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Liudmyla Vozna

The Political Market with Asymmetric Information and Hybrid Democracy

Abstract

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1. Introduction

“Why the Worst Get on Top?” More than half a century ago, Friedrich von Hayek posed this question in his famous work, “The Road to Serfdom,” in which he criticized the fascist and Stalinist authoritarian regimes (Hayek, [1944] 2007: chapter 10). Today, we are once again faced with this same question, not only when looking at politically oppressed countries but sometimes even at certain countries with long-standing democratic institutions. On the other hand, we can find similar issues being raised in the theory of asymmetric information in the case of “adverse selection,” described, among others, by G. A. Akerlof in relation to the used car market (Akerlof, 1970). Thus, in using this theory to explain the phenomenon of “the worst floats to the top,” we will attempt to explain a troublesome political question with the help of economic theory.

The study of informational asymmetry has a prominent position in modern economic theory in general and in theories of public choice in particular. Just as informational asymmetry can exist on the goods market between buyer and seller, on the labor market between employers and hired workers, and on the financial market between top managers of public companies and their shareholders, it can also be found on the political market between voters and politicians. Even in mature democracies, the political process can suffer failures because of inadequate information flows. Moreover, an excessive level of informational asymmetry in the political arena can lead to the paralysis and even collapse of basic democratic institutions and principles. In his Nobel Lecture, Joseph Stiglitz noted that, “without unbiased information, the effectiveness of the check that can be provided by the citizenry is limited; without good information, the contestability of the political processes can be undermined” (Stiglitz, 2001). Actually, the purpose of this article is to show that political competition will inevitably collapse as a result of asymmetric information on the political market.

“Political market” is a concept that is primarily used in the theory of public choice (James M. Buchanan and others). The main players in this market are voters and politicians, while the goods being exchanged might be wealth transfers for which demand is shaped by special-interest groups (see, for example, Tullock, [1993] 2005), goods whose supply is shaped by government bureaus (Niskanen, 1994), votes that electors sell to politicians (Anderson and Tollison, 1988), and so on. This article studies the political market as a mechanism for voters to buy the specific labor services that politicians offer. In other words, voters resemble employers on the labor market, only the process of selection and “hiring” are done through the institution of elections.

The article uses Ukraine as the basic example, where the problem of “the worst floating to the top” is particularly current. Still, the theoretical conclusions that are proposed are not related to the features of a particular nation but to the fundamental features of representative democracy.

2. The basic features of a market with asymmetric information

G.A. Akerlof in his prominent work (Akerlof, 1970) examined the problem of asymmetric information on the example of the used car market. This market can offer both relatively good quality cars in fine condition and bad used cars (“lemons”). Still, buyers cannot, on their own, determine whether a given car that they are interested in is actually good or bad as they are unable to check out a slew of important mechanical features. Thus, without actually having sufficient information about the real state of any given car, buyers will pay only a mid-range price for it, that is, the price of a car of known average quality. For instance, if a good quality used car is worth \$8,000, while a lemon is essentially worthless, buyers will be willing to pay only \$4,000, even if a particular car is actually of good quality. Gradually, owners of good cars leave the market because they are unable to get a fair price for the value of their cars. As sellers of better-quality cars leave the market, the average quality of used cars goes down and, along with it, the average price. This further drives out owners of relatively good cars. This process of poorer and cheaper cars pushing out relatively better and more expensive cars repeats itself until all that is left on the market is lemons and the market itself ceases to operate. In other words, a market with asymmetric information eventually collapses.

Based on the equations applied by Akerlof, his theory looks at classical, that is, symmetric positioning of supply and demand curves in which supply is directly related to prices, while demand is inversely related. Nevertheless, in my opinion, in the case of the market of lemons discussed earlier, we actually have an asymmetric position of supply and demand curves: demand demonstrates here a non-standard relationship to prices. If, according to Akerlof’s equations, demand for used cars depends on both price and quality but since the latter directly affects prices, demand in this model effectively moves in the same direction as prices. This direct dependence of demand on prices makes the used car similar to Giffen goods, demand for which also changes in the same direction as prices. Although the reasons behind such a dependence on prices are different in these two instances, it is an interesting coincidence that a used car that is a lemon, like Giffen goods, should be placed in the group of inferior goods.

