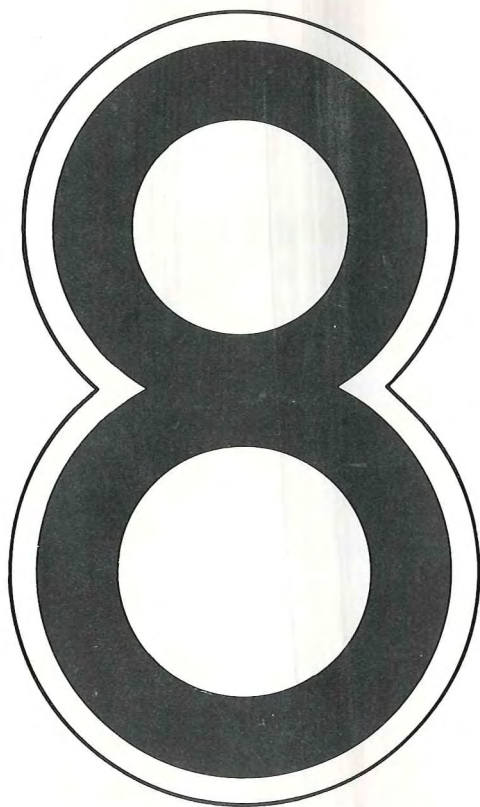


# Democracy in Crisis

Michael C. Jensen and  
William H. Meckling



# Democracy in Crisis

CIS Occasional Papers 8

1

# Democracy in Crisis

Michael C. Jensen and  
William H. Meckling



THE CENTRE FOR INDEPENDENT STUDIES  
1983

Published October 1983 by  
The Centre for Independent Studies  
*All rights reserved*

Views expressed in the publications of the Centre for Independent Studies are those of the authors and do not necessarily reflect the views of the Centre's staff, Advisers, Trustees, Directors or officers.

National Library of Australia

Cataloguing-in-Publication Data

Jensen, Michael C.  
Democracy in Crisis.

ISBN 0 949769 12 6.

1. Laissez-faire. 2. Economic policy. 3. Democracy.  
I. Meckling, William H. II. Centre for Independent  
Studies (Australia). III. Title. (Series: CIS  
occasional papers; 8).

330.12'2

©The Centre for Independent Studies 1983.

Typeset in Sydney, Australia, by Rochester Photosetting Service.

# Preface

This stimulating paper was delivered by Michael Jensen at a dinner held at the Centre for Independent Studies on February 3rd 1983. His delivery so impressed those in attendance that there has been considerable demand to reproduce it. The CIS is pleased to do just that: *Democracy in Crisis* is an edited version of Jensen's talk that night.

The collaboration of Michael C. Jensen and William H. Meckling, at the Graduate School of Management in the University of Rochester, has produced an important flow of work on markets, politics, democracy and the role of the corporation. Jensen and Meckling have conducted a spirited defence of the market, freedom of choice, voluntary contracting and the corporate form of organisation, that has proven insightful, innovative and very influential.

There is nothing inherently contradictory between democracy and the free market. In fact, based on similar concepts of freedom, they have grown up hand in hand. To encourage one while deliberately inhibiting the other is self-defeating; we can no more save democracy for the people by destroying the free market than we can save a free market economy by establishing a dictatorship. But the political system we are now developing is not the only form of democracy that need exist, nor is it the most conducive to a healthy free market economy. One has only to think of the differences between a socialist democracy and a constitutional democracy to understand the point Jensen and Meckling propose.

*Democracy in Crisis* walks the thin line between realism and pessimism. The authors view western democratic governments as similar to a gigantic snowball rolling down a steep slope — ever larger, more destructive, and less responsive to control — with the free market lying complacently in its path. This thought provoking paper alerts us to the danger; what we then do with our increased awareness is crucial and entirely up to ourselves.

Guided by what they categorise as 'realism not fatalism', Jensen and Meckling conclude it is possible to restore the benefits of both democracy and the free market, but the process must begin very soon and will continue for a very long time.

**Ray Ball**

# The Authors

**Michael C. Jensen** is Professor of Economics, Finance and Organisation Theory and Director of the Managerial Economics Research Center in the Graduate School of Management of the University of Rochester, having joined the faculty in 1967. He has taught also at Northwestern University and the University of Bern. Since 1973 he has been the founding editor of the *Journal of Financial Economics*. He edited *Studies in the Theory of Capital Markets* (1972).

