Democracy, Interest Groups, and the Price of Votes

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I. Introduction

The chief contribution of economics toward improving understanding of the way the world works is probably the theory of price. This theory has proven to be a robust tool for explaining how human behavior responds to changes in constraints facing individuals. Price theory may not be the most glamorous or technically demanding body of theory in economics, but it is likely the most fundamental. Economists may differ significantly in the composition of their intellectual capital stock, but all economists by definition have a basic understanding of the role of prices in economic affairs.

One of the most important recent extensions of basic price theory has been the development of the economic analysis of politics. The modern economics of politics is founded on the assumption that political actors are rational, self-interested maximizers, who respond to relative prices of resources and outputs—albeit often prices that are implicit and not publicly known—in the same way that private decisionmakers do in ordinary market exchange.

But curiously, the economics of politics has neglected a resource that is of vital importance for understanding political decisionmaking and policy determination and that (at least in the modern setting) is *unpriced*—the vote. Although economists have devoted a good deal of attention to the process of voting, there has been little effort devoted to explaining why votes are unpriced, or what the implications of this absence of market pricing are for political outcomes. The

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same economists who deliver eloquent lectures about the economic consequences of the absence of competitively determined prices in the case of ordinary resources tend to pass over the unpriced resource of votes in silence.

Our purpose here is twofold: first, to explain why the consequences of unpriced votes should be analogous to the failure of markets to price other resources efficiently; and second, to consider the historical world prior to the relatively recent innovation of the secret ballot from the standpoint of price theory. We examine the possible effects that the legal elimination of markets for votes may have had on the growth of government in the West and offer an interest-group explanation for the changes in voting rules.

The paper is divided into five sections. Section II considers the problem of votes as unpriced resources from the perspective of both the majority-rule/majority-cycling literature and the interest-group theory of government. Section III examines the history of open vote trading in Great Britain and the United States prior to the 20th century and discusses the economic implications of market prices for votes. Section IV outlines the course of legal changes—most important, the secret ballot—that eliminated the efficient pricing of votes. We offer an interest-group explanation for these events and suggest possible implications of these changes in terms of the modern growth of government. Finally, Section V summarizes and concludes the preceding argument.

II. Voting as a Problem in Nonprice Resource Allocation

In recent years two schools of thought, each designed to explain phenomena associated with the growth of government, have developed within the field of public choice. One concentrates on the theory of majority rule and its implications for the instability associated with democratic decisionmaking, and the other proposes an interest-group theory of government.

The former has largely grown from the work of Downs (1957), Black (1958), and Buchanan and Tullock (1962). The main focus of this literature has been the logical characteristics of majority-rule institutions. Considerable attention has been devoted to the various instabilities likely to emerge from such institutions, most notably the tendency for cycling of outcomes even when stable preferences of voters are assumed. Several writers have argued that this majority cycling results in less stable government policies over time. Some writers have also argued that this supposed logical inconsistency and

consequent instability in democratic outcomes play an important role in explaining the rapid rates of government growth in 20th-century Western democracies.

As a rule, the majority-rule/majority-cycling theorists have avoided drawing any implications concerning the growth of government from their own work. Several writers have gone further, however, arguing that the tendency of majority-rule regimes to exhibit cycling has played a role in the rapid growth of government as a percentage of GNP in 20th-century Western democracies. Aranson and Ordeshook (1981) hypothesize that government may grow in a democracy due to "perceptual thresholds" among voters concerning the costs and benefits of privately consumed, publicly provided programs. In other words, successive unstable majority coalitions of voters will support programs that benefit themselves at the expense of others, and costs will be consistently misperceived as lower then they actually are, thereby allowing government to grow by accretion. Shepsle and Weingast (1984) argue that legislative institutions adjust to the tendency of majority-rule regimes to produce unstable outcomes by acting as "gatekeepers," which in recent decades have tended to control the agenda presented to voters. They emphasize the importance of legislative arrangements such as the proliferation of monopoly committees and subcommittees in Congress, each acting to protect distinct constituency interests, in causing the increasing rate of government growth. Brennan and Buchanan (1980, p. 23) argue that majority-rule institutions provide inefficient constraints against the expansion of political power.

