

---

# The Tragedy of the Public Budgetary Commons

————— ◆ —————  
EARL R. BRUBAKER

Outlays of federal, state, and local governments have risen to approximately 34 percent of the gross domestic product (GDP) over the past several decades. Outlays of the federal government alone have recently amounted to more than 20 percent of the GDP. In the spirit of mainstream academic economics, it would be unremarkable to inquire into how these percentages compare with the optimum. Defining the optimum, however, would be a daunting task, even in principle. Presumably, it would have to reflect many time-and-place-specific variables and to account for a large number of divergent individual preferences regarding tradeoffs in production and consumption, not to speak of people's desires with respect to fairness and individual freedom. The investigator would have to account for divergent judgments about such complex phenomena as the global containment of communism, the Vietnam War, accelerating spending for entitlement programs, and many other things.

Setting aside the search for an optimum, I shall seek the answers to some less complex yet still important questions. I shall inquire into the incentives our political institutions create for participants in federal budgetary decision-making. Can we identify clearly undesirable consequences of the

---

Earl R. Brubaker is professor emeritus at the Naval Postgraduate School in Monterey, California.

The Independent Review, Vol.I, No.3, Winter 1997, ISSN 1086-1653, Copyright © 1997, pp. 353-370

behavior elicited by these institutions? If so, how might decision-making processes be altered to establish incentives for improved behavior? In seeking answers to these questions, I shall employ as my analytical framework the concepts and principles of public-choice analysis.<sup>1</sup>

## Budgetary Decision-Making

Public-choice analysis yields useful insights into the political process by focusing on the interactions among three sets of participants in public budgetary decision-making. The first set contains the principals, namely, the general public. Decisions must be made about the allocation of the public's income and wealth among many competing collective and private purposes.

The principals' agents fall into two categories: first, the elected representatives—the president and the Congress—and, second, the employees of the executive branch's administrative departments, in common parlance, the bureaucrats. The representatives play vital roles in obtaining and allocating funding for programs. Political appointees and professional managers in the executive departments have responsibility for overseeing current operations and making public investments.

The decision makers stand in a hierarchy. At the apex are the principals at whose pleasure the elected representatives serve. The president, with the advice and consent of Congress, appoints the top executive-branch managers, who in turn oversee the rest of the management team. Budgetary decisions result from the continuous, complex interactions among all these actors, and reflect basic behavioral tendencies as constrained by the institutional environment. I focus here on the incentives and interactions of the general public and its representatives.

### Process

Institutions define the limits of the decision-making roles, responsibilities, and opportunities of individuals and their representatives. Many important decisions are made only infrequently. The electorate, for instance, may engage or dismiss its representatives only at intervals of two to six years. Representatives in turn make final decisions annually about taxation and spending. Decisions about taxes, however, specify the rates applicable to designated income, wealth, sales, and other bases. Congress makes no explicit decision about the aggregate amount of taxation; prospectively, the aggregate can be only an estimate no better than the economic and behavioral assumptions underlying it. Similarly, the representatives make decisions about so-called nondiscretionary outlays in terms of rates to be applied

---

1. Useful surveys include Mitchell and Simmons (1994), Mueller (1989), and Stevens (1993).

according to personal characteristics such as age, health, occupation, prior earnings, employment status, and so forth. Government officials make decisions about revenues and outlays separately, without firm coordination and without strictly enforced limits.

The budgetary process results in the creation of a common pool of funds from which to finance a large variety of programs, including income transfers to individuals and businesses as well as the direct provision of goods and services. The process converts privately generated income and wealth into common property to be allocated among potentially unlimited alternative uses. Nothing links a particular public program with the private sacrifices required for its operation. Assessing the personal distributions of benefits and costs associated with the various programs is impractical, and likely to remain so.

## Consequences

### Tragedy of the Commons

The budgetary process just described creates incentives and consequences similar to those associated with the so-called tragedy of the commons. This occurs when the absence of private property rights to a depletable resource creates incentives for potential users to exploit the resource excessively. Exploiters act as they do because each one knows that if he does not exploit the resource, someone else will.

Prominent examples include common property in pastures, ocean fisheries, and crude petroleum pools (Scott 1955, 117ff.). Crude petroleum, for instance, often lies in subsurface pools above layers of water under great hydrostatic pressure. Initially, no one knows much about the size, shape, and extent of the pools; information accumulates as exploration proceeds. In these circumstances, specification and enforcement of private property rights in petroleum have posed great difficulties, and judges called on to adjudicate disputes have declared the petroleum subject to a rule of capture—that is, it would become the property of whoever brings it to the surface and takes possession of it there. Thus, so long as the oil remains under the ground, it remains “up for grabs.” Often, numerous candidates for ownership can gain access to the subsurface pools via wells drilled from their surface properties. Each has an incentive to capture the oil as quickly as possible, as otherwise it will be lost to neighbors operating according to the same incentive.

