

# Understanding democracy

## Economic and political perspectives

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## Political participation, voting, and economic policy: Three problems of modern democracies

*Luigi Campiglio*

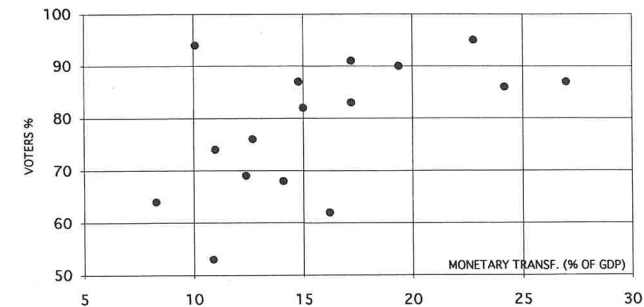
### 1 Introduction

Modern societies depend increasingly on participation to achieve economic efficiency, both in the marketplace and in parliament. For example, in many universities, students assign marks to their teachers to help them be more effective; and many firms, public and private, ask customers to fill in forms that rate customer's satisfaction with the service provided. In politics the main form of participation is represented by the act of voting: It is, however, a very incomplete form of participation, and the economic consequences of this limitation need to be acknowledged and better understood. This essay points to three major issues. The first is related to the lack of representation for a significant share of the population, namely children and young people. The second issue regards the economic consequences of the relationship between younger and older voters, as revealed by the multipeak surface of the joint age-income distribution. A simple way to analyze this issue is to refer to the median voter model, exploiting the implied statistical relationship between median and average income. The third issue points to the problem of low political participation as a possible cause of higher violent crime rates, higher law enforcement costs, and a lower quality of life. Possible solutions to the issues raised are simply hinted, because they need to be specific to each country: in particular, the potential benefits of new information technology need to be explored.

### 2 The incomplete universal suffrage: Are democracies against children?

In all modern democracies the minimum age requirement for casting a ballot is eighteen years: the share of population without the franchise, because they

I thank an anonymous referee for his comments, which helped to clarify the content and exposition of this paper.



**Figure 10.1.** Social security transfers and political turnout. (Source: OCED (1987); Piven and Cloward (1988)).

are less than eighteen years old, is therefore twenty-six percent in the United States, twenty-four percent in France, twenty-three percent in the United Kingdom, twenty-one percent in Italy, and nineteen percent in Germany. Voting turnout bears a significant relationship to the pattern of public expenditure: In a cross-section comparison, as shown in Figure 10.1 voting turnout is positively related to social security transfers (as a share of GNP), and the percentage of population over sixty-five years old is positively related to the share of collective consumption (Campiglio, 1990).

Elderly voters determine a clear shift in the composition of aggregate demand and public expenditure: By the same token, in a historical perspective, the development of the modern welfare state can be related to the gradual spread of universal suffrage. Franchise was extended to women only in 1928 in the United Kingdom and in 1945 in Italy and France: In most industrialized countries, universal suffrage was achieved between the two world wars, when the diffusion of social security systems also became more general. It is no accident that after World War II we observe a structural and permanent shift toward more equality in all modern democracies. These indications are further confirmed by Usui (1987), who has studied the adoption of social insurance policies in sixty-three countries in the period 1880–1976. The proportion of old people (defined as over sixty-five) is a significant variable in explaining the first adoption of social insurance policies in a country, and it is a very significant variable in explaining the adoption of an unemployment program. It may seem strange that the proportion of old people does not explain the old-age program, but Usui's results show that this program is mainly determined by the fact that some other programs have already been adopted: Old-age programs seem to be the net result of an "epidemic" diffusion model in which a major factor is the program adopted in the first place. This evidence is further sustained by Wilensky (1976), who claims that in the United States the increase of the elderly as a fraction of the population is the most powerful source for the

increase in welfare spending. There is therefore a consistent literature pointing to the crucial role of the (voting) elderly in growing public expenditure, which symmetrically contrasts with the lack of any evidence with reference to the role of (nonvoting) children and youths. However, the fact that one out of four or five citizens has no political voice and electoral weight weakens, by definition, the social force and moral acceptance of universal suffrage. The minimum age requirement has a historical, social, and psychological base: it can nevertheless seriously distort the amount and direction of resource redistribution. In this perspective it is useful to scrutinize a finer distinction of age brackets: in the United States twenty-two percent of the population is less than fifteen years old, fifteen percent is less than ten years old, and eight percent is less than five years old. Children and youth raise fundamental questions of social choice and justice, in both utilitarian and contractualist traditions. Rawls (1971, p. 128) sidesteps the problem when, for the purpose of defining the parties who decide under a veil of ignorance, he asserts that "we may think of the parties as heads of families, and therefore as having a desire to further the welfare of their nearest descendant" with no reference to the possibility that children as parties could also choose under uncertainty. This seems an unfortunate shortcoming because it is among the children that the least advantaged and most unfortunate individuals are more likely to be found: the high infant mortality rates, both in the developed and less-developed countries, are indeed a startling proof. The structural bias against children is implicitly a bias of modern democracies against the family: this is confirmed by the slight but steady decrease of social protection benefits for family and maternity in the major European countries during the 1980s.