Proponents of the interest-group theory of government argue that legislatures act as brokers, marketing wealth transfers to competing interest groups (McCormick and Tollison 1981). This theory differs radically from the majority-cycling approach in that voting is treated as a secondary characteristic of the political marketplace at best, and the competition of organized interest groups for rents derived from coercive governmental wealth transfers is seen as the primary determinant of political outcomes in a democracy. Some writers who operate within this paradigm (e.g., Kau and Rubin 1982; Peltzman 1984) grant the voting process a marginal role in determining political outcomes. Votes are treated as inputs in the political wealth-transfer process, analogous to natural resources in the production of ordinary goods and services. Interest groups must secure votes in order to implement the policies that benefit them. However, the expressed preferences of voters may play an additional, marginal role in determining policy.

Unlike majority-cycling theorists, interest-group theorists have shown great interest in the effects of interest-group rent seeking on government growth. But different writers predict different effects. Some (e.g., Demsetz 1979; Olson 1982; Holcombe 1984) have argued that growth in the number of interest groups seeking transfers of wealth through the political process tends to cause government to grow. Others (e.g., Becker 1983; Tullock 1980, 1986; Anderson and Tollison 1985) have argued that because interest groups engage in both rent seeking and rent protection (i.e., protecting themselves from having their wealth taken away), the outcome of interest-group competition in the political process could increase, decrease, or have no effect on the net level of government, however measured (e.g., spending, regulation, and so on). In short, the interest-group theory does not necessarily predict government growth over time.

Both theories have one important assumption in common—they treat votes as unpriced resources. Such an assumption is reasonable in a modern context, where votes are unpriced resources because of strict laws against bribery of voters and, more important, the near-universal usage of the secret ballot. Because buyers of votes cannot monitor compliance or lack thereof, cheating by sellers can be neither detected nor sanctioned. Secret ballots make contracts between the buyers and sellers of votes unenforceable. Such contractual unenforceability tends, even in the absence of legal barriers against bribery of voters, to impose transactions costs on such exchange that are high enough to impede the operation of such markets.

The secret ballot is a *necessary* condition for the existence of majority-cycling phenomena in the context of large numbers of voters. In the absence of a secret ballot, enforceable contracts between voters and vote-buyers are feasible. Obviously, other factors also influence the efficiency of such a market, such as the presence and degree of enforcement of laws against bribery, legal penalties, and the like, but secret ballots will effectively prevent the emergence of market exchange in votes in the first place. Consider what would result from the enforceability of contracts between voters and vote buyers. Voters would act as the paid agents of interest-group principals, and would vote not to express their own preferences in terms of political outcomes but the preferences of those principals. Such outcomes would therefore represent equilibrium solutions in the market for wealth transfers to interest groups. Given that such equilibria would probably be fairly stable over time, political outcomes would tend to be stable as well. In any event, political outcomes would tend to be no less stable than the interest-group market equilibria of which they were the expression. In short, the question, "Why

so much stability?" (in political democracy) becomes as irrelevant when markets for votes are permitted to function as a similar question would be in the case of the market for shoes or soft drinks. The problems associated with democratic instability enter only when voters are not contractually bound in their voting behavior. The majority of voters may choose A on Monday, B on Tuesday, and D on Wednesday, because they are completely unconstrained by contractual obligations in their voting behavior.

Of course, for a market for votes to emerge it is first necessary that there be only a single voting round for candidates and that the elected offices have fixed terms; otherwise, the expected return to potential buyers of votes would be zero. This is another way of saying that for exchange to occur, the object of exchange must be a scarce resource. The majority-cycling literature often employs elaborate thought-experiments in which the electoral process is not truncated (i.e., there is no limit on voting rounds), and in such situations a market for votes is impossible. But in the real world of democratic decision making, the situation is very different. Typically, there is only one voting round (election), and successful candidates serve fixed terms of office. Since votes are therefore scarce, vote markets are, in principle, feasible.

The possibility of a free market in votes has been analyzed previously but has generally been judged to be either inefficient or infeasible. Buchanan and Tullock (1962, p. 270 ff.) regard the possibility of free exchange of votes in a democracy as feasible but argue that such a market would tend to generate severe external costs and would therefore be inefficient. They argue that free exchange of votes under conditions of majority rule would increase the ability of majority coalitions to exploit minorities and that rational individuals would agree at the "consitutional" stage to prohibit such markets because they would tend to increase the level of redistributive activity and make society worse off in the long run. Although Buchanan and Tullock (1962, p. 272) admit that, assuming perfect markets, the ability of interest groups to exploit minorities with purchased majorities would disappear (because potential victims would match the investment in vote purchases of potential exploiters), they claim that in the real world certain minority groups (e.g., the poor) are more likely to face differentially higher transactions costs in vote markets than others (e.g., the rich) and to become the victims of income redistribution as a result.