**William H. Meckling** is Dean Emeritus of the Graduate School of Management and James E. Gleason Distinguished Research Scholar in Management and Government Policy, Graduate School of Management, University of Rochester. He was formerly President of the Center for Naval Analyses and Director of the President's Commission on an All-Volunteer Armed Force.

# Democracy in Crisis

Michael C. Jensen and William H. Meckling

## I. THE CONFLICT BETWEEN POLITICAL DEMOCRACY AND A MARKET ECONOMY

Our message is not a cheerful one and it is made more sobering by the fact that neither we nor anyone else has a solution to the problems we shall describe — problems involving a basic conflict between political democracy and freedom and markets. Our aim is to provide a better understanding of the basic forces that lie behind this conflict.

We spend some time dealing with the likelihood of the survival of the corporation because it is an important example of the implications of the general conflict between the political and the private sectors.

In a speech to the House of Commons on 11 November 1947, Sir Winston Churchill observed that

Many forms of government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise, indeed it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time.

Anyone who has given serious thought to the issue of governmental form must sympathise with Churchill's famous assessment of democracy. Where man has done the most to eliminate misery and want, where he has effected the highest



intellectual and technological achievements, democracy has been the dominant government form. The coincidence of those circumstances in nations around the world is surely not pure chance.

Some democratic forms produce consequences different from others. A direct or town-hall democracy will not produce the same set of laws as a representative democracy even if all other conditions are the same. If alternative forms of democracy produce different results, then the correct comparison is not the one Churchill makes between democracy and no democracy. The choice we face is among different kinds of democracy.

We have become convinced that there is a fundamental conflict between political democracy as we know it and the market system. The two appear to be incompatible. Unfortunately, it appears that in time the political sector will eliminate most of the freedoms on which the market system depends. We recognise that this incompatibility is inconsistent with the notion with which we have all been indoctrinated: that government is the agency which bestows freedom, that is, the agency which **protects** the rights of individuals and **enforces** contracts.

In fact, of course, the government plays two very different roles. On the one hand, it has responsibility for protecting rights, but on the other, it has the power through legislation and court decisions to alter individual rights. The use of this power by politicians, bureaucrats and various special interest groups to increase their own welfare at the expense of others is the basic source of the inconsistency between existing forms of political democracy and the market system.

This incompatibility concerns us for two reasons:

1. Virtually all the freedoms which we believe are truly valuable emanate from the existence of free markets and the rights of contract (for example, the right of people to work for whom they please, under any compensation arrangements mutually agreeable to both the employer and themselves, the right to spend their income in any way they choose, the right to travel where they choose, etc.).
2. With the elimination of many of these rights and freedoms will come a reduction in our real standard of living — our wealth.

For both of these reasons we are concerned about the world that our children will inherit from us. They will be less free and generally poorer.

Unfortunately, the problem is not the result of a premeditated conspiracy of a few left-wing, socialist, communist or 'liberal' radicals. If it were, it would be much easier to deal with. It arises from the inconsistency between existing forms of political democracy and the market system, an inconsistency that takes the following form.

Individuals can make themselves better off in two major ways:

1. By expending time and other resources operating in the private sector to produce goods and services which other people wish to buy.
2. By expending time and other resources in the political sector to get the government and the courts to change the rules of the game to reallocate wealth from others in society toward themselves.

In the first of these activities we generally make other people better off. Otherwise they wouldn't engage in those voluntary exchanges with us.

In the second of these activities we generally make people worse off, both because of the direct effects of the wealth confiscation and, more importantly, because of the effects of these actions on the reduced incentive of others to produce.

Thus, private individuals and representatives of organisations are the source of the **demand** for growth in government. Of course, there is also a **supply** side to this process: the politicians and bureaucrats who supply the service of government in the rule changing, wealth transfer, and confiscation game — for a commission, of course. We postpone discussion of this supply side for a moment to discuss the role of **contracting** rights and rights in property.