The utilitarian tradition is based on the assumption that similar persons share a common and complete pool of information: the exclusion, by assumption, of antisocial preferences allows meaningful interpersonal comparisons to be made. Incomplete information makes the utilitarian calculus more vague, because of the serious problems involved in the choice between *ex ante* and *ex post* utility (Hammond, 1982). Any discussion of the interests of children in terms of utility reveals the existence of a fundamental flaw in modern welfarism because the recognition that education is indispensable to children implies – so to say, by definition – that their lack of information is structural. Moreover, adults are not simply bigger children, which means that a common utility function cannot satisfactorily accommodate the physical characteristics both of the children and of the adults. This does not imply that equivalence scales are not useful but it points to a limit on their social meaning.

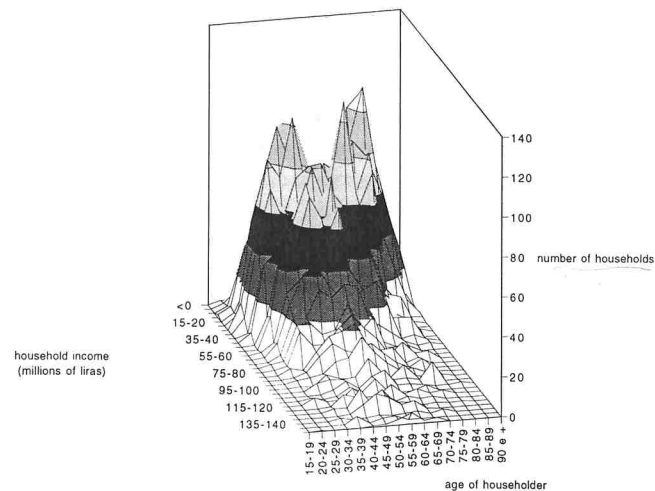
An explicit ethical choice, allowing for interpersonal comparison of utility, would assign in the aggregate function weights declining with age to individual utilities (putting upper and lower bounds on the young and the elderly). The existing principle of "one man, one vote" would be replaced with that of one

life, one vote. The ethical judgment of equal (or higher) weights for the young implies an imaginative change aimed at giving them a political "voice" within the framework of existing political rules governing democratic societies. At a political level, the children–parents relationship could be seen as an agency relationship, with the children as the principal and the parents as the agents: in this perspective the father and/or the mother could act as representative of their children and vote in their place. Accepting this idea, however, would imply the typical problems of an agency relationship: it cannot be taken for granted that parents will act in the best interest of their children. A more elaborate proposal would consider the younger nonvoters by age groups. Franchise could become an increasing function of age: in the case of small children, the parents, as agents, could exercise their voting rights; whereas teenagers could directly elect their representative, both at local and national levels. Some rules would be useful. For example, representatives should not be older than a given age (e.g., thirty years) and their political agenda should be restricted to the problems of the young. However unusual this proposal may seem, it should be evaluated on its potential benefits, particularly in terms of a better generational allocation of resources or the opportunity for an improvement in civic and political participation.

It is a common complaint that we do not care enough for the future generations when a distant horizon is involved in the decisions. Common examples are the issues of public debt or the environment. To give a political voice to the unborn of the next generation, however, is puzzling because they will have life only if parents decide to have children. Parents may decide not to have children because they are myopic or selfish, but simply, also, because they are uncertain about the future. The existing generation could "optimally" deplete the environment without harming the next generation by deciding to have fewer children and a declining population. Alternatively, the existing generation could optimally accumulate public debt by deciding to have more children and an increasing population. Whereas the debate about the representation of the unborn is inherently controversial, the possibility of giving political voice to the newborn should be undisputed: they do not yet have the right to vote, but they will be the first *existing* generation to suffer the mistakes of their parents.

