'good' policy or catering to special interests. Figure 1 depicts the game played by *R* and *D*, which we call the 'policy maker's dilemma.'

		D	
		Make Good Policy	Cater to Special Interests
R	Make Good Policy	(a, a) X	$(0, b)$ $Y + \varepsilon$
	Cater to Special Interests	$(b, 0)$ $Y + \varepsilon$	$(b/2, b/2)$ Y

Figure 1. The Policy Maker's Dilemma

The private payoffs to political agents are in the upper left-hand corner of each box where $b > a > (b/2) > 0$. The lower right-hand corner of each box contains the payoffs to society in each case where $X > Y + \varepsilon > Y$. When both agents own policy, both receive some payoff, a, in the form of revenue generated from taxing a high level of social wealth. In this case, social wealth is maximized and society's payoff is X.

However, this revenue is less than each agent could receive by catering to special interest groups when the other agent does not, b. When only one agent caters to special interest groups, all the gains from catering go to him, while the other receives zero. Here, because policy is tailored to special interests rather than maximizing social wealth, the public receives a lower payoff, $Y + \varepsilon$. When both agents cater to special interests, each receives gains from catering, but the total gains are divided and each agent receives a

payoff of only (b/2). In this case, since there is 'more' catering to special interests, the public receives an even lower payoff yet, *Y*.

A strictly self-interested political agent is unconcerned with the public's welfare in each scenario and is only interested in maximizing his own payoff. His preferences are therefore ordered strictly according to his own private payoff in each case. Thus, we define a strictly self-interested political agent as one with the following preference ordering: 1. *b* 2. *a* 3. (b/2) 4. 0. In other words, a strictly self-interested political actor would prefer catering to special interests when the other agent does not first, making good policy when the other agent does as well second, catering to special interests when the other agent does as well third, and making good policy when the other agent caters to special interests last.

When both political agents are assumed to be strictly self-interested they face a clear prisoner's dilemma problem. Both agents maximize the payoff to themselves by catering to special interests regardless of what the other does. The result is the 'cater to special interest-cater to special interest' equilibrium in which policy is 'bad' and the public receives its lowest payoff.

3 Partial Benevolence is Not Benevolence Enough

Interestingly, introducing partial benevolence on the part of *both* political agents may do nothing to alleviate this problem. It would seem as though two political agents, both of whom prefer to maximize the public's payoff as their most desired outcome, could come to some agreement to jointly pursue the making of good policy. However, if agents do not completely trust one another and the public is "rationally ignorant," they cannot.

To see why this is so, consider a partially benevolent political agent. Such a political agent's preferences must take some account of the public's payoff under differing scenarios. We should emphasize here that partial benevolence on the part of political agents means partial benevolence towards the public, *not towards one another*. Policy makers are partially concerned with the public's payoff but are indifferent to each other's payoffs.[1]

The way a partially benevolent political agent orders his preferences is straightforward: His most preferred outcome is that in which society fares best—the 'make good policy-make good policy' outcome. His second most desired outcome is that in which society fares second best—the outcome where only one agent caters to special interests; *however, this is so only when he is the agent who gets to cater to special interests*.

Recall that social welfare is the same regardless of which political agent caters to special interests so long as the other agent does not. Among the two ways of achieving the socially second best outcome then, a partially benevolent agent requires that he be the agent who caters to special interests. Although he prefers the socially second best outcome over the socially worst outcome when he is the one allowed to cater to special interests, he prefers the situation in which both agents cater to special interests and the public's payoff is lowest to the situation in which the other agent is allowed to cater to

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[1] Stark (1989) examines the ability of players to overcome prisoner's dilemmas when they are "altruistic" towards each other. Similarly, Frohlich (1974) considers the ability of actors who are altruistic towards one another to overcome public goods problems. Stark (1989) finds that when players are sufficiently altruistic towards each other (i.e., when they weigh each other's utility equally), they may be able to sustain a solution to the dilemma. Frohlich (1974) finds that actors who are altruistic towards one another can eliminate some, but not all, of the conflict surrounding the provision of public goods. Our analysis, in contrast, assumes player "altruism" only towards individuals who are outside (but nonetheless affected by) the game being played. Specifically, it assumes political agent "altruism" only towards the public.

special interests but he is not. We thus define a partially benevolent political agent as one whose preference ordering is: 1. a 2. b 3. ($b/2$) 4. 0.

