Annex 1

**The Hyper-Centralization Model**

*Given:*
1. Highly competent national government at the center
2. Centralized (lean & flexible) production of a single "public good" [e.g. Toyota]
3. Central-government agents in each locality who measure local needs and relay information to the center
4. Efficient transport between center and periphery

*If:*
- agents are honest
- returns to scale outweigh transport costs

*Then:*
The efficient solution is to centralize all public goods production and abolish all local government.

A decentralized regime, even one with efficient local governments that accurately measured local needs and responded honestly to those, would consume more resources to produce the same outputs and the same level of social welfare than the hyper-centralized regime.