How much benevolence is benevolent enough?

PETER T. LEESON

Department of Economics, George Mason University, MSN 3G4, Fairfax, VA 22030, USA;
E-mail: pleeson@gmu.edu

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

1. Introduction

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

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

2. The Policymaker's Dilemma

For the sake of simplicity assume that there are only two political agents – R and D – who comprise government in our hypothetical democracy. Further,

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

Figure 1. The Policymaker's Dilemma.

assume that both agents have equal control over the creation of policy. Each agent is capable of either making 'good' policy or catering to special interests. Figure 1 depicts the game played by R and D, which I call the 'policymaker's dilemma.'

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

However, this revenue is less than each agent could receive by catering to special interest groups when the other agent does not, b. When only one agent caters to special interest groups all the gains from catering go to him while the other receives zero. Here, because policy is tailored to special interests rather than maximizing social wealth, the public receives a lower payoff, $Y + \varepsilon$. When both agents cater to special interests each receives gains from catering but the total gains are divided and each agent receives a payoff of only $(b/2)$. In this case since there is 'more' catering to special interests the public receives an even lower payoff yet, Y.

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

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

3. Partial Benevolence is not Benevolent Enough

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

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

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

Recall that social welfare is the same regardless of which political agent caters to special interests so long as the other agent does not. Between the two ways of achieving the socially second-best outcome then, a partially benevolent agent requires that he be the agent who caters to special interests. Although he prefers the socially second-best outcome to the socially worst outcome when he is the one allowed to cater to special interests, he prefers the situation in which both agents cater to special interests and the public's payoff is lowest to the situation in which the other agent is allowed to cater to special interests but he is not.[2] We thus define a partially benevolent political agent as one whose preference ordering is: 1. *a* 2. *b* 3. (*b*/2) 4. 0.

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

outcome, but only when he is the beneficiary of this move as opposed to on the losing side of it.

As this preference ordering indicates, when both political agents are partially benevolent, the game becomes a stag hunt game[3] in which both agents want to make good policy only if the other agent does so as well. This game has two pure strategy Nash equilibria: the 'make good policy-make good policy' equilibrium in which the public fares the best, and the 'cater to special interests-cater to special interests' equilibrium in which the public fares the worst. Which equilibrium will prevail depends upon the probability each agent places on how the other agent will behave. Where ρ is the probability each agent places on the other agent making good policy, the 'cater to special interest' equilibrium in which society fares the worst results so long as $\rho < \frac{b/2}{a-b/2}$.

In other words, the public welfare depends upon how much faith political agents have that their fellow policymakers will pursue the public welfare. If politicians sufficiently trust one another to behave benevolently, the 'make good policy' equilibrium prevails. There may be good reason, however, to think that political agents are rather uncertain about the likelihood of other political agents making good policy. In the first place, there does not seem to be any evidence to suggest that politicians generally trust one another when it comes to behavior in the political arena. This seems to be especially true of political agents from different sides of the aisle.

More importantly though, even if play is repeated, the absence of an effective enforcement mechanism for dealing with those who do not pursue the public interest presents political agents with strong reason to expect that other agents will renege on agreements to jointly pursue the making of good policy. Here I am referring mainly to the prevalence of voters' rational ignorance, which suggests that cooperative political agents cannot use the voting public to punish defectors.[4] For this reason alone, rational political agents are unlikely to trust one another's alleged commitment to pursue the social welfare-maximizing strategy. In this case the 'cater to special interest' equilibrium results despite their mutual benevolence.

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

Two 'nested games' that influence politicians' beliefs about the likelihood of each other defecting may also operate within the context of this broader game they face. The first concerns logrolling and the potential for incumbent

policymakers to devise cooperative arrangements in which they take turns catering to special interests. Although a rationally ignorant public prevents political agents from enforcing cooperative agreements in which they mutually make good policy, logrolling gives politicians a potential way of enforcing agreements in which they alternate catering to special interests and therefore secure the second-best social outcome.

