

The Why and the How of Democracy: A new theory and a new solution

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Note. This is a brief introduction to the theory of commerce and government presented in my unpublished book, *The People's Amendment: The Second American Revolution*.

The Why of Democracy

The traditional rationale for democracy, as given by John Locke of the late 1600s, is social contract theory: a democracy is the result of a social contract for the purpose of protecting rights. Under this rationale, the people create a government in order to protect their rights, in particular, the rights of life, liberty, and property. This is the rationale given in the American Declaration of Independence, although Jefferson unfortunately dropped property from his list of rights and included, instead, the pursuit of happiness.

My theory of commerce and government establishes a more general rationale for government:

Government is the business that performs tasks that must be monopolistic.

The administration of road building provides a simple example: it would be impractical for competing companies to each build its own set of roads connecting cities, so a centralized party must administer the placement of roads. The protection of rights similarly falls to a centralized party, thereby encompassing the traditional rationale for democracy. By virtue of centralization, this unique party is necessarily a monopoly. and such a monopoly is known as a government.

A government is a necessary monopoly — a necessary business that is necessarily a monopoly.

So what is the reason for democracy?

The motivating force for maximizing excellence in human achievement is competition, as exhibited by the competitive events in the myriad venues of human performance. The Olympics provides the exemplar of competitive event in the venue of athletics. In the venue of commerce, the reason for the outstanding product value that is available throughout the marketplace is competition among sellers: individual sellers compete to acquire wealth through sales by providing greater product value than other sellers. Henry Ford and Sam Walton exemplify such achievement.

Since a government is a necessary monopoly, it necessarily lacks the motivating force of competition for the purpose of acquiring customers, and the result is that a government never excels in product value. In particular, even if a government enterprise can be touted for outstanding performance, say in putting a man on the moon, it is a foregone conclusion that the enterprise was relatively inefficient, wasting a fair amount of money in the process. Hence, product value — bang for the buck — is always relatively low for government products. This conclusion is tempered somewhat by the ability of people to move from one state to another, but moving is inconvenient for most people, and it is impossible for many.

The fundamental reason for democracy, then, is to control the price of government since a government is a necessary monopoly and therefore lacks the motivating force of competition to maximize product value.

The fundamental reason for democracy is that the customers (the citizens) of a government must control the price of the government since a government is a necessary monopoly and a necessary monopoly lacks the motivating force of competition to maximize product value.

In this light, what tasks should a government perform?

A government should perform only those tasks that must be monopolistic. Any other task should be performed by a private party because a private party will be motivated by competition to maximize product value.

This establishes a concrete rationale for minimal government, a rationale that does not follow from the traditional rationale for government.

To illustrate the idea, although a government will need to administer the placement of roads, the government doesn't need to build and maintain the roads. As a result, to maximize product value in the building and maintaining of roads, the work should be contracted to private parties through competitive bidding.

Notice that although the primary reason for democracy is to control the price of government, secondary reasons naturally follow, namely, to control the administration and policies of government, in particular, regulatory policies. However, the party that controls the price of government — the ability of the government to get money — ultimately controls the government because it can strangle the government. This is why, in effect, Charles I, of the mid 1600s, fought to the death with the British House of Commons over the power of the purse. The House of Commons won, and in 1787, the framers of the United States constitution modeled the House of Representatives after the British House of Commons, giving the House of Representatives the power of the purse — the power to propose revenue bills.

In conclusion, the fundamental reason for democracy is to enable the people to control the price of government. And if the people take direct control of the ability of the government to get their money, there will be a profound transformation in our understanding of the role of government vs. the role of the people. This will give the people the political leverage that they need to restrain the regulatory propensity of government. Let's now examine the theory for realizing this power of the people.

The How of Democracy

The traditional structure of democratic government is that of representative government because representatives must meet in order to discuss issues and make decisions. This requires time that most people don't have available because they must earn a living by continuing their employment or their business enterprise. There has also been the hope that representatives will be chosen for their integrity and merit, although experience proves that this is not necessarily true. Finally, even in the age of the internet, it is impractical for the populace to be conversant in the numerous bills and policy issues that a legislature must address. For all of these reasons, we have representative democracy.