## II. THE ROLE OF CONTRACTING RIGHTS AND RIGHTS IN PROPERTY

While property rights and contracting rights play a crucial role in all our lives, we tend to take them for granted. We often overlook the fact that what is really bought and sold in markets is not simply physical objects, but sets of rights in those objects: the right to take physical possession, the right to resell, the right to consume, the right to change the form of the object, the right to transport it, and so on. It is not the price of a bushel of wheat as a physical object that is determined by the forces of supply and

demand; it is the price of the set of rights which goes with 'title' to wheat. The same holds for land (does it include mineral rights? how is it zoned?), for buildings, for capital equipment, for radio frequencies, for money, even for the value of the services which we perform with our minds and muscles.

By now it should be clear what we mean by rights. We do not use that term in any moral or ethical sense, but simply to refer to actions which the law allows **specific** individuals (owners) to take, including writing contracts with others.

### III. THE ROLE OF GOVERNMENT AND THE REVOCATION AND ABROGATION OF RIGHTS

Government plays two distinct roles in the operation of the property rights system. On the one hand it establishes the rules of the game: that is, it prescribes rules that determine which individuals have what rights. On the other hand, it acts as umpire or referee: it adjudicates disputes over which specific individuals have what rights, and it has a responsibility to see that the rules are followed.

It is the first of these roles, the capacity of governments to change the rules, that lies at the heart of the problem which concerns us. As the rule-maker, government can and does frequently **revoke** rights, when it decrees that henceforth it will not be legal for individuals to use their property or to enter into contracts in ways which heretofore had been sanctioned. When the government decrees that new automobiles sold must meet certain safety, anti-pollution, and fuel consumption requirements, they are revoking certain rights to use assets held in the name of the owners of firms, and the rights of consumers to purchase products without these devices. Price controls revoke rights in the use of money, and thereby reduce the value of money — ironically under the guise of preventing its devaluation.

In the last decade in the United States we have witnessed a major upsurge in the revocation of rights. Examples abound and we mention only a few to illustrate the form and scope of the problem.

1. The first peacetime imposition of wage and price controls in the United States in August of 1971.
2. Various land use, planning and control regulations that severely limit the rights of landowners to develop and use their land.
3. The spread of rent controls in metropolitan areas such as Washington, D.C., Boston and Los Angeles.

4. The provisions of the Occupational Safety and Health Act which limit the freedom of individuals to contract with employers to work under more hazardous conditions in return for higher pay.
5. Various antidiscrimination programs which limit the employment policies of organisations and require employers to discriminate against white males and in favour of blacks, Mexicans, Indians, females, the aged and so on.

All these rights have been revoked without compensation to any of the parties who are forced to bear the costs, whether they be owners of the resources, employees in the industries involved, or consumers of the products. Revocation has not been treated as an eminent domain proceeding under which the state is required to compensate property owners.

#### IV. THE ATTACK ON THE CORPORATION

Corporations have been, and will continue to be, the focus of a major attack. They are being asked to solve myriads of so-called social problems: such as discrimination, enrichment of the poor, training of the untrained, and clean-up of the environment.

What this trend amounts to is a requirement for the corporation to bestow benefits on one group at the expense of another group — that is, to transfer wealth. In almost all cases, the wealth transfer is from the owners of the corporation (i.e. stock and bondholders) and consumers of the product, to these other groups (women, blacks, consumers of a clean environment, etc.).

Whether you think these wealth transfers are good or bad, desirable or undesirable is purely a matter of a personal value judgement which we, as economists and as scientists, can say nothing about. However, we can, as economists, analyse for you the impact these changes will have on the corporation.

Corporations can in the long run behave in a '**socially responsible**' way only to a very limited extent. When it becomes clear that 'socially responsible behaviour' is abrogating the ownership rights of the owners, the values of corporate ownership claims fall in the capital markets (as they have) and corporations are unable to raise new capital or are able to raise it only at high cost. We raise this issue not because we have an overriding concern with the welfare of current stockholders, but rather because it will reduce human welfare and lead to a society with vastly reduced human freedoms.

The implementation of the notion of corporate responsibility is equivalent to the imposition of special taxes on the owners of corporations and consumers of the product. At some point where the expected future cash flows to the owners are sufficiently small and sufficiently uncertain, those claims will become worthless (like the value of many rent controlled apartments in New York City which continue to be abandoned). In this event, the corporation will be able to remain in business only to the extent that it can finance its operations out of internally generated cash flows, or through financing or subsidies from the public sector.