Tragic consequences ensue because the absence of precapture property rights induces producers to remove the resource at rates extremely detrimental to the ultimate amount recoverable, thereby diminishing the present

value of net benefits. Excessive rates of removal result in the channeling of water through the petroleum, thereby cutting off large volumes that could have been much more easily recovered with a more gradual release of subterranean pressure, which would permit the water to encroach more slowly and evenly, forcing more of the oil to the wells and through them to the surface.

By converting private property into common property, the public budgetary process creates its own form of tragedy. Mainstream public microeconomics indicates that the common fund should be allocated to the creation of “public goods”—nondepletable goods providing benefits simultaneously to all at no direct charge. In practice, however, the common fund becomes the object of attempted alienation by interest groups striving to secure allocations of benefit mainly to themselves. As a result, the common fund most often finances not pure public goods but the proverbial all-too-depletable pie to be divided among competing claimants.

In short, the budgetary process converts private property into common property “up for grabs.” The public treasury becomes an irresistible target for concerted efforts at appropriation under the threat of imminent loss to other claimants. Such threat creates even greater incentives for overstating one’s desires for government programs than that normally associated with zero-priced public goods. The fund gives rise to both a ferocious defense of established entitlements and an endless, frenzied scramble for new ones. Thus the tragedy of the commons constitutes an integral and pervasive aspect of the government’s budgetary process.

The struggle over allocations from the common fund calls forth a range of strategies and tactics limited only by the ingenuity and huckstering skills of all concerned. Voters employing the franchise to gain command over real resources attempt to elect representatives who will be effective in securing the desired allocations. Rampant hyperbole and crisis-mongering characterize the efforts to establish the superiority of one faction’s purposes over those of competing claimants (Higgs 1987, 238). Such exaggerations also provide justification for attempts to increase the size of the common fund.

Overall, the process creates incentives to strive strenuously to avoid contributions to the common pool while striving equally strenuously to make withdrawals from it (Wildavsky 1992, 15). The principals have no incentive to judiciously balance the benefits expected from public programs against the sacrifices of personal opportunities that conduct of the programs requires. The process creates opportunities to benefit at the cost only of other people’s lost opportunities. Not surprisingly, this method of fiscal decision-making sets in motion notable tendencies toward inefficiency, inequity, and infringements of personal freedom.

## Opportunities for Rent Seeking

Rent seeking is a public-choice concept useful in describing the consequences of established processes of public budgetary decision-making. In general, rent seeking refers to seeking income or wealth by means of legal but unproductive activity such as uninformative advertising, acquisition of market power, or lobbying for subsidies, for favorable regulatory rulings, and for entitlement outlays.<sup>2</sup> Here I am concerned with budgetary rent seeking: attempts by citizens and their representatives to gain allocations of funds from the budget for purposes of interest primarily to themselves at a cost borne mostly by others.

The budgetary process described earlier results in inefficiency because it creates opportunities for rent seeking. Thus, it encourages the transfer of resources from directly productive to directly unproductive activities. Individuals find it more advantageous to live unproductively, tapping the common fund, than to earn income by directly productive activity.<sup>3</sup> Because of the opportunities to live at the expense of others, rent seekers have less incentive to supply personal services, to save, to acquire human or tangible capital, or to engage in entrepreneurial activities. Not only are such efforts less needed to gain wealth; they are also less rewarded, inasmuch as part of the income they generate will be coercively drawn into the common fund.

## Voting: A Crude Signal of the Principals' Preferences

The public budgetary process results in inefficiency also because public programs conform to voters' preferences only approximately at best. The infrequent opportunity to select representatives has already been mentioned. Many other factors promote the slippage as well. Agent-representatives serve very large, heterogeneous constituencies (from approximately 500,000 to more than 260 million people). Most of the principals can communicate their preferences only in the form of aggregates or samples to which they belong. In neither case can the representatives comprehend the astronomical number of details about their principals' preferences that are pertinent to rational budgetary decision-making.

