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OSSIFIED DEMOCRACY AS AN ECONOMIC PROBLEM AND POLICIES FOR RECLAIMING ITS PERFORMANCE

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IES Working Paper 11/2023

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Bibliographic information:
Benáček V., Frič P. (2023): " Ossified Democracy as an Economic Problem and Policies for Reclaiming its Performance " IES Working Papers 11/2023. IES FSV. Charles University.

This paper can be downloaded at: http://ies.fsv.cuni.cz

Ossified Democracy as an Economic Problem and Policies for Reclaiming its Performance

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April 2023

Abstract:
This paper analyses the erosion of democracy in the countries of Central and Eastern Europe from the perspective of political economy. We posit that the coinciding effects of political marketing and the state financing of parties represent a peculiar mix of liberal and étatist principles that have turned political regimes in the region into ossified democracies. Our theoretical analysis based on the economics of democracy of Anthony Downs revealed that voters are discriminated against as political consumers, which constrains their ability to function as sovereign principals in collective action. The dominance of political parties in the markets for both political and public goods is the leading cause of democracy's ossification and its susceptibility to corruption. We propose attenuating this decline through mandatory political tax designations, which re-establish the lost link between political markets and the markets in public goods and make the top-down dominance of the hierarchies in power subject to the bottom-up control of citizens motivated to engage in collective action. Economics of democracy is a heterogeneous fusion of market and command economy.

JEL: D73, D78, H4
Keywords: public goods; democracy; collective action; political markets; financing of parties

Acknowledgements: Thanks are due to Robin Cassling, Zdenek Drabek, Jiří Večerník, Manfred Holler and Stein Ringen for valuable comments improving our arguments. This study was funded by PRVOUK Teaching Grant of Charles University in Prague; Publication Grant of IPS, Faculty of Social Sciences, Charles University.

1. Preface

The motivation for this paper comes from recent trends observed in the post-communist democracies in Central and Eastern Europe and particularly in the countries that joined the EU after 2003. According to various commentators in the field of political science, the consolidation of these democracies was recently challenged by an opposite undercurrent, spurred on by the global financial crisis of 2007-9. This process has been branded with various epithets: deconsolidation (Facchini and Melki, 2021), the decline of democracy (Ágh, 2016), democratic regression (Diamond, 2021), de-democratisation (Bogaards, 2018), democratic backsliding (Cianetti and Hanley, 2021; Hanley and Vachudova, 2018; Luo and Przeworski, 2019), or autocratisation (Maerz et al., 2020; Lührmann and Lindberg, 2019) and even kleptocracy (Åslund, 2019). There is a consensus among academic researchers that there has recently been a massive shift in the global *zeitgeist,* with the world today being driven by populist parties in the direction of a more authoritarian political setup, which was most distinctively revealed in the post-communist countries.

However, are the formal criteria of democracy that have prevailed in political analysis, such as the shortcomings in the competition of parties, independent judiciary, free media, voting system and in activities of civil society, [1] sufficient to explain the causes of a democratic slump? Is the recent democratic decline just the liability of post-communism? We aim to prove that such explanations are correct but still insufficient. Economics can add a new approach to the phenomenon of democracy by focusing on the interaction of two failing markets upon which all democracies depend. As an outcome, we will claim that the institution of democracy deserves a preeminent place in the paradigm of public economics and get a similar economic weight as the phenomenon of markets.

Among the several explanations for democratic erosion, there is one that deserves particular attention: the incongruence between democratic institutions that are formally set up correctly and the socially conflicting behaviour of the political agents. Thus political agents can disregard the preferences declared by their principals (i.e. voters) in elections, once incentives lure these agents into a moral hazard and into joining clientelistic networks built on rent-seeking. This leads to a perception that private access to public money is the dominant factor in the political contest over the power and funds related to public administration.

What social forces have sustained the moral failures of the governing elites for so long? Why does the democratic mechanism not save politics from the trap of adverse selection? Low-quality of selected elites devalues democracy (Welzel, 2002) and signals that formal democratic institution are not sufficient bulwarks against cronyism and corruption.

[1] Munich Social Science Review, New Series, Volume 3/2020, provides a series of 12 papers on the topic “Improving democracy”, where only the paper by Follert (2020) concentrated on the pure economics of democracy.

The lasting clashes with corrupt and oligarchic networks in public institutions (government, parliament, judiciary, police, regulatory agencies, media, etc.) imply that emerging democracies in Central and Eastern Europe were not as liberal as one might initially have thought. Post-communist countries retained some vestiges of the discredited 'people's democracy' that had served as an instrument of the communist command economies for over 40 years.[2] Scholars used such terms as 'simulated democracy' (Lengyel and Ilonszki, 2012), 'façade democracy' (Welzel, 2002), 'defective democracy' (Merkel, 2004), and 'postdemocracy' (Crouch, 2005) to describe the specific type of democracy in these countries.

The long-lasting corruption and cronyism in the politics of post-communist countries signalled a systemic defect in the institutional foundations of democracy built after the fall of the region's totalitarian regimes in 1989. The hypothesis that underpins our analysis is that the intrinsic causes of democratic malperformance are institutional, which is to say, internal, non-subjective, and dependent on the interface between economics and politics. In addition, the departure from rationally based decisions modelled by axiomatic economics relying on the performing markets and their replacement by emotions, intuition, social sentiments, and subjectivity (Scheffer et al., 2021) and culminated in the recent post-truth era – helped foster the ascent of illiberal tendencies.

Our objective is to explore more general social processes in democracies, which researchers in economics have largely ignored. We argue that the cohabitation of the two crucial institutions, political marketing and state financing of parties, paved the way for the malfunctioning of democracy. We will argue by theoretical reasoning that the present democratic decline is due to a systemic flaw revealed most clearly in the post-communist countries in the last 30 years.

We can go even further and show that systemic flaws are universal and potentially can afflict the majority of present democracies. In its Democracy Index, the EIU (2022) revealed a decline in total scores in all seven regions of the world since at least 2015 and reported that a mere 8% of the world population was living in an authentic democracy in 2022, while 54.8% of the population had regimes marked by authoritarianism.

Ringen (2013) identifies two basic challenges the democratic society faces in governing. The first is the Hobbesian problem of how to save the citizens from autocracy once democratic governors are constrained in their capacity to design and implement efficient long-term policies, institutions and laws. The second challenge comes from the governors´ style in the management of their two contending parties: disloyal civil servants and insatiable citizens. Ringen provides evidence that in both challenges the present leading countries in Europe

[2] Legacy of the communist "communitarian pro-social mutual help commanded by the omnipresent State" re-appeared in many countries of the world with the rise of populism calling for the distrust to rule and disobedience, as well as with the rise of opportunism, free-riding and reliance on the state over-spending. All these are properties countering good governance.

and America failed to secure willing cooperation or inspire obligation among these three parties forming democracies. In fact, they act like mutual antagonists. He calls them "dysfunctional democracies" (pp. 198-218) subject to "decline" (p.9). Indeed, the general public massaged by explosive *ad-hoc* marketing full of scandals, fabrications of enemies and populistic promises, can become very bellicose, incoherent and thus destructive.

As the title of this paper indicates, we were also strongly influenced by the recent paper about 'ossified economies' by Naudé (2022) which concerns the loss of entrepreneurial dynamism in advanced capitalist economies. We believe that this problem is deeper and we can theoretically prove it on the economics of 'ossified democracy', the prevention of which is one of the crucial challenges of our age.

