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

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**Abstract**

In this paper, we formulate a political system that can satisfy certain desirable characteristics that include democratic participation, serving for universal interest, public sector efficiency, and sustainable by incentive compatibility and virtuous cycles. The system comprises a set of rules and organizations that provide motivations and supports to the participants for enhancing universal interest. It is a political structure that serves the people, rules by rationality, strives for efficiency and is sustainable. They will drive the society toward harmony and rapid growth in the quality of life for all.

Key Words: Political System Design, Economic Development

JEL Classification: H11, D72, P16, P48

# **1. Introduction**

## **1.1 The Nature of Politics**

Every community must find some rules to solve the allocation of coercive force and scarce resources effectively for achieving internal stability. A political system or polity is characterized by its rules determining the allocation of coercive force. 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 force of a polity comes from the governed people, we call the polity a democratic system. When the force comes from owning a coercive organization, we call the polity a dictatorship in which people have no say on the exercise of the government coercive force. 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 foundation on which a state can govern is its coercive force. The coercive force appears in the form of army, police, laws, prison and judicial system. The functioning and outcomes of any market system depend on the definition, structure and enforcement of private property rights which in turn depend on the allocation of coercive force. 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 determined by the method of allocating coercive force.<sup>1</sup> An ideal political system comprises a set of institutions that encourage political agents and organizations to engage in activities that can enhance universal interest.

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<sup>1</sup> For some historical examples how the primary institution determine the secondary institutions, please refer to Mo (1995, 2004, 2007), among many others.

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 essence of universal interest in all societies.

## 1.2 Special Interest Politics

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

The survival of a state and the wellbeing 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. All property right allocation and income distribution are backed up by coercive force. Political power is the power to use coercive force. 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 and income is undefined, weak and not protected. Division of labor and trade will be difficult and constantly resorting to violent struggle makes every member desolate. However, government empowered with the use of violence generates a constant temptation to the incumbents to exploit the public by exercising its coercive force. Historically, the natural way to allocate coercive force is through competition among fighting organizations. The winner becomes the designer of the primary and secondary institutions. Normally, the dominant goal of the winner is to maintain and exercise its political power for its own benefit and put the wellbeing of the commons under a minor consideration. The behavior of exploitative governments could result in decline of nations and civilizations.<sup>2</sup>

Compared to the primitive method of allocating coercive force through physical struggles, democracy is an ingenious device to solve many undesirable effects associated with dictatorship. In democratic nations, the political power of the government is delegated by the people and it should serve the people. The understanding is usually explicitly

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<sup>2</sup> For instance, Mo (1995, 2004).

written down in a constitution. Organizations and mechanisms are set up to check and balance the political power of the government. There is substantial consensus that Western democracy has ensured the control of the state's absolute power through voting system, written constitution, and the rule of law. In combination, they can constrain the state's coercive force as well as the tyranny of the majority.

Democracy can therefore resolve the dilemma in allocating political power to the state. In the modern world, there are different types of democratic regimes. However, they are all based on the electoral process for allocating political 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 of income 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>3</sup> Resources in the form of government spending and non-represented interests are allocated to benefit constituents of politicians in order to trade for their political supports, either in the form of campaign contributions or votes. Minimum wages allocate production surplus in favor of the existing labor concerned at the expense of the producers, unemployed and future labor. The political pressures from the special interests force electoral democratic governments to constantly raise taxes, borrow and print money. The role of market in allocating resources, the money rewards from productive activities and the work ethic are diminished by higher taxation and arbitrary income distribution politics. Finally, people develop a habit of dependency on the state for jobs, housing and welfare.<sup>4</sup> The welfare state also distracts the government from its essential functions – infrastructures, law and order, diplomacy and defense, which results in degradation in the political, social and

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<sup>3</sup> The increasing size of taxes and government expenditures in typical democratic countries can be interpreted as a process of transforming private properties to common properties available to be expropriated by interest groups through political process which is damaging to the long run wellbeing of a society. (for instance, Mo, 2007a)

<sup>4</sup> For instance, Lindbeck and Nyberg (2006), McDougall (1921), among many others.

