

**Rational Democracy:  
A Political System for Universal Interest**

**Mo Pak Hung  
Hong Kong Baptist University**

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**Abstract**

In this paper, we formulate a political system that can satisfy certain desirable characteristics, namely: 1. democratic participation 2. serving for universal interest 3. public sector efficiency 4. being sustainable by incentive compatibility and virtuous cycles. It is a political structure that serves the people, rules by rationality, strives for efficiency and is sustainable. The system comprises a set of institutions and organizations that provide incentives and supports for the participants to enhance universal interest.

## **1. Introduction**

### **1.1 The Nature of Politics**

Every community must find some rules for solving the allocation of coercive power and scarce resources without causing substantial internal conflicts. A polity is characterized by its rules determining the allocation of coercive power. We call these rules the primary institution. The secondary institution is defined as the rules governing market and social interactions. In this paper, we propose a design for the structure of primary institution and associated organizations for attaining some desirable social outcomes. The design is called Rational Democracy. When the coercive power of a polity comes from the governed people, we call the polity a democratic system. When the power comes from owning a coercive organization, we call the polity a dictatorship in which people have no say on the exercise of the coercive power by the state. In the real world, there is a continuous spectrum in between the two extremes. In democratic systems, we have direct democracy and representative democracy. In dictatorship regimes, we have monarchy and oligarchy. Also, some autocratic polities are more responsive to the needs of its people while some are totally exploitative.

The survival of a state and the welfare of its people rely on the provision of some essential public goods like definition of private property rights and contract enforcement in order to facilitate orderly production, division of labor and exchanges. The foundation on which a state can govern is its coercive power. The coercive power appears in the form of armed forces, police, laws and the judicial system. The functioning of any market system depends on the definition and enforcement of private property rights which in turns depends on the allocation of coercive forces. At the level of political activities, all resources are common properties in the sense that any private property and/or its income can be transformed to common property through political actions. That is, the allocation of private property rights and/or income distribution, and in general, the pattern of secondary institutions and organizations are significantly affected by the method of coercive force allocation.

An ideal political system comprises a set of institutions that encourage political agents and

organizations to engage in activities that can enhance universal interest. That is, a polity that can enhance long-run social and economic development with an expansion of consumption possibility set for all people. They are the essences of universal interest to all societies.

## 1.2 Special Interest Politics

**“Universal benevolence does not allow special benevolence.” -- Zhuang\_Zi**

All initial property right allocation is backed up by coercive forces. Political power is the power to use coercive forces. This posts a long-lasting dilemma facing every community. Without a king, government, polity or political system, whatever you call it, a community will be in chaos when private property is undefined, weak and not protected. Division of labor and trade will be difficult and constantly resorting to violent struggles makes every member desolate. However, government empowered with the use of violence generates a constant temptation to the incumbents to exploit the public for self-benefits. Historically, the natural way to allocate coercive power is through competition among fighting organizations. The winner becomes the executor and designer of the primary and secondary institutions. Normally, the dominant goal of the control organization is to maintain and exercise its coercive power for its own benefit and put the welfare of the commons under a minor consideration. The behavior of exploitative governments could result in stagnation and decline of nations and civilizations.<sup>1</sup>

Compared to the primitive method of allocating coercive power through physical struggles, democracy is an ingenious device to avoid many undesirable effects associated with dictatorship. In democratic nations, the coercive power of the government is delegated by the people and it should serve the people. The understanding is usually explicitly written down in a constitution. Organizations and mechanisms are set up to check and balance the coercive power of the government. When government cannot meet the expectation of people, people can remove the persons in power by voting. There is substantial consensus that Western democracy has ensured

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<sup>1</sup> For instance, Mo (1995, 2000).

the control of the state's absolute power through voting systems, written constitutions, and the rule of law. In combination, they can constrain the state's coercive power as well as the tyranny of the majority.

The electoral voting polity can therefore resolve the dilemma in allocating coercive power to the state. However, human beings are creative but limited at the same time. Although different democratic regimes exist in the modern world, they are all based on the electoral process for allocating coercive power. We call the regimes electoral democracy. They allocate votes evenly to the public de facto turns the resources of the society into common properties of the eligible public who attempt to expropriate the largest share by their voting power. Parties, special interest groups and their allies are formed with strategic actions to compete for the common properties allocated by political power and/or to transform existing private properties/incomes into common properties available for political expropriation.<sup>2</sup> The expropriations through voting reduce productive activities and encourage rent-seeking activities. Resources in the form of government spending and non-represented interests are allocated to benefit constituents of politicians in return for their political support, either in the form of campaign contributions or votes. The mechanism is commonly known as the pork-barrel politics.

Comparing with the process in market mechanism, income distribution based on special interest politics is a highly arbitrary process and harmful to the universal interest of a society. The special interest bias in political participation invites government interventions and distorts efficient resources allocation. If we define corruption as trading public interest for private interest, the special interest politics make corruption to be pervasive in electoral democratic systems. Minimum wages allocate production surplus in favor of the existing labor concerned at the expense of the producers, unemployed and future labor. Extensive subsidies and supports allocate resources in favor of concerned special interests at the expense of the rest of society. Expanding government services allocate resources in favor of government agents at the expense of taxpayers. Private property protection is weakening while the common property directed by

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<sup>2</sup> The increasing size of government expenditures can be interpreted as a process of transforming private properties to common properties available to be expropriated by interest groups through political process.

voting concerns is expanding over time. The transfers of public interests to special interests result in welfare states where government shoulders all kinds of social burdens – the subsidies and regulations in favor of special interest groups, healthcare, social security, various other social services and the pay of bureaucrats – which are potentially without limit. The political pressures from the special interests force electoral democratic governments to constantly raise taxes, borrow and/or print money. The role of market in allocating resources, the work ethic and the personal rewards are diminished by higher taxation. Finally, people develop a habit of dependency on the state for jobs, housing and welfare. Moreover, the deterioration of the economy and the dependency tend to reinforce each other and the economy is trapped in the vicious cycle. The welfare state also distracts the government from its essential functions – infrastructure, law and order, diplomacy and defense, resulting in deteriorations in the political, social and economic spheres.

The dismal history of modern sub-Saharan Africa is an indication of our inadequate knowledge of electoral democracy and the politics of economic development. Chua (2003) documents the instabilities caused by the conflicts between free market resource allocation and coercive power allocation under electoral voting systems. Without substantial income redistribution, electoral democracy is incompatible with free market economy. The problem is particularly acute in countries with market-dominant minorities and the impoverished ‘indigenous’ majorities around them. She concludes that if democracy and markets are to be peaceably sustainable, democratization cannot be reduced to shipping out ballot boxes for national elections – in the process political leaders whip up mass hatred against the resented minority, and stir up class, ethnic and religious politics in deeply divided societies. Democracy outside the West has repeatedly led not to widespread peace and prosperity, but to ethnic confiscation, authoritarian backlash and mass killing.