### 3 Are young voters altruistic toward older voters or just outvoted?

We have computed the joint distribution of households according to income and age in Italy, and the results put the problem of intergenerational redistribution related to social security and pensions into a new perspective (see Figure 10.2). The results are revealing: The surface of the distribution exhibits many peaks, which can be grouped around two main age groups, the first corresponding to the householder's age group 35–44 with a household income of 20–30 million lira (1993), and the second corresponding to the householder's age group 65–75



**Figure 10.2.** Household by income and householder age in Italy. (Source: Computation based on Bank of Italy Survey of Households Income and Wealth.)

and with a household income of 10–20 million lira. The age distance between the two main peaks, thirty years, is only four years more than the median age at first marriage and therefore the distance between young and old can also be interpreted as the distance between parents and their children.

The different levels of income and age are an implicit measure of the process of income redistribution, particularly for pensions. Should the young outnumber the old, then parliaments could democratically repudiate the debt implicit in the pensions: There are many ways to repudiate old promises made by parliaments about pensions. It is possible to raise the retirement age or to reduce the ratio of the pension paid with respect to the previous salary: both these methods are part of the pension reform schemes in Italy as well in many other countries. Of course, the process could work in the opposite direction if the old were in the majority. This remark points to a crucial point about the current debate about pension reforms: It is possible to conceive different contractual arrangements, for example, private versus public, in spite of the fact that the economic content of the contract is always the same, namely, the continuous transfer of resources from the young to the old. At each point in time the working young have to transfer resources to the retired old: As the population becomes older the income redistribution from the young to the old will increasingly be the result of the young being outnumbered and this fact calls for a social contract to avoid a generational conflict. With public pensions the state redistributes to the old the taxes currently levied on the young, whereas with private pension schemes the companies redistribute the income deriving from their current

investments. The binding force of a private contract is stronger than a promise from parliament: However, a private firm can go bankrupt whereas the state cannot. The main economic power characterizing the state is the power to tax: An overlooked and related power is that of repudiating a previous promise to pay or pay back, and, unfortunately, economic history provides plenty of examples of public repudiation. The instrument of public repudiation is sensitive and delicate because unless it is supported by a quasi-unanimity, it can destroy the moral asset value of the state, namely, the certainty of its promises, of which money is the most obvious example. The point we want to underline is that income redistribution from the young to the old rests inherently on a social contract between parents and children: In fact, a society could decide to transfer the resources directly within the family, as happens in Asian countries where, actually, the burden of the welfare state is also lighter.

This argument also allows us to address the question of the median voter model and a related paradox. The model of the median voter can be considered a crucial link between economics and political science: its importance is stressed in standard textbooks, like Stiglitz's (1988), where it is aptly pointed out that "*if all individuals vote*, the median voter is the individual who has the median income" (our italics). The model of the median voter represents an invaluable shortcut in deriving testable implications of social choice in majority voting: It implies well-known restrictions on preferences that, however, cannot easily be disposed of in empirical testing. The implicit assumption that all individuals do in fact vote is, however, crucial both for the median voter model and, more generally, for social choice theory. Income distribution is usually well approximated by a lognormal distribution, for which mode < median < average: If voters' preferences are single peaked, then the median voter can ask for an income redistribution implemented through an appropriate tax policy under majority rule. The paradox is the following: Why doesn't the majority pursue its self-interest, increasing its income by the percentage implied by the average/median ratio? The previous argument can solve this paradox, which is grounded on an old political debate. As a starting point, we consider the insights of Tocqueville (1835, p. 210), who thought that "public expenses must tend to increase when people rule" because "a democratic government is the only one in which those who vote for a tax can escape the obligation to pay for it." In Tocqueville's view the amount of public expenditures, and therefore the size of government, is inversely related to the degree of inequality: The greater the inequality, the more likely a majority of the poor, who, given universal suffrage, will impose a substantial redistribution. Down's (1957) view, which is that "in a democracy the poor are able to use their votes to obtain transfers from the rest of the society" (pp. 198–201) simply restates Tocqueville's view in different words. A seemingly different and well-known hypothesis about income redistribution in a democracy is the so-called Director's Law, according to which income tends



