

# Intergenerational governance

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Governance, despite its popularity as one of the most fashionable contemporary keywords, is far from being defined unanimously and unambiguously. The concept tends to be more frequented in specific contexts such as corporate governance, than in more abstract general frameworks. This makes it nontrivial to extract the transversal conceptualisation of governance. It does seem, however, that the following basic features tend to be commonly observed whenever, in whatever context, governance is discussed. Firstly, it is typically an organisation involving multiple individuals wherein governance becomes the subject of substantive discussions. According to the standard microeconomic theory, an individual decision maker is identified by her/his idiosyncratic preferences. This inevitably means that conflicts of interest arise whenever multiple individuals are to engage in collective decision making. In other words, collective decisions are made possible exclusively through interpersonal utility comparability. Secondly, unlike typical collective optimisation decisions in economic theory, governance oftentimes refers to a problem wherein the objective is either unknown or ambiguous. Viewed more profoundly, collective decision making commences with the task of establishing the objective function per se.

Whether the conflict emerges in the choice of the collective objective or in the actual action decisions after having agreed upon the objective, our conventional social choice methods such as democracy tend to suffer two common shortfalls.

One is the inaccuracy in aggregating the preferences of the people, possibly resulting in a social decision which fails to optimise the social total surplus. This can arise even when everyone affected by the social decision is represented in the

decision making procedure.

The other is the possible misrepresentation of those interest groups who cannot, for various exogenous reasons, participate in the decision process. In other words, even when collective decisions are made democratically amongst those who take part in the decision process, they can spill externalities toward those stake-holders who are not decision makers themselves.

The former, the aggregation problem, typically arises when democracy is ostensibly equated with the simplistic majority rule (which need not be confined to the simple majority — a.k.a. 50 percent — rule). The mechanical "one person one vote" scheme typically abstracts the order of preference, referred to as the ordinal utility in economic theory, away from the strength thereof, referred to as the cardinal utility. Such a scheme can achieve aggregate utility maximisation if, and only if, each "pro" vote and each "con" vote are equally serious. Otherwise, on those issues which affect minority groups far more seriously than the rest of the population, the majority rule can be stunningly oppressive against the aggregate wellbeing of the society. This predicament has long been known since Nazi's supposedly democratic ascension to power in the 1930s Weimar Republic and the subsequent (and very much consequent) oppression of ethnic and religious minorities. For a large majority of voters who had no close non-Aryan friends, the treatment of minorities was not an imminent personal concern, which was why many such voters were more attracted to the "socialist" part of the NSDAP than repulsed by the "nationalist" part. Meanwhile, for the minority groups, the latter was literally life-threatening and thus much more disagreeable than the possible allure of socialism, though their life-betting votes were much too few. And it was nothing but the headcount, without regard to the seriousness of each ballot, that was the sole determinant in the "democratic" arena.

What alternative scheme could possibly account for the seriousness of each ballot? Presumably the most familiar is the bidding system. The key difference is that conventional voters make no commitment in that they do not promise to pay for whatever the result of the decision may be, whereas bidders prepare to pay the bid price in case they win the deal. Whilst one might spontaneously frown at the idea of

price-tagging the civil rights, would it actually be such a corrupt system to impose a small fee to vote? Or, to securitise a certain number of votes to trade them in an open market? A modest voting fee just enough to deter many of those ignorant, uneducated, jobless and nearly penniless Weimar Republicans but affordable for well-heeled Jewish intellectuals, could possibly have salvaged the human race from the Third Reich and World War II altogether. A modern Japanese rule of thumb tells that a rainy day of election favours the Communist Party, implying that more rain on a few national elections to come may serve as a divine Kamikaze providence to prevent the LDP (in spite of the Party name, the Japanese Lib Dems are a downgraded version of the Tories without Lords, Sirs, Dames, and MBEs) led by Dishonest Abe from launching the Fourth Reich and World War III.

Viewed from the flip side, voters' participation rates are not always the best quality measure for elections, in the sense that counting more of less serious ballots might even contaminate the otherwise appropriate aggregation of public opinions. Depending upon the policy issues in question, some voters are more important as stake-holders than the remainder of the electoral body, yet counted "one person one vote" in lieu of "one Reichsmark stake one vote," running the risk of allowing the unimportant majority to persecute the important minority.