The electoral democracy is particular nominal in developing and underdeveloped countries. The public goods nature of quality government, the common property nature of government revenue and the access to information and coercive forces by the incumbents imply that electoral

democracies are submerged in all kinds of failures and inefficiencies. Poor voters have no incentive and also lack of access to information; incumbents control the political process through lobbying, corruption, superior resources and power. These problems aggregate the conflicts among income classes, and/or among people of different ethnic and religious origins. People simply form allies to expropriate the resources of the rich minorities excused by whatever reasons available. In order to prevent the expropriation of the wealth by the political force empowered to the majority poor, modern democracy is constrained by constitutions that safeguard minority rights and prevent arbitrary government confiscations. Constitutions are supported by judicial branch that is independent from politics. However, the judicial branch is notoriously weak in most developing countries. This results in the natural rights embodied in a market system being overwhelmed by the coercive power embodied in political activities. In rich countries with enlightened citizens, politics based on special interest competition resolve the conflicts by voting and government redistributions. In poor countries with low-educated commons, special interest competition in electoral democracy results in unceasing conflicts, violence and disasters.

The major target of democracy is to enhance the welfare of people. Evidences suggest that electoral democracy has failed the objective of the system by design in most developing countries. Besides the realities, public choice theories propose various potential sources of failures in electoral democracy. They include that no political outcome is inherently stable; transfers can be pushed to the confiscatory level; and the possibility that a particular minority will be exploited systematically over a long sequence of electoral periods. Moreover, as the quality of public policies is itself a public good, a typical voter, even a typical legislator, suffers from free-rider problems. They usually lack the incentive to acquire expertise and technical information needed to evaluate alternative policy proposals and make decisions that are most favorable to the society. In addition, political parties tend to become bureaucratic. The organizations create their own interests, which differ somewhat from those of the people they claim to represent. However, nearly all successful candidates in political contests require support

from extensive and permanent organizations even they are inadequate to represent popular needs.

Another potential problem is that the interests of future generations are not represented. The voting public concentrates on competing for static distribution of production surplus and ignores the dynamic improvements of the society. When everyone competes for a larger share of a given cake without allocating resources to make larger cake, the size of the cake shrinks over time.

## **2. The Structure of Universal Interest Polity**

**“Universal virtue can be accomplished only when special virtues are ignored.” -- Lao Zi**

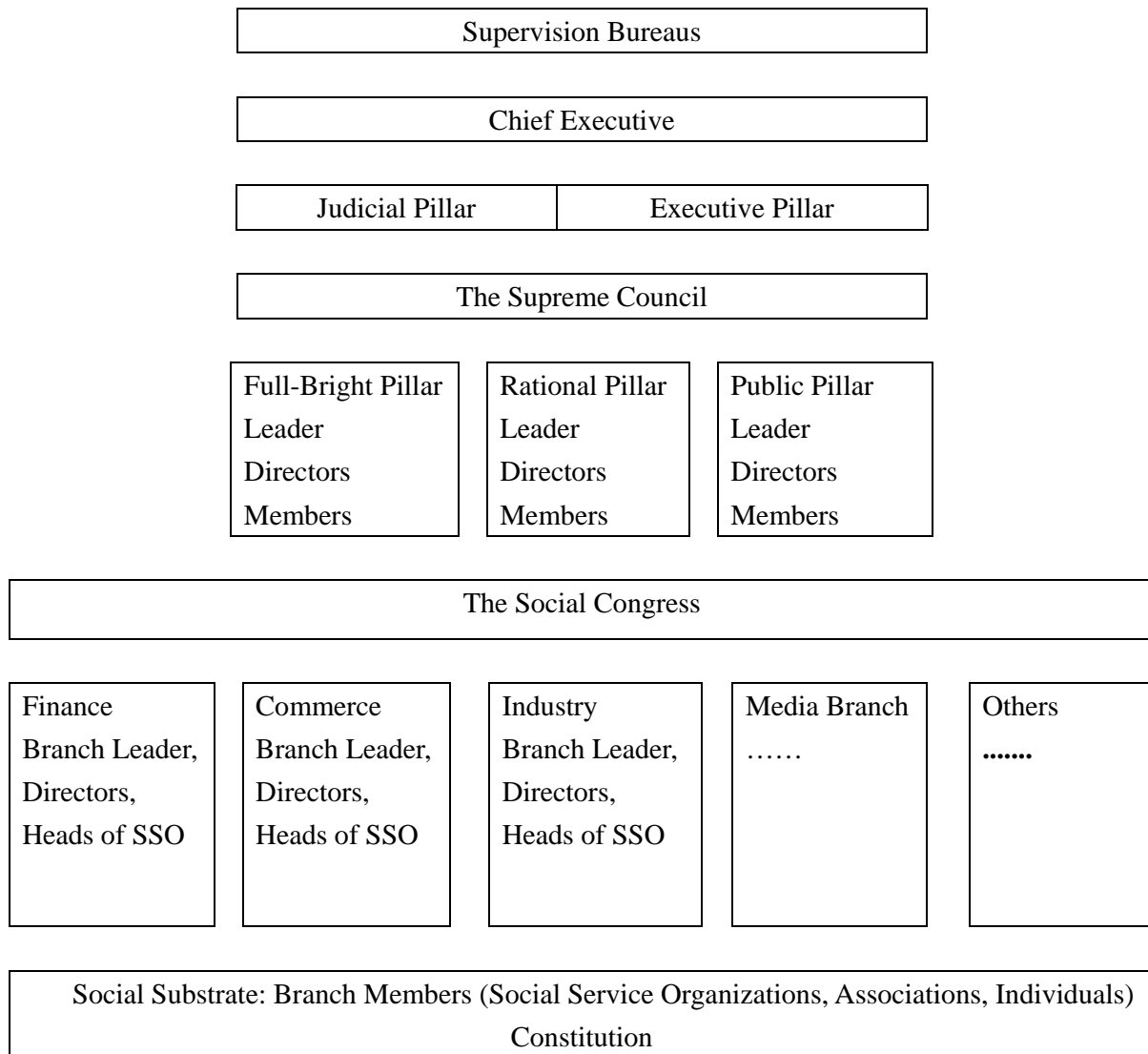
Special interests tend to be diverse and therefore pervasive conflicts of interests arise during the competition for benefits. Universal interests based on Pareto improvements, on the other hand, can be narrowly identified. Therefore, consensus based on universal interests can be relatively easy to be arrived at under a proper mechanism.<sup>3</sup>

Rules of interactions influence outcomes. Some outcomes are socially desirably and some are not. This implies that we can design rules of social interactions for attaining some socially desirable outcomes. The polity that constrains sociopolitical interactions must be evaluated by its capacity to promote the universal interest of society and at the same time allow individuals to pursue their separate activities and purposes under defined private spaces. Historically, primary institutions in modern societies embody the intentionality of the conscious mind. They are the structure of human creation for achieving some desirable targets. Their functioning is neither automatic nor ‘natural.’ Moreover, for the advance of the society, the structure must be continually altered with changes in the fundamental factors like technology, information, and human capital in order to accomplish their intended functions. The following system is designed for the universal interests of the society and permits trial and error experiments to occur society-wide that promote advancements through adaptive efficiency. Figure 1 shows the structure of the rational democratic polity.

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<sup>3</sup> However, it does not mean that universal interests can be easily achieved. The Prisoner Dilemma Game is the standard structure that illustrates proper institutions are essential for attaining universal interests.