Moreover, voting totals reveal nothing about the intensity of the individual preferences they tally. Votes indicate only whether a voter's prefer-

---

2. For an extended discussion of rent seeking in general, see Buchanan, Tollison, and Tullock (1980).

3. For more detail, see Dale and others (1995) and Wildavsky (1992, chaps. 7, 8).

ence is for or against a proposition or a candidate on the ballot. Many voters may actually prefer a candidate or policy option not listed on the ballot. If individuals wish to express the extent of their willingness to sacrifice time or other goods to obtain the outcomes they desire from government, they must supplement their ballots with campaign contributions or other transfers desired by the representative.

Because of the wide range of issues over which their agents obtain discretion, principals can register their preferences only crudely. Each candidate for election stands for an inseparable bundle of positions on issues. A vote provides at best only a vague indication of the voter's preferences regarding the various issues in the bundle (Wildavsky 1992, 27). Furthermore, candidates may interpret electoral success more as an endorsement of their personal capacity for making judgments on their constituents' behalf than as a programmatic mandate. Guidelines from their principals can constrain representatives only loosely.

### Misinformation and Rational Ignorance

Because of the comparative advantage enjoyed by small, well-organized pressure groups in communicating their preferences, both challengers and incumbents receive biased information. Organized interest groups can gain large rents at the expense of much larger groups of taxpayers who individually suffer only small losses. Pressure groups therefore find it worthwhile to inform themselves and their legislators about the intricacies of issues in order to promote their special interests. They also gain by channeling campaign funds to representatives who cooperate in befuddling the general public, reinforcing the rational ignorance of the masses about the incidence of program costs and benefits.

Positions presented by would-be representatives usually leave much to be desired, at least from the perspective of rational choice. Candidates typically state their positions in qualitative (for or against) terms, even though deciding how much to tax and spend requires choosing a single point along a continuum of alternatives. Candidates avoid clear statements that would reliably indicate the positions they will take on specific questions. They appeal to base emotions. Rather than paying careful attention to the weighing of unavoidable trade-offs, they exaggerate the negative qualities of opposing candidates. In terms of substance, campaign rhetoric verges on a perfect vacuum.

Having gained office, agent-representatives continue to gain advantage by dissembling. They routinely declare, for instance, that they are cutting taxes and spending when in fact they are planning and implementing increases. Wishing to mollify taxpayers while simultaneously expanding

programs that enhance their own power, prestige, and capacity to bestow benefits, they reconcile these conflicting ends by resorting to obfuscation. Political representatives report “cuts” as if they refer to actual taxes or outlays, when in fact they refer to increases at rates below those previously projected. References to the projected increases as changes required by the “current services budget” compound the obfuscation (Miller 1994, 126). Such distortions can hardly fail to confuse the public.

Representatives often design taxes in such a way that taxpayers will fail to notice them. Small changes in bases or rates of existing taxes accomplish this end better than introducing new types of tax. Maintaining the high “temporary” or “emergency” rates accepted by the public during national crises serves the same purpose (Higgs 1987). Taxing corporations promotes the misconception that they, not their customers or employees, bear the burden. Obscure exemptions create wide disparities in actual tax rates. Mysterious acronyms conceal taxes: How many employees know what FICA stands for? Taxes hide under such euphemistic camouflage as contribution, premium, revenue enhancement, user fee, and surcharge. By such subterfuges, agent-representatives increase government revenues without making explicit, unpopular decisions. From rising real incomes, subjected to higher marginal tax rates, governments automatically harvest abundant fruits. Thanks to inflation, many citizens whose incomes have increased only nominally must pay increased taxes (Mitchell and Simmons 1994, 55ff.). As aptly stated in a *New York Times* editorial of 27 December 1938, “To enable a legislator to vote for appropriations bills and at the same time to avoid voting for increases in taxes is to provide him with the politician’s paradise” (cited in Wildavsky 1992, 70).

Unable to effectively express their preferences through participation in the political process, ordinary citizens have little inclination to express them at all and have every incentive to remain rationally ignorant of political and governmental affairs. In any event, an individual’s vote—among hundreds, thousands, or even millions of other votes—has virtually no chance of determining the outcome of an election. Lacking the capacity to put their knowledge to effective use, individuals have no incentive to consider their preferences carefully or take the trouble to express them, whether the issue be choosing representatives or expressing a preference on bond issues, initiatives, referenda, and other questions. The franchise, treasured by people deprived of it by authoritarian or totalitarian regimes, turns out to be an expendable burden. Hence the oft-lamented low voter turnout.