However, it turns out that representative democracy suffers from an inherent deficiency that direct democracy does not suffer from, and the result is that direct democracy should be employed wherever it is feasible.

Representative democracy suffers from an inherent deficiency that direct democracy does not suffer from, so direct democracy should be employed wherever it is feasible.

The deficiency that is inherent in representative democracy is that ***a legislature is subject to the divide-and-conquer strategy of interest groups*** because the votes of legislators must be public so that legislators can be held accountable by their constituents. This is the reason for the notorious problem of so-called special interest groups. By contrast, ***the populace at large is immune to the divide-and-conquer strategy of inter-***

est groups because a citizen represents no one but him-or-herself so their vote is private. For the same reason, the identity of petition signers should not be subject to public disclosure.

Representative democracy: A legislature is subject to divide-and-conquer because its votes are public.

Direct democracy: The populace is immune to divide-and-conquer because its votes are private.

The most serious problem in government is that of **fiscal irresponsibility**: a government doesn't know where to stop taxing, borrowing, and spending. The source of this problem is that a government is a necessary monopoly, so a legislature can coerce money from the people simply by voting itself more money. And to make matters worse, a legislature is subject to the divide-and-conquer strategy of interest groups. We solve this problem at its root through direct democracy: a citizen-controlled ceiling on government income+debt, with the ceiling expressed as a percentage of the income of the economy. At the national level, the income of the economy is the gross domestic product or GDP, while at the state level, it is the state equivalent. This will allow government income to grow as the income of the economy grows. Only the people can change the ceiling, and they can *lower* it if they wish, thereby providing a means for **reducing the cost of government through popular mandate**. This will solve the fiscal problem, not only because the people earn the money and own the money and, hence, will protect their money, but also because the people are not subject to the divide-and-conquer strategy of interest groups since their votes are private.

Finally, notice that a citizen-controlled ceiling on government income+debt will establish **a new separation of powers** in government. We're familiar with the separation of powers among the legislative, executive, and judicial branches of government, which was conceived by Montesquieu, in the mid 1700s, based on the structure of the British government. With a citizen-controlled ceiling, there will be a new separation of powers: a separation of powers between the people and the government in fiscal matters. Under the new separation of powers, the people will establish the budget total through their ceiling, while the government will determine spending priorities. Thus, under a citizen-controlled ceiling, legislators will be elected primarily for their spending priorities. The new separation of powers is illustrated in the figure on page 4.

Summary and Conclusion

The traditional **rationale for democracy** is social contract theory: a democracy is the result of a social contract for the purpose of protecting rights. Under the new, more general theory, a government is the business that performs tasks that must be monopolistic. It follows that the fundamental reason for democracy is that the customers (the citizens) of a government must control the price of the government. This, in turn, establishes a new **separation of powers** between the people and the government in fiscal matters. Under the new separation of powers, the people will limit the price of the government — the budget total — while the government will determine spending priorities.

The traditional **structure of democratic government** is that of representative government. However, a representative democracy suffers from an inherent deficiency since a legislature is subject to the divide-and-conquer strategy of interest groups because legislator votes are public. As a result, direct democracy should be employed wherever it is feasible since the populace is immune to the divide-and-conquer strategy of interest groups because its votes are private.

The most serious problem in government is that of **fiscal irresponsibility**, and this problem is solved at its root through direct democracy: a citizen-controlled ceiling on government income+debt. I have formulated a federal constitutional amendment for the ceiling, along with an adaptation for the states.

My strategy is to use the initiative process in the states because nearly half of the states (24 states) have an initiative process, and the people should overwhelmingly approve an initiative that gives them control of the ability of the government to get their money. Since Washington State has an initiative process, we can start here by supporting **The People's Initiative**. This will set the example for the other states, and approval of the initiative in other states will build momentum for approval of a federal constitutional amendment.

Separation of powers

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Under the new separation of powers, in fiscal policy the citizens will control the budget total through a ceiling on government income+debt, while the government will control spending priorities.