**Figure 1: The Structure of Rational Democracy**



Notes : SSO: Social Service Organizations.

### **2.1. Mimicking the Miracles of Competitive Market**

**“Mere kindness cannot govern; mere laws will not be automatically enforced.” – Mencius**

Under some general conditions, the market system can harness self-interest of the participants and generate the outcomes that maximize the overall benefits. In view of the effectiveness of the market system in enhancing development, its self-organizing characteristics, its ability to

generate useful knowledge and information, and its dynamic adjustment to changes, we attempt to design a political system mimicking and extending the influences of market to the society.

Once a mechanism for allocating political power is in place, related organizations and activities will evolve for capturing the potential benefits of accessing the coercive power. A desirable political system can induce the formation of a network of related organizations and activities that can serve the universal interests. A major component in our design is building up organizational stakeholders that will serve all vital functions in a society. The related vested-interests developed in the organizations have strong incentive and sense of identity to maintain the structure. We call these organizations Pillars, Branches and Social Service Organizations.

Every society has three vital spheres: they are market, social and political. The mutual checks and supports among the spheres are essential for the advancements of every society. Among the three spheres, the market system is self-organizing. Although it can result in many desirable outcomes, it often generates an income distribution that may not be socially desirable. In order to amend the potential undesirable effect of the market, formation of Social Branches is encouraged for directing the resources, networks and opinions generated from the market to the social sphere for promoting harmony and the universal interests of society. All Branches are obliged and supported to set up non-profit social service organizations that can receive matching grants from the government for their registered social services. Social services are defined as those directly affecting the welfare and harmony of society but will not be optimally provided by the markets. They include poor supports and services, health care, micro-credits and various social activities. Social Branches will be automatically recognized if the number of members reaches certain predetermined level. The higher the number of membership, the higher the rate of matching grants in order to induce each Branch to extend their services to the poor and needy.<sup>4</sup> The Branches normally are formed according to the natural sense of identity with key members

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<sup>4</sup> In a society with sufficient size, the dominance by a single or several social organizations is unlikely due to the increasing management costs and free-rider problems in social organizations. The matching formula can be adjusted to guarantee a contestable environment exists among social organizations.

share common interest in the organizations. For instance, they can be the Branches of Financial Sector, Public Media, Industrial Sector, Commercial Sector etc..<sup>5</sup> The only constraint on their operations and activities is that their existence is for serving social benefits rather than pursuing their special political interests. Individuals cannot become members of the Social Congress directly without passing through the route of Branch Directors and Leaders. The objective of this rule is to make sure that political leaders must possess certain desirable characteristics. We will discuss this point in more detail in the next section.

Each Branch is a mini-government for providing various social services and having extensive market and political networks. Besides providing social services, the setting up of Branches and their Leaders, Directors and Heads of Social Service Organizations can provide ample platforms for the rich, able and/or benevolent persons to serve society at their own will. At the same time, serving in the Branches can provide training, experience, esteem and publicity for potential political leaders. In the process, the characteristics of the Leaders, Directors and Heads of the respective Branches will be revealed to their members, the general public and political leaders. The public has ample information for selecting desirable socio-political leaders from a large pool of social leaders. In the competitive environment among the Social Branches, the survival of the organizations depends on their efficiency and ability to cater the changing needs of the society. The self-regulating and creating nature similar to a competitive market evolves in the social sphere.<sup>6</sup>

## **2.2. Human Nature and the Ante-Incentive Effect**

**“The best security for the fidelity of mankind is that interest be made coincident with duty.” -- James Madison.**

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<sup>5</sup> Other ‘natural’ Branches can be based on Agriculture, Commercial, Transportation, Technology, Law, Religions etc..

<sup>6</sup> The Social Branches establish a market place for the ‘demand’ and ‘supply’ of esteem, in the terms of Brennan and Pettit (2004). The demanders are the rich, able and/or benevolent persons desired to serve society while the suppliers are the poor, needy and the public in general. In the exchange process, quality social goods and services are produced, and the social and political leaders with desirable characteristics and publicity emerge. Altruistic behaviors are encouraged and socially rewarded automatically. The comparison of the self-organizing nature between the market system and the Social Branch System is provided in Table A1 in the Appendix.

The study of modern economics is mostly concerned with material incentives and the agents are egoists. This is because material incentives are the main form of incentives in the world of business and the incentive is pervasive among mortals. Instead of assuming homogeneous egoistic economic agents, we use a more realistic assumption of human nature that is commonly observed empirically and accepted in other disciplines. Besides material rewards, it is commonly observed that there exists ‘social-oriented’ people who also concerned about ‘social rewards’ that include opportunities to serve the community and be able to take care those in need, public recognition, senses of identity and righteousness, self-actualization and so on. The coexistence of egoists and ‘socialists’ implies that a reward structure not only alters the behavior of people in an organization, but will also select people of different natures to join an organization. The latter effect of reward structure is called the ante-incentive effect while the former is named post-incentive effect. Our problem is how to have an incentive structure and selection process so that suitable people will be induced to participate in a polity to exercise the coercive power for the benefits of the whole society.<sup>7</sup> Solving this problem implies that the agency costs of the state will be greatly lowered and the long-lasting problem of ‘who watches the watcher’ in political arrangements will be much reduced.

In the design of primary institution and organizations, the ante-incentive concern is of utmost importance as the institution determines the allocation of coercive power. After politicians are empowered with coercive forces, it will be very expensive for the public to release the position of any defector. This is self-evident according to numerous historical events. In the process of selecting political leaders, being able to choose civil-minded agents (defined as the agents who are of high concern on public benefits) will substantially reduce the possibility of defectors and the potential enormous agency costs generated from egoistic behavior of crooked state leaders. The question is what characteristics and process of the incentive system can

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<sup>7</sup> The importance of human nature diversity and its implication are increasingly recognized by political economists. For instance, in Brennan and Hamlin (2000), Brennan and Pettit (2004), their discussions are based on the assumption that the desires for property, power, prestige or status or esteem are the three ruling passions in human life. In our design, the market sphere determines the allocation of property given the primary institution. The Social Branch system provides the market for esteem. The whole system defines a market for allocating coercive power which can accomplish the universal interests in the process.

generate social-oriented political leaders.<sup>8</sup>

In an electoral democratic polity, the ante-incentive to participate in the vote-maximizing activities are the ‘rewards’ generated from the possible political power. The reward structure to the elected politicians depends on their specific preference.<sup>9</sup> If the leader is motivated by material rewards, she will use her political power to change the environment for maximizing the rent to be earned from her position. If the leader is an altruist, she will use the power to serve the benefits of the society according to her subjective judgments. The same coercive power can induce different types of participants and generate different outcomes that depend on the preference of the elected politicians. In electoral democracies, mechanism does not exist to guarantee that elected politicians are civil-minded, be able and willing to serve the benefits of the society rather than her own egoistic interests. Check and balance mechanism embodied in constitution and/or organization structure is therefore vital for constraining the potential rent-seeking behavior of crooked politicians. However, the quality of governance is itself a public good where free-rider problems and tragedy of commons prevail. Relying on the check and balance mechanism for the proper behavior of political leaders is doomed to fail in the long-run. In our system, we institute an ante-incentive structure and screening process that will raise the likelihood of having persons of desirable characteristics in the positions to exercise the coercive power in the polity. In this way, we can substantially reduce the potential agency costs of politicians.