The problem with this argument is that it is not limited to vote exchange as such, but is applied more generally to government by majority rule. External costs are the result of a system that allows coercive wealth transfers (by definition, non-Pareto optimal), regard-

less of vote-transfer arrangements. The only relevant question is the relative magnitude of coercive transfers likely to result from a majority-rule system with and without free vote exchange, respectively. We cannot predict whether wealth transfers in general will be larger, smaller, or the same under either alternative regime. If the potential beneficiaries of wealth transfers face higher transactions costs than the potential losers in a vote market, transfers might increase, and vice versa. This becomes an empirical question. If we assume that rent-seeking and rent-avoiding interests in vote markets face similar transactions costs, and accept the argument that the randomness introduced into the electoral process by unpriced votes introduces a positive bias in the growth of government, free markets in votes might operate to constrain the magnitude of wealth transfers, *ceteris paribus*.

Coleman (1986) considers the theoretical problems associated with free exchange of votes and concludes that votes are not ordinary goods, implying that free markets for votes would be infeasible. Specifically, he claims that there are two critical differences between votes and other goods that greatly hamper the prospects for market exchange: first, votes are not alienable by voters (p. 171); and second, votes (unlike other goods) cannot be conserved—they are either used in the election or lost forever (p. 173). But the nonalienability of votes is simply a reflection of particular institutional arrangements; the vote could be separated from the owner if allowed by law. In fact, corporate shareholders commonly sell voting rights separately from actual shares. Nonalienability is irrelevant anyway; labor markets function efficiently even though an individual's labor is not alienable. The second objection concerning the fungibility of votes is also irrelevant. Tickets to specific sporting events, plays, and other performances also command zero price the next day, yet efficient markets for these goods exist. Of course, the nonalienability of votes from voters combined with the fungibility of votes together imply that a market for votes may be subject to relatively high transactions costs. A predictable transaction cost-minimizing solution would be the use of long-term contracts for voting, analogous to labor contracts. Voters would tend to sell their voting services over several elections rather than just one. If votes are as fungible as tickets to specific sporting events, we would expect something similar to season tickets to be a common contractual option.

There are other implications of the absence of market prices for votes. The problems discussed in the literature under the rubrics of "the paradox of voting" and "rational ignorance" become significant only when votes are unpriced. Given an efficient market for votes, there is no paradox of voting any more than there is a paradox of

employment or of groceries. Individuals will vote in fulfillment of contracts which pay them such that price equals marginal cost. Rational ignorance becomes irrelevant because the preferences of the voter become irrelevant. Only the preferences of the vote-purchaser are important, and this individual or group, being a residual claimant, has incentives to acquire information about public policy questions efficiently. If voters choose instead to retain their vote for their own use, they will do so only if the marginal benefit they expect to receive from the exercise of their franchise exceeds the marginal cost (price forgone).[1] Both the paradox of voting (i.e., why voters bother to vote at all) and rational ignorance phenomena are the result of the absence of an efficient market for votes. The old adage seems to apply: you get what you pay for when votes are "free."

While the majority-rule literature depends on the assumption of unpriced votes, such an assumption is difficult to reconcile with the interest-group theory. If efficient markets for votes do not exist, interest groups cannot determine the outcome of the electoral process and can therefore have only a marginal influence over policy formation, *ceteris parabus*. Of course, because votes have no market price, the electoral choice of a voter is costless. Voters therefore have at best only a weak incentive to invest time and resources in becoming informed about public policies and issues, and are relatively manipulatable by agenda-setting politicians and interest groups. Also, markets may emerge elsewhere in the process; for example, vote buying may be replaced by corruption whereby fraudulent results are marketed to interest groups. Such fraud is reportedly endemic in many Third World "democracies," even though voting takes place in secret and open bribery of voters is illegal.