We proposed that a market with asymmetric information matches a one-sided, i. s. asymmetrical slope of supply and demand curves nearly 15 years ago with Valeriy Heyets (1998). At that time we were studying the phenomenon of transition economies using Ukraine as a case in point to demonstrate that the planned economy of the former Soviet Union had similar features to a market with asymmetric information and also had asymmetric macro-equilibrium: according to our assumptions, the curve of aggregate supply sloped in the same way as the slope of aggregate demand, downward to the right.

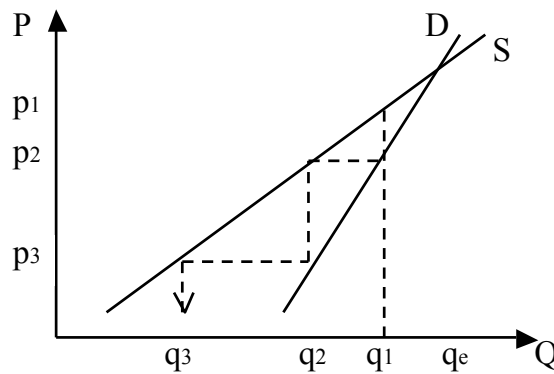


Figure 1. Asymmetric equilibrium for market of “lemons”:
the cobweb model

In the specific example provided by Akerlof, the thesis that supply and demand curves are asymmetrically positioned, is supported by the application of a cobweb model. For instance, when supply and demand curves both slope up to the right but equilibrium is unstable, the “path” of the cobweb moves further and further from the equilibrium point and effectively coincides with the direction in which the used car market collapses (see Fig. 1). In Figure 1, we can see that when sellers want to sell a certain quantity q_1 of a given good at a price p_1 , buyers will agree to buy this quantity but for a lower price, p_2 . If the price falls to p_2 , then supply will also go down, to q_2 . Buyers will again not be satisfied with the established price and will “promise” to buy the given quantity of products q_2 at an even lower price, p_3 . But the repeated reduction in the price to p_3 will also reduce supply to the level q_3 . This process repeats itself until the market has only goods with no value and trading stops altogether.

Assumptions about the nature of asymmetrical equilibrium are important to us from the point of view of analyzing the function of supply and demand on the political market. In a situation where information is asymmetric on the political market, either the buyers (voters) or the sellers (politicians) will have to behave in untypical ways, that is, in contradiction of classic market rules with regard to pricing. However, even if this thesis proves wrong, the main conclusion remains valuable for our further deposition: a market with asymmetric information is non-equilibrium or demonstrates unstable equilibrium. As the asymmetry of information grows, the imbalance of such a market also grows, eventually destroying the market itself. That is, extreme disequilibrium makes it impossible for the market to continue to function. If a political market becomes extremely non-equilibrium, then we are looking at the destruction or complete dysfunction of such basic institutions of representative democracy as elections. In other words, if a country’s political market is a market with asymmetric information, there is a high risk of collapse of both the electoral process itself and of the democratic regime. In this kind of situation, democracy becomes like a chair with a broken leg: it may still stand but you can’t really sit on it. Here we deal with not real democracy as well as such a broken chair can be good decoration for a room but it does not perform its primary function.

3. Fundamental conditions for stable equilibrium on a political market

In order to study the nature of supply and demand on the political market, we had to determine what it was on this market that played the role of price. As noted in the introduction, the political market is being looked at as one on which voters “buy” specific services of labor proposed by politicians through the mechanism of elections. Initially, such a market can be compared to the labor market. Still, what needs to be considered as the price for such work is not only salaries that elected politicians receive once they take up a government post, but the entire income that they anticipate to gain once they have access to political power. In other words, we are talking about political rents, whose analysis has a prominent place in the theory of public choice (see, for instance, Tullock, 2005). We should note that on the resource market (labor, land,

capital), generally the types of incomes for given resources (wage, land rent, interest) are treated as prices in modeling the equilibrium on these markets.

If political rent is the price on the political market, the classical position of the supply curve (slopes upward to the right) is in line with the basic assumptions of the theory of public choice: politicians are primarily motivated by their private interests in their actions. On the other hand, a classic position of the demand curve (slopes down to the right) suggests that voters are rational, that is, less inclined to support those politicians whose activities lead to greater political rents (see Fig. 2) and thus will cost for voters more, in the form of taxes, bribes and so on.