The basic rule of the reward structure is that only agents in organizations having systematic merit-based selection mechanism and carry out daily administration will have market-matching material rewards. All other leaders and directors of the political and social organizations that do

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<sup>8</sup> Altruistic and social-oriented human nature can be a survival characteristic during human evolution (for instance, Becker (1976), among many others). If the egoistic nature of human being is the survival trait of lone competition, the social-oriented nature of human being is the survival trait of family/group/tribal/village/state/national coordinated competition. Groups with social-oriented members substantially lower coordination costs and therefore raise the competitiveness of the groups relative to the groups with egoistic members. To our best knowledge, the ‘ante-incentive effect’ of reward structure is firstly suggested in Brennan (1996), although the idea is closely related to the concept of self-selection.

<sup>9</sup> Under normal situations, the post-incentive structure is exogenous to an agent’s preference as the agent has no power to change the incentive structure. However, agents controlling political power can alter her environment that includes reward structure according to their preference.

not bear responsibility for daily operation should consider their socio-political participation as a channel for self-actualization. Their primary ‘rewards’ should be having the chance of serving the universal interests of the society, accompanied with secondary rewards like social recognition, honor and symbolic/supportive material compensation. Under this reward scheme, the egoistic opportunists will find little incentive to participate in the activities. In ideal situation, only social-oriented persons will participate.<sup>10</sup> With a proper screening mechanism, we can select proper persons for exercising the coercive power from the pool of benevolent candidates among the Leaders, Directors and Heads of the Branch Organizations.

Persons with similar backgrounds and/or preference tend to gather in respective Branch. The sense of identity will develop among the members. This will promote inter-comparison, competition and imitation among the Branches. The competition between the Branches to perform their social role will foster the pace of dynamic adjustment, efficiency, and technological advances and adoption in the social sphere. Moreover, when each Branch is empowered to organize and administer social organizations, the demand for skills and problem solving will spread rationality, real world understandings and practical experiences to all Branch Directors and Leaders. In this way, it will be much easier for all Branches to arrive at consensus about public issues, even though each Branch might have very diverse backgrounds. The ante-incentive effects, self-selection, organization selection and practical experiences pervasive to all Branches will result in social decisions to be based on rationality, efficiency and the universal interests. Moreover, the infiltration of the Branches deep into social substrates implies that these benefits will be pervasive to all spectrums of society, particularly to those poor and needy. The Social Branches provide widespread social and political participatory opportunities for a wide spectrum of income classes, ethnic groups and religious backgrounds. They provide platforms for people of different ideologies, beliefs, and interests to interact and understand each

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<sup>10</sup> Suppose we have two types of agents, the egoist who cares about material rewards only and the socialist who cares about the universal interests of the society. Their preferences are respectively  $U^e(R_m, R_s)$  and  $U^s(R_m, R_s)$  where  $(R_m, R_s)$  is the reward structure with  $R_m, R_s$  is the vector of material rewards and social rewards respectively. Since the socialists have strong preference on the social rewards and the egoists vice versa. A reward structure that is dominantly composed of social rewards will induce ‘socialists’ to join the social organizations and the egoists are self-excluded. Brennan (1996) provides a related graphical exposition.

other. Special interest politics and rent-seeking competitions that commonly plagued the social sphere will be less likely to exist in this polity.

In this arrangement, the social-oriented leaders enjoy providing quality social services to the community. To the egoistic leaders, providing social services is the gateway to political power that can be transformed to material and/or social rewards. During the competition for coercive power, the whole society is benefited. Out of their self-interest, general public will support the Branches and Leaders that are most able to cater for their needs and are perceived to be benevolent, honest and of integrity. The subjective benefits/costs of the social services to the benevolent leaders are much higher/lower than those egoistic leaders due to their innate difference in preferences. Therefore, benevolent leaders are much more likely to be successful in providing social services and winning political support than the egoistic opportunists in the competition process.

The Social Branches also provide essential platforms for income redistribution process and therefore reduce potential socio-political conflicts generated by market outcomes. Through the Social Branches, the wealth generated by successful market ventures can be effectively ploughed back for the benefits of the poor. The contributors, either serving as donors, leaders and/or directors, not only receive social rewards but are also more able to protect their wealth by earning public influence and promoting social stability that are particularly valuable to wealthy persons. Each Branch will perform various social functions and receive stable material supports through private donations and government matching grants. A voluntary income redistribution mechanism is instituted in the system. The competition for coercive power and/or social recognition among the Branches will generate desirable social services to the people. The whole society is wired up and a dynamic, self-organizing built-in social security system and supports for the poor are established under the system. The interaction of people from various backgrounds with the same mindset of universal interests will generate consensus and promote social harmony. They generate an environment that inspires invention and refinement of operation process in the social spheres.

The Social Branches can self-select, train and publicize benevolent, bright and able persons to be the potential socio-political leaders and they form the members of the Social Congress. At the same time, the state can be released from its role as the providers of the social services and concentrate on its vital functions. The efficiency of the social and political spheres will be substantially increased. Politics is no longer a power game as in the electoral democracy but a competition to contribute for the universal interests.

### **2.3 The Social Pillars: Public, Rational and Full-Bright Pillars**

A major function of the Social Congress is to regularly nominate and/or screen candidates to serve as members in the Public, Rational and Full-Bright Pillars. The nominee will be screened by all Pillars' Directors. The short-listed will then be circulated around the Members of the Pillars, Branches and general public to seek their approval votes. If the short-listed reach a certain standard of approval and no legitimate objections are received, then the candidates will become the members of the designated Pillar. Each Pillar chooses its own Board of Directors. Although all Directors of the Pillars will serve as the Supreme Board Members who discuss advice, propose and approve laws, the Pillars have some division of labor. The Public Pillar normally harbors the members with origins from the Social Branches. They can therefore understand the problems of the society, the actual operation and condition of the economy, the impact of the laws on the poor and the interests of the general public. Their connections down to the bottom of the market and social substrates will ensure that law will not be impractical and damage the productivity and harmony of the society.

The Rational Pillar is intended to harbor talented individuals who achieve outstanding academic recognition, civic-minded and have a general understanding on the mechanisms of the society and economy.<sup>11</sup> The Pillar can therefore provide theoretical supports, analyses and professional viewpoints in the legislative process. It can also serve as a pool and connections for various sources of highly specialized knowledge and technology.

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<sup>11</sup> The quality of the members in the Rational Pillar is guaranteed by the merit-based selection process in the academic arena.

The Full-Bright Pillar normally harbors seniors of exceptional prestige from all walks of life, particularly the seniors with exceptional social recognition in other Pillars, directors and leaders of Social Branches. The Pillar can serve as the arbitrator between the worldly wisdoms in the Public Pillar and the academic insights in the Rational Pillar. The high social recognition, extensive social connection and experiences of the members will make the Pillar to be the equalizer in cases of pervasive social disputes.

Again, only basic supportive or symbolic material rewards are entitled by the Members and Directors of the Social Pillars. Also, no special interests should be pursued in the Pillars. All decisions, challenges and discussions must be based on the universal interests.