A cooperative arrangement along these lines requires politicians to play the policymaker's dilemma repeatedly with an unknown end to play. If this can be achieved and monitoring is not too expensive, political agents can punish defection (catering to special interests out of turn) by refusing to logroll (take turns catering to special interests) ever again, and instead catering to special interests themselves in every round from there forward. As the folk theorem suggests, such a punishment regime can sustain cooperation provided agents are sufficiently patient. However, for this to work, punishment must lead to a lower total payoff for the defector than he would receive by cooperating. Unfortunately for political agents in the context of the policymaker's dilemma, the punishment regime that cooperative agents can impose on uncooperative ones who break their logrolling agreement does not satisfy this requirement.

Recall that a partially benevolent political agent prefers the second-best social outcome (in which only one agent caters to special interests) to the socially worst outcome (in which both do), but only when he does not lose as a result of this move. This means that he will only be willing to enter a logrolling agreement with the other agent if he does not stand to lose by doing so. However, if a partially benevolent political agent enters such an agreement and the other agent is strictly self-interested, he earns less than he could have by not doing so.

Suppose that R and D have arrived at an agreement to logroll whereby in each round of play one agent will cater to special interests and the other will make good policy, and agents alternate which of these strategies they pursue in each round. For example, in round one R caters to special interests and D makes good policy; in round two R makes good policy and D caters to special interests, and so on. If R is strictly self-interested, he will cater to special interests in round two out of turn. This leads both agents to earn ($b/2$) in the second round, making D's total payoff through the round ($b/2$), which is lower than it would have been had been, b, had he not entered the agreement.

A partially benevolent political agent is therefore unwilling to enter a logrolling agreement if he is unsure about the other agent's benevolence unless he can arrange the agreement in such a way that it is self-enforcing, even if the other agent turns out to be strictly self-interested. This requires the punishment for defecting on the agreement to be significant enough to cause a strictly self-interested politician's total payoff from cooperation to exceed his total payoff from defection. However, even the harshest punishment option available to

political agents in the context of the policymaker's dilemma does not satisfy this requirement.

To see why, consider the following: To make cooperation feasible, suppose the game depicted in Figure 1 is repeated n times where n is not known by R or D. Imagine R and D have arrived at the logrolling agreement from above. Defection is defined as catering to special interests out of turn and agents punish defection via a 'grim trigger' strategy whereby the cheated party caters to special interests in all rounds of future play beginning in the round after he has been cheated. For simplicity in tabulating payoffs let agents' common discount factor, δ, be equal to one.

The payoff of cooperation is the sum of the stream of payoffs from alternating between 'make good policy' and 'cater to special interests.' Since under their arrangement each political agent makes good policy half the time while the other agent caters to special interests, and caters to special interests the other half of the time while the other agent makes good policy, the total individual payoff of cooperation is: $(n/2)b + (n/2)0 = (bn/2)$.

The payoff of defection is the one-period gain from cheating plus the payoff from being punished for the remaining rounds of play. The one-period payoff from cheating is $(b/2)$ – what the cheater gets from catering to special interests in a round in which he was supposed to make good policy and allow the other agent to cater to special interests, but because of his defection both agents cater to special interests. Since punishment involves the punisher always playing cater to special interests in future rounds, the defector earns the same as his initial payoff from defecting, $(b/2)$, for the remaining rounds as well. The total individual payoff of defection where defection occurs in the first round is therefore: $n(b/2)$.

The payoff from adhering to the logrolling agreement, $(bn/2)$, is thus identical to the payoff from breaking the agreement, also $(bn/2)$. Punishment in the policymaker's dilemma is therefore ineffective, preventing political agents who are uncertain about each other's benevolence from logrolling their way out of the socially worst outcome. Note that this result is only strengthened if we allow there to be some (positive) cost associated with creating and monitoring the logrolling agreement. In this case the total individual payoff of pursuing the agreement will actually be less than the total individual payoff of going without it and both agents simply catering to special interests.