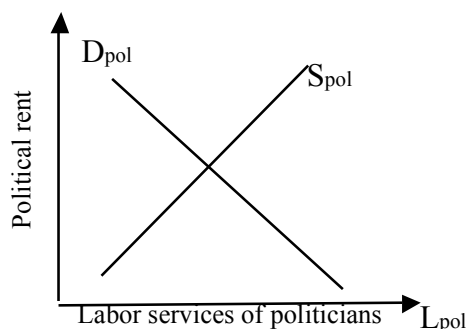


Figure 2. Demand and supply on a political market

Is this combination of shrewd voter and greedy politician the ideal, or more correctly, the normal state for democracy? And does this model reflect selfless politicians for whom the greater good of their people really is the highest law? When it comes to markets, the criterion “ideal” could simply be a stable state (stable equilibrium). In order to determine which factors ensure sustainable equilibrium on the political market, we again applied the cobweb model. Of course, this model is not universal, but applying it in this particular instance reveals some curious inevitabilities.

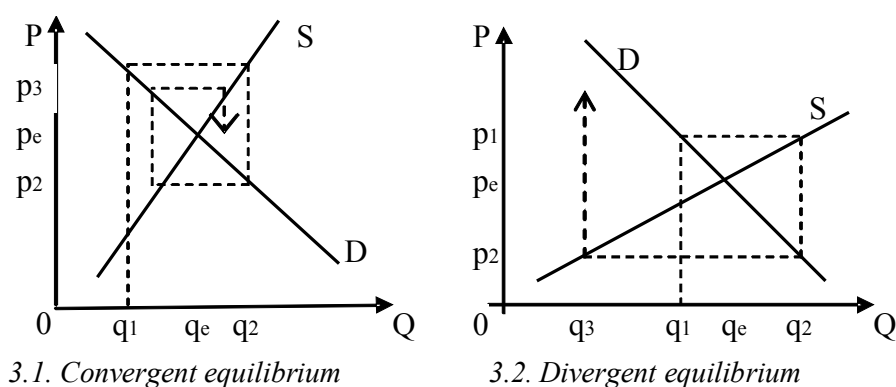


Figure 3. Cobweb model

Fig. 3 illustrates the classic cobweb model (Allen, 1956) unrelated to the type of good that is being purchased or bought. Indeed, Fig. 3.1 shows the situation when there is stable equilibrium (the arrow in the web moves in the direction of equilibrium point), while Fig. 3.2 shows unstable equilibrium (the cobweb turns in the direction away from equilibrium point). Fig. 3.1 also shows that when there is stable equilibrium, price elasticity of demand is higher than price elasticity of supply (the angle PDQ is smaller than the angle SOQ). Still, when equilibrium is unstable, as in Fig. 3.2, demand is less elastic regarding prices than supply (angle DQO is larger than angle SOQ). For a political market, these conclusions mean that the more sensitive politicians are to political rents, that is, the more they are driven by their own economic interests

in the electoral process, and the less sensitive voters are to the “greed” of politicians, the less stable the political market equilibrium becomes provoking the political instability in a country.

If politicians are completely lacking in self-interest, such as Maximilien Robespierre, and their political decisions are more concerned with the public good than their own benefit, the supply on the political market is completely insensible to price. As for the price elasticity of demand on such a market, it is (partly) reflected in the electoral activity of citizens: as voters become less politically active and participate less in elections, the price elasticity of demand on the political market decreases. In analyzing equilibrium on the political market, we can see that the strength of democracy declines with both growing cupidity among politicians and declining electoral activity among voters combined with apathy towards political corruption.

4. *The political market as a market with asymmetric information*

For voters to behave rationally and not favor “more costly” politicians, they must firstly have the necessary information at their fingertips. In fact, however, they do not have this information. Although the theory of public choice notes the problem of lack of informedness on the part of voters (see, for example, Tullock, 2005: 38-46), I will point more closely at six factors that directly create the asymmetry of information on the political market:

1) *Indeterminate prices.* In contrast to standard goods and services, the price of a politician is not available on a price list. In selecting politicians, voters do not know for certain what price they will have to pay, as they will not be paying directly but indirectly: primarily through taxes, but also in bribes, concessions, personal favors, and so on. The portion of taxes paid by voters that is likely to go to political rents is not officially available information. It’s not something that statistics bureaus calculate and publish openly. Understandably, the average person also does not engage in these kinds of calculations and does not read the necessary analytical literature. Thus, voters can only have a vague idea of the real price that they pay for politicians. Moreover, this idea depends considerably on the ideological position of individual voters, their political sympathies and antipathies, their politico-economic sophistication, and so on.