[1]It might be objected that, given that a vote will represent a bundle of different things—for example, the voter's ability to effect, at the margin, many different kinds of political decisions about various matters that may concern him—an efficient market for votes could not emerge because votes in general would not have determinate prices. One individual will perceive his vote as worth a great deal, while another will regard his as virtually valueless. Buyers and sellers in general would be unable to agree on a mutually acceptable price, and exchange would occur only sporadically, if at all. This objection, however, carries little weight. First, a similar argument could be made about many other goods that are routinely traded at determinate prices across ordinary markets. A car also represents a bundle of many different goods, covering an enormous range of possible opportunities that different individuals are likely to perceive differently. Votes—like money—can be analyzed as an ordinary good, whatever its unique attributes, which are not strictly relevant to the economics of price determination. Second, and perhaps more to the point, we know that the above objection is empirically irrelevant. Well-documented studies have shown that, historically, votes were routinely bought and sold across markets. In other words, it must be *possible* because we know it *happened.*

The problem facing the interest-group theory is that it can offer an empirically rich economic explanation for most features of the political process except voting. This has caused some critics (e.g., Kau and Rubin 1982) to argue that interest-group theory neglects the significant role that ideology supposedly plays in determining democratic outcomes. Those with strong ideological preferences face a low or negligible opportunity cost of casting their unpriced votes in a manner consistent with their own personal beliefs. Interest-group theorists are, of course, aware of this problem.[2] Some have attempted to incorporate voting into their models, with varying degrees of success, given that under modern conditions "the market for votes" is at best a metaphor. But otherwise, the problem of the vote as an unpriced resource and the implications of this fact for the interest-group theory of government have been largely overlooked.

As we have seen, a necessary prerequisite for the existence of an efficient market for votes to emerge is the enforceability of contracts resulting from nonsecret voting. There are historical examples of political democracy in which votes were priced openly and exchanged. We examine two of the most interesting and best-studied cases: Great Britain prior to 1873 and the United States prior to 1890.

III. The Economics of Ballots and Bribes

There is a tendency in the modern literature simply to assume that the secret ballot is somehow a necessary feature of electoral systems, one that has always been part of the democratic process. Of course, this is untrue. The secret ballot is a relatively recent innovation in Western democracies.

In Great Britain, the secret ballot was established with the Ballot Act of 1872. Before its passage, however, votes were openly bought and sold, either through explicit bribes or implicit payments of various sorts. Williams (1970, p. 498) explains that in 18th-century England, even the "forty-shilling freeholders," who were legally per-

[2]Becker (1983) argues that voters are so readily manipulatable by competing interest groups that the effects of their independently expressed preferences are relatively trivial and that therefore democratic decision making tends to approximate a stable interest-group equilibrium. Demsetz (1979) notes that votes are unpriced resources and argues that votes are thus both a major source of the comparative inefficiency of political markets and a factor in explaining the apparent domination of the decision-making process by organized interest groups. Peltzman (1984) argues that voters' individual ideological preferences, combined with their perception of the diffuse benefits likely to flow to their communities (and possibly to themselves), are likely to make voters a significant additional "interest group."

mitted to exercise the franchise, were generally acting as the agents of others in their voting:

> The elections were arranged by the nobility and gentry meeting in one or other of the country houses or in an inn in the local market town. Once their wishes became known, the forty-shilling freeholders knew how to cast their votes—such were the pressures that the landed classes could exert, as landlords of farmers, as employers of labour, and as customers of tradesmen, on voters not yet protected by the secret ballot.[3]

According to Namier (1956, pp. 65, 68), voting in 18th-century Great Britain tended to be the electoral expression of the preferences of the voter's landlord or employer:

> [Because] the voting was open and recorded in poll-books, people in dependent positions could seldom exercise a free choice; and as the agricultural interest was dominant in the counties, the result of county elections was determined as a rule by the big landowners—the territorial magnates and country gentlemen. . . . Neither in counties nor in boroughs was the least attempt made to hide or disguise the methods by which votes were secured. . . . It was taken for granted that the tenants would vote as instructed by their landlord or his agent, and the methods employed were so common that they were seldom named.

