# The Separation of Spending from Taxation: Implications for Collective Choices

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**Abstract.** Our fiscal process divorces payment from use. While this divorce has led many analysts of government to separate discussion of public expenditures from their funding, or use from payment, we argue that this approach does not provide a useful framework for understanding our public choices. We argue that it is the divorce of payment from use that underlies our fiscal process and, rather than simply "dismiss out of hand" the study of our fiscal process, it should be an integral part of our study of government. Our framework for describing fiscal institutions indicates how our fiscal process invites rent-seeking because it allows beneficiaries of programs to avoid payment for those programs. We conclude by examining how various changes in the fiscal process may influence our public choices.

## 1. Introduction

A rich tradition has grown up around the concept of "market failure," whereby economists identify cases where the price system is believed to allocate resources in inefficient or inequitable manners. The market failure approach essentially probes the price system for various and sundry flaws and then catalogues a wide variety of cases where government is argued to improve results. But very little attention has been given to applying a price systems test to government. Our approach analyzes the government system by applying the price system as a benchmark to catalogue the roots of government failure. We argue that the underlying source of government failure is, by necessity or convention, that it must use inferior payment and allocation systems. Although this defect is basic, it is nevertheless essentially dismissed by most analysts. Unfortunately, many important insights regarding the causes of government failure have been neglected as a result of this dismissal of the most basic framework for understanding how government operates.

Two reasons are likely for why most analysts do not apply a price systems test to government. First, economists have more or less taken the government system for granted without inspecting the basic or elementary institutions of payments and expenditures. Rather than analyze how these institutions themselves influence resource allocation, they implicitly assume that they do not. In this way, analysts are able then to argue that other factors, such as ideology, demographics, and sociological influences, are primary determinants of tax and expenditure policies, when, the spending and tax institutions themselves are often driving forces behind the spending and tax policies that take place. In other words, the spending and tax institutions themselves provide the framework under which spending and taxation

arise, and therefore should be the first step in modeling government. Second, some analysts may not have probed very deeply into understanding the power of markets, as displayed through the price system, and therefore ignore the institutional advantages given up when government, and its non-price method of allocating resources, is substituted for the price system of private markets.

The nature of our fiscal process suggests why analysts have traditionally separated discussion of public expenditures from their funding, or use from payment. This separation is a convenient way to deal with the *divorce of payment from use*. This convenience, however, carries a major cost: understanding how our fiscal process influences our public choices. Differences between payment mechanisms in private and public sectors are obvious, but the literature does not dwell on them. While, 30 years ago, James Buchanan (1967: 16) concluded: "The effects of the institutions of payment on individual choice behavior are more important in fiscal choice than they are in market choice," effects on individual choice behavior in public markets remain mostly ignored. In this paper, we argue that it is this divorce that provides the underlying key to understanding the public expenditures we receive and, rather than simply "dismiss out of hand" the study of our fiscal process, it should be an integral part of our study of government.

Our framework for analyzing collective choices follows Knut Wicksell's (1896) proposal that spending decisions be coupled with the means by which to finance programs.[1] This framework for describing fiscal institutions indicates how our fiscal process invites rent-seeking because it allows seekers, or beneficiaries, of programs to avoid payment for those programs. In effect, our fiscal process transforms all public programs into "transfer" programs in the sense that beneficiaries often do not pay the full per-unit costs of their programs. As Gordon Tullock (1989) argues, the political system recognizes the need to camouflage transfers, or rent-seeking, and perhaps our fiscal process is the perfect avenue for this camouflage. We conclude by examining how various changes in the fiscal process may influence our public choices.

## 2. Some History on the "Divorce"

Buchanan (1967) argues that the divorce of payment from use owes its existence to the lack of an exchange process between kings and subjects. Kings merely enjoyed spending public funds, and tax authorities simply collected revenues to meet those enjoyments. There was a clear distinction then between spenders—the king—and tax collector(s).