Of course, voters are capable of forming a general idea about the cost of a politician by comparing the taxes that they pay the state, and the size of benefits that they receive in return. A growing gap between these two elements (growing taxes and declining benefits from the state; growing dysfunctions of the state) is the basis for voters to understand that the price of a politician is rising. Nevertheless, the problem lies in the fact that voters do not actually pay politicians at the time the election, but over the next 4-5 years that those politicians are in office. Indeed, a similar time gap can be found on the labor market as well, although it is much smaller. Unlike the labor market, however, the price that the voter pays for a politician is not established on any contractual basis. So it’s no coincidence that lower taxes and combating corruption, which theoretically should bring down prices on the political market, are key points in many election platforms, including among those political forces that openly fostered corruption and raised taxes during their previous term of office.

2) *Lack of firsthand knowledge.* Voters generally don’t know the politicians they are voting for personally. In other words, they are only making assumptions, without knowing for certain what the candidate they are choosing might be like.

3) *Distorted mass media information.* The mass media often distorts (spins) real information about political candidates, deliberately creating false images. Where a given media outlet supports a certain candidate, they will intentionally exaggerate that person’s positive aspects. And if they work with the opposite goal in mind, then they will exaggerate the negative aspects. Metaphorically speaking, depending on their own position, the media can make a silk purse out of a sow’s ear, or turn a silk purse into a sow’s ear.

4) *The inconstancy of politicians.* Even if voters know a certain politician quite well, they cannot be certain that he or she will maintain those essential features in the future. For instance,

if we buy a refrigerator, it could be of poor quality and stop working tomorrow, but it will never turn into a washing machine. When people vote for a politician, they often do so on the basis of certain principles that they equate this person with. But people are not constants and are capable of changing their goals, their taste, their motives and so on. Nor is the only source of problems the fact that politicians are a human resource: a change in profession and getting new degree require more time and effort than for certain politicians to change their political convictions. The result is that today we voted for a politician who belonged to Party A, but tomorrow that same politician could decide to change certain principles and join Party B or C. The fact that a politician is seen as a determined dove today does not preclude changing in the future to an equally vociferous hawk. An atheist could become a born-again believer, while a believer in Christ could decide tomorrow that Buddha or Zoroaster was more to their taste. This is the nature of a free human being. But in the concrete situation being discussed here, this kind of mutability increases the asymmetry of information on the political market.

5) *The unreliability of political platforms.* Even if people vote for a political platform rather than a personality, there is still no guarantee that any given plank of that platform will actually be carried out.

6) *The closed proportional system.* In modern-day Ukraine, these asymmetries are compounded by additional serious problems with the transparency of information. For instance, the closed proportional electoral system in place for national and presidential elections only allows voters to choose among parties, not among individual candidates. There is no territorial representation at all in the national legislature, the Verkhovna Rada. Moreover, party lists are closed, meaning that, at best, party members may have some ability to influence them, but voters do not. In reality, most lists are formed by party leadership with only nominal input even from rank-and-file members. Further, an individual party member's position on this list determines whether that person will get to sit in the Rada, based on the overall percentage of the vote a given party gets. This means that the personal characteristics of future lawmakers are almost completely hidden from ordinary voters. The way members are promoted within parties is often quite undemocratic and far from being a "selection of the best." Indeed, it has become quite common for places on party lists to be bought and sold in Ukraine. One opinion poll by the Razumkov Center suggests that this kind of horse-trading is an open secret: most respondents (73%) had heard of specific instances (Razumkov Center, 2009: 11). Analysts also note that the proportion of VR deputies that report to leaders of financial-industrial groups (FIGs) is growing: support staff such as secretaries, aides, and so on, or employees in various positions either subordinate to or connected to FIG enterprises and organizations: "In some sense, this is reminiscent of vassal dependence, as it is based on both material dependence and a "sense of obligation" on the part of deputies before their colleagues or individuals who are not actually present in the legislature" (Razumkov Centre, 2009: 13). So in contemporary Ukraine, as in the times of the Communist regime in the former USSR, the role of servants of the people is being carried out by loyal servants of the parties or party leaders.

