


PIO BAAKE
RAINALD BORCK
Editors

PUBLIC ECONOMICS AND PUBLIC CHOICE

Contributions
in Honor of

CHARLES B. BLANKART

 Springer

Public Economics and Public Choice



Pio Baake · Rainald Borck
(Editors)

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Contributions in Honor
of Charles B. Blankart

With 17 Figures and 13 Tables

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Preface

This volume collects essays in honor of Charles Beat Blankart on the occasion of his 65th birthday. Blankart's research is mainly in the area of public finance and public choice. He is also known for his interest in real world problems and intellectual curiosity. These features seem to be well conveyed by the contributions.

Born in Switzerland, Blankart completed his Ph.D. in Basel before moving to Germany. The typically Swiss perspective on individual freedom, however, has remained with him. Blankart has taught at the Free University of Berlin, the University of the Federal Armed Forces in Munich, Technical University and Humboldt University in Berlin. Throughout his professional positions, Blankart has contributed to various fields, including public finance, public choice, federalism and industrial organization and regulation. He has left significant marks in these fields, emphasizing throughout how incentives shape the behaviour of individuals, be it in markets or in government. For example, his best selling textbook *Öffentliche Finanzen in der Demokratie*, is unique in bringing a unified perspective to the study of public finance, treating politicians as ordinary self interested individuals and doing largely away with the benevolent welfare maximizing social planner.

His interests have always been in the application of economic reasoning to real world problems, and this shows up in his many policy contributions, as well as in positions on diverse consulting bodies such as the council of advisers of the German Ministry of Economics and the scientific research group of the German Federal Network Agency. He has also served as president of the European Public Choice Society. Surely this birthday will not diminish Blankart's active life as a researcher and a voice in the political and economic arena.

We would like to thank the contributors who have helped make this volume what it is. Charles Beat Blankart is not only a distinguished economist, but those who know him also value him as a good friend, and a humorous and warm character. We would like to take this occasion to honour him on this day together with the contributors to this volume and to wish him all the best for the years to come.

Pio Baake and Rainald Borck
Berlin, April 2007

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1 Rights and Wrongs

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Among the many interests of Beat Blankart is Constitutional Political Economy. A few years ago we published an article setting out possible constitutional reforms that would improve the workings of the democratic process in Germany and perhaps other countries (Blankart and Mueller, 2002). This was followed up by a conference on the draft constitution for the European Union (Blankart and Mueller, 2004). My contribution to the conference was an essay critiquing the list of rights included in the draft constitution. My contribution to this *Festschrift* honoring Beat returns to the theme of constitutional rights. After first sketching the logic underlying the justification for delineating rights in a constitution, I illustrate some of their properties by discussing recent examples of the use and misuse of the rights concept.

1.1 The Choice of Voting Rule

We envisage the constitution as being written and agreed to by all citizens with the purpose of advancing their collective interests. There are many issues that the constitutional convention will have to address - whether to establish a federalist or unitary state, whether to try and create a two-party or a multiparty system, and so on. We ignore these questions here, and first concentrate on the single issue of the choice of a voting rule to be used to make future collective decisions. Perhaps the easiest way to think about this question is to assume either that the polity is sufficiently small so that each citizen can represent her preferences directly as in a town meeting, and thus that questions of federalism and representation need not be addressed. The only question the constitutional assembly must address is what voting rule to use to make future collective choices.

The simplest and most familiar class of voting rules states that an issue x defeats an alternative y , if the fraction of the community voting for x is equal to or greater than m , $0 < m \leq 1$. The task of the constitutional convention then boils down to the decision of what m should be. When making this choice an individual at the constitutional stage must weigh the benefits from a higher m that increases the likelihood that she benefits from the collective decision against the decisionmaking costs of achieving greater consensus. The probability that an individual is on the winning side of an issue increases with m . Call this probability $p(m)$. Call s the gain an individual expects if she is on the winning side of an issue, with $u(s)$ the utility from this gain, and t the loss anticipated if she is on the losing side, with $v(t)$ being the disutility of this loss. If s were a cash subsidy and t were a tax we could write $v(t)$ as $u(-t)$. But we wish to allow for the possibility that the gains and losses from collective decisions are of different kinds than just cash transfers.