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 force allocation under electoral voting systems. 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. Poor voters have no incentive and also lack of access to information while incumbents empowered with superior resources and power control the political process through lobbying and corruption. These problems aggravate the conflicts among income classes, and/or among people of different ethnic and religious origins. 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 public, special interest competition in electoral democracy results in unceasing conflicts, violence and disasters.

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

*Universal virtue cannot be accomplished unless special virtues are ignored. -- Lao Zi*

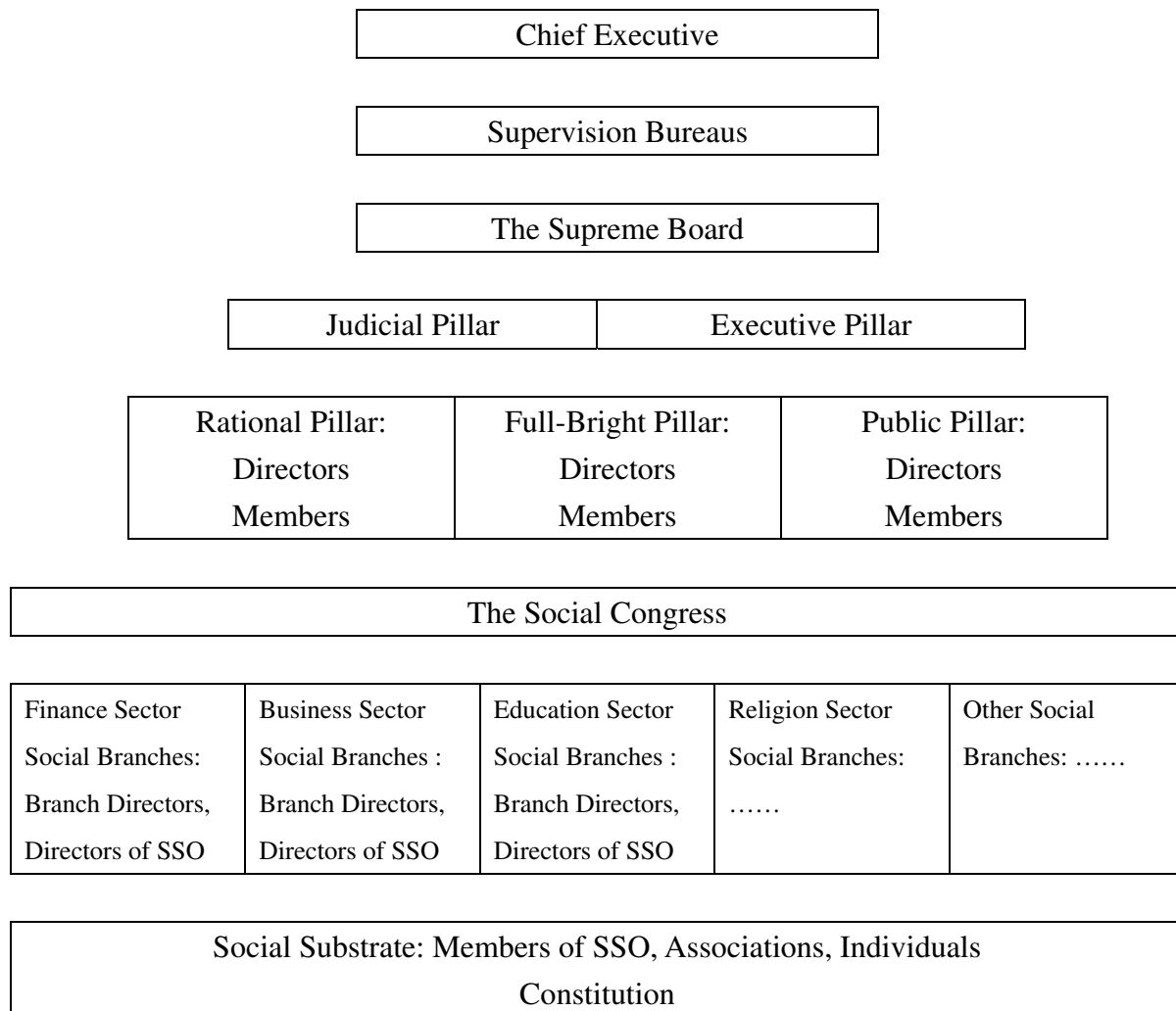
Specific interests tend to be diverse and therefore pervasive conflicts of interests arise during the competition for specific interests. Universal interests based on Pareto improvements, on the other hand, can be narrowly identified and consensus based on universal interests can be relatively easy to be arrived at under proper mechanism.<sup>5</sup> Rules of interactions influence outcomes. This implies that we can design rules of social interactions for attaining some socially desirable outcomes. Historically, primary institutions in modern