Are rational ignorance and rent seeking compatible? The premises and logic underlying the explanation of rational ignorance would seem to imply that voters pay no attention whatever to political matters. Such complete inattention would embrace their identification of personal preferences

regarding any collective decision, including those undergirding rent seeking. In my view, however, rational ignorance and rent seeking refer to tendencies, not to absolute and exclusive determinants of behavior. Therefore, both can operate simultaneously as major influences on the nature and extent of citizens' participation in budgetary decision-making, each contributing to social irrationality in the allocation of resources. In my view, voters concern themselves primarily with making specific claims on the common fund while remaining largely ignorant of and hostile to specific allocations others consider worthwhile. They focus on the immediate requirements of establishing claims on the budget, not on the rational generation of revenues for it or the rational overall allocation of funds from it.

One might wonder, however, why we should worry about the voters' ignorance if they are only striving for inefficient outcomes in the first place. Isn't it possible that the politicians' misrepresentations and the citizens' rational ignorance will combine to produce an optimal allocation rather than the overallocation to which the commons incites them? Yes, it is possible. More likely, however, rationally ignorant citizens will exaggerate the value of the benefits of favored programs while remaining blissfully oblivious to the forgone benefits of others. Moreover, politicians' misrepresentations most often suggest and promote opportunities for constituents to gain benefits at the expense of others, thereby reinforcing the tendency of rationally ignorant constituents to strive for excessive allocations from the common fund.

In view of the severe informational deficiencies associated with the current budgetary decision-making process, no one should be surprised if, after the votes have been counted, a spirited debate ensues as to the meaning of the outcome. The victors claim a mandate for their favored programs, and the vanquished stoutly oppose that interpretation. Given the uncertain meaning of the outcome of the election, the expressed preferences of the voters can serve as little more than loose constraints on their agent-representatives, who gain access to the common fund, from which they proceed to finance perks for themselves and programs for their financial backers. Once elected officials have occupied their offices, many campaign promises evaporate like the mists of morning.

### Other Sources of Inefficiency

Agent-representatives have an incentive to enlarge the pool of common funds. The larger the pool, the greater are their power, prestige, and opportunity to buy votes by returning (via government programs) the public's own money. Although the hostile reactions of voters temper this incentive somewhat, the representatives' discretion in allocating from the common fund provides them with a source of power, influence, and a potentially

decisive advantage in retaining their offices. They tax opponents and reward supporters, all in the name of public purposes. By so doing they further distort the incentives of both groups.

The degeneration of decision-making into a struggle for appropriations from the common fund exacerbates the tensions and conflicts already inherent in a society where groups have strongly conflicting priorities. Voters and representatives make their decisions in an emotionally charged atmosphere of exaggerated claims, illusions, and strife often attended by ethically questionable tactics. Such conditions hardly foster careful, detached consideration of and selection from alternative uses of resources. Over time the population becomes divided into emotionally committed blocks concerned as much with prevailing over opponents as with rational allocations to a limited number of programs supplying, to a reasonable approximation, public goods.

### Inequities

Established budgetary procedures provide incentives for decisions widely regarded as inequitable. Similarly situated people pay extremely varying taxes.<sup>4</sup> Nor does anyone perceive equity in the ability of representatives to allocate funds, often in obscure ways, to their actual and potential supporters at the expense of others.

Social Security, increasingly perceived as a massively fraudulent redistributive scheme, provides perhaps the most troubling example (Orr 1980, 222ff.; Mitchell and Simmons 1994, 139; Miller 1994, 128). Under this scheme, involuntary participants pay taxes on earnings into the Social Security trust fund during their working years and receive benefits in old age. The procedure creates an illusion that the benefits derive from the accumulated "contributions" of the retiree's own earnings. Suffering from this illusion, most recent recipients seem absolutely convinced of the propriety of their pensions. In fact, however, agent-representatives have found it advantageous to set benefits at such high levels that current tax receipts must be used to finance the payments to retirees (Wildavsky 1992, 467). For the most part, currently received benefits constitute transfers from current earners to current retirees. Current earners operate under an understanding to the effect that their pensions eventually will be funded by taxes on future earners, all unconsulted and many yet unborn. This endless chain of vague, externally imposed obligations is sometimes said to constitute a "social contract." Aside from its not being a valid contract in any legal or

---

4. Bartlett and Steele (1994) present dramatic and extensive anecdotal evidence of inequities in personal tax obligations.

moral sense, it promotes fraud and illusion on a massive scale, fostering inefficiency, inequity, and damage to individuals' sense of responsibility for themselves.<sup>5</sup>

Because would-be representatives strive to attain a majority of the votes, they have an incentive to promise benefits to far more people than the truly needy. In truth, the truly needy get little in any event, though their existence often permits politicians to serve other constituents under the pretext of helping the needy. In sum, existing institutions promote the funding of transfers to individuals quite capable of taking care of themselves, to the detriment of others including those most genuinely in need of assistance.