Buchanan (1967: 94–95) writes:

> We know that political structures, as they operate, do incorporate institutions that tend to produce this apparent splitting of the fiscal decisions into the two parts. These same structures contain, however, other institutions that have been developed to resolve the potential conflict. Historically, legislative bodies, through which the preferences of individual citizens are most directly represented, have exercised more control over revenue or tax decisions than they have over expenditure decisions. In part this asymmetry has its origin in the development of democratic political institutions out of monarchical institutions. Representative bodies, parliaments,

first achieved the power to restrict the tax-gathering privileges of the kings. Before taxes could be levied on the people, representative bodies were given the right to grant their approval. No consideration was given to the spending side of the account because public expenses were assumed to benefit primarily the royal court, at least in the early days of constitutional monarchy. Taxes were viewed as necessary charges on the people, but they were not really conceived as any part of an "exchange" process from which the people secured public benefits. It was out of this conception of the fiscal process that both the modern institutions and the modern theory of public finance developed.

The emerging of modern democratic states dramatically modified the setting for the fiscal process, but only recently has attention been paid to the necessity of revising age-old norms. As royal courts came to be replaced by executives, and monarchies by republics, taxes continued to be viewed as necessary to sustain the expenses of "government," with the burden of these taxes to be minimized to the maximum extent possible. Surprisingly little recognition has been given, even yet, to the idea that taxes must, in the final analysis, be considered as the "costs" of those public goods and services which provide benefits to the same people who pay taxes.

## 3. The Divorce Problem

The key to understanding our model is to realize that when we allow government to allocate resources, payment is separated from use. This is the *divorce problem*. Most government-supplied goods are greatly subsidized or have zero prices for users. This means that uses of goods are separated from payment, which take the form of taxes. Taxes are virtually inescapable levies (in some cases, threat of coercion is involved) and, indeed, they must be since few citizens would offer sufficient donations in the face of zero or greatly subsidized prices. Given greatly subsidized prices at the point of use, payments must come from a source that is virtually inescapable. We are not saying that this is necessarily bad, but it is most basic to understanding the institution of government.

The supply of government goods is politically determined through the apparatus of representative government. And so, on one side of the coin, we have use determined largely by politics, and on the other side, payment for such services mostly separated from the former via taxes levied on "intermediate bases" (income, retail sales, and so forth). This system is akin to supplying automobiles to citizens with small deductibles or user fees and then financing the bulk of the expenses involved through a tax on income. It appears to us that this divorce between use and payment, as viewed from the lens of private market theory, has quite fatal implications for the type of government we receive.

First, voters have little incentive to signal the same demands for spending that would arise in the private market where use and payment are married. That is, the fiscal institutions themselves cause a demand that is quite different from what that same individual would demand when that good was provided through the private market. In the latter, users must pay full per-unit costs, while in the former, they do not.

Second, while payment and use may be joined through the practice of tax-earmarking that directs proceeds from taxes to payment of specific programs, this seldomly occurs at any significant level in the government sector.[2] For instance, taxes on gasoline consumption are often earmarked for funding of public highways, and therefore taxes are levied on those who benefit from public roads. A recent study of state governments by Arturo Perez and Ronald Snell (1995) indicates that, while, on average, roughly 25 percent of all state taxes are labeled "earmarked," little connection between payment and use arises in practice.[3] Also, when earmarking raises revenues below program costs, other sources make up the difference by taxing non-users, or infrequent users, that consequently subsidize frequent users. Transfers therefore arise in practice. The general tax fund finances spending programs, and no matter what a tax is called at its origin, all travel to the general fund where no beneficiary of any given program can tell the difference between a dollar raised through an income tax or an excise tax on gasoline.