Let $d(m)$ be the anticipated decisionmaking costs measured in utility units commensurate with u and v . It is reasonable to assume that decisionmaking costs rise with m , and that *marginal* decisionmaking costs increase as the collective decision rule approaches the unanimity rule as depicted in Figure 1.¹ The closer the group gets to unanimous agreement, the greater the potential gain to someone from holding out for a better outcome, and the longer it will take to reach the required majority. We depict marginal decisionmaking costs, $d'(m)$, as increasing over the entire range from $m = 0.5$ to $m = 1.0$. Were m to be less than 0.5, as say 0.4, it would be possible for mutually inconsistent issues to pass. A measure to increase spending on police could obtain 45 percent of the votes and pass, as could a proposal to decrease spending on police. This sort of awkward possibility can be avoided, by limiting the decision rule to the range, $0.5 < m \leq 1.0$.

An individual at the constitutional stage chooses the m that maximizes her expected utility from future collective actions. This expected utility equals the probability that she is on the winning side times the gain she receives if she wins minus the probability that she is on the losing side times her loss and is presented in (1).

$$E(U) = p(m)u(s) - [1-p(m)]v(t) - d(m). \quad (1)$$

The optimum is realized when the marginal gain in utility from increasing the likelihood that the citizen wins on an issue when m increases just off-

¹ Formally, we assume $d'(m) > 0$ and $d''(m) > 0$. With respect to the other functions, we assume $p'(m) > 0$, $p''(m) < 0$, $u'(s) > 0$, $u''(s) < 0$, $v'(t) > 0$, and $v''(t) > 0$.

sets the marginal increase in decision-making costs. Formally, this is given by

$$p'(m)[u(s) + v(t)] = d'(m). \quad (2)$$

Figure 1 can be interpreted as follows. The g_i curves represent the marginal gain in expected utility from increasing the required majority, the left hand side of (2). Since $d'(m)$ is undefined for m less than 0.5, no solution to (2), m^* , less than 0.5 is allowable. If $d'(m)$ declined continuously to the left of $m = 0.5$, as it rises to the right of this point, curves like g_1 and g_2 would imply m^* s < 0.5 . One way to interpret this possibility is to argue that *were it not for the possibility of mutually inconsistent proposals passing*, the optimal majority in these situations would be less than 0.5. It is reasonable to assume in these cases that the constitution framers choose the simple majority rule. It is the minimum required majority that avoids the possibility of mutually inconsistent proposals passing (Reimer 1951). With marginal expected gains given by g_3 , $m^* > 0.5$, and is given by the intersection of g_3 and the $d'(m)$ curve.

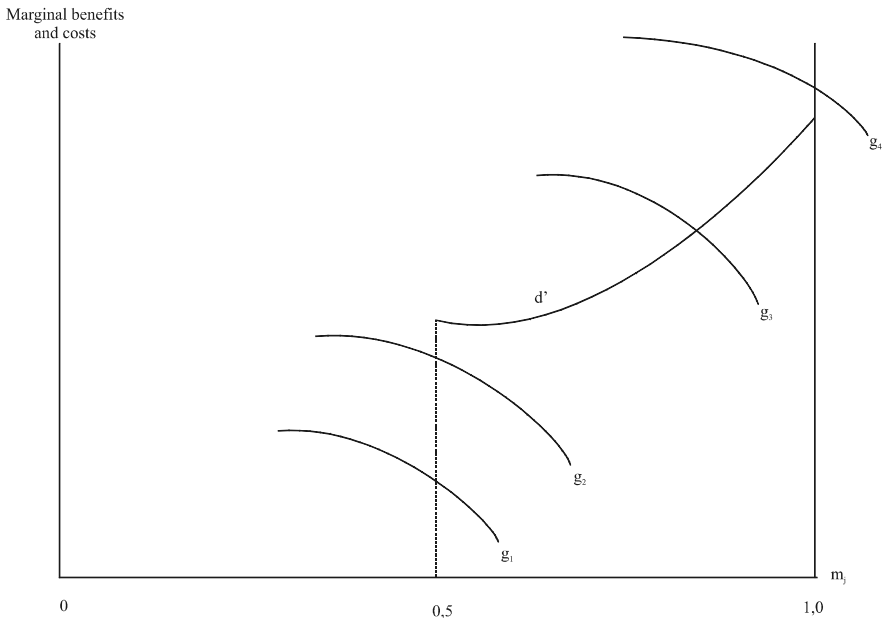


Fig. 1. Possible Optimal Majorities

The positions of the g_i curves obviously depend on the relative magnitudes of the s and t . To see what the effects of varying t and s are, assume that t is proportional to s as in (3)