### Infringements of Personal Freedom

Many people condemn the present budgetary decision-making system most bitterly because of its subjection of individuals to government commands under threat of overwhelming force to impose heavy penalties for noncompliance. Nearly all people regard subjection to commands as distasteful, even if the government requires them to do what they believe best and would have done in any event.

Far more offensively, however, the government compels citizens to contribute to funding programs that many consider ill-advised, unjust, immoral, and downright abhorrent as well as adopted at the urging of political opponents. Even as they strive for excessive allocations to programs that benefit themselves and their friends, voters deplore the use of their taxes to pay for the unworthy purposes of others. Accurate measures of such phenomena are lacking, but undoubtedly they are common. Items on the long list would include subsidies to large corporations, rich farmers, manufacturers of unneeded military equipment, vendors to unneeded military bases, upper-middle-class students, wealthy retirees, and an underclass addicted to welfare. A system that requires people to contribute to such counterfeit public purposes, widely regarded as unworthy, achieves the remarkable outcome of being simultaneously inefficient, inequitable, and destructive of individual freedom.

### Ill Effects on Attitudes

Current institutions have serious detrimental effects on attitudes. First, rather than maintaining a sense of responsibility for supporting themselves,

---

5. As impending demographic changes threaten to overwhelm the present system, representatives have begun to consider remedial measures, though their public utterances fall far short of a forthright appraisal. Nor is Social Security the only example of a massive shifting and concealment of public burdens. See Higgs (1987, 62–67) for additional discussion.

many people develop a sense of entitlement to being supported by others (Samuelson 1995, 14). Individuals have a primary social responsibility, however, to care for themselves, either separately or in voluntary associations. Failing in this regard, they become a burden to others rather than a source of assistance to those who genuinely need and deserve help the most. The confiscation of individuals' resources to support the common fund diminishes their capacity to care for themselves even as it encourages them to strive for support from others. Second, the limited, infrequent, and crude means of expressing budgetary preferences give rise to a sense of impotence, resignation, and cynicism. The costs of attempting to express budgetary preferences are large and the outcomes uncertain. Rational individuals conclude that tolerating, ignoring, or remaining oblivious to the deficiencies of the budgetary decision-making process makes more sense than attempting to change it.

To summarize, the interaction of established institutions for public budgetary decision-making with basic human behavioral tendencies results in choices with serious ("critical" in contemporary discourse) undesirable consequences. Present institutions create a common pool of resources "up for grabs." Many people find staking claims to it more promising than productive activity. Some individuals become so intent on tapping the common fund that they fail to carry out their fundamental social obligation to care for themselves, thereby losing their capacity to contribute to the care of the less fortunate. Entrepreneurial representatives strive for success in rent seeking on behalf of their constituents rather than seeking to promote efficiency, equity, and personal freedom.

Scholars studying public choice have made a convincing case that these behavioral tendencies of principals and agents are normal, pervasive, stable, and predictable reactions to a specific institutional environment. To have much chance of success, attempts to improve the budgetary decision-making process must take these basic behavioral facts of life into account.

### Desirable Features of a Better Process

With the preceding analysis as necessary background, I now proceed to identify some desirable features of an improved process of budgetary decision-making. The general rule is that the people, as the ultimate authority in the democratic process, should have an opportunity to participate more directly in making decisions about the allocation of their wealth.

The process should provide an opportunity for individuals to express their shared commitment to contribute to common purposes and to set firm limits to the resources they wish to make available. Serious consideration of public programs by the individuals who will actually experience the

costs and benefits is essential for rational budgetary decisions. Only those individuals can make the elemental assessments necessary for evaluating the net benefits of the programs.

The process should provide an opportunity for clear expression of the public's preferences regarding the share of their income to be used for government programs. Preferences should be stated more directly, precisely, and frequently than current institutions permit.

The process should avoid the compulsion of taxation of those with inadequate participation in fiscal decision-making. Government should compel citizens to pay taxes only with the frequent, clear, and unmistakable advice and consent of the compelled. The people should be convinced that gains in efficiency, equity, or other goals plainly more than compensate for the losses of individual freedom inherent in compulsory exactions for collective purposes.

The process should aim to produce a net benefit for all. A decision to tax and spend should signal a commitment to pursue common goals with a wide distribution of the inevitable opportunity costs. The division of society into exultant victors and bitter, disgusted, and defiant vanquished should be avoided.

The process should avoid creating opportunities for rent seeking not only by coalitions from the general public but also by agent-representatives exploiting their strategic status to "buy" votes with the public's money.