The intuition for arranging his preferences this way is simple. A partially benevolent political agent generally prefers outcomes that do the most for social welfare. Indeed, he is willing to put the public's welfare first when his fellow statesman will as well. However, he is unwilling to be 'suckered.' If the first-best social outcome cannot be had he prefers the second-best social outcome, but only when he is the beneficiary of this move as opposed to on the losing side of it.

As this preference ordering indicates, when both political agents are partially benevolent, the game becomes a 'stag hunt' game in which both agents want to make good policy only if the other agent does so as well. This game has two pure strategy Nash equilibria—the 'make good policy-make good policy' equilibrium in which the public fares the best, and the 'cater to special interests-cater to special interests' equilibrium in which the public fares the worst. Which equilibrium will prevail depends upon the probability each agent places on how the other agent will behave. Where p is the probability each agent places on the other agent making good policy, the 'cater to special interest' equilibrium in which society fares the worst results so long as $p <$

$$\frac{b/2}{a-b/2}.$$

In other words, the public welfare depends upon how much faith political agents have that their fellow policy makers will pursue the public welfare. If politicians sufficiently trust one another to behave benevolently, the 'make good policy' equilibrium prevails. There may be good reason, however, to think that political agents are rather uncertain about the likelihood of other political agents making good policy. In the first

place, there does not seem to be any evidence to suggest that politicians generally trust one another when it comes to behavior in the political arena. This seems to be especially true of political agents from different sides of the aisle.

Even more importantly though, the absence of an effective enforcement mechanism for dealing with those who do not pursue the public interest presents political agents with strong reason to expect that other agents will renege on agreements to jointly pursue the making of good policy. Here I am referring mainly to prevalence of voters' rational ignorance, which suggests that cooperative political agents cannot use the voting public to punish defectors. For this reason alone, rational political agents are unlikely to trust one another's alleged commitment to pursue the social welfare-maximizing strategy. In this case, the 'cater to special interest' equilibrium results despite their mutual benevolence.

The logic here is simple: Both agents prefer the social wealth-maximizing outcome first. Nevertheless, if either agent believes this outcome is not possible because they suspect that the other agent will defect, they will defect as well, both preferring (b/2)—their payoff when they both defect, to 0—their payoff when only the other agent defects. Thus society is again in the 'cater to special interest-cater to special interest' equilibrium. Note that this outcome does not require that either agent actually intend to defect, only that one agent has a sufficiently strong belief that the other may do so.

While our analysis applies generally to any democratic system under the assumptions specified, in many reforming nations where media is highly dependent upon the state, the problem may be even more acute. Here there exists no credible medium through which information about the activities of political agents can even be conveyed

to voters.[2] It is no surprise then that reforming countries with highly dependent media have had so many troubles transitioning from a state of rampant rent-seeking to the making of good public policy.

4   Conclusion

If political agents are fully benevolent, they are of course able to overcome our dilemma. In this case, both agents are willing to 'fall on the sword' and pursue the making of good policy regardless of what the other agent does. However, if policy makers are only partially benevolent towards the public and are sufficiently uncertain about each other's credibility, society fares no better off than if politicians were strictly self-interested. In other words, in terms of actual impact, political agent benevolence is an 'all-or-nothing' proposition. Unless benevolence is total, policy looks the same.

Our point also has significance for the strict self-interest assumption of standard public choice analyses. Despite its departure from motivational realism, if we get the same results with partial political agent benevolence as we do with zero, the standard public choice assumption is vindicated predictively.

References

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[2] For a discussion of this see Coyne and Leeson (2004).