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<sup>5</sup> However, it does not mean that universal interests can be easily achieved. The Prisoner Dilemma Game is the standard example that illustrates proper institutions are essential for attaining outcome of universal interests.

societies embody the intentionality of the conscious mind. They are the structure of human creation for achieving some desirable targets. A polity that constrains sociopolitical interactions must be evaluated by its capacity to promote the universal interest of society and at the same time, to allow individuals to pursue their separate activities and purposes under defined private spaces. Moreover, 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 that will be discussed in details in the following sections.

**Figure 1: The Structure of Universal Interest Polity**



Note : SSO = Social Service Organizations.

## 2.1. The Social Branches: Mimicking the Miracles of Competitive Market

*“Mere kindness cannot govern; mere laws will not be automatically enforced.” – Book of Mencius, Part 7.*

There are three vital spheres in every society. They are market, social and political. The mutual checks and supports among the spheres are essential for the advancements of every society. A major component in our design is to build up organizational stakeholders that will serve all the vital functions in a society. The related vested-interest groups developed in the organizations have strong incentive and sense of identity to maintain the structure. We call these organizations Pillars, Social Branches and Social Service Organizations (SSO). Once a mechanism for allocating political power is in place, related



organizations and activities will evolve intending to capture the potential benefits of accessing the political power. A desirable political system can induce the formation of related organizations, networks and activities that can serve the universal interests.

Among the three spheres, the market system is self-organizing. Under some general conditions, the market system can harness self-interest of the participants and generate the outcomes that maximize the overall benefits of a community. In view of the effectiveness of the market system in enhancing economic development, 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 mechanism on the society. Although market system can result in many desirable outcomes, it often generates an income distribution that may not be socially desirable. Moreover, goods and services that have spillover effects will not be optimally provided by market mechanism. In order to amend the potential undesirable effect and shortcomings of the market, setting up Social Branches by various market sectors is encouraged in order to provide platforms 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 Social Branches are obliged and supported to set up non-profit SSO that can receive matching grants from the government for their qualified social services. The Branches will be automatically recognized if the number of members in their SSO reaches certain qualified level or vice versa. In order to induce each Branch to extend their services to the poor and needy, the higher the total number of members in their SSO, the higher will be the rate of matching grants.<sup>6</sup> Social services are defined as those services directly affecting the wellbeing and harmony of society but will not be optimally provided by the market. They include subsidies, supports and services to the poor, health care, education and training, micro-credits, recycling waste materials, environmental protection and

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<sup>6</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 SSO.

various social activities. The Branches are normally formed according to the leaders' natural sense of identity and common interest. For instance, they can be the Social Branches of Financial Sector, Media, Industries, Education, Religion and rich families etc..<sup>7</sup> The only rule governing their operations and activities is that their existence is for serving social benefits rather than pursuing their special interests and profits. However, Associations can be formed to pursue special interests but their leaders cannot become coercive force allocators (CFA) without passing through the channel of Social Branches. The objective of setting this rule is to make sure that the CFA in the Social Congress must possess certain desirable experiences and characteristics. In the next section, we will discuss this point in more detail.