### Some Proposals to Limit the Budgetary Tragedy

The blatant inefficiencies, inequities, and infringements of individual freedom have inspired a variety of attractive proposals for institutional changes, including tax earmarking, constitutional limits on taxes, and many others (Wagner 1992, 105). Most proposals focus on the roles of Congress and the president and involve placing stricter constraints on their budgetary decision-making (Miller 1994; Mitchell and Simmons 1994; Wildavsky 1992, 415ff.). I cannot discuss here the relative merits of all the various proposals. Suffice it to say, however, that without more direct, decisive participation by the principals, critical deficiencies will remain in the budgetary decision-making process.

More adequate procedures requiring personal consent for taxation can limit the size of the budgetary commons (Wagner 1992, 119). Here are four simple, specific steps to enhance individual participation that satisfy the criteria for an improved budgetary process laid out in the preceding section. First, individuals could participate in determining the tax share of personal income. Second, they could receive tax credits by contributing to alternative providers of certain quasi-public goods, especially social services and income

supplements. Third, they could opt out of programs providing divisible goods or services. Fourth, taxpayers could earmark part of their payments to go into a fund for rebates (Brubaker 1989, 63–64).

### Determining the Tax Share

By participating more directly, individuals can indicate the limits of their willingness to submit to the compulsion of taxation in order to receive the mutual benefits of collective action. In turn, such limits on taxation would curtail the pool of common funds with all its potential for negative consequences.

How specifically might such participation be brought about? Individuals could submit annually with their income-tax return a response to the following solicitation: “What percentage of your income and of all others’ incomes shall be used to support federal programs? The median reported percentage will be a guideline for Congress and the president.”

Responses to this solicitation would provide valuable information because they would indicate each individual’s willingness to share a commitment to financing public programs while fully cognizant of the necessary sacrifice of personal income. The responses would be quantitative and therefore would reflect much more precisely the intensity of individual preferences. Individuals would be able to express their preferences annually on an important, specific issue. The responses would constitute the public’s recommendation for the limit on the resources to be taken by government and therefore for the overall extent of government programs. Such recommendations would provide invaluable guidance, not currently available, to representatives drafting budgetary legislation.

Well-established concepts and principles of public-choice analysis raise concerns, however, about how taxpayers would actually respond. If free-rider problems, infinitesimal expected net benefits, and the consequent tendency toward rational ignorance have prevented large numbers of individuals from participating in the political process, why should they bother to respond accurately to a request for the percentage of their own and others’ income they are prepared to sacrifice to the general revenue? Obviously the proposed solicitation itself will not remove the incentives that give rise to free riding and rational ignorance.

Still, the relatively low marginal cost of responding probably would result in higher rates of participation than those typical in general elections. The issue of taxes would be especially salient in taxpayers’ minds as they filled out their returns. They could indicate their preference simply by marking a number on a form that they must complete in any event. The solicitation focuses on a matter of direct, specific concern to individuals, namely, how they want their income divided between their own purposes

and the funding of government programs.

Would taxpayers respond to the question truthfully? Most likely they would. Reference to a single percentage for all incomes limits the opportunities to ride free by imposing taxes on others to fund one's favored programs. Anyone expressing a preference for a higher tax rate for others simultaneously commits himself to the same higher rate. Moreover, the solicitation's design makes it highly improbable that a respondent could gain by misrepresentation. An individual misrepresentation almost always would change only the respondent's position in the half of the array that he would have occupied on the basis of an honest report. Therefore, the probability of moving the median by even a minuscule amount would be negligible. Even a weak ethical inclination to respond truthfully would suffice to establish within a narrow range of error the median preference of an honestly stated distribution of preferences (Brubaker 1989, 131ff.; 1984, 544ff.).

Even if the procedure elicited greater participation and reasonably truthful responses, rational ignorance would remain. One may still wonder, then, about the desirability of greater direct involvement by citizens in budgetary decision-making. How would more direct participation work when voters are rationally ignorant?

It would work by making use of the fact that although most citizens have little incentive or capacity to become well informed about the details of government programs, they alone possess vital information, even if initially only in the form of their own latent inclinations. Only they can know their preferences regarding the share of resources to allocate to public as opposed to private purposes. Even if voters remained no better informed than before, their responses to the solicitation would reveal extremely important information that previously had remained dispersed throughout the community.