The Boards of Directors from all Pillars form the Supreme Board for legislative function. The structure of Supreme Board provides an interface for public concerns, political and operational feasibility, wisdom and knowledge to generate rational legislative decisions for attaining the universal interests of society.

#### **2.4. The Operation Pillars: Executive and Judicial Pillars**

The Operation Pillars include the Executive and Judicial Pillars. They are operational in nature. Instead of relying on the self-organizing competition in the Social Branches and the nomination/approval procedure in the other Social Pillars to generate their leaders and directors, the Operation Pillars rely on the merit-based organizational structure to generate their Directors. One reason is that these Directors must have a full understanding on the logistics of the organizations and specific rules to be followed for accomplishing their operational duties. The civil administrators are recruited from the best graduates of the best universities. During their service, they accumulate substantial asset-specific investments and build-up a sense of belonging to their respective Pillar. If a strict merit-based recruitment procedure is successfully instituted, the Pillars can generate appropriate candidates for their own Directors internally. In the Operation Pillars, all members bear daily administrative responsibilities and will be paid market-based material rewards. In order to raise the contestability and reduce the potential

agency costs in the bureaucratic systems, the Leaders of the Operation Pillars can also be nominated from the other Pillar/Branch Leaders and Directors with a standard approval procedure when deemed appropriate.

The Directors of the Operation Pillars are top civil servants who are the experts and specialists. They have been handling practical problems in the government for many years, and they know the answers and have the reasons for their practices. Therefore, decisions in the Supreme Board can be made with reliable support and advice about the operation and practicability provided by the Operation Pillars.

In order to reinforce the merit-based criteria in each Pillar in recruiting members, each Pillar is obliged to nominate at least one candidate from its members to be selected as the Chief Executive when required. The pool of the candidates will go through the approval procedure of different levels: the level of the whole society, the level of Heads of Social Service Organizations and Associations, the Directors of Social Organizations, the Leaders of the Social Branches, the Members of the Pillars and finally the Directors and leaders of the Pillars. The approval rates of each level will be reported. A formula for weighting the approval rates of different levels can be devised and resulting in an index for appointing the Chief Executive. In democratic systems, children, aliens, the mentally ill, and criminals are almost always barred from voting, on the assumption that they are unable to make reasonable choices on collective matters or that they do not share sufficiently significant common interests with the other members of the community. However, as the public approval voting is not decisive in our system, we can allow and encourage as much participation as possible in the voting process for enhancing social harmony and sense of belonging to all people.

In order to evaluate the performance and selection method of the Chief Executive, and enhance the communication between the Pillars and social substrates, the same approval exercise will be done at the end of the term of every Chief Executive, in contemporary with the approval procedure of a new Chief Executive. The approval procedure by widespread and diverse 'stakeholders' can release the pressure of special interest groups on the Chief Executive and at

the same time, serve as a symbolic function that she should serve for the universal interest of the whole society.

For instilling rationality and providing support for quality decision-making, it will be ideal if each Pillar can have a university under its supervision. Consensus can be easily arrived if decisions are based on knowledge and rationality. Moreover, regular collective international conferences on public issues among the universities can be conducted as a standard mechanism for rational discussions and arriving at a consensus among the Pillars and Branches. The knowledge on public issues and the traditions of rationality will become stronger over time. This arrangement will further enhance the quality of public decision-making, in addition to the selected political leaders of super personal traits and skills, ability to command respect and knack of finding innovative solutions.

To summarize, in order to raise the chance of having political leaders of desirable characteristics in the system, we should have the following arrangements:

- a. raise the costs of egoistic politicians and therefore reduce the incentive of opportunistic political participants. No pursuit of special interests are allowed in the Social and Political Spheres.
- b. in the cases of Public and Full-Bright Pillars, their Members must have a strong track record of contributions to social services in the Branches and/or substantial contributions to the society in their respective arena.
- c. in the case of Rational Pillar, the Members should be known to have high personal integrity and to have gained substantial level of academic achievement and/or a self-made man of high social recognition.
- d. all members of the Full-Bright, Public and Rational Pillars receive zero or symbolic supportive material rewards only. However, they are empowered to control coercive forces that are vital for the proper functioning of the society.

### **3. The Supervision Boards and Uprooting Mechanisms**

In the society, all individuals have the right to set up Social Branches. However, only when the number of members is up to a certain level, a matching grant mechanism will be initiated. Reversely, the matching grant from the government will drop and vanish if the number of Branch Members drops below a certain critical level. The rise and decline of the Branches therefore depend on the support received from their donors and members that in turn depends on the types, quality and effectiveness of their social services provided. The keen competition will induce and force the leaders to be careful about reputation, being righteous and restraining power abuses. As a result, similar to the market system, the Social Branches can be left basically self-organizing. However, this self-regulating process is not available among the Pillars.

### **3.1 Organization Vicious Cycle**

Once an organization is set up, information asymmetry and monitoring costs imply that each insider has substantial residual power that can be used against the functions/targets of the organization. They can result in inertia, corruption and shirking inside organizations. Moreover, all organizations can be plagued by vicious cycles of occasional crooked members which will damage its functions.<sup>12</sup> Therefore, both public and private bureaucracies have internal tendencies to increase inefficiency in forms of excessive growth, diminished effort, excessive complication of procedures etc.. Market organizations evolve, die, grow, innovate and improve in the competition process while public organizations tend to be much longer-lasting and have much slower improvements. A major cause of the difference is the lack of competition in the public and social sectors. Our design successfully resolves the problem in the social sphere by instituting the Social Branches. Plagued social organizations will be weeded out by the market forces, either in form of bankruptcy, mutiny or restructure. In the case of the Pillars, there is no automatic competitive mechanism to guarantee the efficiency of the organizations. A systematic way is therefore required to prevent, detect and rectify the agency problems and vicious interests

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<sup>12</sup> Once a crooked administrator takes hold in an organization, the failures inside organizations and the self-interest of the crooked administrator will invite persons of her type into the organization for reinforcing her position. This will start a vicious cycle such that crooked people keep moving in while good persons leave the organization. Finally, the vicious interests dominate the organization and operate farther and farther away the interest of the principals.

developed in the Pillar organizations.

The potential damages of the agency problem to the society are particularly pervasive in organizations that control coercive power in a state. For the sake of convenience, we classify the political agency costs into several types: a. slack agency cost: resources are underutilized and socially productive investments are under-provided; b. abusive agency cost: under-maintenance and/or employing public resources for private benefits; c. corruption cost: using residual political power to trade public interests for private interests; d. exploitive agency cost: using coercive power to change institutions and/or weaken the principal and/or limit the flow of information in order to maintain their incumbent position.<sup>13</sup> Our problem is how to rectify these agency problems in the political sphere.