We recognize that one might argue that our current fiscal process is one where there is a contract that couples spending programs with tax programs. That is, with most of our funding through the so-called "general fund," our fiscal process, in a sense, couples this mass of revenues with the mass of spending programs it finances. Therefore, market principles are at work in the sense that taxpayers compare their aggregate tax bill with the benefits they receive from all the governments programs. Our point, however, is that the incentives and information that arise out of this fiscal process work themselves out very differently than a fiscal process that provides a more itemized comparison of spending and tax programs. While market principles will be applied in either case, it is doubtful that voters would make the same choices under either fiscal process. Our paper develops these differences.

## 4. The Dilution of Voluntary Rights

Using inescapable levies, or taxes, means that the voluntary part of the exchange process between buyer, or taxpayer, and supplier, or government, is greatly weakened. If the taxpayer does not use a particular good, or has little use for it, he is subject to a net-loss situation if he cannot avoid the taxes involved. Of course, at the same time, other taxpayers would be undoubtedly receiving large net benefits.

Once payment is no longer completely voluntary (as it cannot be when payment and use are separated), the ability to transfer income from one set of citizens to another becomes quite large. This problem would, of course, never occur in private markets since consumers are not forced to pay. If they feel that costs of products are less than benefits, they simply do not purchase such products. In other words, they have the power of egress, or the ability to exit markets. But with government provision, many citizens are forced into net-loss situations because they cannot freely or easily exit or egress such situations.

We are not arguing that citizens are complete "sitting ducks," or that taxation must be all "bad." Through their lobbying, voting, location, and work behaviors, citizens can and do influence fiscal decisions. However, compared to the private market, the range or magnitude of "voluntariness" is greatly diminished.

## 5. Relative Absences of Prices and Information

Once payment and use of a good are split, prices no longer exist to guide the voter-consumer. Since taxes are typically applied to intermediate bases, and the voters-consumers pay taxes in manners essentially disconnected from actual uses of government goods, the link between costs and benefits provided through the price mechanism is destroyed.

But, the divorce does not mean a total loss of signal. Taxes do reduce purchasing power and, in this way, signal to individuals about costs of government. Yet, such signals are very imprecise. An individual can reckon his tax bill and make a judgment as to how this relates to benefits he may receive, but such a comparison is of a different kind than what takes place in private markets where consumers can precisely compare per unit costs of items (price) with personal benefits. With government supply, the consumer-voter struggles to make a sensory perception by somehow adding up his many demand curves for government goods and comparing this sensation of benefit with his overall tax bill. An analogous situation would be where all food consumed by individuals was provided at zero prices by thousands of retailers, only to be financed from a federal income tax paid to retailer-contractors who in turn compensate others in the vertical chain of production.

## 6. Model of Sensory Perception with Divorce

Public finance economists have long understood that tax assignments and benefits received from spending programs bear little connection within our fiscal process.[4] But, to our knowledge, very few analysts have modeled the personal cost-benefit calculus for government supply in the context of divorce. Analysts typically have done one of two things at this juncture. The ability-to-pay school and excess-burden school basically take the divorce problem as a given. Rather than attempting to develop a personal calculus that would predict how rational actors would behave under the divorce problem, they have chosen to split taxation apart from benefits. For the excess-burden wing, this means looking at taxes from the viewpoint of the benevolent fisc attempting to minimize allocation distortions of the tax code. For the ability-to-pay wing, the process is one of generating equity or fairness by solely focusing on individual tax burdens.

The other approach could be loosely tabbed the voluntary-exchange approach. It attempts to force the calculus of the price system onto the consumer-voter by trying to marry benefits with costs. This approach, however, completely vaults over the institutional features that characterize the divorce problem when it forces a tax-price argument into government supply. It is akin to saying lets “make believe” that people are buying government services at “tax-prices.” The government is then seen as some sort of giant user-fee machine. However, as we have argued above, this is far from the fiscal institutions in place today.