The US corporate executive's power to make decisions affecting owners, employees, and consumers is becoming more constrained every day. He must answer to various governmental authorities for his personnel policies: hiring, firing, promotion, wages, pensions and other compensation, unionisation, etc. His financial reporting must meet the requirements of the Securities and Exchange Commission and of the Federal Trade Commission. The Internal Revenue Service dictates how he must keep his accounts for their purposes. He must meet the requirements of the Occupation Safety and Health Act in his plants or places of business. His advertising and sales practices are scrutinised by the Federal Trade Commission. He must comply with an imposing array of environmental regulations (federal, state and local) dealing both with his products and his operations. He is restricted in his use of land. Sales of some products such as DDT, cyclamates and red number 2 food colouring have been banned, TV sets must have UHF tuners, automobiles must embody a long list of safety and anti-pollution devices, new drugs can be marketed only with permission of the Food and Drug Administration. The list of regulations confronted by a businessman today is almost endless.

The fact of the matter is that the claim represented by a share of General Motors (or any other) stock in the United States is now very different from what it used to be. And we predict that this trend is unlikely to be reversed.

## **V. THE CRUCIAL ROLE OF RIGHTS**

The value of a right to an individual depends on how transitory (or how permanent) that right is believed to be. Tenuous rights — rights which are likely to be revoked on short notice, or abrogated when the owner attempts to enforce them — will be of little value.

Uncertainty in the structure of rights or in the 'rules of the game' substantially changes both people's behaviour and the use

of resources. In particular, it significantly reduces private investment in the kind of long term projects which have played such an important role in determining our standard of living. It is very difficult to observe these effects because they primarily involve actions not taken: that is, projects not undertaken, buildings not built, etc. They are not the stuff of which newspaper headlines are made.

Nevertheless, we believe their impact is substantial. The low standard of living in South America and other under-developed countries is due, we believe, in large part to the uncertainties in contract and property rights induced by the tremendous instabilities of the political system: uncertainties and instabilities brought on by revolutions, nationalisations, imposition of exchange controls, wage and price controls, etc.

We believe that the remarkably poor performance of the US stock market since the mid-1960s is due in substantial part to the fact that the concentration of wealth in large publicly-held corporations is particularly susceptible to expropriation through changes in the legal, political and regulatory climate.

The real value of the Dow Jones stocks fell by 62 per cent over the 18 year period from December 1964 to the end of 1982. The real (after inflation) rate of return on all common stocks on the New York Stock Exchange in the 40-year period from 1926 to 1965 was about 8.6 per cent per year. If stocks included in the Dow Jones Index had risen in price in the period 1965-82 to provide that same 8.6 per cent inflation adjusted rate of return, the index would have had to be about 5,600 on 1 January 1983, instead of 1,047.

The poor performance of the US stock market is not unique. The real values of equities have fallen (or at best remained constant) throughout much of the western world over the past decade or two.\*

These facts are difficult to explain, because unlike the 1930s, we have not experienced a major collapse in the US economy

\*Some equivalent facts can be drawn from the data files of the Centre for Research in Finance at the Australian Graduate School of Management. Over the period 1964-82 in Australia, equities averaged an 8.5 per cent annual rate of return, allowing for dividends, capital gains and losses, bonus and rights issues and all factors other than taxation. The CPI rose at an annual rate of 7.6 per cent over the same period, implying a before-tax 'real' return of approximately 1 per cent per year. For the average investor paying tax on dividends, the after-tax return was negative.

If Australian equities had averaged Jensen and Meckling's 8.6 per cent real return over 1964-82, then the average Australian equity would have been selling for 4.33 times what it actually sold for on 31 December 1982.

during this period. Furthermore, the fact that the prices of assets which are far less susceptible to confiscation by the political sector (such as gold, silver, diamonds, other precious metals and art) have increased substantially over the same period provides additional evidence consistent with the hypothesis.

The effects of the destruction of private rights are also showing up now in the personal income statistics. The average real American family income (after federal taxes and social security payments) has declined in more than half of the last 15 years.