The second 'nested game' to consider involves individuals seeking to obtain office. Nonincumbents aspiring to political power have an incentive to detect and advertise the special interest catering activities of incumbents to voters who can then use this information to punish politicians who do not serve their interests. In principle then, the rational ignorance problem that plagues the voting public could be at least partly overcome through the activities of political aspirants who find it in their interest to make the relevant information cheaply accessible to the public.

However, voters' ignorance of politicians' behavior is not exclusively a function of their negligible incentive to obtain such information, which the presence of political aspirants helps to overcome. It is also a function of the cost of obtaining the relevant information, which may be prohibitive even for political aspirants who have a much higher benefit of obtaining this information, and in many other cases may be practically impossible to obtain at all. The primary issues that create this problem for nonincumbents who do not aspire to political office equally plague those who do. This fact seriously inhibits the potentially positive role that the presence of political aspirants could play in preventing the socially worst outcome from emerging.

The reason for this is straightforward. Since they lie outside the political arena, aspiring political agents are generally in no better position than voters who do not aspire to political office to reliably detect the special interest catering activities of incumbents. In light of the disparate impact of various policies among differing segments of the population and the shroud of public spiritedness that all political activities are presented in, it is extremely difficult, even for incumbents, to say for sure whether the particular behavior of another political agent is socially beneficial or constitutes catering to special interests. Given their distance from political decision-making, this is likely to be all the more true for nonincumbents.

Even where detailed, accurate, factual information about political agents' activities is readily available to voters and voters are interested in informing their voting decisions on the basis of this information, they are likely to perceive even the same activities differently. In short, for most political behavior, even if the 'facts' of the behavior are objectively known, there is unlikely to be consensus among voters about how to interpret these facts, i.e., whether a particular activity constitutes making good policy or catering to special interests. This is of course as true for nonincumbents interested in obtaining office as it is for those without such an interest. Thus, although the former may have a greater incentive to detect and reveal the special interest catering activities of incumbent political agents, they may in many instances be in no better position to overcome the considerable difficulties involved in actually doing so.[5]

While this analysis applies generally to any democratic system under the assumptions specified, the problem may be even more acute in many reforming nations where media is highly dependent upon the state. Here there exists no credible medium through which information about the activities of political agents can even be conveyed to voters.[6] It is no surprise then that reforming countries with highly dependent media have had so many troubles transitioning from a state of rampant rent-seeking to the making of good public policy.

Before concluding it should also be pointed out that transforming the game politicians confront from one of simultaneous moves to one of sequential

moves will not solve the problem I have identified if politicians remain uncertain about the motivation of one another. Imagine that R and D decide to try and make the game sequential and that they remain uncertain about the benevolence of each other. Whoever moves first must decide whether to make good policy or cater to special interests. If he makes good policy and the second mover turns out to be self-interested, he receives his lowest ranked preference – the situation where he receives zero but the other political actor receives b. Thus if political agents are sufficiently uncertain about each other's motivations, neither will be willing to be the first mover.[7] Because of this they cannot come to an agreement that would make the game sequential. Politicians again face the simultaneous game and the socially worst outcome prevails.

4. Conclusion

If political agents are fully benevolent, they are of course able to overcome the dilemma I have described. In this case both agents are willing to 'fall on the sword' and pursue the making of good policy regardless of what the other agent does.[8] However, if policymakers are only partially benevolent towards the public and are sufficiently uncertain about each other's credibility, society fares no better off than if politicians were strictly self-interested. In other words, in terms of actual impact, political agent benevolence is an 'all-or-nothing' proposition. Unless benevolence is total, policy looks the same.