Besides providing social services, the setting up of Social Branches and the related Directors can provide ample platforms for the riches, able and/or benevolent persons to serve society at their own will, while at the same time, nurture suitable candidates to serve in the Social Congress that allocates coercive power. In the process, the characteristics of the Directors in respective Branches and SSO will be revealed to their members, general public, market agents and political leaders. At the same time, serving in the Social Branches and SSO can provide training, experience, esteem and publicity for these potential CFA. Each Social Branch is a mini-government for providing various social services. The political connections and the possible access to the position of CFA will empower the Branch leaders with extensive supports from their market and political networks. In addition, the possibility of agency problems and rent-seeking activities in the Branches are constrained by the competitive environment among the SSO: the survival of Branches depends on the number of membership in their SSO which in turn depends on their efficiency and ability to cater the needs of a society that change over time. Similar to a competitive market system, the survival pressure generates the merits of self-regulating and creative dynamics in the social sphere.<sup>8</sup>

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<sup>7</sup> Other 'natural' Branches can be based on Agriculture, Commercial, Transportation, Technology, Real Estate and Health Care etc..

<sup>8</sup> The Social Branch system establishes a market place for the 'demand' and 'supply' of esteem, in the terms of

## 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.*

The study of modern economics is mostly concerned with material incentives and assuming 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 the material rewards, it is commonly observed that ‘social-oriented’ people also concern about ‘social rewards’ that include being able to take care those in need, receiving public recognition, and attaining senses of identity, righteousness, distinction, self-actualization and so on. The existence of egoists and ‘socialists’ in a society 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 is called the ante-incentive effect while the former is named post-incentive effect of a reward structure. 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 political power for the benefits of the whole society.<sup>9</sup> Solving this problem implies that the agency costs of the CFA will be greatly lowered and the long-lasting problem of ‘who watches the watcher’ in the political power allocation process will be largely reduced.

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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 who enter the channel to coercive power. 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 A2 in the Appendix.

<sup>9</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 and income given the structure of primary institution. The Social Branch system provides the market for esteem, power, prestige and public recognition. The whole system defines a market for allocating political power which can accomplish the universal interests in the competition process.

In the design of primary institution and organizations, the ante-incentive effect is of utmost importance as the institution determines the allocation of coercive force. Politicians empowered with coercive force mean that it will be very expensive for controlling their rent-seeking activities. Being able to have social-oriented agents as the CFA and political leaders will substantially reduces the possibility of ruling exploiters and the potentially enormous monitoring and agency costs caused by the egoistic behavior of crooked state leaders. The question is what characteristics and process of the incentive system can result in the selection of social-oriented agents to serve as political leaders.<sup>10</sup>

In an electoral democratic polity, the ante-incentive to participate in the vote-maximizing activities are the ‘rewards’ generated from the possession of political power. The reward structure to the elected politicians depends on their individual specific preference. If the leader is motivated by material rewards, she will use her political power to change the reward structure for maximizing the rent to be earned from her ruling position.<sup>11</sup> If the leader is an altruist, she will use the coercive force to serve the benefits of the society according to her subjective judgments. The existing electoral democracies have no mechanism to guarantee that the elected politician will 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 public 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. By imposing that all

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<sup>10</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 organized 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>11</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 coercive force can alter institutions that include her reward and income structure according to her preference.

CFA in the Social Congress have to be selected from the leaders in the Social Branches and SSO, we institute an ante-incentive structure and screening process that will raise the likelihood of having persons of desirable characteristics to exercise the function of political power allocation. In addition, the basic rule of the reward structure in our polity is that all leaders of the political and social organizations that do not bear responsibility for daily operation are only provided with symbolic/supportive material rewards. Under this reward scheme, the egoistic rent-seekers driven by material concerns will find no substantial incentive to participate in the political activities.<sup>12</sup> With a proper screening mechanism, we can select proper persons for exercising the political power in the Social Congress and Public Pillar from the pool of benevolent candidates among the leaders in the Social Branches and SSO.

Persons with similar backgrounds and/or preference tend to gather in respective Social Branches. The sense of identity will develop among the leading 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 technical advances in the social sphere. Moreover, when each Social Branch is empowered to organize and administer SSO, the demand for skills and problem solving will spread rationality, real world understandings and practical experiences to the decision makers. In this way, it will be much easier for all leaders in the Social Branches to arrive at consensus about public issues, even though they have very diverse backgrounds. The ante-incentive effects, self-selection, organization selection and practical experiences pervasive to the leaders in Social Branches will result in social decisions to be based on rationality, efficiency and the universal interest of society. Moreover, the infiltration of the Social Branches deep

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<sup>12</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 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.

into social substrates implies that these benefits will be pervasive to all levels of society, particularly those poor and needy. The 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 with and understand each other.

