

A fair pivotal mechanism for nonpecuniary public goods

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- ▶ *Nonrivalrous* (my consumption does not impede your consumption).
- ▶ *Nonexcludable* (it is impossible to enforce private property rights).
- ▶ *Nonpecuniary* (they affect *subjective well-being*, rather than income).

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Thus, if alternative a is chosen and voter i pays a tax t_i , then i 's utility will be $u_i(a) - c_i t_i$, where c_i is i 's (constant) marginal utility of money.

1. Each voter i announces a monetary 'bid' $v_i(a)$ for each alternative a in \mathcal{A} (thus, $v_i(a) - v_i(b)$ measures how much i prefers a over b).
2. We choose the alternative with the highest aggregate bid.
3. We levy a 'Clarke tax' against any 'pivotal' voters.

This tax is structured such that it is a dominant strategy for each voter i to bid $v_i(a) = u_i(a)/c_i$ for each a in \mathcal{A} .

If every voter deploys her dominant strategy, then the mechanism selects the a^* in \mathcal{A} which maximizes the weighted utilitarian sum

$$\sum_{i \in \mathcal{I}} \frac{u_i(a)}{c_i}. \quad (*)$$

This yields a *strategy-proof implementation* of the weighted utilitarian social choice rule defined by maximizing (*). No voter ever has any incentive to strategically misrepresent her utility function.

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1. **The assumption of quasilinear utility is not realistic.**

It is more realistic to suppose the marginal utility of money is not constant, but *declining* for each voter (e.g. due to satiation).

2. **The Pivotal Mechanism is inequitable.**

The political influence of voter i on the sum $\sum_{i \in \mathcal{I}} \frac{u_i(a)}{c_i}$ is proportional

to $1/c_i$, which is (*ceteris paribus*) proportional to her income/wealth. Thus, rich voters have more influence than poor voters.

For example, in 2007, 10% of Americans amassed nearly 50% of all income earned in the United States.

Plausible assumption: people's bids in the pivotal mechanism are roughly proportional to their income.

Thus, the richest 10% alone could effectively control the outcome.

The pivotal mechanism would devolve into a plutocracy.

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Solution strategy: Replace Clarke tax with a *lottery*: each pivotal voter has a certain probability of paying a 'fee' of predetermined size. If each voter has a von Neumann-Morgenstern (vNM) utility function, then the *expected* disutility of this 'stochastic Clarke tax' *will* be linear (as a function of probability).

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Solution strategy: Stratify voters by wealth. Set up 'wealth-adjusted' pivotal mechanism, with different 'fees' for different wealth strata. Observe statistical distribution of voting behaviour in each stratum. If the statistical distribution of voting behaviour is the same in Stratum *A* as it is in Stratum *B*, then voters in Stratum *A* exert, *on average*, the same political influence as voters in Stratum *B*. Now adjust the fees so that the voters of all wealth strata exert the same influence, *on average*. Thus, the mechanism is 'fair' in the sense that it does not give more power to rich voters than poor voters, *on average*.

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To make this intuition precise, we must make several assumptions:

1. The population \mathcal{I} of voters is large enough that we will have enough voters in each stratum to obtain good statistics.

2. There is not just one isolated referendum, but a series of many referenda on different issues.

Thus, the statistics acquired from earlier referenda can be used to ‘tune’ the parameters of the mechanism for later referenda.

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Stratification. Suppose $\mathcal{I} = \mathcal{I}_1 \sqcup \mathcal{I}_2 \sqcup \dots \sqcup \mathcal{I}_N$, where, for each n in $[1 \dots N]$, all voters in stratum \mathcal{I}_n have roughly the same net wealth.

(**Example:** Let $N := 10$. Let \mathcal{I}_n = the n th decile of wealth distribution.)

For all n in $[1 \dots N]$, let $\varphi_n > 0$ be a positive 'fee'.

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We suppose i 's joint vNM utility over \mathcal{A}_t and wealth is *separable*.

Thus, if alternative a_t is chosen in referendum t , and voter i is left with a net wealth of w_i dollars, then her utility will be $u_i^t(a_t) + u_i^{\$}(w_i)$.