In short, the electoral process deals with the agency problem, a feature that is key to the theory of asymmetric information. If all these asymmetries are part of the political market, voters are like those buyers who are purchasing something they have no idea about, whether its actual quality or the price it is going to cost: the classic pig in a poke. In this situation, it is difficult to consider the behavior of voters as rational¹ and thus to apply the classic demand curve to this market.

5. *Rational, self-interested maximizers or "irrational" destroyers of democracy?*

The theory of public choice is based on the assumption that political actors are rational, self-interested maximizers, that is, that they are driven by the profit motive. When analyzing the

¹ See also (Prisching, 1995).

motives of politicians and the nature of their offerings on the political market in Ukraine, the facts suggest that they really are, for the most part, typical rational, self-interested maximizers.

Today, Ukraine is seeing what could be called an excessive economization (commercialization) of the political arena. The great majority of political parties in Ukraine have no ideological basis. As analysts from the Razumkov Center point out, the real goal of the establishment of most political parties is not to defend the interests of specific social groups (the representation of which is at first glance reflected in the classic classifications of political ideologies and forces: right, left, centrist) but pragmatic individual or narrowly grouped commercial interests. Parties are primarily seen by politicians as a technology, a kind of organized, legitimate mechanism for gaining power, and not an institution that has its roots in the social structure of society and, in this way, reflects the interests of specific social groups. This fact largely explains the phenomenon of such an excessive number of political parties in Ukraine. Most of them do not actually participate in the political life, as they were set up for the purpose of later “selling” themselves to politicians who don’t have their own party structures but need them in order to run for office (Razumkov Center, 2009: 8).

Ukrainian political analyst Oleksandr Fisun describes the current economic situation in Ukraine as “political capitalism,” under which the accumulation of capital happens through access to political and administrative resources. In this system of “capitalism without capitalists,” the main positions belong to the new class of rent-seeking entrepreneurs, who achieve their goals with the help of “political investment” in the Head of State, the legislature, and state officials. In return, they gain politically-based privileges, access to the Budget and to state assets, immunity before the law, and more (Fisun, 2008).

In this context, if we attempt to establish the supply curve for the political market in Ukraine, it should properly slope upwards to the right, demonstrating the classic direct relationship between supply and price. It may be naïve (and even egoistically!) to believe that politicians should be selfless and care only for “the good of the people,” so the problem is not greediness per se, but its extent. The commercialization of the political or electoral process in Ukraine points to an excessively high level of sensitivity to rent-seeking among politicians, that is, this is the main – if not the only – factor that spurs them to participate in political activity in the first place. But, as the cobweb model illustrated earlier (Fig. 3), an excessive orientation on rent-seeking among political players correlates to a dangerously high price elasticity of supply, which disturbs the country’s political equilibrium. In short, we have a situation of political instability, because there is a high risk that a political market disequilibrium will grow to such a critical extent that the very electoral process comes under threat and, with it, democracy itself.

Of course, we could question the point of applying the cobweb model and its conclusions to our analysis. However, the excessive orientation of politicians on economic benefits or political rents is also a factor that directly increases the asymmetry of information on the political market: if a politician engages politically only for the sake of his own commercial benefit, he will easily change his principles and ideological “convictions.” So, the more sensitive a politician is to price (political rent), the easier it will be to convince (buy) such a politician to change parties or factions in the Verkhovna Rada. For instance, it is typical of Ukraine’s legislature that National Deputies to switch from the party through whose lists they came to office without formally leaving its faction. Such politicians effectively betray their voters, but they are allowed to keep their seats. In other words, electors vote for a politician because he/she is nominally “leftist,” without being certain that the representative they elected will not transform himself into a “rightist” or vice-versa.

This obviously self-interested behavior on the part of politicians disillusiones the electorate and deprives it of any real choice: all political forces are seen as equally oriented towards their own narrow group interests and any campaign promises are seen as so many lies. Indeed, lack of trust in the politicians rose sharply among Ukraine’s voters after the Orange Revolution of 2004, when the newly-elected President failed to come through on his main campaign promises and was seen as betraying the people who brought him to power. As analysts

have pointed out (Fleychuk, 2007), by 2006, more than half of Ukraine's voters no longer trusted any political party and believed that all political parties only served their own interests.

Thus, in a situation where the political market suffers from asymmetric information, voters, like used cars buyers in the Akerlof's model, actually have no choice: they have to choose between bad and worse. The lack of a real choice for consumers in the electoral process means the lack of true political competition, regardless of how many players there may actually be on the market.