### **3.2. A Balanced and Open Society**

Certain fundamentals common to every modern society which include private property rights, freedom of opinion, expression, press, travel and organizations, independent legal and court system, nonpolitical police and armed forces etc. are to be retained and explicitly written down in the constitution. The free flow of information generates public pressure against any illegitimate use of coercive power and inefficiencies in the state. However, an individual will still find it difficult to defend oneself against collective coercive forces. The networks provided by the Social Branches allow each individual to be organized against possible illegitimate coercive forces, besides other protection provided in an open society. The Branches provide channels for the flow of information, knowledge, expectations and rationality between the top of the state to the bottom of the social substrates. The Branches and the public therefore generate constant informed challenges and pressure against the state. In addition to the merit-based system, strong contestable organizations can result in better accountability of the Social and Operation Pillars. Moreover, checks and supports are instituted among the five Pillars by the horizontal division of powers. The arrangements inherit the spirit of modern democracy: open society and division of

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<sup>13</sup> The agency costs generated from political organizations are well-documented in the history of imperial China. (for instance, Mo (1995, 2004)).

powers as the means of reducing the agency costs in political organizations.

### **3.3. The Supervision Bureaus and Uprooting Mechanism**

However, the inherent failures in the public sectors imply that some supervision and uprooting mechanism are required. They include the Efficiency and Corruption Supervision Bureaus. The Bureau Directors must be nominated by the Branch Leaders and/or Directors. The nominees have to pass through a standard screening and selection process based on their characteristics and track records. The selected candidate will seek approval from all Branch Members. The Bureau Directors are designated to direct the operation of the Efficiency and Corruption Bureaus for rectifying the potential agency problems in the Pillars. Moreover, in order to provide incentive to the Branches and individuals to look into the possible agency problems in the Pillars and/or other socio-political organizations, rewards to the Branches and/or individuals can be instituted if the Branches and/or individuals contribute in rectifying the potential agency problems.

Another important function of the Bureaus and Branches is to initiate and process an uprooting procedure to the Pillars. In the absence of competitions, organizational agency problems result in rigidity and throttle the productivity improvement that lies behind social and economic advancements. Moreover, once a convention or norm is established in an organization, other institutions and organizations evolve as complementariness. A strong complementary of networks inside organizations means that changes have to be in blocks and the coordination of related groups and conventions are required. Therefore, periodical uprooting of vicious vested interest groups and/or practices is required. The Social Congress and Bureaus can be empowered to initiate an uprooting procedure such that all members of the related Pillar have to be retired and start a new nomination and approval procedures for appointing new membership of a plagued Pillar. The possibility of the procedure extends constant pressure on all Pillars to perform effectively.

With these loops of checks and supports between the political organizations and the Social Branches plus the competitive environment in the Social and Market Spheres, our system is

closed. The Social Branches are supported and checked by the Market Sphere. Their survival is dictated by the public they serve. The coercive power and the political agency costs of the state are constrained by the self-disciplined dynamic Social and Market Spheres. The political leaders are selected and delegated with coercive powers by a pool of self-selected benevolent socio-political leaders with extensive public approval for governing the whole society.<sup>14</sup>

### **3.4. Constitutional Review**

The foundation governing the system is the constitution. It defines the objectives of the system, the source of political power and its allocation method. In particular, who has the rights to use the coercive power to make laws, the legislative function; to enforce laws, the executive function and to interpret laws, the judicial function and how the powers to be constrained. Not only because we are limited as well as creative, the constant evolving technology, social and economic environment implies that the constitution needs to be reviewed and adjusted according to new conditions for maintaining its effectiveness for achieving the universal interests . Regular review also provides opportunities to summarize the experiences, problems and perfect the system after it is implemented. It can also be a public education process for refreshing the spirit of the system and document its evolution process. Since altering constitutions can be exploited by incumbents in favor of their interests and the impacts are pervasive, any constitutional change or endeavor must be based on universal interests with pervasive studies, ample supportive reasoning and evidences, and receive high level of approval by all leaders, directors and the public.

## **4. The Merits and Outcomes of Rational Democracy**

### **4.1. Harmony between the Market and Social Spheres**

The market leaders in an economy, driven by their self-interest, have incentives to maintain

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<sup>14</sup> Please refer to Figures A1 and A2 for a comparison on the 'checks and supports' among the Spheres in the Rational and Electoral democratic polities. Table A2 provides a comparison on the Rational and Electoral democracy in different spheres.

social order and stability through the redistribution mechanism provided by the Social Branches. However, unlike redistributions provided by the government under political pressures, the redistributions are voluntary and will be productive in the sense that the productivity and stability of the society can be enhanced.

Compared with other polity like monarchy, the primary distribution is constant and the cleavages will build-up between the evolving secondary distribution over time. The widening cleavages finally generate substantial conflicts and quakes of irreversible changes. In an electoral democracy, the political sphere adjusts to the secondary distribution adversely in the vote-maximizing policies. The vicious cycle between damages to the market mechanism and the poorer majority gradually brings down originally vibrant economies. In our design, the conflicts between the primary and secondary distribution can be resolved due to the constant interaction, adjustments and voluntary flow of resources from the market to the social sphere.

Economic and social activities are the most important part of public lives which fulfill people's daily material and emotional needs. The strong, self-organizing market and social organizations will cater the needs of people with dynamic efficiency.

#### **4.2 The Self-Creating and Self-Organizing Social Sphere**

Modern governments involve heavily in the social sphere and create enormous inefficiencies. In our system, the Leaders and Directors of the Social Branches are responsible for the quality of social services provided by their Branches. They have intimate and persistent interaction among themselves and with their members directly and/or through the process of social services provision. It is these informed members who select their respective socio-political leaders. The system therefore embodies a social and political environment that recognizes and socially rewards able meritorious people. This encourages simulated altruistic behaviors, reduces social fragmentation and inefficiencies in the provision of social services.

The competition between the Branches by the introduction of mimic markets compels learning and adaptation of the social organizations in an uncertain and evolving environment. In

return, the learning and adaptation causes more social changes and therefore creating a virtuous cycle of advancements. In the process, varieties of individual, political and social experiences, knowledge and skills are accumulated. The survival of the fittest results in improvements in all spheres.

### **4.3 Quality of Leaders, Agency Cost and Public Policy**

The system provides ample outlets for socially oriented persons, but only persons with desirable characteristics will be selected to be the socio-political leaders. Persons are delegated with coercive power according to their merits of being able to serve for the benefits of the society. They are selected not by their popularity among uninformed public and informed special interest groups, but by a systematic self-selection, ‘market-selection’, nomination, inspection and screening by informed agents and finally approved by the general public. Allocation of coercive power is so dangerous such that informed selection of persons with desirable characteristics is very important.

In an ideal situation, the agency costs in the political system will be very small. The reason is that under the system, only social-oriented leaders will be self-selected. We can therefore achieve ‘what is good for political leaders will be good for the country’. There will be alignment of the social interest and the ‘preference actualization’ of the socio-political leaders. Moreover, the political power is constantly under the supervision of informed and powerful non-state organizations that demand the rulers to serve the public interest, being honest and not self-serving. Pork-barrel politics in the sense of trading public interests for private interests will be much less likely relative to the special interest politics.

One of the major functions of political leaders is engineering social and economic development which is a highly professional task. In our system, all political leaders are specialists in some area. Frontier visions and knowledge, by definition, are only acquired by minorities. Under the dictate of majority in an electoral democracy, only when such visions and knowledge become the consensus of the majority will they be incorporated in public policies. In

the case of rational democracy, the frontier knowledge and visions will be more likely to be adopted in public policies as the state is directed by meritorious elites. In the system, there will have positive dynamic interactions between the Pillars, Social Branches, market organizations and the public. New ideas, knowledge, and policies are developed, adopted, tested and modified.