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(**Example:** Let $N := 10$. Let \mathcal{I}_n = the n th decile of wealth distribution.)

For all n in $[1 \dots N]$, let $\varphi_n > 0$ be a positive 'fee'.

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We refer to the N -tuple $\varphi := (\varphi_1, \varphi_2, \dots, \varphi_N)$ as the *fee schedule*.

Technical assumptions about the voters' utility functions (7/26)

Imagine a series of referenda, occurring at times $t = 0, 1, 2, 3, \dots$

Let \mathcal{A}_t be the menu of social alternatives for the referendum at time t .

Assume that each voter i in \mathcal{I} is a vNM expected-utility maximizer.

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If enough voters hit the ceiling, then a^* might *not* maximize $\sum_{i \in \mathcal{I}} \frac{u_i^t(a)}{c_i^t}$.

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How can we structure the fee schedule $\varphi = (\varphi_1, \dots, \varphi_N)$ to prevent this?

What is fair?

(10/26)

For all i in \mathcal{I} , let $V_i^t := \max_{a \in \mathcal{A}_t} v_i^t(a)$. (So $0 \leq V_i^t \leq 1$.)

Thus, V_i^t measures the *influence* of i on the outcome of referendum t .

Define $\bar{V}^t := \frac{1}{|\mathcal{I}|} \sum_{i \in \mathcal{I}} V_i^t$.

Thus, \bar{V}^t is the *per capita average influence* of any voter on referendum t .

For all n in $[1 \dots M]$, define $\bar{V}_n^t := \frac{1}{|\mathcal{I}_n|} \sum_{i \in \mathcal{I}_n} V_i^t$.

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We say that the fee schedule φ is *perfectly fair* in referendum t if:

- (F1) $V_i^t < 1$ for all voters i in \mathcal{I} (i.e. *no voter hits the ceiling*); and
- (F2) $\bar{V}_n^t = \bar{V}^t$ for all n in $[1 \dots M]$ —i.e. each stratum has the *same average influence* as every other stratum (rich or poor).

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For all n in $[1 \dots N]$, define $\bar{V}_n^t := \frac{1}{|\mathcal{I}_n|} \sum_{i \in \mathcal{I}_n} V_i^t$.

That is, \bar{V}_n^t measures the *per capita average influence* of voters in wealth stratum n on referendum t .

We say that the fee schedule φ is *perfectly fair* in referendum t if:

(F1) $V_i^t < 1$ for all voters i in \mathcal{I} (i.e. *no voter hits the ceiling*); and

(F2) $\bar{V}_n^t = \bar{V}^t$ for all n in $[1 \dots N]$ —i.e. each stratum has the *same average influence* as every other stratum (rich or poor).

For all i in \mathcal{I} , let $V_i^t := \max_{a \in \mathcal{A}_t} v_i^t(a)$. (So $0 \leq V_i^t \leq 1$.)

Thus, V_i^t measures the *influence* of i on the outcome of referendum t .

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What is (p, ϵ) -fair?

(11/26)

Problem: It is generally impossible to guarantee that φ is perfectly fair.

Let $\epsilon > 0$ be some small but positive 'error tolerance'.

We say that the fee schedule φ is ϵ -fair in referendum t if

(F1 $_{\epsilon}$) $\#\{i \in \mathcal{I}; V_i^t = 1\} < \epsilon \cdot |\mathcal{I}|$ (i.e. *almost* nobody hit the ceiling).

(F2 $_{\epsilon}$) $1 - \epsilon < |\overline{V}_n^t / \overline{V}^t| < 1 + \epsilon$ for all n in $[1 \dots N]$

(i.e. all strata have *almost* the same influence).

Problem: We can't even know whether φ was ϵ -fair until after the referendum has occurred. (We can't guarantee it in advance.)

Idea: If the statistical distribution of voting behaviour is roughly the same from one referendum to the next, then we can compute in advance the *probability* that φ will be ϵ -fair in any particular referendum.

Let $0 < p < 1$ and let $\epsilon > 0$.

Assume some fixed, known statistical distribution of voter behaviour.