For the benefit of theory – but not for Ukraine's political realities – this conclusion matches the conclusions of the country's political analysts. The latter suggests, specifically, that, based on the current structure of factions in the Verkhovna Rada of Ukraine, only a few dozen individuals have any real influence over the lawmaking process: those who control the votes of these various groups of deputies (Razumkov Center, 2009: 13). Based on the annual "Nations in Transit" report, Ukraine's index of democracy deteriorated from 4.39 points for 2010 to 4.61 points for 2011 (where 1 is the highest and 7 is the lowest level of democracy) with its political regime described as "hybrid." In this way, Ukraine stands between semi-consolidated democracies and semi-consolidated authoritarian regimes (Freedom House, 2011)².

Understandably, for a person who enters politics exclusively for the sake of money, betraying voters is a normal, logical way to earn that money. If this kind of politician equates democracy with the transformation of politics into a kind of family business, he/she may even see himself as an earnest defender of democratic values. In this case, he is no ordinary destroyer but an irrational destroyer of democracy!

6. The bribe-taking, irrational electorate and the victory of plutocracy

Needless to say, the betrayal of politicians does not go unnoticed by voters. In Ukraine, this kind of betrayal led to the defeat of the Socialist Party in the VR election at one point and to the utter defeat of Viktor Yushchenko in the 2010 Presidential election. Despite this, the overall result in Ukraine's politics is the continuing defeat of better politicians by richer ones. This is clearly demonstrated that of the 14 Ukrainians who are ranked among the wealthiest individuals in Central and Eastern Europe in 2006 by Wprost, a Polish journal, seven were elected to the Fifth Convocation of the Verkhovna Rada. Of the 24 Ukrainians who were in this rating in 2007, seven were elected to the Sixth Convocation of the Verkhovna Rada (Razumkov Center, 2009: 10).

If politicians are generally driven by concerns of rent-seeking, in a market with asymmetrical information – and, based on our earlier assumptions, asymmetrical equilibrium, – the classic supply curve on the political market is matched by an atypical position of the demand curve (see Fig. 4). In this case, we have a dominant irrational voter: the higher the "price" of the politician, the more inclined such a voter is to vote for him.

² See, for example, Umland (2010).

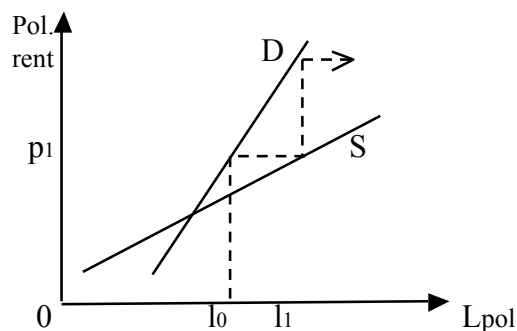


Figure 4. Supply and demand on the political market with asymmetric information

The curves in Fig. 4 give the impression that, as the angle SOQ shrinks, the supply curve leans more and more to the right as though it is drawing the demand curve towards itself: the more “rational” or driven by personal commercial gain the political actor, the less rational the electorate becomes in its choice of who to vote for.

Is there really a connection between the rationality of politicians and the irrationality of voters and what is the mechanism underlying it? One answer to this is the already-mentioned connection between the “rationality” of politicians and the disenchantment of voters: the more oriented on rent-seeking the politician (supply curve slopes more and more to the right), the more disenchanted with politics as a whole voters become. This disenchantment, incidentally, shows itself in a decline in voter activity and thus matches the turning of the demand curve on the political market towards a less elastic position in our analysis.

Another explanation could be the fact that as political rent-seeking grows, that is, advantages arising from access to political power, politicians have more and more opportunities to “buy” voters. Thus, we are looking at a phenomenon that is not just a political class that is rent-seeking but also an electorate that is effectively bribe-taking. The latter not only pay politicians more and more in the form of taxes, bribes and so on, but also receive a tiny portion of the rents in the run-up to or during elections. In this situation, the demand curve for the political market paradoxically slopes in the same direction as the supply curve (Fig. 4): rising political rent not only does not drive voter demand for those politicians down but actually pushes it upward.