2. The roots of the malaise of democratic politics

Our central hypothesis that 'the **political marketing and state financing of political parties are behind the malfunctioning of democracy, opaque political mechanisms, the non-transparent provision of public goods, and the side-lined participation of citizens in public affairs**' is a highly complex statement, which requires an extensive theoretical underpinning, which we provide in sections 2, 3 and 4.

The enclosed List of Conceptual Entities presents a synopsis of our main working terms (marked in bold) for building our conceptual model. Thus our analysis is theoretical, not empirical, though we keep in mind our observations of how democracy has been practiced in Central Europe.

List of Conceptual Entities (axioms of our theoretical reasoning)

Democracy *is an institution of* ***social governance*** *driven by the countervailing interaction between* ***markets and public authorities*** *for revealing* ***public choices. Public choices*** *are brought to materialization by the* ***government services*** *instrumental in the* ***deliveries of public goods. Public good****s are perceived here in their broader sense of* ***collective goods*** *that also include goods (material and non-material, such as* ***policies or laws****) with* ***externalities,*** *and* ***social costs and benefits.*** *This implies that* ***public goods cannot be effectively provided by free markets alone****.*

Political goods *include all items of* ***human demand****, whose bid for* ***provision*** *must be* ***negotiated*** *by the* ***participation*** *of* ***political agents*** *(****citizens/voters acting as principals****) in the* ***political bargaining*** *to reveal their* ***public choices****.* ***Demanded common objectives*** *of voters are achieved by their engagement in* ***collective action*** *mediated by* ***elections****.* ***Political parties*** *are the chief counterparts in such bargaining, which takes place on the* ***political markets****.* ***Political markets*** *deal with* ***supplied political promises*** *of* ***future political performance*** *in* ***delivering public goods****.* ***Elections*** *are the main bargaining arena of political markets where the* ***voters*** *follow their private interests in the* ***provision*** *of* ***real public goods*** *delivered most often for the* ***collective use****.*

On the other hand, the interest of parties rests in the ***gain of votes****, access to the* ***mandates to govern*** *and headway to* ***state financing of parties****, which turns to become the dominant* ***objective function of elections****.* ***Political marketing*** *is the instrument to such gains while the citizens respond by their* ***political participation*** *that can take the forms of* ***voice-raising, ballot*** *or* ***economic participation****.* ***Mandatory political tax designations*** *(****PTD****) are a proposed* ***institutional instrument*** *enhancing the* ***economic-political participation*** *of citizens and the* ***efficiency of the public administration****.*

Thus there must exist ***institutions of power: parties, governments, parliaments, taxes, state budgets, and public procurements*** *acting on* ***markets for public goods****. Markets for political goods and public goods are* ***imperfect by their own nature*** *while the* ***degree of their imperfection*** *depends on their* ***institutional setup****. Imperfect functioning of these two markets undermines the* ***democratic governance****, which we describe as "****ossified democracy****". There the society and politics are split and thus unable to agree on a* ***universal social contract.***

Following the ***rational choice theory****, we assume throughout the paper that, in average, subject to the law of large numbers,* ***citizens and voters are rational*** *in their* ***public choices.*** *In* ***functioning democracies****, individual actors will collectively produce an* ***efficient political representation*** *– an* ***authority*** *that will complete their* ***collective action*** *in the* ***provision of public goods*** *in a satisficing way converging to the* ***Pareto-efficiency.***

Bottomline: Democracy ossifies if the people are not able to support it with their **trust, collective interventions and means of supervision**. **Promoting these by the institution of PTD is the main objective of this paper.**

The first step in building our theoretical argument is to locate where the dysfunction of democracy originates in society. We have to detect when the political markets destabilize democracy and how they trigger adverse impacts on the provision of public goods.

To embed and distinguish our contribution from the current economic literature dealing with democracy, Acemoglu and Robinson (2019) and (2006) spring first to mind. In their search through history, they found that too many European nations failed in keeping the delicate balance of democratic power between state and society. According to their terminology in the former book, formal democracies are akin to a sort of blend between Shackled and Paper Leviathan, i.e. a disciplined State mixed with a corrupt State. In the European case, this is not caused by general social consensus but by weaknesses of political parties, which must connive with much better organised businesses. We could call it ”privatised democracies”.

In the cases of post-communist Central Europe, the ossified state represented by political parties and bureaucracy gets captured by the power of big businesses, which also implies the sidelining of the controlling power of citizens. Ossified democracy is the outcome where political parties aim to control public finance, whose taxes and expenditures concern the allied private businesses. Our theoretical analysis must therefore expand its scope: instead of contending with “two blades of the scissors” (Acemoglu and Robinson, 2019), we have to involve three groups of agents representing the state, citizens and businesses. We must also explain how involved markets, political marketing and political businesses interact with the democratic culture of citizens, and with the authority of the democratic state.

Deeper in history, Schumpeter (1942) raised the relationship between capitalism and democracy to an existential feature by assigning democracy and its economic entrepreneurship a paramount role in capitalist economies. His legacy was elaborated further by Downs (1957), who associated democracy, elections, and the provision of policies and other public goods with political markets and competition of parties. Khemani (2017) gave the concept of the political market a concrete microeconomic interpretation, allowing it so to serve as a fundamental concept of public economics. The review of the literature on democracy as politics based on economic markets was presented by Jensen, 2001.

Let us now concentrate on the uniqueness of that so often neglected political market. In each effective market there are three tiers of transactions between providers and consumers:

(1) Negotiation – dealing with the bids and asks, promises, gains of trust, and the conditions of agreed contracts that satisfy the consumers´ choices.

(2) Real exchange – executing the provision of goods and services for some pre-agreed real (e.g. monetary) compensation according to a contract in (1).

(3) Feedback – confirming that the real exchange (2) was consistent or in conflict with the negotiation (1). In case of conflict, the transaction will require remediation.

In functioning markets for private goods, all three tiers are integrated and protected by property rights, effective contracts, and commercial law. Under these auspices, both contracting parties are equal partners. However, the rapidly expanding markets for modern public goods, overloaded with externalities, are heavily distorted and are consequently inefficient (Coase, 1960; Stiglitz, 2017). This causes the three complementary tiers to disintegrate and dissolve into three autonomous market transactions captured by the dominant political agents. Ensuing market failure is often complemented by government failure (Krueger, 1990). Tiers (1) and (3) are converted into markets with political goods that are dominated by political parties, their marketing, and state financing. The interaction between parties representing supply and demand on them is verbal and even akin to a virtual metaphorical monolog. Tier (2) becomes an autonomous fiscal provision of real public goods financed from taxes and government debts, thus disuniting the trinity and disbanding party funding agreed in (1) from the real party services in (2).

Our forthcoming theoretical analysis will lead to the following real outcomes:

i) The political and economic participation of citizens in a democracy can be bypassed, formalised, and sterilised by political marketing and state financing.

ii) Politics can be made opaque and thus internalised by political parties in power, even up to the capturing of democracy.

iii) Political processes can become more closely attached to state capture, bureaucracy, corruption, cronyism, and clientelism.