In this arrangement, the rich social-oriented leaders attain satisfaction through providing quality social services to the community while egoistic rent-seekers may also be induced to provide social services in order to access political power. The Social Branches therefore provide essential platforms for income redistribution process and therefore reduce potential social 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 and needy. The contributors, either serving as donors and/or leaders, 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 rich families and enterprises. In general, each Branch will perform various social functions and receive stable material supports through private donations and government matching grants. Under the structure, an automatic income redistribution mechanism is instituted when the whole society is wired up by a dynamic, self-organizing built-in social security system. Politics is no longer a power game as in the electoral democracy but a competition for contributing to the universal interests of society. 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.

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

The competition process among the Branches generates a pool of potential benevolent candidates to sit in the Social Congress. A major function of the Social Congress is

to regularly nominate candidates to serve in the Public, Rational and Full-Bright Pillars. The nominee will be screened by all existing Pillars' Directors and the Chief Executive. The short-listed will then be circulated around the Members of the Pillars, Social Congress, Branches and general public to seek their approval votes. If a short-listed candidate attains a qualified level of approval and no legitimate objections are received, then the candidate will become the members of the designated Pillar. Each Pillar chooses its own 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 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 universal 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 damaging to the productivity and harmony of the society.

The Rational Pillar is intended to harbor talented individuals who achieve outstanding academic recognition, social-minded and have a general understanding on the mechanisms of the society and economy.<sup>13</sup> It can serve as the source and connections to acquire various highly specialized knowledge and technology. The Pillar can therefore provide theoretical supports, analyses and professional viewpoints in the legislative process.

The Full-Bright Pillar is intended to harbor seniors of exceptional prestige from all walks of life, particularly the seniors with exceptional social recognition from all Pillars, Social Branches and SSO. This 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. The Directors from all Pillars form the Supreme Board for legislative function. The structure of Supreme Board provides an

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<sup>13</sup> The quality of the members in the Rational Pillar is guaranteed by the merit-based selection process in the academic arena.

interface for public concerns, political and operational feasibility, wisdom and knowledge to generate rational legislative decisions for attaining the universal interests of society. Again, only symbolic/supportive material rewards are entitled by the Members and Directors of the Social Pillars. Also, no special interests should be pursued in the Pillars and Supreme Board. All decisions, challenges and discussions must be based on universal interests.

## **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 Social Pillars to generate their Directors and members, the Operation Pillars rely on merit-based organizational structure to generate their Directors and Members. 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 job-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. The candidates for the Directors will go through the approval procedure by the Directors and members of the other Pillars, Social Congress and Branches. In the Operation Pillars, all members bear daily administrative responsibilities and will be paid market-matching material rewards. In order to raise the contestability and reduce the potential agency costs in the bureaucratic systems, the Directors of the Operation Pillars can also be nominated from the members of other Pillar or Branches 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, with their presence in the Supreme Board, legislative decisions can be made with reliable support and advice about the operational 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 for the Chief Executive when required. The pool of the candidates will go through the approval procedure of different levels: the levels of the whole society, of Directors in SSO, of the Social Branches Directors, of the Members of the Pillars and finally of the Pillars Directors. The approval rates of each level will be reported. A formula for weighting the approval rates of different levels can be devised and result in an index determining the appointment of the Chief Executive. In the current 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 substantial common interests with the other members of the community. However, as the whole society approval voting is not decisive in this Rational Democratic system, we can allow and encourage as much participation as possible in this voting level for enhancing the sense of belonging to all people. The approval procedure by widespread and diverse 'stakeholders' with different levels of information, ability and knowledge can release the pressure of special interest groups on the decisions of Chief Executive and at the same time, serve as a symbolic function that she should serve for the universal interest of the whole society. In order to evaluate the performance of the selection method and soliciting information to revise and improve the selection formula, in contemporary with the approval procedure of a new Chief Executive, the same evaluation/approval exercise will be done to every retiring Chief Executive.