In fact, in prereform Great Britain parliamentary seats were mostly uncontested in elections. Rather than attempting to buy sufficient votes to defeat the incumbent, it was more common for those with parliamentary ambitions to purchase seats outright from the patrons who controlled them through their influence over their enfranchised renters. According to Namier (1956, p. 166), in 1761 the ordinary price of safe seats was about £1,500, although in cases where additional advantages were to be expected, the price could range as high as £2,000. Namier (p. 77) explains that bribery was common even in those parliamentary boroughs with the largest electorates, although the price per vote usually was lower: "drink and a few guineas for each voter [took] the place of substantial payments and petty offices for a local oligarchy."[4] The amount spent by competing interest groups

[3]If renters paid their rents partly in cash and partly by committing their votes to their landlords' use, the institution of the secret ballot—by significantly lowering the effective market price of their votes—would have tended to increase the pecuniary component of rents demanded by landlords. Such additional freedom was probably not welfare enhancing for renters and, given that it restricted their choice set, may have been welfare reducing.

[4]In 1780 William Wilberforce (later one of the leaders of the English abolitionist movement) decided to enter the House of Commons. The election cost him £9,000 because he paid two guineas per vote (Mannix and Cowley 1962, p. 179).

in bidding for votes sometimes was substantial. For example, in the Oxfordshire parliamentary election of 1754, the Tory party spent about £4,000 to oust the Whig incumbents (Plumb 1963, p. 85). Plumb (p. 37) also notes that total expenses for both sides in a contest for seats in a large county could total £100,000 or more.

Even after the Reform Bill of 1832 (which extended the franchise to owners of property worth as little as £10), bribery remained a common practice, although prices for votes tended to vary across boroughs. For example, according to Spearman (1957, p. 93), in 1841 the price of votes in the large towns of Leicester and York ranged from £1 to £2, whereas in the same year in the smaller town of Ipswich, £15 to £20 were paid per vote. The more or less open buying and selling of votes continued to be standard practice throughout the 19th century prior to the passage of the Ballot Act.

A similar situation existed in the United States. Ostrogorski (1964, p. 170) claims that while prior to the Civil War electoral bribery was widespread "only in three or four large cities," following the war, bribery of voters became the rule rather than the exception. He attributes this development to the rapid growth of cities, which tended to lower transactions costs associated with vote buying. Before the introduction of the secret ballot, agents of political parties often set up booths at polling places and offered cash for votes. This practice was apparently widespread in New York (Bryce 1910, p. 148). As he summarizes, "In the absence of secrecy, [the] voter could be followed by watchful eyes from the moment when he received the party ticket from the party distributor till he dropped it into the box" (p. 147). Wendt and Kogan (1974) offer numerous examples of the bribery of voters in Chicago in the period prior to the enactment of the secret ballot in Illinois. For example, in the 1896 election for mayor in the 19th Ward, the ward boss of the Democratic party reputedly paid $10,000 for votes (Wendt and Kogan 1974, p. 149).

In the United States the secret ballot was introduced between 1888 and 1910 by state laws requiring use of "Australian ballots." The Australian ballot required that ballots be printed with the names of all candidates and that voting be conducted in strict secrecy. In Great Britain another major structural change in the electoral process occurred over the course of the 19th century—the extension of the franchise. Before the 1832 Reform Bill, only about 1 in 12 adult Britons had the vote: after its passage about 1 in 7 did. The 1867 Reform Bill increased this proportion to about 2 out of 3, and, finally, the 1884 Reform bill provided for universal manhood franchise (Rabushka 1985, pp. 99–108). Many writers have maintained that this rapid expansion of the franchise played an important role in the

growth of government in late 19th-century Great Britain, as the working classes increasingly voted themselves transfers. The introduction of the secret ballot in 1873 is usually viewed as having played a significant but relatively minor role in this process of franchise expansion.

The expansion of the franchise surely played an important role in the expansion of government activities in 19th-century Great Britain, but in our estimation the role of the secret ballot in this process has been underestimated. The simple expansion of the franchise need not have had any direct effect on the ability of interest groups to dominate the process through the purchase of votes. Franchise extension implied that in order to win an election an interest group had to purchase more votes but not necessarily pay more in bribes. A "quantity theory of votes" would have tended to operate, analogous to the quantity theory of money: an increase in the quantity of votes in circulation reduces the value of each individual vote, *ceteris paribus*. The expansion of the franchise may have tended to benefit certain interest groups (e.g., manufacturers' associations in urban areas) at the expense of others (e.g., rural landowners) due to the presence of positive and differential transactions costs in the market for votes. However, the expansion of the franchise per se probably had only a minor effect on the total investment necessary to buy enough votes to ensure a particular electoral outcome. We shall return to this issue below.

