Comments and discussions

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This concise paper studies one of the classic but important issues in local public finance, i.e., benefit spillover and matching grant. We are conventionally led to believe that the more the benefits of local expenditure spill beyond administrative boundaries, the higher the matching rate of subsidies will be to correct the external economies. However, by introducing a non-trivial local production sector into the model, this paper shows that this conventional prescription for benefit spill-over is not always the case: the matching rate may decrease as the degree of benefit spill-over increases (Proposition 2). This counter-intuitive result is in fact new, and as such, the paper simply makes a theoretical contribution to the literature.

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