The fee schedule φ is (p, ϵ) -fair if it has a probability of at least p to be ϵ -fair in any referendum where the behaviour of the voters is randomly generated according to this distribution.

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Let $\varphi^t = (\varphi_1^t, \varphi_2^t, \dots, \varphi_n^t)$ be the fee schedule at time t .

Fix a constant $\lambda > 1$ (calibration speed). Construct φ^{t+1} as follows:

(R1) “If too many voters hit the ceiling, then adjust all fees upwards in proportion to the number of voters who hit the ceiling.” Formally: Let $E_t := \#\{i \in \mathcal{I}; V_i^t = 1\} / |\mathcal{I}|$ (fraction of voters hitting ceiling). If $E_t \geq \epsilon$, then set $\varphi'_n := \lambda \cdot (E_t / \epsilon) \cdot \varphi_n^t \geq \varphi_n^t$, for all n in $[1 \dots N]$. Otherwise, if $E_t < \epsilon$, then set $\varphi'_n := \varphi_n^t$, for all n in $[1 \dots N]$.

(R2) “Further adjust the fee of stratum n up (down) if the average influence of stratum n was higher (lower) than the population average.”

Formally: Let $\bar{V}_n^{t,+} := \frac{1}{|\mathcal{I}_n^+|} \sum_{i \in \mathcal{I}_n^+} V_i^t$ and $\bar{V}_n^{t,-} := \frac{1}{|\mathcal{I}_n^-|} \sum_{i \in \mathcal{I}_n^-} V_i^t$.

Then define $s_n := \frac{\log(\bar{V}_n^{t,+}) - \log(\bar{V}_n^{t,-})}{\log(\varphi_n^{t,+}) - \log(\varphi_n^{t,-})} > 0$ (Estimated elasticity of average influence).

Finally, for all n in $[1 \dots N]$, set $\varphi_n^{t+1} := (\bar{V}_n^t / \bar{V}^t)^{s_n} \cdot \varphi'_n$.

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Here, “certain regularity assumptions” means (roughly) that we treat the voters’ utility functions as a set of independent random variables such that:

- ▶ All wealth strata have *same statistical distribution* of political preference intensities on any particular referendum.
- ▶ There is no correlation between a voter’s political preference intensity and her utility function for wealth.
- ▶ No correlation between preference intensities in different referenda.
- ▶ There is no correlation between voters.
- ▶ It is highly improbable that a voter’s political preference intensity will be “huge”, when measured in monetary terms.
- ▶ *Expected influence* of a stratum n is a “well-behaved” function of φ_n .

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$$\text{Population} \geq \frac{8\sqrt{N^3 + 1}}{\epsilon C \sqrt{1-p}},$$

where N is the number of strata, and C is a constant (which depends on statistical distribution of the voters' preferences).

For example, if $N = 10$, $\epsilon = 0.01$, $p = 0.99$, and $C = 0.5$, then

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Formal analysis of convergence to fairness

To ensure that (p, ϵ) -fair fee schedule exists, we impose some ‘regularity’ conditions on the distribution of voter preferences. Let $\mathbb{N} := \{0, 1, 2, \dots\}$.

For all t in \mathbb{N} , recall that \mathcal{A}_t is the menu for referendum t .

For all i in \mathcal{I} , recall that $u_i^t : \mathcal{A}_t \rightarrow \mathbb{R}$ is i ’s cardinal utility function.

Let $U_i^t := \max_{a \in \mathcal{A}_t} u_i^t(a)$. This measures the ‘intensity’ of voter i ’s preferences on referendum t . Here is our first assumption:

(U) For all t in \mathbb{N} , there is a probability distribution μ_t on \mathbb{R}_+ such that U_i^t is a μ_t -random variable, for all i in \mathcal{I} .

Also, $\{U_i^t; i \in \mathcal{I} \text{ and } t \in \mathbb{N}\}$ is a set of independent random variables.

Idea: All strata have *same statistical distribution* of political preference intensities on any particular referendum. *No correlation* of preference intensities between different referenda or between different voters.

Next, for all i in \mathcal{I} , and all $\varphi > 0$, let $C_i^t(\varphi) := u_i^{\$}(w_i^t) - u_i^{\$}(w_i^t - \varphi)$ be the ‘cost’ (in utility) of a fee of size φ for voter i at time t .