In addition, the solicitation process itself can contribute to making the public more informed. Simply placing the share of taxes prominently on the public agenda and requesting citizens to state their preferences would heighten an awareness of personal preferences and foster their refinement into better-considered opinions. The question posed in the solicitation surely would become the subject of intense discussion and recommendations by various experts and advocates. It would encourage debate on a clearly defined strategic issue presently absent from the agenda discussed in electoral campaigns. Today, the vast majority of citizens probably have only a vague if any idea of "tax freedom day" as indicative of the share of personal income captured by taxation. That share, a fundamental issue of political economy, ought to be decided by the general public, which occupies the apex of the democratic hierarchy and makes the actual sacrifices.

The solicitation process also reduces ignorance by leading citizens to make an explicit connection between the benefits they expect to receive

from government and the costs they will have to bear. It reduces the possibilities for making demands for government programs while remaining rationally and blissfully ignorant of the costs such demands impose on others. Under the proposed arrangement, the demand for a large public budget would have to be joined with an immediate, explicit acceptance of forgone opportunities in proportion to the sacrifices of all other taxpayers.

Supposing, however, that tendencies toward rational ignorance would be reduced but not eliminated, do we want uninformed citizens making collective decisions for us? Alternatively, why would rationally ignorant citizens want to make collective decisions for themselves instead of delegating their decision-making power to better informed agent-representatives? These questions concern the workings and merits of direct versus representative democracy. In general, the most defensible arrangement would give the principals the power to decide the strategic issues; they would delegate decisions about details to their agents. If the public is to decide anything directly, the share of their income taken by taxation seems a plausible candidate. This procedure looks even more appealing in light of the emerging understanding of the profound deficiencies of indirect democratic process for determining the tax share (Mitchell and Simmons 1994).

### Tax Credits for Contributions

Allowing taxpayers credit against their tax liability for certain types of contributions also would facilitate the attainment of the goals stated in the guidelines. This arrangement would permit a clearer, more precise statement of preferences because individuals would be able to use their own funds to support directly the organizations they perceived as superior providers of certain quasi-public goods. People would be able to support programs they favor and avoid supporting those they regard as an imposition. Opportunities for rent seeking would be reduced, as individuals' taxes would be less available for programs advocated by others. Of course, tax credits would have to be confined to the support of programs providing quasi-public goods. (Arguably, government has no business providing any other kind.)

People can abuse tax credits, of course, so guidelines for eligibility would have to be developed, published, and enforced. Such administration, however, resembles that already in place with respect to itemized deductions from taxable income. Long experience in that regard indicates that administrative problems related to tax credits would be manageable (Goodman 1995, 39ff.). All things considered, allowing taxpayers a wider range of tax credits for contributions supporting nongovernmental suppliers of quasi-public goods would improve our public budgetary decision-making institutions.

## Opting Out

Individuals could satisfy their preferences better if given an opportunity to “opt out” of governmental programs. Government would allow individuals to choose not to participate, that is, neither to receive the benefits nor to pay for public programs providing goods or services salable in units suitable for individual use. Prominent examples include retirement pension plans and various forms of insurance such as those applicable to medical care, disaster relief, and compensation for workplace injury. Provision for opting out would enlarge the domain of individual discretion in the use of personal earnings. At the same time, it would help to diminish the common fund upon which countless rent seekers now prey.

Citizens’ latitude to shift their funds from taxes to private suppliers of quasi-public goods or to reduce their taxes by opting out of certain programs would spur competition, which would improve efficiency not only because private suppliers would operate at lower costs but also because competition would prompt improved public-sector performance. Many studies show that governmental entities cannot operate as efficiently as private competitors; if, under an opting-out system, this were found to be the case, taxpayers would have opportunities to allocate their funds to the more efficient providers. For those who value economic freedom itself, opportunities for earmarking or opting out would increase the scope for individual as opposed to collective decision-making regarding the allocation of their own incomes.

## Earmarking for Rebates

An option for taxpayers to earmark an unlimited share of their tax payments to a fund for rebates also would enhance personal freedom. The fund would be returned to all taxpayers in proportion to their initial tax payment. Because each taxpayer pays only a negligible proportion of total tax revenue, each could receive a refund of only a negligible portion of his or her own funds earmarked for rebate.<sup>6</sup> An individual’s refund would depend almost entirely on the earmarkings to the rebate fund by others. This option would provide taxpayers as a group with an effective opportunity to limit government revenue.

---

6. Alternatively, the refund to each taxpayer could be based solely on the earmarkings of all others to the fund for rebates.