In our analysis, we will look at politics from the bottom up: from the individual voter as a political principal (a shopper or investor participating in political markets), and not from the position of political parties, as is customary in political science. Follert, 2020, by applying the principal-agent approach to democracy, and the contribution by Hirschman (1970), where both require a distinction to be made between 'voice-raising political participation' (e.g. in voting, enforcing public choices, participating in demonstrations, petitioning, etc.) and 'economic-political participation' of voters (e.g. in support of political parties by individual voters in the form of membership fees, donations, bribes, and taxes). We aim to show how the collective action of the electorate can be captured by private interests that shift politics from positive-sum to zero or negative-sum games (Olson, 1964; Olson, 2000). The superficial treatment of the economic dimension of citizens' political participation in the academic literature has led to the omission of a fundamental factor that impacts the quality of democracy in the world, or at least in all of post-communist Europe. That factor is the peculiar way in which political parties are now financed. We seek to rectify this omission.

We study the detrimental effect that the institutional coupling of the political marketing and state financing of political parties has on liberal democracy in creating a harmful gap between the supply and the demand sides of the political market as both sides of this market grew in institutional strength after the fall of communism. Political marketing represents the supply-side of political markets. It is the proposed 'selling' (i.e. provision) of political goods. The regime of state-financing of the parties related to voting represents the demand side, i.e. the 'purchasing' (shopping) of the offered political goods by citizens. This takes the form of a 'pre-payment' for party services by citizens by their casting a ballot, which in parallel represents the state subsidy to the selected party for four or more years of the government term, which softens the party´s budget constraint. The state funding obtained in this process acts as the capitalised yield of power where money and political power correlate. The money that parties control then serves as a proxy for their power. This turns parties into political business firms (Hopkin and Paolucci, 1999). Next, we will focus on the interaction between the supply and demand sides of the political competition and analyse the outcomes of this interaction in the national political market.

State funding of political parties and political marketing are two institutionalised mechanisms that open the potential to transgress an original, well-intended purpose. The parallel clout that parties have over these institutions renders the political market far from free. It becomes a dysfunctional market stricken by the disintegration of principals (citizens) into atomised political groupings with structurally inconsistent preferences for public goods and information asymmetries caused by parties' marketing and the oligopolistic nature of parties (Khemani, 2017). Political goods are often offered as a package deal: as a heterogeneous bundle of ill-defined items that are conjecturally quantified and priced. The supply and demand in the political market are then opaque where each side offers something else to be delivered. That makes the market-clearing indefinite and the proposed tacit 'contracts' do not fulfil any legal criteria. It is as if the agents in these markets speak different languages, stripping the markets of their authentic role to serve the choices (preferences) advanced by the principals. Theoretically speaking, political markets are incomplete: they produce incomplete contracts that suffer from asymmetric information and have high, opaque transaction costs (Coase, 1960). Where free markets fail, the politics of the authorities and power take over. Yet, in the end, we can see that this space is open to state capture – to the privatisation of public domains, especially the commons, public contracts, the media, legislation, and the judiciary. We can conclude that such incomplete political markets help little in solving Arrow´s (1950) social choice paradox in another way than by choosing the supply-side dictator. The question remains if the dictator is temporary or enduring, as is the case of Hungary.

The marketing of political goods on the supply side and the 'purchase' of these goods on the demand side are asymmetrically regulated by the law. While the marketing of political parties enjoys great freedom to offer whimsical political goods, their purchases by voters in elections are regulated through votes and state financing of parties. There is almost no guarantee left thereafter on how to link future procurements of public goods to past promises. This asymmetric institutionalisation of the two sides of the political market substantially impacts the nature of democracy. We will illuminate how this peculiar mix of liberal and étatist principles in politics became a factor behind the deficient evolution of democracy in Central Europe and how the initial build-up of liberal democracy turned into a political style that we will here call 'ossified democracy'. This is an outcome of the ossification of the institutional setup that is tightly linked to how democracies are dominated by autocratic power hierarchies.

In a democracy, the political bargaining power of citizens, who act as mini-political entrepreneurs, is diminished by the monopoly power of the winning party gained for four years. So, the citizens have been stripped of the control over the delivery of public goods. Provision of public goods in turn also loses the entrepreneurial nature characterised by innovation and cost-effectiveness, which both become constricted by the factors identified by Naudé (2022) in the case of ossified economies. In them, creative political entrepreneurship comes to be challenged by social antagonism and radicalisation among citizens, and by populism, information asymmetries, market capture and governmental bureaucracy on the policy side. The ability of political parties to capture the imperfect political and public goods markets is the result of a widening discrepancy between the power of political parties to sell and voters to buy political products. The voters lose out as the weaker side.

Such distortions of the political market have adverse consequences for the quality of democracy, as they minimise the voters' power to fight back by controlling the financing of parties. The autonomy of supplied political goods that were turned into virtual promises became goods easily master-minded by spin-doctors, their marketing techniques, and spinoffs into social networks. The political market is converted into a ritual with the following characteristics: it is detached from reality, appeals to emotions, juggles deceptively with loyalty and trust, employs fictitious arguments, and makes vague and ambiguous commitments. This particular abuse of information asymmetry on the supply side aims to get access to the state's long-term financing and the political mandate to govern. These are the revealed objectives of parties that culminate during elections.

After elections, their importance subsides as the objectives become dominated by the individual and local interests of politicians. This can further erode democracy. We can observe several transfigurations in the political markets. Political goods, captured by the supply side, become mere populist promises for the future delivery of real public goods and services. Supplied political goods thus become virtual goods that are disengaged from their natural complement – from the parties' responsibility to supply real public goods according to the public choices. Thus, voters in their 'payments' (via government subsidies) for the political goods they 'purchased' in elections lose control over the real supply of public goods. The originally interdependent markets for political goods and public goods then forfeit their complementarity. Both become self-contained and incapacitated markets dominated by the political party in power, turning citizens into passive onlookers.

The side-lining of citizens is also in conflict with the conditions required for an efficient self-organised collective action (Collier and Kay, 2020; Van Zomeren et al., 2008; Ostrom, 1990; Olson, 1965). In reality, the authentic collective action of citizens is neutralised and 'privatised' by an institutional setup of politics under ossified democracy that becomes exogenous and estranged from citizens (Olson, 2000). After elections, the winning party may abandon its role as an agent of citizens and becomes their principal with a free hand in providing public goods.

Our main finding in this section is that in ossified democracies, society and politics are split into heterogeneous factions that are **unable to agree on a universal social contract**. The issuing frictions over public governance weaken the control mechanism over what and for whom the public goods are demanded and supplied. We can characterise it as an effect of the **rising weight of the public sector in the national economy**. Meanwhile the average government expenditure on the GDP in developed countries was mere 13% in 1921 and 24% in 1960, it was 45% of the GDP in 2021 (see IMF, 2023). The exponential rise was due to demands for higher social spending, We can conclude that the dominance of private goods traded on private markets peaked in 1920s and since that time it was gradually crowded out by the rising share of public goods on GDP. That implied the rising importance of public contracts, public policies and the economic role of the state. **This shifted the interest of powerful private firms from private to public goods and, with that, in their involvement in politics, public administration and democracy.** The role of democracy in 1880, 1921, 1960 and 2021 was challenged by very different economic setups and responsibilities, which boosted the importance of the economics and ethics of democracy (Acemoglu and Robinson, 2006). The risk of failing democracy was therefore on a rise, too. We can even show how the borderline between democracy and autocracy was made hazier in the flow of the last 30 years (Ringen, 2022).