The latter, the externality issue, can also be encompassed by extrapolating the above-mentioned insight. Important stake-holders, in the sense of those who are seriously affected by the social decision in question, may not always be present in the decision making process. This is typically the case when the externalities are intertemporal, or intergenerational. Generally, any legislation or policy decision takes effect toward the indefinite future, but not retroactively into the past. Whenever the present generation decides to launch a policy or to ratify a law, it inevitably spills externalities to future generations. These externalities, however, are difficult to internalise because those stake-holders external to the decision making procedure at present are the future generations who, by definition, are not ready yet to express their preferences. This implies that almost any legislation, even if established via contemporary democracy, inevitably creates intergenerational externalities which, by construction, cannot be fully internalised, resulting in over-

(resp., under-) establishment of laws and policies entailing negative (resp., positive) externalities toward the future. The relevant research question here is how, through what scheme, we can possibly minimise these intergenerational externalities or, put alternatively, maximise their internalisation.

A prime example of intergenerational externalities can be found in the explosion of public debts in recent Japan. Politicians who propose heavy taxation tend to be unpopular amongst voters in the present generation, so that the supposedly democratic congress leans in favour of debts which are ultimately equivalent to postponement of taxation to future generations. The key question is who eventually bears the postponed taxes to repay the debts, in other words, who are the ultimate stake-holders capable of internalising the externalities. It is not straightforward to tell predeterministically how long the said postponement lasts, and more generally, to foretell how much of the externalities is to be borne by which generation. This implies that, even amongst those who participate in the decision making at present, the younger ones are more important stake-holders than the elder ones in that they have longer remaining life expectancies which proportionately ensure their opportunities to internalise the future effects of the present decisions. In the example of public debts, the older voters are likely to escape the postponed taxation whilst the younger voters are more likely to bear it in due time. Therefore if these voters are allotted with ballots proportional to their remaining lifetimes reflecting their expected capabilities to internalise the effects of their own decisions, it might serve to curtail the uninhibitedly irresponsible postponement of taxation and the consequent explosion of public debts.

Democratic peace, the general historical fact that a war is unlikely to break out between democratic countries, teaches us how important it is to reflect the opinions of stake-holders on important decisions including, albeit by no means confined to, national security. Only a small minority of powerful politicians and industrial giants profit from a war, at the expense of millions of lives. Therefore, if the decision making procedure is democratically accurate in that every stake-holder is duly represented according to their stakes, then those millions whose lives are at stake never fail to vote against the war. In addition, there is also an intergenerational

aspect: absolutely no country would ever opt to fight a war if the military conscription age were not 18 but, say, 70. This is not because 70-year-olds are too weak or sedentary or sick or senile to fight; surely they can drive and shoot, even better than 18-year-olds on average, and yet the loss of 70-year-old lives would incur considerably less damages to the national economy than that of 18-year-olds. The only key factor here is intertemporality, in that conscription at age 70 will eventually draft everyone presently younger who therefore holds a life-stake to object thereto, whereas conscription at age 18 will no longer draft any of the present-generation voters. Hence, rich old warmongers consume young prospective lives.

In ostensibly democratic countries today, the highest stake-holders, underage children, have no votes, and the voting rates of young adults who are the next highest stake-holders tend to be low, whilst those of the old, retired generation are the highest even though their stakes are the least. Given this mismatch, neither the debt explosion nor the rise of reactionary militarism is a surprise. It is high time that we should seriously reexamine "one person one vote" and more broadly the concept of democracy altogether.

There remain a number of related issues calling for extensive discussions. Firstly, who should be eligible for the status of stake-holders? For instance, why is environmental protection important? Is it because animals and plants in their habitats in question are also stake-holders, or is it simply because the environment affects our indefinite future human generations? And why Article 13 of the Constitution of Japan provides that the people shall be respected as individuals "to the extent that it does not interfere with the public welfare"? Is the "public welfare" equal to the aggregate utility of the people as defined in economic theory, in which case should it not suffice that the people be respected, full stop? Or is the "public" an entity on its own, outside of the collective utility of the people? Secondly, is the ultimate purpose of governance found in the optimal allocation of resources, its efficiency and fairness, just as assumed in economic theory? Or is the decision making procedure itself, such as "democracy" and "participation," a self-purpose? Thirdly and relatedly, is governance bound with any pre-imposed value system? If so, can it ever be a value-free science? College admission in Japan is typically done

by written exams only, and terms and conditions such as concessionary tuitions are solely need-based, whilst elsewhere in the world it is not uncommon to offer merit-based terms and conditions, which can be viewed as pricing the admission. Is such pricing fair, or not? Another example can be found in criminal courts, where the sentence tends to reflect the crime that has been committed, but this is not the same as what economic theory teaches us. To be economically rational, the sentence should reflect the expected damage the criminal might incur to the future society, not what has already been done. In this way, however, attempted murder may need to be sentenced longer than completed murder, because the victim is still alive and thus might be threatened again by the same perpetrator. Would that be fair, though? Then, last but not least, is the doctrine that science "should" be value-free, value-free?