In particular, if voter i is in stratum \mathcal{I}_n , and deploys her dominant strategy for the mechanism (P1)-(P5), then $v_i^t(a) = \min\{1, u_i^t(a)/C_i^t(\varphi_i^t)\}$ for every alternative a in \mathcal{A}_t .

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- (C1) For every t in \mathbb{N} , the set $\{C_i^t\}_{i \in \mathcal{I}_n}$ is a set of independent, ρ_n -random elements of \mathcal{C} .
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Next, assume it is 'highly improbable' that a voter's political preference intensity will be huge, when measured in monetary terms. Formally:

- (C3) For any $\epsilon > 0$, there is some constant $\bar{\varphi}_n^\epsilon > 0$ with the following property. For all t in \mathbb{N} , if U_t is a μ_t -random variable and C_n is an independent, ρ_n -random function, then $\text{Prob}[U_t \geq C_n(\bar{\varphi}_n^\epsilon)] < \epsilon$.

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For example, suppose $\epsilon = 0.01$.

Then $\bar{\varphi}_n^\epsilon$ is the minimum fee required such that less than 1% of the voters in stratum \mathcal{I}_n would be willing to pay more than $\bar{\varphi}_n^\epsilon$ dollars to change the outcome in a typical referendum.

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(For a typical middle-class stratum, we would expect $\bar{\varphi}_n^{0.01}$ to be perhaps a few thousand dollars.)

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For all n in $[1 \dots N]$, assume a probability distribution ρ_n on \mathcal{C} such that:

- (C1) For every t in \mathbb{N} , the set $\{C_i^t\}_{i \in \mathcal{I}_n}$ is a set of independent, ρ_n -random elements of \mathcal{C} .
- (C2) For every t in \mathbb{N} , and every i in \mathcal{I}_n , the random variables U_i^t and C_i^t are independent.
- (C3) For any $\epsilon > 0$, there is some constant $\bar{\varphi}_n^\epsilon > 0$ with the following property. For all t in \mathbb{N} , if U_t is a μ_t -random variable and C_n is an independent, ρ_n -random function, then $\text{Prob}[U_t \geq C_n(\bar{\varphi}_n^\epsilon)] < \epsilon$.

Finally, let $V_n(\varphi)$ be the *expected influence* which a random voter in stratum n would have on the outcome of referendum t , if $\varphi_n^t = \varphi$. We assume this function is well-behaved, and the same for all referenda.

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Formally, we assume:

- (C4) There is a decreasing, continuously twice-differentiable function $V_n : \mathbb{R}_+ \rightarrow [0, 1]$ such that $V(0) = 1$ and $\lim_{\varphi \rightarrow \infty} V(\varphi) = 0$, and such that for any $\varphi \geq 0$ and any t in \mathbb{N} , $V_n(\varphi)$ is the expected value of the random variable $\min\{1, U_t/C_n(\varphi)\}$, where U_t and C_n are as in (C3).

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Assumption **(C)** is the combination of assumptions (C1)-(C4).

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Proposition 1. Assume (U) and (C). Let $0 < V^* < 1$ be any constant.

(a) For all n in $[1 \dots N]$, there is a unique φ_n^* in \mathbb{R}_+ with $V_n(\varphi_n^*) = V^*$.

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$(F2_\epsilon)$ “ $1 - \epsilon < |\bar{V}_n^t / \bar{V}^t| < 1 + \epsilon$ for all n in $[1 \dots N]$
(i.e. all strata have almost the same influence).”

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(c) If V^* is small enough, then φ^t will also satisfy condition (F1 $_\epsilon$) with probability p or higher.

(F1 $_\epsilon$) “ $\#\{i \in \mathcal{I}; V_i^t = 1\} < \epsilon \cdot |\mathcal{I}|$ (i.e. almost nobody hits the ceiling).”

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Example: if $N = 10$, $\epsilon = 0.01$, $p = 0.99$, and $V^* = 0.5$, then

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If V^* is small enough, and we define $\varphi^* := (\varphi_1^*, \dots, \varphi_N^*)$ as in Prop.1(a), then Prop.1(b,c) guarantees that the fee schedule φ^* is $(0.99, 0.01)$ -fair.