In order to instill rationality and provide supports 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. Regular collective international conferences on public issues among the universities can be conducted as a standard mechanism for rational discussions and arriving consensus among the Pillars, Social Congress 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 having political leaders of super personal traits, of commanding respect and of being able to find 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 and reduce the benefits to rent-seeking political participants. No 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 Social Congress, Full-Bright, Public and Rational Pillars receive zero/supportive material rewards only. However, they are empowered to allocate and/or control political power that is vital for the proper functioning of a 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 in their SSO is up to a qualified level, a matching grant mechanism will be initiated. Reversely, the matching grant from the government will drop and finally vanish if the number of their SSO Members declines. The rise and decline of the

Branches therefore depend on their supports received from their donors and members in their SSO which in turn depends on the types, quality and effectiveness of their social services provided. This uprooting mechanism through competition will induce and force the leaders to be careful about reputation, righteous and restraining power abuses. The keen competition in benevolence, merits and effectiveness will guarantee the best Branches and Social Leaders to emerge and dominate the Social Congress. 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 to pursue her own self-interests that can be damaging to the functions/targets of the organization. This can result in corruption, shirking and inertia inside organizations. Moreover, all organizations can be plagued by vicious cycles of occasional crooked leaders.<sup>14</sup> Therefore, both public and private bureaucracies have internal tendencies to increase inefficiencies 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 due to the lack of competition. Unlike the Market and Social Spheres, there is no automatic competitive mechanism to guarantee the efficiency of the organizations inside the Pillars. A systematic way is therefore required to prevent, detect and rectify the agency problems and vicious interests developed in the Pillar organizations.

Organizations that control coercive force in a state render the potential damages of the agency problem particularly pervasive and significant. For the sake of

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<sup>14</sup> Once a crooked administrator takes hold in an organization, 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 that operate farther and farther away the interest of the principal.

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. exploitative 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>15</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 democracy 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 a constitution. The free flow of information generates public pressure against any illegitimate use of coercive forces and inefficiencies in the state. The Branches and SSO provide channels for the flow of information, knowledge, expectations and rationality between social substrate and the leaders of the state. They therefore generate constant informed challenges and organized pressure against the state. 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 divisions of powers as the means of reducing the agency costs in political organizations.

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

The inherent failures in the public sectors imply that some supervision organizations and uprooting mechanism are required. They include the Efficiency and Corruption Supervision Bureaus. The Bureau Directors must be nominated by the Social

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<sup>15</sup> The agency costs and government failures generated from political organizations are exemplified in the history of imperial China. (for instance, Mo, 1995, 2004, 2007).

Congress. The nominees have to pass through a standard screening and selection process based on their characteristics and track records. The selected candidate has to seek approval from all Branch Leaders. The function of the Efficiency and Corruption Bureaus is to rectify 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, the Congress and Bureaus can provide rewards to the Branches and/or individuals when they contribute to improve the efficiency and/or rectify corruption activities in the government and Pillars.

Another important function of the Bureaus, Social Congress 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 institutions and organizations means that changes have to be made in blocks. When deemed necessary, the Social Congress and Bureaus can 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 the Pillar. The possibility of the procedure extends constant pressure on the Pillars to perform effectively.

With these loops of checks and supports between political organizations and Social Branches plus the competitive environment in the Social and Market Spheres, the political system is closed. The Social Branches are supported and checked by the Political and Market Spheres. Their survival is dictated by the supports from the poor, needy and general public to whom they serve. The coercive force and the political agency costs of the state are constrained by the self-disciplined dynamic Social Sphere.<sup>16</sup>

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<sup>16</sup> Please refer to Figure A1 and A2 for a comparison between the ‘checks and supports’ mechanism among the

### **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 force 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. The constant evolving technology, social and economic environment imply that the constitution needs to be reviewed and adjusted according to new conditions for maintaining its efficiency. Regular review also provides opportunities to summarize the experiences, problems and to 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, the review should be carried out only when the political leaders received pervasive public supports. Any constitutional change must be based on universal interests with encompassing studies, ample supportive reasoning and evidence, and has to be reviewed carefully and receive high approval level.

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

### **4.1 Quality of Public Policy**

One of the major functions of political leaders is engineering social and economic development which is a highly professional task. 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 social-oriented meritorious experts.