3. The duality of state financing and political marketing

Direct public funding for political parties was introduced into the political systems of emerging democracies as support for the independence of political parties. The motive was to defend them against the influence of big business and to curb corruption. Its introduction was even recommended by the Council of Europe in 2003 (Koss, 2011) and gradually ushered into all European democracies (Piccio and van Biezen, 2018). In post-communist EU countries, it became a dominant form of funding for the parties from the very start (Kopecký, 2006).

Once introduced, dominant parties become addicted to state funding in the form of windfall political subsidies. We know a great deal about imperfect markets in commodities or labour, but an institutionalised distortion in political markets warrants concern. Political market inefficiency, even dysfunctionality, results in a tendency for the provision of fewer public goods due to purchases at higher prices or government cutbacks. Then there is the lowering of quality, the pre-selection of winners and losers by 'visible hands' and general acceptance of state capture. That implies interconnecting the party´s objectives with those of bureaucracy, big businesses, oligarchs, and power agents, instead of their serving the choices of voters (Fisher, 2011). Therefore, the effectiveness of state financing as a shield against corruption is dubious (Power, 2020).

The breakdown of barriers across the world after the fall of communism also unleashed the 'marketing revolution' in the politics of democratic countries (Lees-Marshment, 2004; Newman, 2016; Scammell, 2014) that intentionally distorts the market information about ´what´, ´how much´ and ´for whom´. The negative impacts of political marketing on the performance of political markets and the quality of democracy are thus known. The negative consequences of marketing 'entrepreneurship' in the hands of political oligopolies can grow to the point of political market capture. Henneberg et al. (2009) agree that the dominant instrumentally oriented perspective of political marketing needs thorough revision, as it is incompatible with the basic features of democracy and its markets.

The impacts of marketing on the supply side of political goods are as detrimental as the impacts of the state funding of parties on the demand side. What the impacts are it depends on the country's particular institutional setup. Politicians become the sellers of political products, whose most important production factor is the capital for campaigns. The voters are primarily treated as submissive consumers of political promises. Marketing images that are 'sold' for votes, state financing, and the mandate to govern, and that are packaged as vague proposals for future actions stripped of contractual guarantees, serve as a smokescreen for the future real politics that will govern the actual provision of public goods.

Ossified politics became an industry in which political firms (parties) try to opaquely redistribute GDP and national wealth. It is practised by specialised professionals who sell political goods like any other goods that are subject to market bargaining. At the same time, politicians know that their success depends on market power, which they strive to enhance and institutionalise. However, voters are aware that they have empowered politicians as their agents and they expect political products and services to be delivered as they demand them. Distortions in the political market increased after 2007, and political marketing turned into an instrument with which to gain control over the financing of parties and strip citizens of democratic primacy. The predominance of marketing and state financing gradually crowds out the transparent assessment of the real performance of political parties. Democracy formally survives but takes the form, which Acemoglu and Robinson (2019) call the Paper Leviathan where the government manages to be both oppressive and ineffective.

The collusion of political marketing with state financing is then open to the 'supplementation' of parties from such unofficial resources as misappropriated fiscal funds, EU transfers, or corruption. This complicity brought the political reality in post-communist Central Europe to a moral crisis, which further discredits democracies and capitalism as viable social systems. This naturally leads to populism, étatism, oligarchy, cynicism among citizens, and the weakening of efforts to adhere to the principles of good governance. The initial efforts to establish a liberal democracy gradually give way to the emergence of an ossified democracy that leans towards populism, nationalism, and corruption. The society splits and its actors get locked into mutually hostile bubbles (Ágh, 2016; Alexeev, 2021).

The increasing role of politics and the state in national economies has another adverse impact on society: the gradual rise of moral hazard and ossification of private businesses relying on the state. Entrepreneurial management gets crowded out by the drive for political power. Thus, the decline in democracy adds another factor to the causes of ossified economies studied by Naudé (2022).

4. Ossified democracy versus the need for good public governance

Political marketing, boosted by IT and AI, is highly manipulative of voters as consumers of political goods and thereby undermines their sovereignty and authenticity of demand. Do the voters want long-term development driven by effective capital investments, or do they want mere short-term financial transfers from the rich to the poor? The relationship between parties and voters is asymmetric: parties can offer their showcase products (ideas, projects, images of leaders, sentiments, policies, etc.) at any time, but voters must 'purchase' them when they cast their ballot without knowing what they will get. The decision they make at that moment remains valid for the whole government term (e.g. 4-5 years) and there is no way for them to reverse their decision. This is because elections are not just about casting ballots; they also involve taking out a four or five-year 'subscription' to the selected political party, whose product deliveries may differ from the promises in their marketing. Even worse, these products ultimately need not be delivered at all.

We should note that the market mechanism for the provision of private goods functioning well in perfect markets does not apply to the procurement of public goods. **The crucial difference is in the use of two markets specific for democratic governance, both of which are imperfect: the market in political goods and the market in public goods**. In addition, the institutional linkages between them are loose to the point where they become disconnected. In the political market, voters (principals) select their political representatives (i.e. agents promising the delivery of loosely specified public goods) in an election. Then, in the next years of the government incumbency, the agents in power use public finance for the public delivery of such public goods as healthcare, security, environment, education, infrastructure, laws, policies, institutions, ethics, etc., with a broad discretion in their decision-making. The question is then: how is their discretion related to the efficient servicing of public choices?

We should notice how fundamentally different the economics of public goods is from the economics of private goods. And how easily the dominance of power hierarchies over the public economy generates an estrangement inside the segments of society that feel side-lined. The sector of public goods cannot rely on the mechanism of bilateral negotiations on free markets characterising the purchases and sales of private goods. It must be also open to the political (and bureaucratic) command coordination, where the hierarchies of power should be curbed in their aim at autonomy by challenging democracy by tending to autocracy. We are back at the argument of Acemoglu and Robinson (2019) about the build-up of the democratic Shackled Leviathan. Section 5. will illustrate the mechanism of how the markets related to democratic governance are prone to fail and why it is due to systemic flaws.

The institutional criteria for setting a dividing line between capitalism and socialism, as discussed by Mihályi and Szelényi (2021), need not be therefore limited to whole economies, as they can also be applied to the two institutionally incompatible sectors of private and public goods. Facchini and Melki (2021) go even further: as Western societies today gravitate towards an ethos of DEI (diversity, equity and inclusion) and agree that businesses with market power should be regulated by political power, societies are more willing to sacrifice economic democracy and its ethos of free enterprise underpinned by Schumpeterian entrepreneurship. As the private goods sector that characterises capitalism is crowded out by an increasingly more prominent public goods sector that bears the features of public management by centralised command, the reliance on authentic democracy in economic decision-making increases. But the risk of democracy-capture by politics, businesses and bureaucrats increases, too.