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Problem: What value of V^* is ‘small enough’ in Prop.1(c)?

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Example: if $N = 10$, $\epsilon = 0.01$, $p = 0.99$, and $V^* = 0.5$, then $|\mathcal{I}| \geq 507,000$ suffices to satisfy inequality (A) (this is the population of a medium-sized city).

If V^* is small enough, and we define $\varphi^* := (\varphi_1^*, \dots, \varphi_N^*)$ as in Prop.1(a), then Prop.1(b,c) guarantees that the fee schedule φ^* is $(0.99, 0.01)$ -fair.

Problem: What value of V^* is 'small enough' in Prop.1(c)? Also, to compute $\varphi_1^*, \dots, \varphi_N^*$ in Prop.1(a), we must know exact structure of the probability distributions $\{\mu_t\}_{t=1}^\infty$ and ρ_1, \dots, ρ_N in assumptions (U) & (C).

Let $(\varphi_1^0, \dots, \varphi_N^0)$ be **initial fee schedule** at time 0. Let $\bar{\varphi}_1^\epsilon, \dots, \bar{\varphi}_N^\epsilon$ be as in assumption (C3). Let λ be the 'calibration speed' in rule (R1).

For any $\epsilon > 0$, define $L(\epsilon) := \frac{\max\{\log(\bar{\varphi}_n^\epsilon / \varphi_n^0)\}_{n=1}^N}{\log(\lambda)}$.

Behaviour of L depends on shape of distributions ρ_1, \dots, ρ_N and $\{\mu_t\}_{t=1}^\infty$ in assumptions (U) and (C). Typically, $L(\epsilon) \rightarrow \infty$ very slowly as $\epsilon \searrow 0$.

Example. Under reasonable hypotheses, $L(\epsilon) = \mathcal{O}(\log(1/\epsilon))$ as $\epsilon \searrow 0$.

Furthermore, $L(\epsilon)$ is 'small' if initial guess φ_n^0 was not too far from $\bar{\varphi}_n^\epsilon$.

Example. If $\lambda = 1.26$, and $\varphi_n^0 \geq \bar{\varphi}_n^\epsilon / 4$ for all $n \in [1..N]$, then $L(\epsilon) \leq 6$.

Proposition 2. Let $0 < \epsilon, p < 1$. Suppose $|\mathcal{I}| > 1/\epsilon\sqrt{1-p}$. If only (R1) is applied during each referendum, then there will almost surely come a time T_p^ϵ such that, for all $t > T_p^\epsilon$, condition (F1 $_\epsilon$) is satisfied with probability p or higher. The expected value of the random variable T_p^ϵ is at most

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Example. Let $\epsilon := 0.01$. Suppose we want (F1 $_\epsilon$) to be violated in less than 4% of all referenda (i.e. $p := 0.96$). If $|\mathcal{I}| \geq 10\,000$ and $L(0.0095) \leq 6$, then 150 iterations of (R1) will usually suffice to guarantee this.

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(That is: it is “highly improbable” that a voter’s political preference intensity will be huge, when measured in monetary terms.) Let λ be the ‘calibration speed’ in rule (R1).

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(R1) "Let $E_t := \#\{i \in \mathcal{I}; V_i^t = 1\}/|\mathcal{I}|$ (i.e. fraction of voters hitting ceiling). If $E_t \geq \epsilon$, then set $\varphi'_n := \lambda \cdot (E_t/\epsilon) \cdot \varphi_n^t$, for all n in $[1 \dots N]$. Otherwise, if $E_t < \epsilon$, then set $\varphi'_n := \varphi_n^t$, for all n in $[1 \dots N]$."

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Recall that $\bar{V}_n^t := \frac{1}{|\mathcal{I}_n|} \sum_{i \in \mathcal{I}_n} V_i^t$. For any $\varphi > 0$, let $V_n(\varphi)$ be expected influence of stratum n on referendum t , if $\varphi_n^t = \varphi$, from Assumption (C4).