## **VI. WHY DO GOVERNMENT AUTHORITIES ATTACK THE PRIVATE RIGHTS SYSTEM?**

Understanding the nature of private rights and the role of government in the system of rights is crucial to understanding why private rights are being gradually whittled away, and why we see little stabilisation or reversal of that trend. In this connection, it is worth pointing out a clever fallacy: namely, the false distinction between so-called 'human rights' and 'property rights'. All rights are, of course, human rights; there can be no other kind. Those who use this distinction are simply resorting to a clever semantic ploy. They are fabricating a conflict between rights (human) which are 'good' and another kind of rights (property) which are 'bad'. Since all rights are human rights, the only possible conflict is between individuals; that is, a conflict over which individuals will have what rights.

Moreover, politicians (and bureaucrats) are as individuals no different from the rest of us. They prefer more rights to fewer, and they have the same incentive as the rest of us to expand the set of rights from which they benefit. It is this fact that lies at the bottom of the conflict between political democracy and the market system.

The notion actively fostered by politicians and others — that elected representatives in the various branches of state, local and federal government are passive agents simply doing what their constituents want — will not withstand even cursory examination.

If politicians acted merely as passive agents, we would expect to see them devote most of their time and resources to finding out what it is their constituents want. We should observe them for example, continually polling their constituents to discover their preferences on important issues. We don't observe such surveys. Moreover, we don't observe candidates who promise in their campaigns to vote consistently as the majority of their

constituents would like — even though it would be quite inexpensive for a representative to sample his constituents to determine the will of the majority.

If elected officials in fact acted as passive agents, we should also observe them advertising after the fact that they voted in conformance with the preferences of the majority of their constituents. We don't observe this either. While they occasionally publicise some of their votes, they deliberately avoid voting on some issues (pairing) and deliberately conceal their votes on others (voice votes of which no detailed record is kept).

If elected officials were merely acting as passive agents, we would not expect them to engage in 'selling' programs to their constituents. Looking at the content of political speeches and other utterances by politicians, however, we find that they are almost entirely devoted to persuading the public that some course of action by government is desirable.

The political behaviour we observe suggests that politicians come much closer to being entrepreneurs than passive agents. They are entrepreneurs promoting and selling a product just like entrepreneurs in the private sector, and the fundamental product they sell is not difficult to identify: it is an increased role for government. This is why they want to erode private rights: erosion of private rights effectively gives them more power.

Stability in private rights is by its very nature a constraint on what government (that is, bureaucrats, politicians and judges) can do. The more difficult it is to enact laws, issue administrative rules and regulations, or make court decisions which revoke or abrogate individual rights, the more restricted is the domain of the bureaucrat and politician. To the extent that government's power to revoke or abrogate rights is limited, the market for the services of individuals in government is limited. Revocation and abrogation of rights is the currency in which politicians and bureaucrats deal. Like all of us, they are constantly searching for ways to expand the market for their services. To do so, they must continually chip away at the system of private rights because it limits their market.

## **VII. POLITICAL MARKETING AND THE CRISIS STRATEGY**

As entrepreneurs, politicians employ marketing strategies just as entrepreneurs do in the private economy. One such strategy in the political sector is the practice of creating crises or, more accurately, the impression of crises, which demand government



action to save us all from impending disaster. The creation of crises is an old political strategem for turning contingencies into a resource for accumulating force in the government. In recent times, politicians in the United States have used the crisis ploy as a pretence for expanding their powers in one area after another. Thus, we have had crises over air and water pollution, automobile safety, the quality and safety of consumer products (particularly drugs and food), the preservation of forests and wildlife, land use, occupational health and safety, so-called 'illicit' payments to foreign officials, Watergate, international banking, the energy crisis — particularly over oil price increases and interestingly enough now over oil price decreases. This list is almost endless.

In their marketing campaigns designed to create crises, politicians and bureaucrats have an enormous advantage because of their access to the press and the media. The fact that crises sell newspapers and attract TV viewers results in a natural alliance between the political sector and the mass media in the creation and feeding of crises.

Corporations are a particularly vulnerable target for the marketing campaigns of politicians, and this is not simply a matter of identifying the behaviour of corporate executives with self-interest and exploitation in contrast to the asserted 'public interest' motivation of politicians. Corporations represent large visible blocks of wealth. Corporate stockholders and creditors are a widely dispersed and incohesive group. The financial claims on the assets of corporations are often held by intermediaries — banks, insurance companies, pension funds, college endowments — so that many of the beneficiaries (depositors, insured individuals, students) are not even aware that they are the beneficiaries. Moreover, the market for these claims is both volatile and complex, so that even if the 'owners' are aware of their ownership, they cannot easily identify any decline in the value of their claims with the actions of government. Only a naive view of the behaviour of politicians would lead anyone to believe that they would pass up this obvious opportunity to use the corporation as a pawn in expanding their own power.