Let us now consider the situation in political markets promising the future provision of public goods. Frustrations, that arise from what is finally provided and from lavish public expenditures, are generated from at least three sides. First is the mere abuse of information asymmetry where citizens feel manipulated. Then there are scandals and frauds when a particular irresponsible politician fails to perform what was promised. The frustration also results from a systemic failure of the political market, which lacks the mechanisms with which to balance the demand from individual voters with the real social supply of public goods by the winning party. Political markets are bound to fail because it is technically difficult to fulfil heterogeneous social preferences, as proven by Arrow (1950). In ossified democracies the political actions start on the supply side, where political marketing offers virtual 'products' (promises) that aim to reflect the wishful thinking of the targeted electorate. To avoid the clash with Arrow´s impossibility theorem, the promises are very general, stressing maximally three concrete marketing ´baits´ such as the increase in pensions, rise in minimal incomes and adding caps on food prices. There are two safeguards: Subsequent real supply and demand of public goods are not tied to the electorate as a whole but only to their own electorate comprising e.g. 25% of the population. Secondly, the real deliveries are not subject to any legal contracts guaranteeing commitments (promises) made in the elections. As an outcome, the supply side of political marketing and the demand side of political shopping, both of which are virtual expectations and promises, do not allow for real market clearing at the level of the full social demand. Market clearing is not a principal property of political markets.

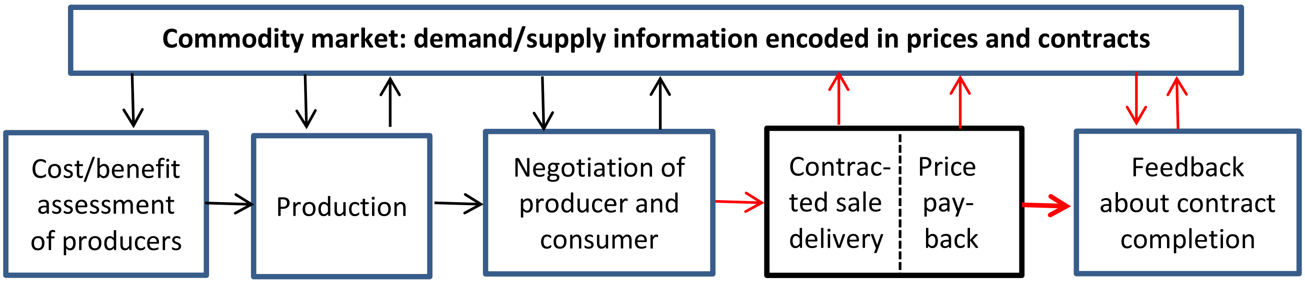
There are many real public goods with excess demand and many others with excess supply, as used to be the norm in central planning (Kornai, 1980). What goods are delivered in reality can lose their connection to the previous virtual bidding in the elections because their virtual contracts are opaque, incomplete, and unenforceable. As sovereign consumers, taxpayers, and principals, voters cannot promptly punish elected parties (i.e. their agents) for their failed deliveries or corruption. The laws do not recognise a right on the part of the electorate to 'get their money back' in the case of contract default. If the parliamentary opposition is weak, dissatisfied voters can be ignored completely. A voter cannot behave like a sovereign political consumer because there is no effective market in which collective purchasing options can be matched by deliveries optimising both private and social utilities (Khemani, 2017).

While consumer sovereignty functions well in free competitive markets for private goods and when the consumer still retains some power for penalising the firms' fake marketing strategies, it suddenly fails in markets for political goods (Pellizzoni, 2011; Stolle et al., 2005) because these markets are naturally incomplete. They lack the properties that would allow for a Coaseian negotiation over public goods (Coase, 1960). Neither have they satisfied the eight principles of good governance over common resources designed by Ostrom (1990). Besides the high transaction costs that are involved in bargaining over collective social preferences, such negotiations are also affected by fragile legislative institutions. In an ossified democracy, bargaining in both the imperfect political and public goods markets is thus biased towards a political game dictator. Though autocracy offers decisions with the lowest transaction costs, their impacts on social well-being are mostly negative. Alexeev (2021) and Åslund (2019) provide insightful arguments in the case of Russia.

5. How and why the political and the public goods markets fail

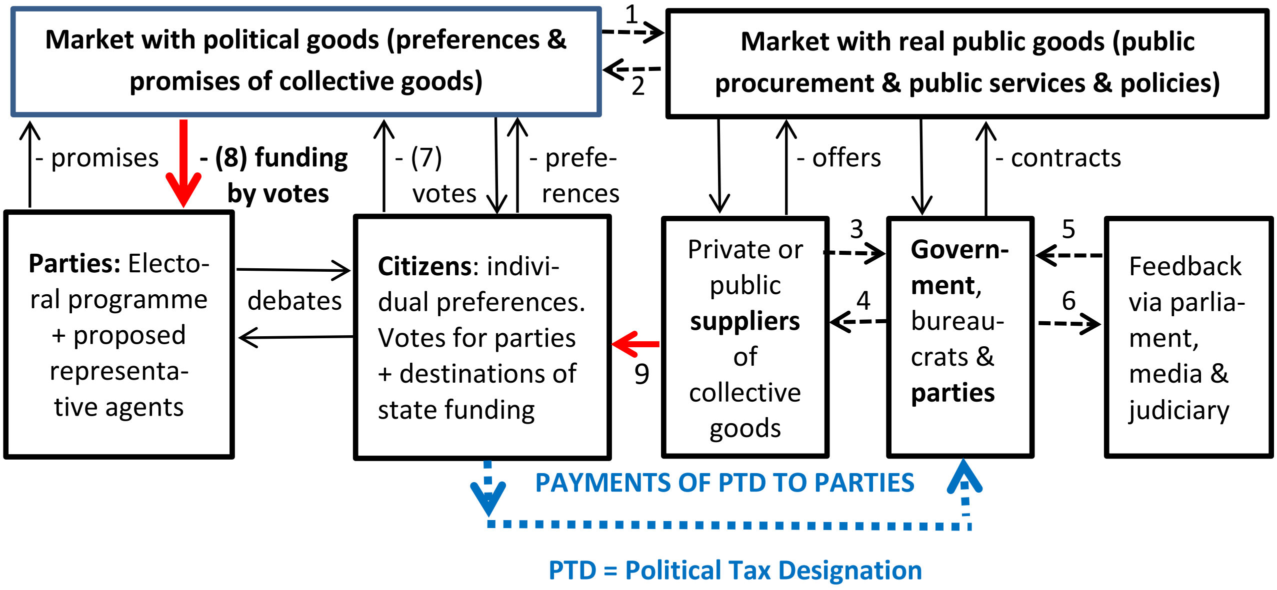
As we argued above, markets in political and public goods are incomplete by their nature, and they cannot operate in a conventional market way. Conventional markets for manufactured commodities are subject to the sequence of five steps plotted in Figure 1: cost/benefit assessment of the potential demands and supplies – production – negotiation between producers and consumers – sale delivery and the contracted price payback – contract completion feedback.

Figure 1: Functioning of the perfect markets for private goods in the time sequence



The functioning of the markets in political and public goods is very different from that of a private commodity market, as is explained in Figure 2. Not all markets are the same once their agents, organisation, and the rules of the game are different. Our two markets used by democracy are bizarre. They share some of the features of proxy ‘markets’ that are built for exchanges between the value chains, which are dominated by a master corporation that to some extent behaves like an administrative Coaseian firm. They are a crossbreed between markets based on free negotiation between equal partners and authoritarian power games.