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

The market leaders in the economy, driven by their self-interest, have incentives to maintain social order and stability through the redistribution mechanism provided by the Social Branches. The conflicts between primary distribution 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 allowed in this system 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 which creates enormous inefficiencies. In our system, the leaders of the Social Branches are responsible for the quality of their social services. They have intimate and persistent interaction among themselves and with their SSO members. It is these informed members who select their respective social and potential political leaders. 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.

## **4.3 Quality of Political Leaders and Agency Cost**

The system provides ample chances to social-oriented persons for self-actualization and they are self-selected and delegated with coercive power according to their merits of being able to serve for the benefits of the society. Political leaders 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. We can therefore achieve ‘what is good for political leaders will be good for the country’. This alignment of the social interest and the ‘preference actualization’ of the social-oriented political leaders can minimize the agency costs in the political system. Allocation of coercive power is so dangerous such that informed selection of persons with desirable characteristics is very important.

#### **4.5 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. Leaders with public approval, trust and desirable characteristics will make collective decisions much easier to be reached and policies effectively implemented. The politics, society and economy are closely interweaved, balanced and mutually supported for the collective benefits of the society.

#### **4.6 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 political selection process through Social Branch competition, both genuine and simulated altruistic behaviors are motivated. In addition to the networking and social security functions of the Social Branches, they can substantially promote trust and cooperation among people. The widespread participatory opportunities in social and political activities can enhance rationality, knowledge accumulation, consensus, stability, flexibility, independency as well as cohesiveness in the society.<sup>17</sup>

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<sup>17</sup> It seems that there is substantial connection between social harmony and development with social capital. (Putnam, 2000) In our system, the withdrawal of government from direct production of social services will make private networks, trust and honest more valuable to the people than otherwise. This will encourage the formation of social capital and civic engagements motivated by private interest.



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

A vibrant market economy and strong non-state organizations are helpful for the operation of the Rational Democracy. However, it requires no more basic social infrastructure than electoral democracy for it to function. The dynamic interactions 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 productive 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 force 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 allocation of coercive force is the most important unsolved problem of modern societies. As suggested in Chua (2003), in most economies the conflicts between the primary and secondary institutions 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. The competition and comparison between the capitalist and communist economies in recent decades have generated substantial supportive empirical

evidence. Any desirable and sustainable 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 competing Social Branches and SSO driven by self-actualization and the struggle for political power 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. In the process, persons of desirable characteristic will be self-selected, publicized, nominated and approved to be political leaders. The Rational Democratic System is 'motivation-compatible' in the sense that the self-interest maximization of all agents operating under the system of rules and organizations will automatically result in the accomplishment of universal interests.

It is a broad-based democratic system. Everyone has the right and ample opportunities to participate in politics. 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 interventions. There are evidences and common perception that the goals of simultaneous advancements of economic development, socio-economic equality, and broad-based democracy are not compatible. 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. In general, Rational Democracy can attain certain desirable characteristics that include democratic participation, serving for universal interest, public sector efficiency, and sustainable by incentive compatibility and virtuous cycles. It is a system that serves the people, rules by rationality, strives for efficiency and promotes harmony between market and social spheres. They will drive the society toward harmony and rapid growth in the quality of life for all.

## Appendixes:

**Table A1: The Comparison of Electoral and Rational Democracy**

Characteristics & Outcomes	Rational Democratic Polity	Electoral Democratic Polity
<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
Leaders selection mechanism	Continuous and lengthy interactions, informed and merit base selection	Short-term and periodic interactions, limited information
Quality of leaders	Social-oriented and quality proof , lengthy screening process with 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 interest	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, organization-based	Organization and partisan based
Lobbying activities	Prohibited	Prevailing; trading public interests for special interests
Policy consistency & coherence	Directed by rationality and universal interest	Directed by popularity and partisan interest
<b>Social &amp; Market Spheres</b>		
Individual freedom	Strong	Strong
Market compatibility	Strong; mutual supports between market and social spheres	Weak; special interests expropriate market 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	Struggles among 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; accumulation of social capital overtime	Pervasive public social services; social capital disintegrates overtime
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	Varies 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

