

Comment on „A Simple Coase-Like Mechanism that Transfers Control of Government Spending Levels from Politicians to Voters“ by Philip E. Graves

The paper sets out by identifying a secular trend of growth in public expenditures for the United States and by stating the assumption that this finding cannot be explained by voters' preferences, but is instead the result of a principal-agent-problem with voters on the one side and self-interested representatives on the other side. The author then surveys the shortcomings of balanced budget amendments (BBA) which, if they worked, would limit not only deficits, but also the size of government by limiting deficit spending. The divergence between social costs and benefits of a measure, and those that are recognized by the representative, is identified as the underlying mechanism behind the problem of overspending.

In the main sections, an alternative political mechanism is proposed that does not systematically suffer from the abovementioned divergence. This mechanism is indeed surprisingly simple; it demands that any party in competition for votes announces an upper limit for spending when it is in office, and that the party pays for any actual public spending above the announced limit itself. An official market for party contributions could hence emerge: Special interest groups could offer payments for additional measures that exceed the announced limits, and thus enable the party to nevertheless put these measures into effect. For the remainder of the paper, the author discusses practical problems that might occur with the implementation of the mechanism.

Major remarks:

The main points of the paper are well-argued, and although it is somewhat striking that such a simple mechanism should have such far-reaching implications, the argument is nevertheless convincing within the assumptions made at the outset. However, I do have some problems with these assumptions in the first place, in particular with the informational assumptions.

Certainly, a political party ought to have the necessary expertise to lay out a spending plan for a term in office. However, how exactly are the costs of public projects and political measures to be assessed?

Think, for example, of a proposal to have a new airport being built. A portion of the costs, that of materially building it, might be assessed straightforwardly by the involved engineers. But what about the costs borne by citizens living the neighbourhood and suffering from high noise levels? In the spirit of Coase, one might at first sight expect that these citizens could offer the party some contributions for *not* building the airport, and only if the offer made by the airport backers is higher, the airport will be built. For this to work out, an organization problem would need to be managed, though: 100,000 individuals suffering from airport noise constitute a classical free-riding dilemma, and none of them will announce her true willingness to pay for silence – we will, in essence, never know about the true costs of building the airport.

The same is obviously true for political measures that are associated with low budgetary, but potentially large economic costs, e.g. measures that regulate market activity with red tape. So, if the parties do not only maximise contributions, but some combination of contributions and the scope of their political influence when in office, would the mechanism proposed here not set incentives to substitute out of the budget and into regulatory activity in the long run? And to do this in a manner where the costs of expanding government influence are dispersed

over many individuals, such that the free-riding incentive remains, and we will never get to know the true economic costs?

I think the paper needs to be extended in this direction, i.e. the I would like to hear some additional arguments on the long-run incentive effects of the proposed mechanism, and maybe the author also has some arguments that might disarm my objections regarding the informational problems associated with it.

Minor remarks:

On p. 6, first paragraph, a sentence is obviously incomplete

On p. 8, first sentence: „wishing to place“