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

Notes

1. Stark (1989) examines the ability of players to overcome prisoner's dilemmas when they are "altruistic" towards each other. Similarly, Frohlich (1974) considers the ability of actors who are altruistic towards one another to overcome public goods problems. Stark (1989) finds that when players are sufficiently altruistic towards each other (i.e., when they weigh each other's utility equally), they may be able to sustain a solution to the dilemma. Frohlich (1974) finds that actors who are altruistic towards one another can eliminate some, but not all,

of the conflict surrounding the provision of public goods. My analysis, in contrast, assumes player "altruism" only towards individuals who are outside (but nonetheless affected by) the game being played. Specifically it assumes political agent "altruism" only towards the public.

2. This is what distinguishes a partially benevolent political agent from a wholly benevolent one. A wholly benevolent political agent strictly prefers the social welfare-maximizing outcome in every case regardless of what this means for his private payoff.

3. For an excellent discussion of general social cooperation in the context of the stag hunt scenario see Skyrms (2004).

4. Parker (2004) suggests that politicians are to some extent prevented from engaging in ethically suspect or criminal behavior that would result in public investigations because this can harm their reputation with voters. However, while rationally ignorant voters will often learn if a politician was say, involved in a scandal, or committed a murder, they will not learn about how politicians voted on most issues. Even if they do, it will be extremely difficult in many cases, if not impossible, for voters to decipher special interest catering from the pursuit of publicly oriented policy. Logrolling and legislative practices that shroud special interest catering in public welfare trappings make it exceedingly difficult for even informed voters to separate special interest directed behavior from public interest directed behavior. The information required to make such a determination is in many cases extremely costly or simply not available. In other words, monitoring in many cases would be prohibitively costly if not outright impossible. For these reasons, reputation, though effective in deterring scandalous behavior, is not an effective means of deterring behavior that involves catering to special interests.

5. This is not to say that all special interest catering behavior goes unpunished or that the fear of such punishment may sometimes prevent the most egregious abuses of the public interest. Certain special interest catering activities are abundantly clear and presented to the public, which condemns them. In these instances political actors are quick to disassociate themselves from the activity or special interest group involved. Thus, the wrath of even a rationally ignorant voting population may be enough to prevent special interest catering activities of considerable excess. The overwhelming majority of special interest catering activity, however, is below this threshold and thus goes largely unpunished.

6. For a discussion of this see Coyne and Leeson (2004).

7. "Sufficiently uncertain" here again means where each political agent believes that the other is partially benevolent with probability ρ, $\rho < \frac{b/2}{a-b/2}$.

8. Some public choice theorists have advanced the idea that over time, voters are able to identify and remove the "bad apples" from public office. Several comments regarding this argument in the context of the theory presented here are in order. First, if the pool of political aspirants consists of some perfectly benevolent individuals and the argument of these theorists is correct, then political offices will be occupied entirely by perfectly benevolent political agents and, as indicated above, the problem I have identified is overcome. However, more realistically, if the pool of political aspirants consists of some purely self-interested individuals and some only partially benevolent individuals, then my argument suggests that even if democracy sorts out the "bad apples" in the manner described by some (leaving only partially benevolent individuals with political power), social welfare faces the same negative outcome that if would face if all political aspirants were purely self-interested.

In addition to this there is some reason to think that the logic of democracy actually encourages an adverse selection with respect to political agents, which if correct, cuts in the opposite direction of the argument that democracy creates an efficient weeding out process of self-interested politicians. In his now-famous essay, "Why the Worst Get on Top," Hayek (1944), for instance, suggests that those who are attracted to political power are precisely

those who are most ruthless, power-hungry, and interested in wielding the arms of the state for their own advantage. Since Hayek, several other authors have offered different, albeit related arguments for why there may be an adverse selection problem concerning politicians. See, for example, Parker (1996) who argues that the existence (or perception) of politics as a rent-seeking game discourages public-spirited individuals from entering politics and encourages those who value rent-seeking to run for office.

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