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In practice, $|\mathcal{I}_n|$ is very large. Thus, $|\gamma_n^t|$ is very probably very small.

Example. If $N = 10$ and each \mathcal{I}_n represents one decile of the wealth distribution of 10 000 000 voters, then $|\gamma_n^t| < 0.004$, with probability greater than 99.99%. Thus, $\bar{V}_n^t \approx V_n^t(\varphi_n^t)$.

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(C4) “There is a decreasing, continuously twice-differentiable function $V_n : \mathbb{R}_+ \rightarrow [0, 1]$ such that $V(0) = 1$ and $\lim_{\varphi \rightarrow \infty} V(\varphi) = 0$, and such that for any $\varphi \geq 0$ and any t in \mathbb{N} , $V_n(\varphi)$ is the expected value of the random variable $\min\{1, U_t/C_n(\varphi)\}$, where U_t is a μ_t -random variable and C_n is an independent, ρ_n -random function.”

Proposition 2. Let $0 < \epsilon, p < 1$. Suppose $|\mathcal{I}| > 1/\epsilon\sqrt{1-p}$. If only (R1) is applied during each referendum, then there will almost surely come a time T_p^ϵ such that, for all $t > T_p^\epsilon$, condition $(F1_\epsilon)$ is satisfied with probability p or higher. The expected value of T_p^ϵ is at most $\frac{1}{1-p} L\left(\epsilon - \frac{1}{|\mathcal{I}|\sqrt{1-p}}\right)$.

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In practice, $|\mathcal{I}_n|$ is very large. Thus, $|\gamma_n^t|$ is very probably very small.

Example. If $N = 10$ and each \mathcal{I}_n represents one decile of the wealth distribution of 10 000 000 voters, then $|\gamma_n^t| < 0.004$, with probability greater than 99.99%. Thus, $\bar{V}_n^t \approx V_n^t(\varphi_n^t)$.

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Proof sketch: Central Limit Theorem, plus assumptions (U) and (C). \square

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Proof sketch: Rule (R2) is actually the *Newton-Raphson* method for finding the values of $(\varphi_1^*, \dots, \varphi_N^*)$ which we defined in Proposition 1(a). \square

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Conclusion. We have modified the Groves-Clarke pivotal mechanism to obtain a 'fair', strategy-proof implementation of weighted utilitarian social choice amongst *nonpecuniary* public goods.

The mechanism gives roughly equal influence to poor voters and rich voters.

Unresolved Problems:

- ▶ Most public goods have both pecuniary *and* nonpecuniary costs/benefits. (Example: law enforcement, urban zoning, roads, public education, commerce regulations, and the government itself.)
- ▶ The mechanism is very informationally intensive. But all votes must remain confidential, so that voters cannot be bribed or intimidated, or coordinate their actions in voting blocs.
- ▶ We assumed each voter's joint utility function over wealth and public goods was *separable*. But this is false; a large gain/loss of wealth will generally change a voter's preferences over public goods.
- ▶ The stochastic Clarke tax assumes voters are vNM expected utility maximizers. But this is empirically false (Kahneman & Tversky).
- ▶ The budget size must be fixed in advance, because otherwise the choice of public goods would involve an inextricable pecuniary component. How should society determine the size of this budget?

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Thank you.

These presentation slides are available at

`<http://euclid.trentu.ca/pivato/Research/pivotal.pdf>`

The paper is available at

`< http://mpa.ub.uni-muenchen.de/34525>`

Introduction

Social choice amongst nonpecuniary public goods

Clarke's Pivotal mechanism

Problems with the Groves-Clarke Pivotal Mechanism

Basic assumptions (informal)

The nonpecuniary pivotal mechanism

Technical assumptions about the voters' utility functions

The nonpecuniary pivotal mechanism: Part I

Formal definition

Heuristic explanation

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What is (p, ϵ) -fair?

The calibration procedure

Formal definition

Heuristic explanation

Convergence (1)

Convergence (2)

Formal analysis of convergence

Existence of a (p, ϵ) -fair fee schedule

Assumption (U)

Assumption (C)

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Proposition 2: The role of (R1)

Towards Proposition 3

Proposition 3

Conclusion