The production of laws and regulations is also constantly under scrutiny by the powerful, informed and rational social and market organizations during peaceful political and market competition. The rights and security of each individual are protected by the Social Branches which in turn have to seek the support of their respective members. The chance of power abuses in social and public organizations will be substantially reduced.

#### **4.4 Resolving ‘Preference Aggregation’ in Collective Decisions**

The problem of aggregating preference in collective decisions can be resolved under the convention that public policy should target at pursuing universal interests. Consensus among people is generated through the ‘universal interest politics’ in the Social Branches and Pillars. The self-selection mechanism, social recognition, informed nomination and screening with public approval voting in the polity are likely to result in political leaders who are willing and able to serve the interests of the public. Leaders with public approval, trust and desirable characteristics will make collective decisions much easier to be reached and effectively implemented. The politics, society and economy are closely interweaved, balanced and mutually supported for the collective benefits of the society.

#### **4.5 Formation and Accumulation of Social Capital**

We harness the political competition process for the social benefits by setting up the Social Branch System. Under the Branches competitive selection process, both generic and simulated altruistic behaviors are encouraged and stimulated. In addition to the networking and social security functions of the Social Branches, they can substantially promote trust and reduce transaction costs among people. The withdrawal of government from direct production of social

services will make private networks, trust and honest more valuable to the commons than otherwise. This will encourage the formation of social capital and civic engagements motivated by their private interest. The widespread participatory opportunities in social and political activities result in a substantial pool of socio-political leaders with desirable characteristics. They can enhance rationality, knowledge accumulation, consensus, stability, flexibility, independency as well as cohesiveness in the society. The productive adjustments in the social substrates to the changes in the international and domestic environments will be enhanced.<sup>15</sup>

#### **4.6 Stability and Efficiency**

Political activities are struggles for coercive power that can be transformed into the power on resources allocation. During the struggles, resources are expended. In extreme cases, the struggles result in full scale wars with massive destructions and losses of life. Theoretically, welfare-maximizing requires the minimization of the negative effects of the struggles given the desirable outcomes. Our design can direct the struggles for coercive power into productive social activities and voluntary transfers that benefit the whole society while at the same time, be able to select socio-political leaders with desirable characteristics. The self-selection, nomination, screening and approval procedure for selecting political leaders reduce the costs generated by special interest activities in the electoral process. It also reduces the chance of electing crooked politicians and the associated huge social costs. The system also has a high degree of orderliness in its transfers of power from one leader or set of leaders and generates a more stable political and economic environment than the special interest politics.

The close communications and links between the top leaders down to the social substrates through the Social Branches, other non-state organizations and public media serve as bridges between citizens and the top leaders. They facilitate the communications about their reasoning, needs and concern in a coherent and productive way, enhance social trust on the top leaders and operation efficiency in public decisions and implementations. Without special interest politics,

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<sup>15</sup> It seems that there is substantial connection between social harmony and development with social capital. (Putnam, 2000).

the society will have smaller government size, better protection of private property rights, government revenues allocated for universal interest instead of special interests, and also a reduction in corruption and government budget deficits.

#### **4.7 Minimal Requirements for the Success of the System**

A vibrant market economy and strong non-state organizations are helpful for the effectiveness of the Rational Democracy. However, it requires no more basic social infrastructure than electoral democracy for it to function. The dynamic interaction under the system will enrich the social substrate and enhance advancements in all spheres over time. The political participation channel provided by the Social Branches encourages the formation of social networks, norms, and trust that enable people to act together more effectively to pursue socially desirable objectives. The system is flexible enough that it can promote universal interests and harmony of a state irrespective of differences in people's ethnic compositions, social problems, religious backgrounds and historical experience.

### **5. Conclusion**

Among the three spheres of human societies, it is the political sphere that has experienced the least progress over the past two thousand years. In terms of catering to the needs of the society, the participatory democracy of Athens and the constitutional authoritarianism of the Roman Republic were more effective in the allocation of coercive power than most modern governments. Modern states are, in many cases, unresponsive to their people, abusive of power, corrupt, wasteful, exploitative, and/or ineffective in promoting the universal interests of their society. The primary distribution of coercive power is the most important unsolved problem of modern societies. As suggested in Chua (2003), in many economies the conflicts between the primary and secondary institutions and organizations can be the chief reason for their downturn and chaos in the coming centuries.

An effective market system is essential for the development of an economy – a system

defines, respects and protects private property rights, allows free exchanges, mobility of resources and flow of information. This conclusion is not only supported by economic theories, the competition and comparison between the capitalist and communist economies in recent decades have generated substantial empirical evidences. Any desirable political system must not seriously damage the market mechanism.

Under the Rational Democracy, the market, social and political spheres check as well as supplement each other. The competitive Social Branches and Organizations reduce the problems caused by income disparities generated by market competitions and amend the possible social cleavages between religious and language groups. At the same time, the economic growth and development generated by market competitions provide resources, income and talent for supporting the political and social spheres. The system operates automatically, being directed by the 'preference actualization' of all parties involved. In the process, persons of desirable characteristic will be self-selected, publicized and nominated to be political leaders. The system is 'incentive-compatible' in the sense that the self-interest maximization of all agents operating under the system will automatically result in the accomplishment of the universal interests.

It is a broad-based democratic system. Everyone has the right and ample opportunities to participate in politics. Standard mechanisms and organizations provide a productive route of ascendance to political power. People can remove undesirable political leaders from their positions peacefully. In the system, social organizations and privately owned enterprises are the strongest non-state powers. These non-state organizations favor a constitutional order, because only through the rule of law is there security of property and freedom from the arbitrary power of the state. Private property rights, free markets and individual freedoms will be guaranteed by the vested interests of the strong non-state organizations. The pervasive market and social organizations allow people to have ample experience with self-government, and with the expectations of autonomy and freedom from the state intervention. They generate an environment favorable to knowledge, rationality and consensus formation. There is evidence and common perception that the simultaneous advancement of economic development,

socio-economic equality, and democracy in terms of broad-based political participation is impossible as they are not readily compatible in an electoral voting system. Our design not only allows the accomplishment of the three goals but the goals actually enhance each other and therefore the system will be stable and self-perpetuating.

To conclude, Rational Democracy is a polity that is governed by consensus and professionals. It can attain certain desirable characteristics, namely: 1. democratic participation 2. serving for universal interest 3. public sector efficiency 4. sustainability by incentive compatibility and virtuous cycles. It is a system that serves the people, rules by rationality, strives for efficiency and promotes harmony between the market and social spheres. A dynamic, consensus and efficiency seeking society with minimal political agency costs will drive the society toward harmony and rapid growth in the quality of life for all.