IV. An Economic Theory of the Origin of the Secret Ballot and Its Effects

If the competition among interest groups determined the allocation of votes before the introduction of the secret ballot, how could the secret ballot itself have been introduced, unless some interest group expected to benefit as a result of its passage? But what interest group could have possibly benefited from the legal prohibition of the market for votes? These difficulties are sufficiently serious to render the conventional wisdom regarding the introduction of the secret ballot—that is, that it resulted from a reformist zeal to cleanse the electoral process of unseemly corruption—relatively attractive by default. However, there may be an economic explanation of these changes that does not lean heavily on the slender reed of reformist zeal. The legislation introducing the secret ballot can be explained as an example of Director's Law at work.

Director's Law states that public expenditures are made for the primary benefit of the middle class and are financed with taxes borne

largely by the rich and the poor (Stigler 1970, p. 1). Certainly, the middle-income class stood to gain from the introduction of the secret ballot. The open ballot allowed efficient vote markets to develop, which, in turn, permitted the rich to invest in rent protection by purchasing large blocs of votes from the poor. The minority of the wealthy was less vulnerable to the depredations of the majority of the nonwealthy because the wealthy could buy a majority as needed.

Consider the problem in the context of the universal manhood franchise. Both the wealthy and the middle class are likely to have high reservation prices associated with their votes, because both groups have significant economic assets to protect from political confiscation. Moreover, they will often be members of organized interest groups that function as voting blocs designed to benefit their members economically. But the relatively poor—in the late 19th century, the majority of eligible voters—will have low reservation prices associated with their votes. They have few assets to protect and relatively few opportunities to benefit from entry restrictions or other political rent opportunities. Also, the poor have traditionally tended to be relatively disorganized, probably in part because they have few assets and therefore few reasons to organize.

Because the poor tend to face extremely high costs of organization, it may have been technically possible, although economically inefficient, to organize as a bloc of voters in order to secure net wealth transfers to themselves as a group. From the standpoint of the individual poor voter, a more attractive alternative than tilting at the windmills of redistribution would have been to sell his vote to the highest bidder. In other words, the poor in their voting, as in other domains of behavior, are less likely to act as independent entrepreneurs. Instead, they sell their voting services to an employer who pays them a wage.[5]

Who were the highest bidders for the votes of the poor? There is clear evidence in the case of Great Britain, and some evidence in the case of the United States, that the voting services of the poor were largely purchased by the relatively wealthy. In 18th- and 19th-century Great Britain, it is well documented that entire boroughs of voters were essentially the employees of large local landowners and that the rich were the source of most of the vote bribery. In the United States, extremely wealthy groups controlled the big-city

[5]This does not imply that poor individuals necessarily entered into long-term voting contracts with vote purchaser—although such arrangements were common in Britain before the secret ballot—but only that in voting they were more likely to be acting as agents of someone else, whether for the election in question or a longer term.

machines and purchased a disproportionate share of the votes of the poor. Although the terms "poor"and "rich" are vague, it seems evident that the votes of those in the lowest 10 percent of the income distribution were largely being purchased by the dollars/pounds sterling of those in the upper 10 percent. Labor unions, guilds, and other organizations that presumably represented the economic interest of those in the middle range of the income distribution were evidently not major participants in the competitive bidding for votes.

The rich, by definition, had the most to lose. But why would the interest of the relatively rich in protecting their wealth from confiscation through the political process imply that they would be willing to bid higher prices for the voting services of the poor than those the nonrich would offer? One must keep in mind the structural characteristics of government in the 19th century in both Great Britain and the United States. While there presumably was no less interest in rent-seeking activity than there is today, the political structure of the modern welfare state that facilitates the process of wealth transfers was not yet in place. In particular, there was no established system of government spending programs and its attendant bureaucracy that would lower the political costs associated with achieving and implementing coercive transfers of wealth to interest groups. For example, there was no Interstate Commerce Commission to administer entry barriers in transportation so that restriction rents flowed to interest groups that had bid highest in the legislature; there was no Agriculture Department to erect and maintain elaborate coercive cartel agreements and price supports to farm interest groups; and there was no Internal Revenue Service to administer a costly system of progressive income taxation. As a result, agreements between legislatures and interest groups regarding wealth transfers were costly to implement and maintain. There was no well-established system for ensuring that wealth transfers from government went to the same people who bought them. Contracts between demanders and suppliers of legislative wealth transfers were difficult and costly to enforce. Property owners (i.e., potential wealth transferees) did not face an analogous problem.[6]

