July 25 2008

Comments on revised version of "Minority Voting and Public Project Provision" by Hans Gersbach

In a complete information world, where in particular every agent can observe her own utility as well as everybody else's utility from each project to be voted on, the first question that comes to mind is why can't they write a complete social contract at the constitutional stage. Given complete information, a complete social contract would guarantee that only projects such that total benefits exceed total costs will be financed, with no additional taxes for redistribution (given risk neutrality). This paper assumes instead that the social contract cannot be complete (for unforseen contingencies or any other reason, not discussed). If we accept that the social contract is necessarily incomplete, and if we accept to limit the analysis to democratic procedures for every observed realization of utilities, then the question is what is the optimal democratic procedure. This paper makes a simpler but useful first step in this direction, comparing the standard majority voting procedure with minority voting, which allows the agents who vote against a project in a first voting round on the adoption of the project to be the ones deciding on the distribution of it's financing. If a majority of agents vote in favor of a public project, the minority who voted against has to agree (unanimity rule) on a financing scheme. This procedure eliminates the possibility of inefficient redistributions and adoption of inefficient projects, but may inhibit the adoption of some surplus enhancing projects. The welfare comparison shows that the pros and cons are often in favor of minority voting.

The second and third point in section 7.1 seem to call for an accurate comparison of the unanimity rule assumed in the paper with majority rule at stage 2 of the MV procedure. However, this additional analysis is not crucial, unless one manages to extend the comparison to all reasonable democratic procedures.

In section 4 the author introduces the equilibrium refinement of maximal magnanimity in order to select an equilibrium under minority voting. This means that when there are multiple combinations of agents who would vote for the public project

passing the majority threshold, select the equilibrium with the maximal utility supporters. As noted in point 4 in section 7.1, this refinement (or any other assumption on how to coordinate) will be problematic under incomplete information. This is the major problem of the procedure analyzed, and the group initiative procedure sketched in section 7.2 is only suggestive. Future research on democratic procedures under incomplete information will be crucial in order to verify the robustness of the results of this paper.