Indeed, for many Ukrainians today, an election campaign is a great opportunity to make a bit of cash. The focus of politicians’ “investment” is the enormous mass of voters, starting from political spin doctors, journalists and actors (who make the most), and ending with petty distributors of promotional leaflets and ordinary folks happy to enjoy free lunches and free concerts. From the point of view of those who on whom this political investment is bestowed, it doesn’t matter whom they actually support prior to the election. The main thing is that politicians are ready to pay. Thus, the lack of principles or the presence of money as the main motivator today is a norm not only among many politicians but also among many ordinary Ukrainians. One man told us he was paid simultaneously by several political parties during one election campaign: he had figured out that he could promote a number of parties at the same time by putting one party’s stickers on the windows of his apartment and the other party’s stickers on his car.

Once, prior to the 2004 presidential election, my students, when I asked what they would do if the university administration ordered them to participate in a rally supporting the incumbent, said that they would refuse – unless they were paid, of course. This is only an anecdotal bit of evidence, not an opinion poll, but it is suggestive. These particular students did not see themselves as prepared to take political bribes. Similar to many other voters, they justified their position by saying that, even if they took money from a particular political party, they would still vote for whoever they really supported when the time came. What they did not

seem to be aware of was that, by taking money from politicians today, they would find themselves having to pay that money back in the future in a variety of not very apparent ways: for the politicians, this money was an investment on which they expected a return.

From the position of the bribe-taking voter, this kind of behavior is very rational because taking money from politicians seemingly responds to the voter's economic interests. However, in my opinion, a rational or economically-thinking individual would properly calculate the costs and benefits, not only for today, but for the longer term. Irrational voters have a very short electoral memory and are unable to evaluate the future consequences of decisions they taken today. In other words, irrational voters are short-sighted voters, primarily because they lack sufficient information to see the bigger picture. In the social dialog, these voters are more acted upon than acting and are thus easy prey to manipulation. These voters cannot independently make decisions: someone else makes these decisions for them. As easily manipulated, mercenary and socially irresponsible such a voter really reminds us of a mass-man in the Jose Ortega y Gasset's conception³.

The ordinary voter mostly excuses such unprincipled behavior by claiming poverty. In fact, the phenomenon of poor voters "selling" their votes is hardly unique to Ukraine. For example, Gary M. Anderson and Robert D. Tollison (1988) wrote about the trade in votes mostly during the 18th and 19th centuries in Great Britain and the United States, until the secret ballot was introduced. They argue: "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" (Anderson and Tollison 1988: 64)⁴.

The specific aspect in modern-day Ukraine is that, in selecting the wealthiest politicians, voters are themselves setting up the trap of continuing poverty. I dare assume that, in conditions where the voter considers the best politician the one with the most money, that is, the one who can buy votes, for the politician who is a rational maximizer of his own interests, the best voter is the poorest one as that voter is the easiest and the cheapest to buy off. Such a politician is highly unlikely to favor improving the overall material standing of his short-sighted electorate. And the latter finds itself ever more in a vicious circle of poverty that, in contrast to the traditional vicious circle of poverty, is not so much investment but institutional-based.

There is a saying, "Free cheese can only be had in mousetraps." In our situation, the voter who sells a vote becomes caught in a web as shown in Fig. 4. To explain the direction in which the cobweb unfolds, we can assume this kind of mechanism: when there is broad disenchantment with politicians and inadequate information, even if there are good and bad politicians, voters will tend to tar them all with the same brush and consider them equally bad. And so they give preference to those politicians who pay more. For instance, if the political market in period t_0 sees the emergence of a certain number of politicians, q_1 , at the political price p_1 , this volume of supply cannot be absorbed by a relative demand of q_0 on the part of voters. So politicians begin to buy votes. Since paying for a vote is an investment for the politician, once that politician comes to power he will try to get back not only the money he spent being elected, but a profit as well. As a result, between periods t_0 and t_1 , the next election, the political price will go up. Along with this growing political price, voter dissatisfaction with politicians will also grow, and thus the gap between demand and supply on the political market (demand lags behind supply). Thus, as the next election draws near, politicians will once again have to shell out money for votes, but

³ A mass-man is a man, "incapable of any other effort than that strictly imposed on them as a reaction to external compulsion", "whose life lacks any purpose, and simply goes drifting along", "who is not interested in the principles of civilization" (Ortega y Gasset, 1930/1993)

⁴ See also Balafoutas (2011).

for a higher price now, and so on. In fact, the Razumkov Center's report (Razumkov Centre, 2009: 10) confirms that elections are becoming costlier with every passing year in Ukraine. In the meantime, the cycle continues and the arrow on the cobweb moves further and further away from equilibrium point as it depicts the simultaneous process of costlier politicians, disillusioned voters, and the squeezing out of "cheaper" but better politicians by worse but "richer" ones.