**Appendix:**

**Table A1  
Comparison of Competitive Market and the Social Branch System**

<b>Competitive Market</b>	<b>Social Branch System</b>
Competition for profit and SIM of producers minimize the cost of production and attain allocative efficiency in private goods	Competition for coercive power and SIM of social agents minimize the cost of production and attain allocative efficiency in social services
Efficient and innovative producers survive	Efficient, innovative and altruistic social service providers and leaders survive
SIM of consumers generate information on the value of private goods	SIM of social service users reveal their preference on social services; their choices and interactions reveal the quality of socio-political leaders
Enhance economic development; undesirable income distribution normally results; market leaders evolve	Enhance overall development and social harmony; reduce income and social disparities; pragmatic and altruistic socio-political leaders evolve

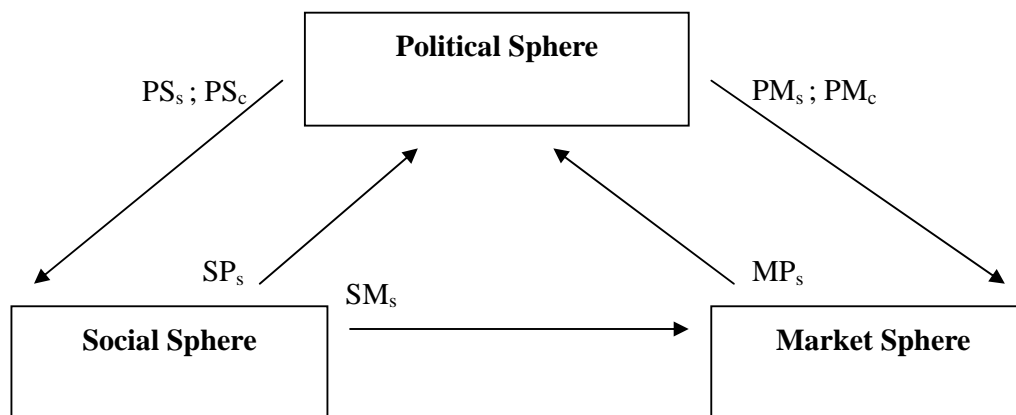
Note: SIM: Self-interest maximization

**Table A2: Comparison of Electoral and Rational Democracy**

<b>Characteristics &amp; Outcomes</b>	<b>Rational Democratic Policy</b>	<b>Electoral Democratic Polity</b>
<b>Political Sphere</b>		
Source of power	From the public; represented by Social Branches, Pillars and general public	From the public; represented by eligible majority
Leader selection mechanism	Continuous lengthy interaction; informed and merit base selection	Short-term periodic interactions; special-interest base selection
Quality of leaders	Social-oriented and quality proof; self-selected, lengthy screening process, informed nomination and selection	Unreliable quality; selected according to popularity and special interest politics
Autonomy of public policy	Free from special interest politics; directed by rationality and universal interests	Heavily influenced by special interest politics
Succession of political leaders	Orderly and merit-based; very low social disturbances	Varies; partisan-based; campaign and lobbying costs
Uprooting mechanism	Regular among all spheres; low adjustment cost	Regular in political and market spheres; adjustment cost varies

Checks and balances	Informed, strong, and organization based	Varies
Lobbying activities	Limited	Prevailing; trading public interests for special interests
Policy consistency & coherence	Directed by rationality and universal interests	Directed by popularity and partisan interests
<b>Social &amp; Market Spheres</b>		
Individual freedom	Strong	Strong
Market compatibility	Strong; mutual supports between market and social spheres	Weak; special interests expropriate production surplus through political activities
Extent of people self-governing	Strong; small and limited government	Relatively weak; large and pervasive government
Social harmony; preference aggregation	Governed through consensus formation; conflicts resolving	Governed through struggles of special interests; conflicts generating
Social organizations	Organized for social functions; dynamic, open and interactive	Organized for special interests; closed and isolated
Social capital	Pervasive autonomous social organizations; social capital accumulates over time	Pervasive government services; social capital disintegrates over time
Behavioral norms	Promote generic and simulated altruistic behavior in all spheres	Promote self-interest pursuing in all spheres
Quantity and quality of social leaders	Large, diverse and social-oriented	Limited and special-interest oriented
Stability & sustainability	Strong; virtuous cycle among spheres	Varies; vicious cycle among spheres
Coherence of public environment	Strong and stable	Highly affected by partisan interest; can be erratic
Growth promoting	Strong	Weak

**Figure A1:  
Checks and Supports among Spheres: Electoral Democracy**



Notes:

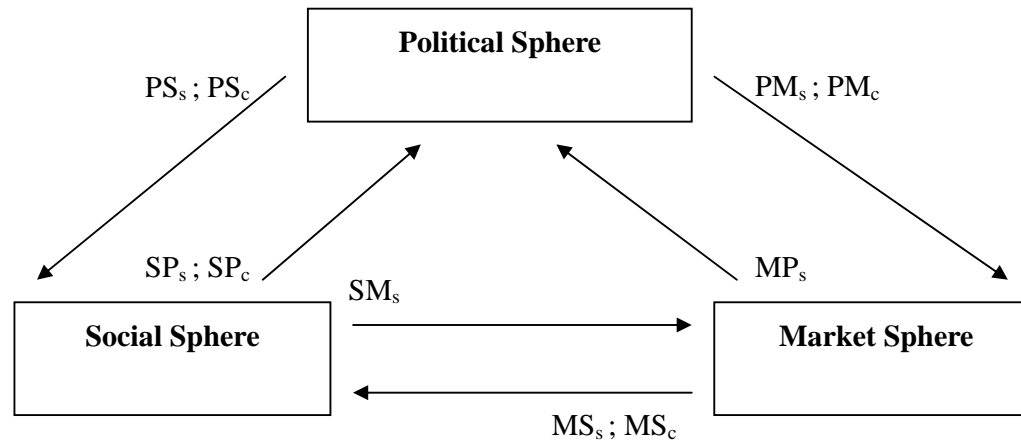
$PS_s, PM_s / PS_c, PM_c$  : Political Sphere supports/checks the Social and Market Spheres by formulating and enforcing institutions, providing public goods and infrastructures.

$SP_s, SM_s$  : Social Sphere supports the Political and Market Spheres by providing social services to maintain political and social harmony.

$MP_s$  : Market Sphere supports the Political Sphere by providing tax revenues.

Checks from the public: Electoral voting as an ex-post check to the Political Sphere from the general public.

**Figure A2:  
Checks and Supports among Spheres: Rational Democracy**



Notes:

$PS_s, PM_s / PS_c, PM_c$  : Political Sphere supports/checks the Social and Market Spheres by formulating and enforcing institutions, providing public goods and infrastructures.

$SP_s, SM_s$  : Social Sphere supports the Political and Market Spheres by providing effective social services, maintaining social stability, training a pool of altruistic socio-political leaders and nominating political leaders.

$SP_c$  : Social Sphere checks the Political Sphere through the uprooting mechanism, supervision bureaus, nominating and approval mechanisms.

$MS_s, MS_c$  : Market Sphere supports and checks the Social Sphere by direct participation, and/or providing/withholding financial supports.

$MP_s$  : Market Sphere supports the Political Sphere by providing tax revenues.

Checks from the public: Approval mechanism as a check to the Political Sphere from the public; the public also checks the behaviors of the Social and Market Spheres through ‘voting by feet’.

In general, Rational Democracy substantially extends the influences of the Market on the Social Sphere. At the same time, it also put the self-regulating Social Sphere as the capstone in the society. The influences of the self-regulating spheres of the society are substantially extended.

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