If our analysis of the way western political democracies function is correct, then there is little reason to believe that the trend toward 'Leviathan' government will be arrested. In particular, the process will not be checked by electing the 'right' people to office. Only a radical change of some sort in the basic structure of our political institutions could at this point alter the course of events, and it is hard to imagine how such a radical change could ever be brought about.

## VIII. THE REAGAN EXPERIMENT IN THE UNITED STATES

The Reagan administration is providing us with an interesting test of the hypothesis that the 'right' people in office can solve the problem. Though the evidence is not uniformly bad, it suggests that government will have continued to grow in almost all relevant dimensions under Reagan.

Neither the timing nor the specific form which government growth will take is very predictable. The process will not be uninterrupted. It will progress in fits and starts as events unfold which provide opportunities for bureaucrats and legislators to expand their roles. The history of legislation, court decisions, and administrative law suggests that depressions, wars, sputniks, OPEC cartels, and the like supply the nutrients on which the growth of government feeds and are important in determining the specific form which the growth takes. Who would have predicted twenty years ago that the energy industry was due for almost complete government regulation? The crucial historical events that produced that outcome were the initiation of price controls under Nixon and the organisation and subsequent behaviour of OPEC, especially the oil embargo.

The private corporation has been an enormously productive social invention, and it is being destroyed along with many other aspects of the free market system. One scenario will first involve more and more controls on the large corporations (similar to what is happening to the energy industry). When they have been regulated into chaos, they will be subsidised and eventually taken over. There will be more public directors on large corporations. There will be more involvement of labour in the control and management of corporations. (This is now happening throughout western Europe.)

For the moment, we observe signs that we are in a period during which the growth of government will be lowered if not arrested. The 'tax revolt', deregulation of airlines and banking and softening of regulatory behaviour by various agencies can all be cited as evidence of a 'conservative mood' sweeping the United States. These examples are evidence against the thesis that government will continue to grow but, considered in the sweep of history, they are evidence that is relatively insignificant. Government has not grown at a constant rate in the past, and it will not do so in the future. The real question is whether we are observing a short run lull or a fundamental long run reversal. The sum total of evidence and our understanding of how existing

political institutions operate suggest that the 'conservative mood' is a temporary phenomenon.

We do not wish the reader to confuse our realism with fatalism. We believe that if we are to win this fight for freedom we must face up to the enormity of the task. That also means that we must face up to the low probability of changing the process. This assessment, uncomfortable as it is, is consistent with the history of mankind and we should recognise that failure does not mean the end of everything.

Humanity has existed for thousands of years in various states of tyranny and has survived; one might even say this is the natural state of affairs of man. Future historians may look back and see this period as a brief 200 year accident in the history of man where real freedom for the masses existed. We sincerely hope this does not come to pass.

## CIS PUBLICATIONS IN PRINT

### READINGS

1. *Wage-Price Control, Myth & Reality* edited by Sudha R. Shenoy.  
(1978) ISBN 0 9596485 0 X \$6.95
2. *Rent Control: Costs & Consequences* edited by Robert Albon.  
(1980) ISBN 0 9596485 7 7 \$9.95
3. *A New Financial Revolution?* edited by Malcolm Fisher.  
(1982) ISBN 0 949769 04 5 \$7.00
4. *The Constitutional Challenge* edited by Michael James.  
(1982) ISBN 0 949769 01 0 \$7.95

### RESEARCH STUDIES IN GOVERNMENT REGULATION

1. *Domestic Airline Regulation: The Australian Debate* by Michael G. Kirby. (1981) ISBN 0 9596485 9 3 \$5.50
2. *Rationalising Rustic Regulation* by E. Sieper.  
(1982) ISBN 0 949769 02 9 \$5.50

### POLICY MONOGRAPHS

1. *On Buying a Job: The Regulation of Taxicabs in Canberra* by Peter Swan. (1979) ISBN 0 9596485 5 0 \$2.00
2. *Lessons from the Orcl* by B.R. Davidson and Susan Graham-Taylor. (1982) ISBN 0 949769 03 7 \$3.95
3. *The Politics of Multiculturalism* by Raymond Sestito.  
(1982) ISBN 0 949769 06 1 \$3.95
4. *Free to Shop* by Geoffrey Hogbin.  
(1983) ISBN 0 949769 09 6 \$4.95