The market as an institution for exchange is also a mechanism for feedback between its participants. The greater the asymmetry of information on the market, the weaker this feedback becomes. Fig. 4 shows the cumulative deviation from equilibrium point on the political market when the feedback loop between politicians and voters either weakens or disappears altogether. The disconnect between politicians and the rest of society, and thus the lack of input on the part of most voters into the political decision-making process demonstrates the weakness or even absence of grassroots self-organization and the amorphousness of civil society. But without a functioning civil society, it is impossible to realize a democratic model of society.

Social philosophers have written plenty about how an impoverished society that has a democratic form of government not only becomes disenchanted with politicians, but with democratic institutions as a whole and begins to more and more look for a "wise and strong" dictator. In the present case, we can also conclude that destabilization is inevitable, and thus the possible death or still birth of democratic institutions, as deviation from equilibrium has reached such a critical point on the political market that the entire market could soon be destroyed.

7. Conclusion

The fact that representative democracy can function as a fragile institutional construction is not the invention of this article. Even Vilfredo Pareto considered the transformation of democratic rule for the common good into plutocratic rule by the few for the good of the few (Pareto, [1920] 2009). But here we have come to similar conclusions having analyzed the electoral process in terms of a market, that is, as an exchange between voters and politicians. I am not inclined to exaggerate the capabilities of such a method but it helps to reveal or confirm the important components in the stability or the fragility of a democracy.

This article was dedicated primarily to such "underminer" of democracy as informational asymmetry on the political market. This "underminer" is a serious problem for the developed democracies as well as for the democracies, which are just being formed. Because one of the goals of social institutions is informative function (Hodgson, 1988), the mature institutions of democracy are capable of substituting the lack of information and of weakening the negative effects of asymmetric information on a political market. However, asymmetric information increases the fluctuation of democratic institutions in societies in transition to a dangerous level.

The factor that increases the information asymmetry and weakens the stability of equilibrium on the political market is the excessive orientation of politicians for their own benefits. If the countries with a developed democracy have a class of professional politicians, this class can play the role of shock absorber for the negative influence of asymmetric information. Professionalism and a strong sense of duty, according to the logic of this article, defuse the economic motivation of politicians and, thus, facilitate stability on a political market. However, countries with an immature democracy are deprived of such a shock absorber. For example, Manfred Prisching (1995), analyzing the Schumpeter's idea of the political class, has noted that Eastern European countries experienced the difficulties of a democracy construction, which were connected with the absence of such a class. In our case the absence of this factor also influences the politicians' motivation and threatens the immature democratic institutions.

In addition to these issues, a model of the political market makes it possible to newly explain such well-known phenomena as the decline in voter activity in developed countries or the phenomenon of the "rebellion of the masses" observed and described by Ortega y Gasset ([1930] 1993). A mass-man is that type of individual who is a by-product of democracies, as such states foster technological progress and, in turn, the emergence of surplus goods. Surplus

goods spoil humans and give them a sense of being the masters of life, losing respect for other humans and, in the long run, the law. Once people stop respecting the law, mass-man destroys those very democratic institutions. Thus, what Ortega y Gasset described was essentially the self-destruction of democracy, which we can also label the paradox of democracy.

In the model used here, this paradox can be explained through the laws of market equilibrium. The surplus about which Ortega y Gasset wrote is nothing more than the growth of the overall standard of living. And as their incomes improve, consumers tend to be less sensitive to the prices of the goods that they buy. In our situation, this means a decline in the elasticity (sensitivity) of voters to the “cost” of politicians, one feature of which is declining voter activity. But, following the example of the cobweb model used here, the inelasticity of demand on the part of voters disturbs the equilibrium of the political market, rocking it to a critical level at which the electoral process itself comes under threat, and with it democracy as a whole.

The suggested approach is not ideal and certainly raises new questions. However, the contradictions among some of the propositions in this article are a good foundation for further study. In contrast to politicians, who always claim to be deeply convinced of everything, a scientist’s work is always grounded in a strong sense of doubt.

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