Figure 2: Functioning of markets for public goods within the mechanism of democracy



The dashed arrows highlight the specific aspects of the provision of public goods intermediated by democracy and representative political agents. Arrow 1 describes the unpredictable impact of political promises on the real governance of the winning party, and on the nomination of representatives to parliament and the government. There are no legally enforceable contracts from policy accords in the political markets that could discipline the real performance of politicians in public procurement. Arrow 2 symbolises the uncertain impact of present governance on the political market in future elections. Arrows 3 and 4 depict the off-market illicit relationships of corruption and favours. Arrows 5 and 6 illustrate the public discourse on the procurement of public goods, where the voice of citizens in feedback is subordinate, except in the case of public mass protests.

Compared to the perfect performance of the market mechanism that we see in Figure 1, the fundamental difference in Figure 2 is that there is a chasm between the political market and the public goods market where arrows 1, 2 and 9 cannot achieve their mutual adjustment. Each of the two markets is fulfilling a different role, thereby dissecting the democratic process into two disjointed procedures. The political market is auctioning representatives (i.e. setting the hierarchy of political agents) and party funding, while the public goods market turns former agents into principals, granting them a monopsony on public procurement contracts. These two markets can become autonomous in their information flows and operative contents, which undermines their social efficiency.

The vertical red arrow (8) highlights what is crucial for our argument: the official remuneration for the political services of parties is pre-paid for the years of their incumbency and is cashed automatically as a **windfall rent from the government without any relation to the parties' real performance. This is a crucial incentive failure that contradicts the market principle of agreed equivalent exchange and anchors the dominance of politics over economics**. As a political firm, the party gets advance funding for its unknown future public services (e.g. governance of the party in office or the work in opposition), meanwhile the citizens must accept the procured deliveries like a command (9). Deliveries are monopolised by public administrators who often capitalise their power to their advantage. That is why so many citizens feel side-lined and antagonistic to politics. The deliveries are not in accord with the preferences they expressed in the voting, which concerns not only those who lost in elections but also those who did not vote. The systemic failure is due to the incapacitated horizontal feedbacks 1 and 2 between the political and the public goods markets, as well as missing information flows between the market in individual products, and the producers and consumers highlighted in red in Figure 1.

Let us illustrate the problems in the functioning of political markets in the cases in Central-South-Eastern Europe. Their registered political parties act as exclusive agents for the competition for governance over the state provision of public goods. The primary incentive for their performance as political business firms lies in the exchange of the political goods they 'produce' for gaining rents in the form of state political subsidies. According to the number of votes and seats gained in elections, the parties receive a pre-payment of subsidies for several years in advance. From the moment the ballot is cast and the money is secured, parties gain extensive autonomy from the electorate, i.e. from the consumers of their products. The winning parties can then deliver public goods of low quality or even products wholly different from those 'ordered' in elections. In addition, they can overcharge, which is to say, they can draw from the taxpayers´ money in the fiscal coffers at a price that is greater than the goods' worth in competitive bidding. The latter is a direct and natural pathway to corruption, which the electorate cannot penalise parties directly. Figure 3 illustrates the problem in more detail.

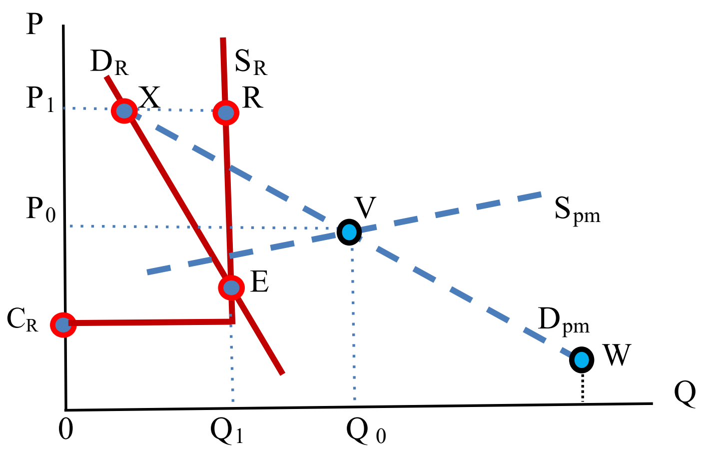


Figure 3: The dichotomy between the virtual political goods traded on the political market and the real public goods traded on the real product market

S_{pm} and D_{pm} are the supply and demand in political markets (pm). Their generic, largely indivisible goods are mere vacillating promises or expectations. These are vague virtual products, which we depicted by dashed lines. Let us assume that our political good is a generic promise of 'green energy' measured in MWatts. The winning electoral equilibrium in V helps the party α not only to gain power over government and dominance in the parliament but also to gain official political subsidies pre-paid for four years in advance. It is a sort of a free lunch.

D_R and S_R indicate the real demand and supply of green energy. The fundamental dichotomy here is in the difference in the nature of political and real markets in public goods, which in ossified democracies are only very loosely related to each other. In extreme cases, the two become autonomous (see Fig.2). Let us consider two obstacles to efficient market performance: a) the quality and meaning of products in these two markets can be opaque since the generic public good 'green energy' consists of a set of innumerable heterogeneous elements; b) the demand D_{pm} can be politically divided, e.g. when its segment VW was generated by the demand of voters of a more conservative party β, the losing party, and the remaining demand belonged to the supporters of party α, the winning party.

The **real** provisions by party α in point R, at the final cost of P_1*Q_1, indicate that there was an excess supply XR over demand, with no real market-clearing to efficiency in equilibrium E, ignoring also the political equilibrium in V. The price $P_1 > P_0$ and quantity $Q_1 < Q_0$ have the real costs of producers C_R*Q_1 , which facilitate a net potential profit $(P_1 - C_R)*Q_1$. This potential profit can be shared by party α and the suppliers of the public good. This gives rise to considerable potential for corruption. The voters of β feel particularly frustrated because they have to consume overpriced and undersupplied products selected by voters of α. A different situation occurs when the governing party ignores the real equilibrium and undersupplies a particular public good (e.g. healthcare). Excess demand for that good at a low price leads to consumer frustration and distrust in politics and in democracy's ability to serve.

What is traded in political markets? Primarily, there are ideologies and promises to provide completely virtual goods, such as freedom, equality, security, or institutional changes. Next, there are budget promises, such as P_0*Q_0 funds for defence, which in reality will turn out to be an 'economised' budget $P_0*Q_{1.}$ Then there are quantities of deliverables without quoted prices, whose vertical supply lines have no price limits. Next, there are bundles of products, the concrete composition of which is unknown. All four of these items leave a high degree of freedom for real spending on deliveries. All these supplied promises are traded primarily for one real item: the total number of gained votes, where each vote has a concrete fixed price subsidising the party. This is an objective function of political parties that is closely related to the additional two 'yields' of a winning electoral campaign: access to the public Treasury (e.g. to 40% of GDP) and a mandate to govern. Let us stress that this mandate implies a parallel gain of monopsony and monopoly in public administration.

Hence, the voters are essentially incapacitated and have no control over delivered real products. The quantity and quality of public goods, as well as the payments for and prices for them, are beyond the control of the electorate. Voters also have limited space in which to reject the negative externalities of political 'sales', such as corruption, nepotism, or clientelism. Private interests manipulating public choices can then capture a large part of the public sector. The different positions that the supply and demand functions occupy in the political market vis-à-vis the real market in the given public good, reveal the conflicts that exist between citizens and political representatives, and the differences between social and private criteria for public procurement.