Consequently, the creators of wealth held a comparative advantage over the potential redistributors of wealth in the political marketplace. Crudely put, a potential transfer that I expect will cost me $1

[6]Growth of the modern transfer-state bureaucracy as an independent interest group has also lowered the relative costs associated with expansion of redistributive programs. Both potential beneficiaries and bureaucrats who expect to administer the proposed programs tend to form effective coalitions, which reduce the cost of such programs to rent-seeking interest groups.

would be worth investing up to $1 to prevent. If, however, the high transactions costs associated with politically determined wealth transfers meant that the potential recipient could only expect to receive, say, 90 cents on the dollar I lose (and therefore would be willing to spend no more than 90 cents on bidding for votes to achieve the transfer), the equilibrium outcome implies a victory for the opponents of redistribution. It is better to sell your vote for a dollar than for 90 cents. Of course, few wealthy owners invested more than a small fraction of their total wealth in rent-protecting vote purchases, but the opportunity to do so helped shield them from the kind of majoritarian wealth redistribution that they might otherwise have expected in the absence of open vote markets, given the relatively high concentration of wealth among relatively few voters.[7]

After the passage of the secret ballot in 1872 in Great Britain, the percentage of Commons seats held by landed interests dropped like a rock.[8] Other factors may also have contributed to this development, but it is consistent with our hypothesis.[9]

[7]We recognize that, given perfect markets, the rich would have no comparative advantage in the competition for votes. Assuming zero transactions costs, those in the middle class would be willing to pay as much as the rich for votes, and the poor would be at no relative disadvantage purchasing the votes of other poor. However, the structure of transactions and information costs in actual historical vote markets appears on net to have benefited the potential victims and not the potential beneficiaries of government wealth transfers.

[8]According to Bentley (1958, pp. 195–96), 47.3 percent of Conservative MPs in 1868 could be classified as representatives of landed interests, while 30.9 percent represented industrial, commercial, and financial interests. By 1900, these percentages had changed to 21.2 percent and 50.4 percent, respectively (throughout the century the liberal party had overwhelmingly represented the latter interest). Admittedly, the expansion of the franchise probably accounted for some of this shift; in the pre-Reform Parliament of 1832, the landed-commercial percentages in the Conservative side of Commons were 58.3 percent and 22.3 percent, respectively, indicating a significant drop between 1832 and 1868 in favor of the latter group. But it is plausible to propose the secret ballot as an important factor.

[9]Although William Gladstone and John Stuart Mill expressed opposition to the concept of the secret ballot in the first half of the 19th century, John Bright—the classical liberal and leader in the fight to repeal the Corn Laws in the early 1840s—was the chief proponent of the secret ballot within the Liberal Cabinet, and played an important role in the passage of the Ballot Act. Spearman (1957, pp. 124–25) explains:

> The high seriousness of Gladstone and Mill [about the duty of a citizen to be publicly accountable for his vote] was not shared by the new generation; in the boroughs the majority of men were now voters, and the new Liberals were more impressed by the danger of losing elections through bribery and intimidation by their opponents than by the danger of tempting the elector to make a frivolous or selfish [?] choice.

In other words, at least some advocates of the secret ballot did so because they at least in part sought a temporary political advantage over the (primarily Tory) landed interests.

Advocates of the secret ballot may also have intended to disfranchise recent immigrants who were technically eligible to vote.[10] Bryce, (1910, p. 49) notes that the introduction of the secret ballot in the United States effectively prevented large numbers of "the most ignorant class of voters," recent immigrants, from exercising the franchise. The Australian ballot system required voters to read the ballot in order to vote, and many recent immigrants could not read English. Between 1880 and 1914 a variety of immigration barriers were erected against specific groups of potential immigrants, especially the Chinese (Sowell 1981). Recent immigrants, even if citizens themselves, often had family members left behind who desired to immigrate, and would therefore have tended to oppose immigration barriers. The introduction of the Australian ballot may have functioned as a kind of parliamentary strategem by which those interest groups seeking entry barriers against immigrants gained a (temporary) advantage over the likely opponents of such restrictions.[11]