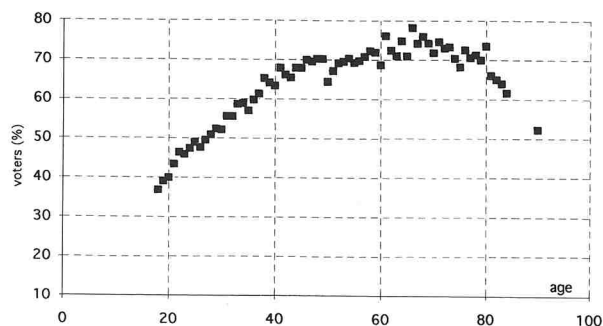


Figure 10.3. Political turnout by age - 1992. (Source: U.S. Bureau of Census, Current population report, *Voting and Registration in the Election of November 1992*.)

to be transferred from both high-income and low-income voters to voters who are in the center of the income distribution. Indeed, Tocqueville considered the rule of the middle classes as the most economical for a democracy because “they will not raise extravagant taxes, for there is nothing as disastrous as a heavy levy on a small fortune” (p. 209) and therefore praised their economic role in a modern democracy.

Meltzer and Richard (1981) take up the problem of the size of the government and, following Tocqueville’s tradition, make the hypothesis that it depends on the spread of the franchise and the distribution of wealth: Formally, they make the size of the government dependent on the relation of mean income to the income of the decisive voter. The crucial amendment to this explanation is the distinction between voters and nonvoters: In fact, the model of Meltzer and Richard holds only for the subset of voters. In the United States the percentage of voters is positively related to age and income: Therefore nonvoters tend to be concentrated among younger persons and lower income families (see Figure 10.3).

Because the proportion of nonvoters is greater at lower income levels, the shape of the lognormal distribution is modified and shifted toward the normal distribution: As a consequence, the ratio of mean income to the income of median voter decreases, and according to Meltzer and Richard’s model so does the tax rate and the size of the government. This is exactly what is borne out by the data: The United States and Japan have a lower turnout and a correspondingly lower share of public expenditure and taxation, whereas Europe has, on average, higher turnout and higher share of public expenditures.

Our framework addresses the issue at two different levels. First, a median income lower than the average can be the result of an implicit social contract; second, each young person can simply prefer a steadily rising income to a falling one and when he is young vote so as to be richer when old. The second argument contradicts the life-cycle hypothesis, but it is strongly supported by

the data, if we consider for each age group the average income per recipient and by component. The household income has a peak in the age bracket 50–54, whereas the corresponding income per recipient peaks earlier in the age bracket 45–49: However, the average family size starts to decrease around the age of 50 and the per-component income in the household increases steadily with age, reaching a maximum in the 70–74 age bracket. In terms of welfare it is the income per component in the household that is relevant, rather than the income per recipient: Given a positive relationship between income per component and age, the median vote claiming a redistribution would indeed vote against himself in a matter of few years.

The lognormal distribution of household income therefore reflects collective rational behavior, both for individuals and generational groups: We suggest that the choice of whether to vote or not also reflects rational, or “meaningful,” behavior. The so-called voting paradox asserts that the cost of voting is higher than the expected individual benefit and therefore the act of voting has no rational economic basis: It is, however, possible that this argument rests on misleading assumptions and estimates about the cost and benefits of voting. After all, a simple linear regression of turnout on age gives a positive relationship with a strongly significant coefficient: it is no accident that the elderly have the highest turnout and are also the biggest recipients of public expenditure. Existing evidence (Filer and Kenny, 1980) shows that voter turnout increases as the probability of affecting the outcome rises and decreases as the cost of vote rises; reducing the cost of voting by allowing postal vote seems to many an effective way of increasing global turnout. This indeed seems to be the case considering the case of Germany, where it is possible to analyze the role of postal votes over a long sequence of elections since World War II. In Germany, political turnout has traditionally stood at very high levels, ranging from eighty-five to ninety percent until the end of the 1970s. In the 1980s, turnout levels recorded a sharp decline, falling to seventy-eight percent in 1990. The postal vote had been increasing, reaching a peak in 1980, whereas during the 1980s, the postal vote declined simultaneously with the decline in aggregate turnout: In other words, postal vote has not balanced the decline of political participation. Moreover, there is no stable relation, in the elections for the Länder, between postal vote and turnout. It is true, however, that the postal vote, about ten percent of the total, represents a significant proportion of the total vote: The same proportion of postal vote in the United States would crucially modify and improve the political mechanism and as such it should strongly be commended. In the U.S. presidential elections of 1992 the turnout increased, with a major contribution coming from the youngest and the unemployed. The increase in turnout has also been a clear signal for economic policy. We suggest that the problem of persistent European unemployment is further worsened by the lack of a reliable political signal from the voters: The political business cycle can be a source of

inefficiency, but it is also the origin of a precious signal for the formulation of economic policy (Campiglio, 1994).