### POLICY FORUMS

1. *The Economics of Bureaucracy and Statutory Authorities* by Gordon Tullock, A.S. Watson, Peter L. Swan, Warren Hogan, G.W. Edwards, P.E. Rae and Geoffrey Brennan.  
(1983) ISBN 0 949769 10 X \$5.95
2. *The Entrepreneur in Society* by Barry Maley, Malcolm Fisher, Michael G. Porter, Neville Kennard, Israel M. Kirzner.  
(1983) ISBN 0 949769 07 X \$4.95

## OCCASIONAL PAPERS

1. *Liberty, Equality & Unhappiness* by Lauchlan Chipman.  
(1978) ISBN 0 9596485 1 8 \$2.00
2. *Social Justice, Socialism & Democracy* by F.A. Hayek.  
(1979) ISBN 0 9596485 3 4 \$3.95
3. *The Profit Motive* by Antony Flew.  
(1980) ISBN 0 9596485 8 5 \$2.00
4. *Taxation, Inflation and the Role of Government* by Milton  
Friedman. (1981) ISBN 0 949769 00 2 \$3.50
5. *The Rhetoric and Reality of Income Redistribution* by Gordon  
Tullock. (1981) ISBN 0 949769 08 8 \$2.50
6. *Liberty, Justice and the Market* by Lauchlan Chipman.  
(1981) ISBN 0 949769 05 3 \$2.00
7. *The Christian and the State* by Geoffrey Brennan.  
(1983) ISBN 0 949769 11 8 \$3.00
8. *Democracy in Crisis* by Michael C. Jensen and William H.  
Meckling.  
(1983) ISBN 0 949769 12 6 \$2.00

(Prices are subject to change without notice)

## THE CENTRE FOR INDEPENDENT STUDIES

The CIS is an independent Australian economic and social research institute concerned with the principles underlying a free and open society. An essential requirement for a healthy free society is that public policy decisions should not be dominated by one particular view or set of views. If ideas are not tested by competition then public policy decisions may undermine rather than support the foundations of a free society. For too long in Australia, most teaching, research and inquiry has taken place under the auspices of government. In general, this research has accepted government intervention and control as a principle of policy action. It is, therefore, concerned more with how government intervention can best be accomplished, rather than with whether it is justified in the first place. The CIS is uniquely placed in providing real competition to this type of research.

In encouraging competition in ideas, the Centre for Independent Studies:

- \* conducts research on its own account
- \* encourages outside scholars to investigate important issues and develop programs of research
- \* publishes the results of its researches
- \* provides forums for the public discussion of important social issues
- \* promotes the results of its studies to the public-at-large

The research work of the CIS is assisted by a Council of Advisers and supervised by a Research Committee. Members of the Advisory Council include:

Professor H.W. Arndt

Professor Ray Ball

Professor R.J. Blandy

Professor Lauchlan Chipman

Professor Kenneth Clements

Professor Malcolm Fisher

Dr Knud Haakonssen

Professor R.M. Hartwell

Professor F.A. Hayek

Professor Warren Hogan

T.H. Kewley

Dr Naomi Moldofsky

Professor R.R. Officer

Professor Ross Parish

Professor C.G.F. Simkin

Professor Cliff Walsh

The Centre is constituted as a non-profit company limited by guarantee and is independent of any political party or group. It is financed by sales of its publications and by voluntary subscriptions and contributions from individuals, organisations and companies.

Executive Director

Greg Lindsay

---

Orders for publications and subscription enquiries should be addressed to:

**The Centre for Independent Studies,  
575 Pacific Highway, St. Leonards. NSW. 2065.  
Telephone (02) 4384377**

# Democracy in Crisis

Michael C. Jensen and  
William H. Meckling

Is there a conflict between unlimited political democracy and a market economy? Jensen and Meckling argue that the capacity of modern governments to transfer property rights unilaterally distorts the political market in favour of vested interests and poses a fundamental challenge to the market system and to the democratic process itself.

**ISBN 0 949769 12 6      ISSN 0155-7386**

**CIS Occasional Papers 8**