Our voting process is dominated by simple majority voting and the median voter is commonly believed to be decisive.[5] Under this framework, a tax increase placed on the median voter results in a lower quantity of government good and, in this sense, mirrors the result—a decrease in quantity demanded—that arises when a private supplier raises price. But, this is a misleading framework because, under our fiscal process, fiscal “shoppers” recognize no clear nexus between taxes and benefits. This discussion indicates that the user-fee frame-

work whereby the median voter connects taxation with benefits associated with individual spending programs is inappropriate for examining fiscal choices. Edgar Browning (1975) demonstrates how general fund financing creates many possible outcomes within the median voter framework because, unlike "true" earmarking, general fund financing no longer connects taxation with spending. Browning (1975), however, does not examine how tax assignments may vary within a fiscal process founded upon the tax-spending divorce that creates incentives for taxpayers to seek low tax assignments. But, both fiscal variables—spending and taxation—are determined, not by benevolent despots, but through a political process that divorces payment from use. There are many ways for government programs to be implemented and therefore no unique connection between how the median voter responds to a tax hike or fall exists.

To build a more accurate model, we begin with the features inherent in divorce. Taxes are modeled as "side payments" or lump-sum levies, and not tax-prices, since individuals generally do not link taxes on a per-unit basis with benefits of government goods. The general case is where taxes are simply dumped into a general fund and then re-circulated into financing thousands of programs at greatly subsidized or zero prices. In this world, the consumer-voter views taxes in lump-sum form, where he would have a rough idea of what this large lump sum is as it is extracted from a variety of intermediate bases. For the income tax, this would be a fairly accurate tally, but for other taxes such as the sales tax this may be less accurate. For other taxes, such as the corporate income tax, the sensory perception could break down completely if it is assumed that the public treats the corporation as an abstract entity apart from the consumer-voter and believes that this tax is not partially shifted to him in some way (e.g., through lower wages or higher product prices). Indeed, an implication of our model is that moving the tax system toward less sensory bases such as sales and corporate taxes may be sub-optimal.

An important implication at this point is that, when the consumer-voter perceives the lump sum tax "blob," he has little notion of per-unit costs of goods supplied and therefore cannot allocate his budget at will. He can only assert his consumer "choice" rights through the costly process of politics or by exiting to other political jurisdictions.[6]

Turning to the benefit or goods side, the individual calculus remains blurred. The concepts of egress and interlocking consumption loom large on the benefits side. One of the paramount features of private markets is the ability of individuals to exit markets at will and consume items where personal benefits exceed cost. The process is divisible which means that consumers are not connected or necessarily tied to the consumption of other projects since the ability to egress prevents this from happening. The consumer-voter is not forced to co-finance goods on which he places no value. Moreover, the consumer cannot be forced to contribute to negative sum projects; in other words, he does not have to cross-subsidize others. Moreover, he cannot force others to cross-subsidize him.

By contrast, goods supplied by government represent interlocking consumption or essentially tied consumption. This is because most consumption is co-financed, so that the consumer-voter, in effect, co-finances the whole product line supplied by government. Locked or tied consumption simply means that the consumer-voter cannot egress product lines supplied by government. He may, of course, not use a particular program, but he still must contribute to such a program even if he does not agree with such supply. For example,

the consumer-voter may suffer net losses from the agricultural price support program, but, in addition to paying higher prices for agricultural goods, he still must contribute some portion of his taxes to the program. Moreover, it is doubtful that the typical taxpayer would know the per unit tax he is charged to finance that program and therefore will have trouble performing an accurate cost-benefit test to the program.

Locked or tied consumption implies some rather odd behavior on the part of the consumer-voter. Essentially it implies one of two things: rational ignorance or rational advocacy. Let us first discuss rational ignorance. In private markets, consumers are often rationally ignorant about commodities they do not consume. A person who does not like fishing is rationally ignorant about prices of fishing equipment—he couldn't care less. Moreover, this does not hurt the non-fisherman in any way since he is not co-financing fishing equipment. In the terminology of divorce, he can avoid negative sum situations through egress.