If the introduction of the secret ballot played an important role in increasing the tendency of democratic governments to grow, an apparent anomaly in the respective economic histories of Great Britain and the United States becomes understandable. Basically, the modern expansion of both the size and scope of government seems to have begun earlier in Great Britain than in the United States. In the 1880s, the long period of decline in government expenditures as a percentage of national income (27.1 percent in 1811 to 7.4 percent in 1871) was reversed.[12] By the first decade of the 20th century, the

[10]The secret ballot may have, in effect, functioned in a manner similar to literacy requirements and other restrictions on the franchise in southern states under "Jim Crow" that reduced the number of black voters quite effectively. On these restrictions, see Woodward (1971, pp. 321–49). The Australian ballot might best be viewed as an integral part of the Jim Crow system in the South.

[11]The introduction of the secret ballot would also have tended to reduce the economic returns to immigrants from entering the country and becoming citizens. Immigrants who became citizens acquired a valuable and marketable asset—their votes. The capital value of votes was drastically reduced after the introduction of the secret ballot. Citizenship in this sense became less valuable. While the economic opportunities available to immigrants would otherwise have been unaffected, all of these prospects were by their very nature uncertain. A significant number of risk-averse immigrants may have perceived the expected returns from the sale of their votes as a significant factor in their decision to undertake the risky enterprise of emigration. This reduction in the capital value of the vote may help to explain the passage of the British Ballot Act. Immigrants to Great Britain in the late 19th century came primarily from Ireland, and the secret ballot would have tended to reduce the incentive to move to Great Britain. Hence, simply by lowering the marketability of the recent immigrant's vote, the secret ballot would have acted as an entry barrier against competing foreign labor.

[12]Calculated from data in Mitchell and Deane (1962, pp. 366, 389–91, and 396–99). Also see Peacock and Wiseman (1961).

legislation that established the basis for Great Britain's emerging welfare state was in place.[13] But during the same period, U.S. government expenditures as a percentage of GNP continued to decline, continuing the pre–Civil War trend (see *Historical Statistics of the United States* 1975). This decline continued until World War I. Over the same period, while the scope of federal economic regulation increased significantly, no redistributive programs were instituted similar to those in Great Britain. The growth in American government really began during and after World War I.

The secret ballot was introduced by Parliament in Great Britain in 1872. In the United States the first Australian ballot bill was introduced by the Michigan state legislature in 1885, and Massachusetts passed the first ballot bill in 1888. By 1910, 46 of the 48 states had some sort of secret ballot by law (Bryce 1910, p. 148). If the instability inherent in electoral outcomes, given the assumption of a secret ballot, tends to cause the rate of government growth to increase *ceteris paribus*, the timing of the introduction of the secret ballot in the British and American cases may help to explain the different growth patterns in those two countries before and after the electoral innovation.

V. Conclusion

The argument presented here can be simply summarized. While the effects of prohibiting efficient market pricing for scarce resources are taken for granted by many economists, they have failed to extend their analysis to the process of voting. Because of laws preventing the exchange of votes in markets, votes represent an unpriced resource. While various laws against bribery of voters function both to reduce the quantity of votes supplied and to increase the price, the institution that acts effectively to prohibit the emergence of a competitive vote market altogether is the secret ballot, which prevents enforceable contracts between buyers and sellers. Voters consequently have only a negligible incentive to allocate their votes efficiently. The various paradoxes of voting and the instability phenomena associated with democratic decision making result from this fact.

If votes can be freely traded across markets, voters will act purely as agents of interest groups who bid competitively for these scarce resources. The fact that votes are vested in specific individuals will tend to raise transactions costs in such a vote market by comparison with a system in which votes are fully alienable (i.e., X can buy Y's

[13]See Schweinitz (1943, p. 202) for a detailed summary of these developments.

vote outright rather than having to hire Y to vote as X prefers). Until recently, votes were bought and sold across markets. Under such circumstances, the various theorems about the inherent instability of democratic decision making become irrelevant. Democratic outcomes become fully equivalent to interest-group equilibria in political markets.

If the modern theories that link the instabilities of democratic decision making to the growth in government—which we have argued are irrelevant except in the context of the secret ballot—are correct, the introduction in both Great Britain and the United States of the secret ballot may help to explain the transition in both countries from a gradual but steady *decline* in the size and scope of government during the 19th century to the consistent and increasingly rapid growth characteristic of the 20th century. This possible relationship seems deserving of future empirical research.

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