In other words, market power gained by the party in the government facilitates to sustain disequilibria between what public administrators supply and what voters demand. Speaking academically, the supply and demand curves in political markets act independently of each other. They may not intersect in cases when they form two parallel (e.g. vertical) lines, or they may intersect but then no mechanism will lead to market clearing and contracts. The real prices of its goods are often endogenous and are agreed upon in tacit collusion between private suppliers and public buyers. Voters, because they have no power to control the political market or the real markets with public goods, respond by voting with their feet, and lose trust in elections. This could be a rational outcome of a loss of control over political purchases and the funds allocated to political parties on behalf of the electorate. Kostelka and Blais (2021) confirmed a gradual decrease in voter turnout globally since around 1985.

The subsidised financing of parties from the government budget strips the electorate of an essential aspect of their political sovereignty. It undermines the economic-political participation of citizens because it prevents their effective participation in the financing of parties. It also decreases the efficiency of political markets by severing the connection between good political governance and a party's income. In addition, once the feedback links between the political and the public goods markets are eroded, democracy is weakened due to the dysfunction of a fundamental stabilising mechanism in both complementary markets. The signals about trespassing the rules are eroded and the degree of impunity rises. We can trace a close correlation between the index of democracy and the index of legal impunity (see https://www.eurasiagroup.net/live-post/atlas-of-impunity-2023#Report).

To summarise, the state funding of parties coupled with the haze of political marketing, are two factors leading to the ossification of democracy in Central and Eastern Europe, and in many other parts of the world. The necessary remedial counter-measures must address both factors to make the two flawed markets perform.

6. How to enhance economic-political participation

We argue that doing away with the state financing of political parties is an essential step in getting parties to direct their attention to citizens and their demands. The aim is to strengthen the frail interface between the political market and the real market in public goods. Granting collective action wider power over both markets also undermines the bias to delivery overcharging and corruption. The act of casting ballots should thus be separated from the subsidies to parties.

This was not the case in the distant past. The golden age of representative democracy was associated with mass membership in political parties when membership fees were the main source of their financing, and this made parties accountable to their constituents (Hopkin, 2004). It is a paradox that wealthy modern societies eliminated this flexible form of financing and opted out of mass membership in parties (Van Biezen et al., 2012). This was a rational selfish choice once prudent grassroots control of parties through membership fees could easily be replaced by advance 'subscriptions' free of instant accountability for the full term of the government, and supplemented by additional funding from sponsors and cronies.

A return to mass membership parties is just wishful thinking. Nevertheless, there is a chance to return to an individualised flexible form of financing akin to membership fees that would align the masses of political consumers with parties and boost their role as principals over them. This merit-related financing is represented by **political tax designations (PTD)** based on financial incentives controlled by the whole electorate. PTD can serve continuously as a proxy for the ´purchasing prices´ of political services provided by parties in the form of a composite good (i.e. as a package deal) in the political and public goods markets. This would extend the performance of political markets to permanence beyond the moment when the voters cast their vote. So the performance of real markets in public goods will be subjected to the control of citizens.

The primary idea of PTD is to convert a part of personal income tax to direct regular (annual or monthly) contributions to the selected party as a reward for their services. This is something that state subsidies cannot do. Each potential voter can choose which party to support at any moment. The objective of such a reform of party financing is to match the political supplies of parties to the political demands of citizens and produce signals about the equilibrium 'prices' of political parties. This would invigorate the authentic functioning of political markets by extending political competition. Voters and parties would then have a stronger motive to work with the information about parties' political assets and liabilities, and the goodwill parties engender in the populace. All parties receive immediate feedback about their 'market position', which includes giving them signals about their errors and clues on how to redress them. With the PTD, the notoriously incomplete political markets get a spur for becoming performing markets where the price of public services gets a clear economic meaning.

Our proposed PTD scheme belongs theoretically to the contractarian taxation theory of reciprocal democracy coined by Sugden, 1984, by following the foundation set by Buchanan, 1963, where citizens are free to support institutions that contribute most to public welfare. Meanwhile, as Sugden extended this theoretical approach to practical schemes of taxation (e.g. in Sugden, 2018), there was a massive rise in research summed up in Silvestri (2021). In this paper, we took a different theoretical approach by following the microeconomic foundations of the political markets of Downs (1957), which is our novel contribution.

We have been inspired by three Sugden-type designation schemes that already function: the designations for churches in Austria, Germany, and Switzerland (so-called *Kirchensteuer*); tax designations for research and development in Slovakia; and the system of tax designations for NGOs in Central Europe. However, their system would have to be modified and adjusted in order to motivate the electorate to continuously supervise the performance of political parties and thus subject their long-term performance to voters´ preferences. This is an ancient Greek idea stressed by Mueller (1998, pp. 310-311) as a necessary condition for the survival of liberal democracy.

7. Requirements levied on political tax designations

We conceive a political tax designation (PTD) as a market instrument of democratic governance that operates on various levels of political competition. For example, in elections, in the formation of governments and parliaments, and in the running of state administration. For simplicity, we will focus on electoral political systems on the federal level. As an instrument, PTDs must meet several criteria to achieve the desired objectives:

a) PTDs perform as **incentive schemes** for communicating the electorate's expectations to political parties in a **time-contiguous** way. The aim is to monitor political parties, instituted as political firms that provide public goods, in their role as the agents of citizens. Citizens thus get an instrument for enforcing the fulfilment of public choices, which should become the objective function of politics (Khemani, 2017).

b) Thus, PTDs act as an institutional follow-up of elections serving as permanent leading indicators of voters´ preferences between elections. We can describe their role as that of simulating the stock value of individual parties. The parties then receive continuous information about the potential attractiveness of their 'sales' to the electorate. The balances on the accounts of parties, therefore, represent a **social valuation of a party at a particular point in time**.

c) Who will be the **agent that finances the parties**? In contrast to party income, which is guaranteed for the 4-5 years of an election cycle from the moment a ballot is cast and is thus received from the participating voters only, the PTD will be assigned to all citizens who have voting rights, regardless of whether they vote. That will increase the number of contributions significantly. Thus, even voters who do not participate in elections will have a say over the financing of parties. This also means that PTDs will have to be **mandatory for all voters**.

d) PTDs will be the exclusive source of funding for political parties related to performance. **All other kinds of direct or indirect sponsoring should be banned and subjected to criminal law**, curbing the potential for lobbyism and corruption. Similarly, the expenditures on election spending and marketing must be capped and regulated.

e) What should be the total **annual contribution** to the PTDs by their agents? As implied by our preceding argument, political parties perform essential social tasks that **require high-live expertise**, which resides in very **expensive human capital**. These tasks include generating political personalities of authentic statesmanship and nationwide programmes designed by an **entrepreneurial staff** with innovative organisational and analytical skills, which require adequate financial backing. In total, the winning party is in charge of providing public goods, which now account for nearly half of the GDP. The current system of the state funding of parties is biased in favour of the winning party because it forms the government and therefore has direct access to control over public administration and public finance. The opposition parties in Central Europe are left stranded by the very small funding they receive – with 6.44 € per ballot per annum in Slovakia, 5 € in Czechia, or 4 € in Germany.[3] This turns the opposition parties into a systematically undercapitalised, understaffed and empty-handed amateurs. **PTDs should therefore be set much higher than the present subsidies**. The underfinancing of parties explains their condescending to their willingness to serve the interests of big sponsors and their susceptibility to corruption (Power, 2020). Such a system of political financing is the primary source of the ossification of democracy.

f) The choice between **differentiated versus flat rates of PTD:** At present, the government financing system of political parties in Central Europe is based on fixed rates per ballot, plus seats gained, combined with no payments to minor parties under a certain threshold in received votes. The latter discourages voters from betting on promising political start-ups and discriminates against them twice: during voting and the financing forfeiture that limits contestability. The system is also not compatible with the principle of social justice handed down since the times of Aristotle and Plato, where individuals fulfil their societal role by contributing to overall social well-being according to their creative ability, i.e. in a non-egalitarian way. In searching for the proxy to represent the creative potential, we selected personal income as the most appropriate. As the principals in the political system, voters then have two instruments with which to enforce their preferences: one ballot for each voter, which is egalitarian, and a PTD levied as a fixed proportion of their income.

