

# A Demand-Revealing Utopia

Nicolaus Tideman

A compendium of utopias would be incomplete without a description of the utopia described by Martin Bailey in his book, *Constitution for a Future Country*.<sup>1</sup> Bailey notes the deplorable inefficiency with which governments operate and devises a constitution that he would recommend to a benevolent dictator, who wished to provide the people of a nation with the most efficient government that can be designed with the assistance of public-choice economics.

The fundamental principle that Bailey advances in this proposed constitution is that the search for worthwhile social changes should be a search for improvements in economic efficiency, which are to be implemented in ways that are as close to Pareto improvements as is humanly possible.

Bailey begins by separating the issue of redistribution for the needy. He argues that, in view of the rent-seeking losses from public activities that are deliberately redistributive, it is best for the issue of assistance for the needy to be settled when a country's constitution is written, and then not re-opened. It would be consistent with the Bailey's perspective if the issue of provision for the needy could be re-opened, under a rule that changes could be implemented only if they were favored by majorities in all income classes. In other words, provision for the needy could be revised if shared compassion made it possible to have a revision that was an approximate Pareto improvement.

All public activities other than provision for the needy are to be financed by taxes on those who benefit, in proportion to those benefits. An intricate process of legislative proposals and citizen approval by referendum is used to develop and certify worthwhile public programs.

To deal with the perverse incentives that arise when legislators strive for election and re-election, Bailey proposes that legislators be selected by a random process and

---

<sup>1</sup>Palgrave, London, 2001.

N. Tideman (✉)

Department of Economics Organization, Virginia Tech, 3021 Pamplin Hall (0316),  
VA 24061, Blacksburg  
e-mail: ntideman@vt.edu

serve for fixed terms, like a grand jury.<sup>2</sup> Every person chosen to be a legislator would be paid 110% of whatever his or her salary had been prior to being selected.

To keep legislators from being influenced inappropriately by lobbyists, Bailey proposes that legislators and their families be housed in a community with restricted access. This can be understood as an enlargement of the idea of sequestering a jury.

This sequestration does not mean that legislators would have no access to information. Whatever expert information they needed to develop and evaluate legislative proposals would be available to them.

To guard against the possibility of a slothful legislature, Bailey proposes the combination of productivity bonuses for legislators, along with two competing legislative bodies. A legislature's productivity bonus would be based on an assessment by economic experts of the value of the laws that the legislature devised. Each legislative body would be motivated to develop its proposals as well as possible and as rapidly as possible, to secure the bonus for a good proposal before the rival legislative body removed the opportunity.

Every law proposed by either legislative body would go into effect only if it was approved by a referendum of a special type. The referendum would combine features of the demand-revealing process devised by Edward Clarke and the insurance mechanism devised by Earl Thompson.

In the demand-revealing process, each participant reports the amount of money that he or she is willing to pay to secure the adoption or the rejection of a proposal. People are motivated to report their valuations honestly, by an application of marginal cost pricing: A person is required to pay something for reporting a valuation if and only if that person's report changes the outcome. In that event, the person is required to pay the difference between the losses to those who lose from the change in the outcome and the gains to those who gain from the change, other than the person himself. All of the gains and losses are calculated from the voters' own reports.<sup>3</sup>

In the Thompson insurance mechanism, the government announces its estimate of the probability that a proposal will be approved. Based on this probability, voters buy insurance against the success of the outcome that they do not favor.<sup>4</sup>

Bailey combines the two mechanisms because the Thompson insurance mechanism is suitable for instances in which a disfavored outcome produces a loss that increases the marginal utility of money, while the Clarke procedure is suitable for instances in which a person is willing to pay for an outcome even though the disfavored outcome would not increase the marginal utility of money. Thus, Bailey's proposal is as follows:

---

<sup>2</sup>Juries are not the only example one can find of random selection of public officials. Public officials in ancient Athens were selected by a random process, and the Bible describes the choice of Samuel as the first king of the Jews by a random process.

<sup>3</sup>For Clarke's explanation of his idea, see Edward H. Clarke (Clarke 1971). For an explanation that is easier to understand, see Tideman and Tullock (1976).

<sup>4</sup>Earl A. Thompson, "A Poreto Optimal Group Decision Process," in Gordon Tullock (ed.), *Papers on Nonmarket Decision Making* (Charlottesville: University of Virginia, 1966) pp. 133–40

When a legislative body has developed proposed legislation, it is sent to assessors who estimate the gains and losses that it would generate. Based on these estimates, compensation for those who are believed to lose is devised, to be financed by taxes on those who are believed to gain. If the proposal entails resource costs, the financing of these is spelled out as well. The combination of the proposal, the compensation and the taxes is presented to voters. Each household reports the amount of insurance it wishes to buy against the possibility of not getting the outcome it favors, along with the amount that it is willing to pay to achieve the outcome it desires, taking account of the insurance that it has bought. The decision on the proposal is based on whether the sum of the valuations of all households, from the combination of the Clarke mechanism and the Thompson insurance mechanism, is positive or negative. Bailey includes the possibility of weighting losses more heavily than gains in deciding the outcome.

Any systematic predictability in the direction in which individuals voted, as a function of characteristics that could have been used to assign taxes, is taken as an indication that the assessors did not do as good a job as they might have done in assigning compensation and taxes, and they are fined accordingly. (They are paid enough to afford some level of fines).

If the proposal is passed, the legislative body that made the proposal receives a bonus of a percentage of the net gains from the proposal.

Bailey argues that this proposal offers the best possible prospect for having a society in which new legislation is confined to changes that improve the level of well-being in the society, and these changes are *effected* as quickly as possible.

## References

- Edward H. Clarke, "Multipart Pricing of Public Goods," *Public Choice*, 11 (1971): 17–33.  
Earl A. Thompson, "A Pareto Optimal Group Decision Process," in Gordon Tullock (ed.), *Papers on Non-Market Decision Making* (Charlottesville: University of Virginia, 1966), pp. 133–140.  
T. Nicolaus Tideman and Gordon Tullock, "A New and Superior Process for Making Social Choices," *Journal of Political Economy*, 84 (1976): 1145–59.

The State as Utopia

Continental Approaches

Backhaus, J.G. (Ed.)

2011, X, 210 p., Hardcover

ISBN: 978-1-4419-7499-0