

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

*Answer to the Associate Editor's Report*

I guess I should have put more in on the issue of the common pool problem, though I made brief mention of it if I recall correctly. This problem could be handled (relatively easily, I suspect, if the mechanism were in place, because of collective pressures to not violate S) in a number of ways:

- 1) districts could be allowed to spend in proportion to past spending shares (e.g. if the spending level agreed upon were 5% less than past spending, each senator/congressman could spend 5% less than in the prior administration). This is the most likely outcome, from a political perspective, I would guess.
- 2) districts could spend in proportion to their relative shares in revenue generation (e.g. a high-tax district could spend more than a low-tax district).
- 3) the division of the total spending among the districts could be adjusted upward or downward from either of the preceding approaches according to agreed upon equity considerations (e.g. a low-income state could argue for more).

There is, indeed, no question that with the mechanism in place there would be much discussion about how to allocate the limited spending among districts--I think this is actually a very strong additional argument for implementing the mechanism. Voters and politicians should be forced to think more about this than at present (e.g. the power of Alaskan and West Virginian senators to deliver the goodies to their constituents is--or ought to be--truly embarrassing).

It should also be emphasized that while I considered the mechanism as applied at the federal level (because of the interest I had in comparing it to the balanced budget amendment approach), it is actually a lot more likely to be applied at the local and state levels first; in that setting the common pool problem would be far less of an issue. For example, the application of the mechanism to, say, a County Treasurer race would not raise such problems. If the associate editor feels that making these points more explicitly would result in acceptance, I would be happy to do so.