

Presentation to BC Citizens' Assembly on Electoral Reform
Mark Latham
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Summary

One advantage of a single transferable vote (STV) system over a mixed member proportional (MMP) system is that STV does not build in a dominant role for political parties, whereas MMP is defined in terms of political parties. My research on how to make voting more effective in corporations and in civic politics proposes some improvements that could result in a less dominant role for political parties.

Background on Mark Latham

I'm an economist doing independent research on how voting can improve the power structure of corporations and of governments. I have a website on this topic called Corporate Monitoring: www.corpmon.com – more details there on all of this. My resume is also there, but briefly, I'm from Vancouver, studied at UBC, then went to the USA for graduate school. I got a PhD in finance at MIT in 1984, was assistant professor of finance at the University of California, Berkeley, until 1989, worked 6 years on Wall Street, and now 8 years on this self-supported Corporate Monitoring project. I moved back to Vancouver in 2003, and am continuing the Corporate Monitoring project here.

My main point: Be flexible on the role of political parties

I've published a number of articles on how to make voting more effective, first in corporations and then in civic politics – see the Publications link at www.corpmon.com, especially the articles "Vote Your Stock" and "Democracy and Infomediaries". Most of my proposals lie outside the mandate of your Citizens' Assembly, but there is one general insight relevant for you: There are some improvements to our democratic political system that could result in a less dominant role for political parties. I'll describe those improvements, but first let me point out how they might affect the electoral reform recommendation you're going to make in December.

Some electoral systems are built on political parties and their central dominant position. Other electoral systems are more flexible, and can have very dominant political parties or not. I've been sitting in on some of your educational sessions earlier this year, so I know you're looking seriously at proportional systems, especially two flavours of them: a mixed member proportional (MMP) system like in New Zealand, and a single transferable vote (STV) system.

As I understand it, MMP is built on political parties and their central role, while STV is not – it can work with or without a dominant role for parties. Because STV has this greater flexibility, my research would tend to say that's a good

thing. So I mainly wanted to let you know about this potential advantage of STV – its flexibility about the function of political parties.

I'm not a long-standing proponent of STV. I just learned about it in your sessions this year, and it struck me that it has this benefit you might not have thought about. With STV, we would not be locked into a party-dominated system.

Likewise, it's not that I necessarily dislike political parties. I'm open to whatever is useful for getting democracy to work better, getting elected leaders to do a better job for us citizens. Right now political parties are useful, so we use them.

Brand information role of political parties

Political parties play several roles, and that's part of the problem – there is some conflict of interest in their multiple functions. Parties organize and coordinate the actions and power of their members. But they also play a key informational role for voters, and that's what I focus on because I think there are better ways of providing that function.

To an economist, the main weakness of democracy comes from the lack of incentive for each voter to spend time studying the issues and candidates. An election is a collective decision process, and as in any collective undertaking, participants face a "free-rider" problem: those who work less get a free benefit from those who work more. Voting intelligently helps give us better government, but even citizens who don't vote at all benefit from the quality of government brought by those who do make the effort to vote well. As a result, not enough of us spend the time to become well-informed citizens who can keep politicians doing the best for our society.

To counter this incentive problem, we cultivate a community service ethic to encourage people to become informed and vote, and we try to make voting convenient and easy. The main reason why "direct democracy" (government by frequent referendum votes) is impractical is that it would require much more time and effort from voters, so we would all suffer more from the free-rider incentive problem. Instead, we have simplified voting by just electing representatives, and paying them to make the more detailed decisions.

Having political parties further simplifies a voter's decision among candidates, by providing "brands". Perhaps the most important piece of information voters use about a candidate is political party affiliation. It is much easier for voters to learn about parties than about individual candidates because there are far fewer parties than candidates, and a party has a longer and broader track record for society to judge than a candidate. Brand reputation (party reputation) is a convenient way for voters to learn about the characteristics (quality, philosophy) of candidates. This is like the way you buy a personal computer, using brand reputation based on information from the technology community to help you choose.

Brand information for voting shares in corporations

My main work for the past eight years has been designing better power structures for large corporations with publicly traded stock. I focus on reducing the conflicts of interest between directors and shareowners that can cause financial inefficiency and environmental, social and political harm. As in civic politics, the free-rider problem leaves most shareowners with very little incentive to spend time or money learning how to vote their shares intelligently, such as in director elections. As a result, most individual investors either don't vote at all, or simply follow the board of directors' recommendations in spite of the board's conflicts of interest.

I have proposed several ways of developing brand reputation mechanisms to help people vote their shares more effectively. These are explained in the paper "Vote Your Stock" on the Corporate Monitoring website's Publications page. The proposal most adaptable to civic politics is for each corporation's shareowners to select by vote one or more independent advisory firms, paid with corporate funds, to advise them on voting in director elections and other matters.

Other researchers with similar ideas

Several other researchers have developed similar ideas in the last ten years. Baums and von Randow (1995) studied corporate power structures in Germany and proposed that each corporation's shareowners select by vote one or more voting agents, paid with corporate funds, who would then vote shares on behalf of investors in director elections and other matters.

In the field of civic politics, Yale University professors Ackerman and Ayres (2002) developed an innovative proposal for campaign finance reform in the USA. Each voter would be entitled to allocate \$50 of public funds to political campaigns. Again, this can be seen as a way to reduce the voters' free-rider problem by collectively funding the information process that feeds into voting decisions. (Canada's new law for public funding of federal political campaigns is similar.)

Law professors Choi and Fisch (2003) then adapted Ackerman and Ayres' ideas to corporate share voting. They propose that each investor allocate some corporate funds to pay for voting advisors and other information providers.

All these designs are based on similar foundations, yet differ in some important ways.

Working paper in progress and preliminary conclusion

I am now writing a paper comparing the above researchers' strategies for improving the quality of voting and the effectiveness of democracy. In it I will

propose a new design for enabling citizens to vote more intelligently with better information than they have now. It will show how we can develop brands to guide our civic voting, which are not necessarily tied to political parties. So to keep B.C.'s electoral system flexible enough to allow a possible future evolution where parties are less dominant, a system like STV may be preferable to one like MMP.

I would have preferred to make this submission and presentation after completing the paper, but June 12 is the Citizens' Assembly's last public hearing in Vancouver. I will try to have the first draft posted at www.corpmon.com by the end of June. If it's not ready by then, it will take until August because I'm travelling for most of July.

Anyone interested in these ideas can contact me by email at mlatham@corpmon.com, by voicemail at (604) 608-9779, or postal mail at #469 – 1755 Robson Street, Vancouver BC, V6G 3B7.

References

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