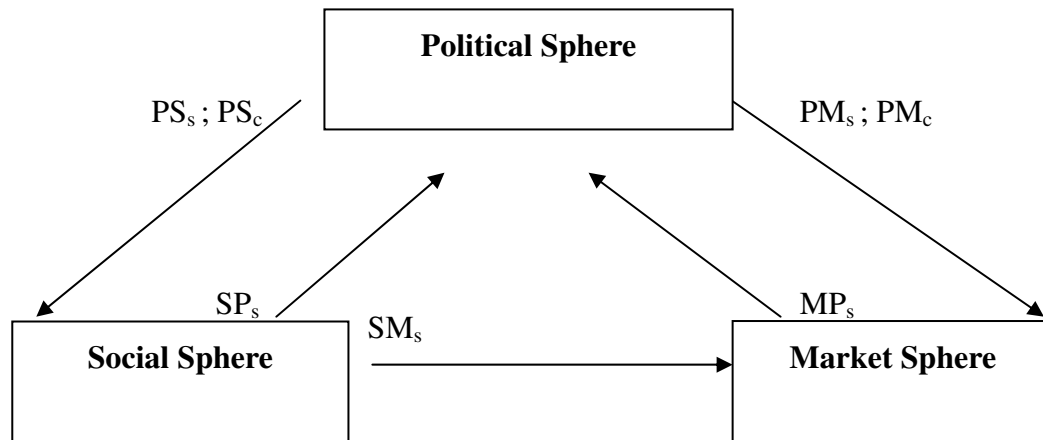
**Table A2**  
**Comparison of Competitive Market and the Social Branch System**

<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 social leaders
Enhance economic development; undesirable income distribution normally results; market leaders evolve	Enhance overall development and social harmony; reduce social disparities; pragmatic and altruistic social and political leaders evolve

Note:

SIM: Self-interest maximization

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



Notes:

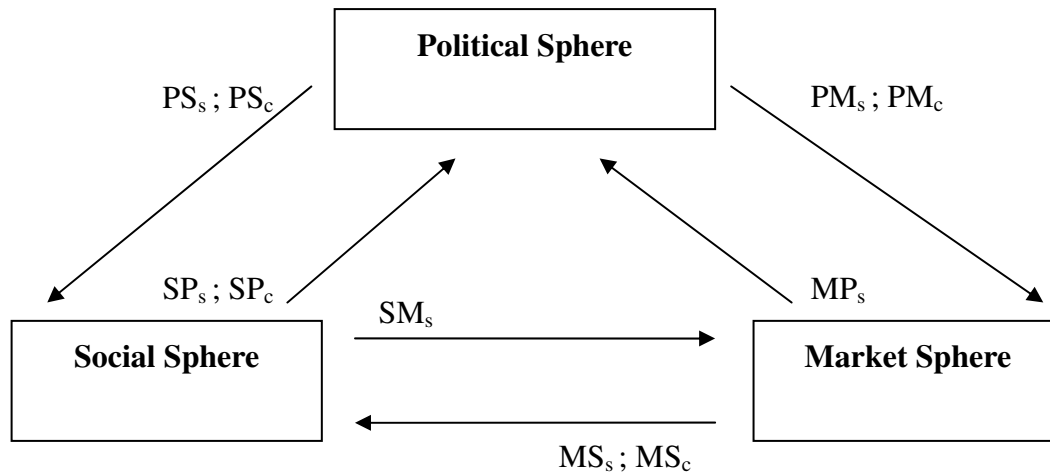
$PS_s$ ,  $PM_s$  /  $PS_c$ ,  $PM_c$  : Political Sphere supports/checks the Social and Market Spheres by formulating and enforcing institutions, providing public goods, funding and infrastructures.

$SP_s$ ,  $SM_s$  : 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 a check to the Political Sphere from the general public that suffers from various market failures in the process.

**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, funding 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 potential social and political leaders and nominating political leaders.

$MS_s$ ,  $MS_c$  : 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.

$SP_c$  : Social Sphere checks the Political Sphere through the uprooting mechanism, supervision bureaus, nominating and approving political leaders.

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 in comparing to the existing democratic regimes.

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