[3] Such amounts of subsidies, though they come from millions of voters, are too small amounts for providing sufficient annual working capital for political parties that are to be independent and creative. Ringen, 2013 (pp. 198-218) stresses that governments should not only be able to give orders but also guarantee their proper implementation, which requires contact with the population, breeding the political culture, accumulating state-of-the-art human capital for having the best managers and designers of laws, institutions and policies. No doubt, the demands on corporate governance of democratic political parties in many countries falls short of the labour and capital endowments these parties have. In size, parties are like SMEs, i.e. small and medium-sized political firms. This is an absurd misunderstanding what kind of responsibility an authentic political party must bear. No doubt parties are easily captured by the multi-nationals or by firms of oligarchs, where some of them are even building their own political parties for special interests.

g) **Sources of contributions**: PTDs should be assessed as a flat percentage R1 of the annual income of every employed voter (i.e. wages, salaries, or the business income of the self-employed – all free of capital income). The PTDs of pensioners would be assessed from their total annual pension using a higher flat rate R2>R1, but this would be paid by the Finance Ministry. The PTDs of voters with no income would be based on R1 applied to median income and it would also be paid by the ministry.

h) **Frequency of contributions**: PTDs should be assessed annually based on income tax data and be valid for payments to parties in the next income tax period. Voters could assign their PTDs to any registered party at **any time** in that period. They can make their payment in individual instalments that they can allocate to different parties over time. If the voter resigns on payments, his/her PTD would be disbursed at the end of the payment period to all registered parties proportionately to their annual PTD gains.

i) PTDs collected by parties must satisfy the criterion of **public information** with low transaction costs based on strictly private voters' accounts. PTDs cannot function without efficient e-government.

Our design of PTDs was thus derived from a critical analysis of the mechanism of the two underperforming markets in the public economy in order to make up for their imperfections. By applying PTDs we added the missing systemic link in the functioning of present political markets and boosted the control of citizens over their preferences in the consumption of public goods. Payments to parties will be strictly according to the quality of their public services assessed by the citizens. PTD is an argument for rationality in individual decision-making about the selection of democratic representatives that guarantee more efficient outcomes than the imposition of representatives by an elite leader who claims to have command over efficiency. Human experience since the times of ancient Rome and the not-so-bygone communist rule over 32 countries says that autocracy tends to dictatorship and inefficiency (Acemoglu et al., 2019; Acemoglu and Robinson, 2006).

8. Conclusion

The analysis and policy recommendations in this paper are a response to the widespread signals about the erosion of liberal democracy not only across EU countries in Central and Eastern Europe but also in other countries over the last 15 years. Our analysis relies on the economics of democracy founded by Schumpeter (1942) and Downs (1957), which deals with the decisions about the allocation of public goods through collective action where the principles of markets must be merged with the principles of command economy.

Ossified democracy results from the curtailing of citizens' opportunities to participate in the processes of democracy with effective instruments of collective action. Two parallel institutional mechanisms caused this situation: the system of financing political parties, which is not linked to their social merits, and political marketing that fabricates and abuses information asymmetry and political market power.

We based our analysis of ossified democracy on the distinction between two forms of citizens' political participation:

- 'Voice-raising', where the stress is on voting in elections, access to media, the power of the opposition parties in parliament, or the effectiveness of public petitions and protests in enforcing collective choices.
- 'Economic control', where citizens gain the power to decide how political parties will be financed based on their performance.

In contrast to the former, the latter is novel in that it raises the economics of party competition and exit on par with voice-raising. The ensuing market power of political authorities in political and public goods markets has largely been neglected in the literature on democracy. Referring to Hirschman (1970), we argue that the coupling of voice (politics) and exit (economics) is intrinsic to the effective management of social systems. The distinction between these two allowed us to design a novel theoretical approach to the institutional arrangement of the economic aspects of democratic governance.

We argue that in Central European political markets, voice-raising participation in the future provision of public goods has been eroded because the 'voice' of concentrated marketing is louder on the supply side and drowns out the single voices of individuals on the demand side. At the same time, there are the negative impacts of state financing of political parties: State subsidies to parties are too low; they induce parties to align with businesses; and they curb the economic instruments over the control of public economy and politics in the hands of citizens. Democracies that have been doubly hit by political marketing (i.e. where parties bridle the voters' 'voice') and state financing (i.e. where subsidies to parties cushion their 'exit') can be called 'ossified democracies', which represent a complement to the 'ossified economy' analysed by Naudé (2022).

To stop the further decline, institutional change is required – such as to rectify the failure of political markets and couple their corrective mechanism with the screening of government performance in public goods procurement. We propose introducing financial incentives and placing them in the hands of the electorate to improve the economic-political participation of voters by stimulating the social compliance of politics. This includes prompt financial penalising of incumbent parties for suboptimal public policies or for serving narrow special interests leading to corruption, clientelism, state capture, etc.

Unfortunately, the academic literature on democracy still presumes that the main obligation of citizens in a democracy is to raise their voice within civil society: for example, to cast a ballot, contact politicians, protest in the media, or sign petitions. Academic research has neglected a systemic flaw in political markets, which is the lack of financial sanctioning or rewarding of political parties for the quality of public services they provided to citizens. The still politically inexperienced citizens of Central Europe are thus not acting as sovereign economic-political principals engaged in using political markets for building public administration that delivers. Many reconcile with the criterion of *panem et circenses* and forfeit the requirement that the state is here mainly for the backing of the collective action. The problem is that voters are not instructed that they could be given financial bargaining power when buying political products. This would open the way to their becoming sovereign investors in the institutions of a democracy that serves.

Therefore, our proposed institutional innovation is to separate the act of voting from the financing of political parties and turn economic-political participation into a powerful instrument that is in the hands of the citizenry. We recommend introducing an institution of mandatory political tax designations whereby the political market and the market in the provision of public goods will be re-integrated and subjected to closer control by the electorate.

The mechanism for transforming people's values into declared public choices and public choices into the provision of public goods that contribute optimally to society´s well-being, is as yet an unresolved but cardinal issue in economics and political science. Once we reject the rule over the public economy by commands of autocratic hierarchies, democratic procedures are the only solution left in which the free collective action of citizens should play the central role. Democracy, however, is also based on elected political representation (agency) that empowers politicians, parties, public bureaucracy and other hierarchies of political power with exclusive right to enter into imperfect markets for the procurement of public goods. That creates a risk that politics or big businesses capture the political and the public goods markets. To countervail this, we propose enhancing the political market mechanism by making those in power more accountable to citizens by giving citizens an instrument for financial control over politics.

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