

Referee comments on:

"An Enabling Mechanism for the Creation, Adjustment, and Dissolution of States and Governmental Units," by Kjell Hausken and John F. Knutsen

The authors offer an amalgam of ideas, about formation and dissolution of governments, with non-zero territorial jurisdiction (where the government has some land ownership), combined to create mechanisms that aim at Pareto optimality. Their ideas, for designing their governmental decision making processes as well as determining the size of the governmental unit, are aligned with Charles Tiebout's "voting with your feet" and Ronald Coase's theory of the firm. Their definition of a governmental unit is one which has a territory, a function and a population (at least one). Exit from this governmental unit is free and entry may or may not be free depending on preferences of the population and the design of immigration policy. Competition between governmental units is assumed to be desirable (cooperation is not considered as possible alternative). The authors focus on the operational aspects of this competition versus the outcomes. The authors provide detailed definitions of various dimensions of the process and the conditions imposed on the process. However, the conditions imposed make it difficult to identify a viable functional pursuit for the government. The authors provide two examples of governmental functions that presumably lend themselves to the design proposed by the authors: tax collection and garbage removal. In a sense, these characterize two extreme ends of public sector functions: the former is feasible only via a legal and constitutional authority (marginalized by the model's almost exclusive focus on markets and resident mobility) and the latter is a largely private function that is performed by governments, often in competition with private providers.

A more detailed description of conditions imposed by their model on the creation and dissolution of governments that ignore some of the key constraints in performing such functions are:

- (1) There are economies of scale in both the functional illustrations (given above) and once we consider larger bodies of domiciliaries, transaction costs are not zero in these functions (for example, administration and enforcement costs in the case of taxation have economies of scale). The authors discuss this issue on page 22, but it's unclear from this description as to how the community size will adjust to the optimum size and yet be Pareto optimal with respect to domiciliary preferences (unanimity or near unanimity within a particular territorial unit). The authors also do not discuss how the costs and benefits of the functions will be distributed across domiciliaries in the equilibrium situation and what form of taxation will be used to pay for the functions (these are some of the limitation of the Tiebout model as well).
- (2) On page 15, the authors describe their proposed "adjustment mechanism," as extending beyond the transfer of traditionally portable resources to traditional immovables, cultural barriers, etc. However, they don't provide any illustration of how such "immovables" might be transferred in a costless way considering their proposed mechanism.
- (3) In discussing their assumption 4, they consider the example of a fee for entry –a potential tool that can be used to create a barrier to entry for population considered undesirable. An entry fee would certainly not serve the interest of the poorer population seeking entry to the jurisdiction (a point not considered in item 8 on page 18).

- (4) It is also unclear how the adjustment mechanism proposed by the author is different from the Tiebout “voting with your feet” mechanism with the addition of zoning or other jurisdictional restrictions (analogous to the fee/immigration requirements in the present model) later used to salvage the Tiebout’s local government public goods provision model.
- (5) Finally, the applicability of the model proposed by the author to situations of violence and national defense is not convincing. National defense is an area involving huge economies of scale, whether defense is superior to attack (stated in the paper on page 24 –citing Clausewitz for this statements) is debatable and depends on the specific context and international sanctions (mentioned on page 24) typically work slowly. The authors assert (on page 24) that historical experience has shown that violent governments are more successfully dissolved than marginalized groups engaged in political wasteful processes (no explanations or citations are provided for this statement).