#### 4 Are political participation and peace helpful to welfare and growth?

Economic growth springs from a virtuous coordination led by the "invisible hand": the economy behaves like a self-organizing system, where free individuals keep the system alive simply by pursuing their private interests. In principle, the system coordination could be achieved straightforwardly, simply by commanding the individual to behave in a prescribed manner. After all, this is the way hierarchic organizations, like firms or armies, works. Even in hierarchic organizations, however, commands would be ineffective without the glue of common participation, as Japanese firms exemplify very well: It is no accident that the high growth rates in Japan have been coupled with a low degree of income inequality; higher inequality would have undermined the basis of common participation. Recent literature has contended that, contrary to the conventional view, income inequality and growth are negatively, and not positively, related (Persson and Tabellini, 1994; Alesina and Rodrik, 1992). The theoretical interpretation underlying these new empirical results relies on a model of median voter, without any accommodation for the model's shortcomings, particularly the importance of nonvoters and the possibility of multiple peaks, both empirically documented above. Moreover, it has to be remembered that the median voter model is meaningful only in the context of democracies, because otherwise there is simply no voter of any kind: Persson and Tabellini produce clear empirical evidence of how the positive relation between equality and growth holds only for democratic countries.

We want therefore to suggest a line of interpretation that can fill this theoretical gap and examine more closely the links between economics and politics. We ask whether political participation and peace are helpful in promoting welfare and growth, keeping in mind that peace and political participation are in any case compatible with social conflict over economic resources, but are not compatible with violent behavior. The expected economic consequences of an environment of permanent violence can be summarized as follows: (a) disruption of existing property rights, with an inside shift of the private supply curves; (b) creation of man-made endogenous uncertainty, which can be eliminated only by surrendering to the violence, as in the case of wars and organized crime; (c) waste of private and public expenditure devoted to the purchase of arms and military equipment; and (d) greater economic hardship for the worst off and, as a consequence, greater global inequality. The economic consequences of the violence can be clearly seen in its extreme form in the case of wars between nations or military buildup in less developed countries: If

we rank countries in descending order according to the ratio between military spending and GNP, we can observe that countries whose ratio is high form a group that has recorded a steady decrease of percapita GNP over the period 1980–1992. The group selected, which includes the former Soviet Union and some OPEC countries unwilling to reduce arms expenditure in spite of declining oil prices, accounts for about 740 million people and, by western standards, can be classified as nondemocratic countries. In a sample of thirty-seven less developed countries in the early 1980s, no significant direct effect of military expenditure on growth was detected. Military expenditure instead had a clear negative impact on public deficit, trade balance, and private savings (Campiglio, 1982). The internal economic hardship would have been difficult to bear without the force of authoritarian regimes, which hindered the process of economic growth.

Democracies can instead foster economic growth by securing well-defined property rights (Olson, 1993), reducing social endogenous uncertainty, preventing wars unless they correspond to the will of the people, and providing economic protection for the worst off. Unfortunately, democracy, or at least its western version, is not an easy answer because in some countries it is too far away from cultural traditions. Democracy is indeed a complex concept not easy to define. Equality is the common thread that runs through the different conceptions of democracy, even if the notion of equality referred to remains undefined. In the same way, disentangling the relationship between democracy and the economy is complex: Tocqueville (1835), for example, thought that "equality makes not only work itself, but work specifically to gain money, honorable" (p. 551) and that democracy is naturally inclined toward peace, because in democracy "men are the natural enemies of violent commotion" . . . "Not only do men in democracies feel no natural inclination for revolutions, but they are afraid of them," (p. 636) because "any revolution is more or less a threat to property. Most inhabitants of a democracy have property. And not only have they got property, but they live in the conditions in which men attach most value to property" (p. 636). Most contemporary scholars would still agree with these ideas that imply than an accomplished political and economic democracy is also a peaceful democracy. Violence internal to the country can hinder both democracy and the economy. The subtle link between violence in the street and political participation in parliament is explored by Elias Canetti (1981). Canetti proposes profound insights into the meaning and "essence" of the parliamentary system: He notes that "the modern bipartite system makes use of the psychological structure of armies in battle. . . . They fight renouncing to kill" (p. 224). About the voting mechanism, he notes that "there is something sacred when the elector casts his ballot; as the sealed ballot boxes containing the ballots are sacred; so is the counting process sacred. The solemnity associated with all these operations derives from the renunciation of death as an



instrument of decision. With each single ballot death is, so to speak, swept away" (p. 226).