## Conclusion

Current institutions for public budgetary decision-making create incentives and opportunities that give rise to a pervasive “tragedy of the commons.” They result in inefficiencies, inequities, and infringements of freedom. More direct participation by the general public in fiscal decision-making can contribute significantly to mitigating the tragedy. First, individuals can provide information about their preferences regarding the share of their incomes to allocate to public purposes. Second, they can reallocate a portion of their tax liability to private providers of certain public services who they expect to perform better than public-sector providers. Third, they can opt out of—neither supporting nor benefiting from—government programs providing salable goods or services divisible into units suitable for personal use. Fourth, they can earmark their taxes to a fund for rebates. Separately or in combination, these procedures can significantly promote greater rationality in economic decision-making and help to restore some of the economic freedom individuals have lost as government has grown.

## References

- Bartlett, D. L., and J. B. Steele. 1994. *America: Who Really Pays the Taxes?* New York: Simon and Schuster.
- Brubaker, Earl R. 1984. Demand Disclosures and Conditions on Exclusion: An Experiment. *Economic Journal* 94 (September): 536–53.
- . 1989. *Public Expenditure Decisions: Behavior, Institutions, Procedures and Performance*. Greenwich, Conn.: JAI Press.
- Buchanan, James M., Robert D. Tollison, and Gordon Tullock, eds. 1980. *Toward a Theory of the Rent-Seeking Society*. College Station, Tex.: Texas A&M University Press.
- Dale, Edwin L., Jr., Jeffrey A. Eisenach, Frank I. Luntz, Tomothy J. Muris, and William Schneider, Jr. 1995. *The People’s Budget*. Washington, D.C.: Regnery Publishing.
- Goodman, John C. 1995. *Taxpayer Choice: A Common Sense Solution to the Crisis of the Welfare State*. Phoenix: Goldwater Institute.
- Higgs, Robert. 1987. *Crisis and Leviathan: Critical Episodes in the Growth of American Government*. New York: Oxford University Press.
- Miller, James C. 1994. *Fix the U.S. Budget*. Stanford: Hoover Institution Press.
- Mitchell, William C., and Randy T. Simmons. 1994. *Beyond Politics: Markets, Welfare, and the Failure of Bureaucracy*. Boulder: Westview Press. An Independent Institute book.

- Mueller, Dennis. 1989. *Public Choice*. New York: Cambridge University Press.
- Orr, Daniel. 1980. Rent Seeking in an Aging Population. In *Toward a Theory of the Rent-Seeking Society*, edited by J. M. Buchanan, R. D. Tollison, and G. Tullock. College Station, Tex.: Texas A&M University Press.
- Samuelson, Robert J. 1995. *The Good Life and Its Discontents: The American Dream in the Age of Entitlement, 1945–1995*. New York: Times Books.
- Scott, Anthony. 1955. *Natural Resources: The Economics of Conservation*. Toronto: University of Toronto Press.
- Stevens, Joe B. 1993. *The Economics of Collective Choice*. Boulder: Westview Press.
- Wagner, Richard E. 1992. Grazing the Federal Budgetary Commons: The Rational Politics of Budgetary Irresponsibility. *Journal of Law and Politics* 9 (Fall): 105–19.
- Wildavsky, Aaron. 1992. *The New Politics of the Budgetary Process*. 2d ed. New York: Harper Collins.

# SUBSCRIBE NOW AND RECEIVE A FREE BOOK!



“*The Independent Review* does not accept pronouncements of government officials nor the conventional wisdom at face value.”

—**JOHN R. MACARTHUR**, Publisher, *Harper’s*

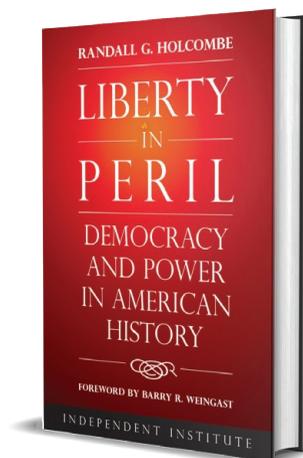
“*The Independent Review* is excellent.”

—**GARY BECKER**, Nobel Laureate in Economic Sciences

Subscribe to [The Independent Review](#) and receive a free book of your choice such as *Liberty in Peril: Democracy and Power in American History*, by Randall G. Holcombe.

Thought-provoking and educational, [The Independent Review](#) is blazing the way toward informed debate. This quarterly journal offers leading-edge insights on today’s most critical issues in economics, healthcare, education, the environment, energy, defense, law, history, political science, philosophy, and sociology.

Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!



Order today for more **FREE** book options

**SUBSCRIBE**

*The Independent Review* is now available digitally on mobile devices and tablets via the Apple/Android App Stores and Magzter. Subscriptions and single issues start at \$2.99. [Learn More.](#)