These insights can be coupled with Tocqueville's views about democracy. He praises the virtues of decentralization and local autonomy, because they provide a necessary link that balances the excessive centralization of the State: Turnout by itself is therefore a partial measure of participation, which is also carried on through many other channels, such as the diffusion of associations. At the same time, Tocqueville raises the problem of atomization and individualism in a democratic society, anticipating many contemporary problems like the risks of envy and hatred of wealthier people. Since Tocqueville, America's social fabric has undergone a profound transformation and some of the civic virtues that made him enthusiastic have weakened. Political turnout in the United States was highest in Tocqueville's day and it was only at the beginning of the twentieth century that it declined to lower contemporary levels. However imperfect, voter turnout is therefore one of the measures of democracy, especially when the turnout is low and grass roots democracy is weakened. A low electoral participation also means, as suggested by Canetti, that parliament can work less efficiently as a clearinghouse for the conflicts and violence of society: When that happens, violence moves back to the streets.

We can summarize our argument by noting that it boils down to the statement that democracy not only has benefits but also has costs: its virtues come with a cost, and pointing to the former while overlooking the latter can lead to serious mistakes. In a broad sense the cost of democracy is the cost of a modern and efficient welfare state: At a low level of participation, the cost of democracy is low while disutility to individuals in terms of violence and social disorder is high. As we move toward an increased political participation, the cost of democracy increases but with the benefit of a lower disutility to individuals caused by social disorder. This interpretation seems to be confirmed at various levels. In the United States, we observe a positive relationship between the percentage of the nonvoting electorate and the frequency of violent crimes across the fifty states (see Figure 10.4). It is significant to note that a similar pattern arises in Italy.

Violent crime rates are positively related with silent violence against children, measured by the infant mortality rate. Both forms of violence are closely related to the crisis of the family: the percentage of one-parent families is strongly related to both violent crimes and infant mortality as well as to low political participation. An improved democracy in the United States should therefore allow for stronger economic support to families and children because in so doing it would also pave the way for a more just and efficient society. The increase of expenditure would be repaid, at least partially, by more growth, and in any case it would give a better quality of life.

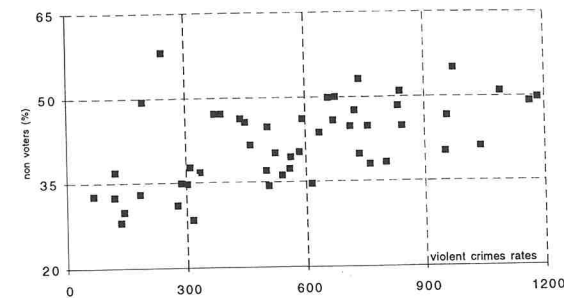


Figure 10.4. Nonvoters and violent crime rates in the fifty states of the United States. (Source: Bureau of the Census *Statistical Abstract of the U.S. 1993*, pp. xii-xxii.)

## 5 Conclusion

We summarize the solutions offered to the three issues raised in this paper. The first issue related to the lack of political representation for children and young people: in fact the old get a proportionally higher share of resources because their needs are politically represented. The lack of political representation of the young distorts resource allocation to their disadvantage in addition to being, of course, contrary to the very nature of democracy. Amendment of this distortion is required and urgent because there are good reasons to suspect that children and young people can be seriously deprived during the crucial years of their physical and intellectual formation.

The second issue points to the explicit recognition of the ongoing and continuous redistribution of resources from the young to the old, which underlies any conceivable institutional arrangement for pensions and social security. A median income lower than the average seems to be sustained by an implicit social contract and the rational preference of becoming richer when old. The act of voting is strongly and positively related to age and income: A lower turnout by the young and the lower income groups implies a lower tax rate and a smaller government size.

The third issue is whether political participation is beneficial to growth: The answer is that it is, on certain conditions. Recent literature has maintained and empirically tested the existence of a positive relationship between income equality and growth: Its theoretical underpinning is the standard median voter model. We complement this interpretation with a further consideration. Equality is beneficial to growth because it reduces distributional conflicts and brings peace to economic activity. Peace, in turn, is the outcome of a more accomplished democratic society and higher political participation. Democracy has benefits that can be reaped only if its costs are accepted, for example, in the form of an efficient welfare state. Cross-section evidence for the United States supports this point. A low turnout produces savings that may, however, be more

than offset by the costs and disutility involved in the existence of a more violent society. The positive relationship between equality and growth can be explained as the positive result induced by more peace and political participation.

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## Democratic expectations

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