All that is required for efficiency in the fishing equipment market is that fishermen devote time to consumer research. And, we would expect that considerable consumer "research" would occur. Thousands of fishermen scan catalogues, travel to stores to view prices, visit trade conventions, and compare notes with other fishermen. The volume of consumer research summed over all private goods in our society is enormous and it seems somewhat of an anomaly that economists do not dwell or bother to compute the vast social benefits of this research effort. It is, perhaps, the very reason why markets work so well.

Would the consumer-voter be expected to engage in such a research effort with respect to government supply? At first, it might appear that each consumer-voter has a great incentive to research everything that the government supplies since he co-finances the whole product line. In fact, some would say that he has a moral obligation to do so since his taxes support such supply. However, similar to our non-fisherman case, there will be many government-supplied goods that are simply "not germane" to the consumer-voter. For example, for those consumer-voters without children, we would expect that they would be mostly rationally ignorant about public schools. For the fishing equipment market, we suggested that this "negligence" (rational ignorance) regarding non-germane consumption is no problem since fishermens' research efforts and the ability of non-fishermen to egress assure that nobody is exploited.

So to answer the above question, we should concentrate on the research efforts of *those* consumer-voters who consume germane products. Do they perform the social function of adequate consumer research? At first thought, it would seem that users of germane products would, in fact, spend considerable time researching about them. For example, parents of public school children would be concerned about elementary education, social security recipients about monthly checks, and farmers about price supports. However, this search process is tilted in a way that is fundamentally different from what arises in private markets. Given the divorce problem, per-unit price is not an important factor, and therefore the consumer-voter shops with little concern for price. Instead, he is concerned with standards of performance, such as the levels of school achievement, the timeliness of the social security checks, or the size of his support payments.

Shopping without concern over prices, and without egress, is unlikely to generate optimal results. Most shoppers would become "rational advocates" for their favorite programs under these conditions. To be sure, while prices are not clearly posted there is, in effect, a shadow

price that probably lurks in the sensory perception of shoppers. This may take the form of the extra tax, or additional public debt, that goes along with higher spending on programs. However, due to the co-financed nature of supply, tax or debt costs of incremental supply are spread over all taxpayers, within and between generations. So, in effect, consumers of germane products are never paying true per-units cost associated with those programs.

This tax "dilution" factor is likely to dominate the calculus of the consumer-voter in the presence of germane products. The cases of social security and farm price supports are clear. Recipients of these programs would clearly favor an expansion of their subsidy even if they were to reckon that their per-capita tax bill would rise to finance program expansions. They are, in effect, able to collect a large volume of taxes from other consumer-voters who do not use the programs, and therefore they receive cash transfers that are higher than any incremental rise in their tax burden. This suggests that the calculus of the consumer-voter of germane products is dominated by rational advocacy.

In the education case, the result is similar but with minor modification. To begin with, this is not a case where a raw transfer of wealth occurs since there are, to some extent, external benefits associated with education spending. Since education is a useful commodity with positive-sum aspects most people are willing to pay for some level of public education. Similar to the agricultural price support case above, consumer-voters that benefit directly from education programs rationally spend time in consumer research. Nevertheless, this research process is dominated by tax dilution since any increment of output is co-financed by consumer-voters who do not equally reap the benefits of program expansion. For the education example, parents of school age children, and all those involved in the education industry (teachers, staff, construction firms, book publishers, etc.), reap higher incremental benefits from government education programs than other citizens. So rational advocacy effects would be present for these individuals thus leading to a tendency for over-expansion of public spending.

Perhaps, even more damaging is that consumer-voters have little concern for per-unit costs. Tax dilution works in this direction as well since co-financing with non-users' income generates large subsidies. But, perhaps the most important reason for over-expansion is that low-benefit users cannot easily exit or egress which suggests that, even if an ambitious consumer of public education were to uncover rampant waste, gains from such a search are difficult to earn since he cannot exit public education *and* retain his tax payment. Unlike the fisherman, he finds it difficult to avoid over-expansion unless he moves to another political jurisdiction, wins a selective tax cut,[7] or somehow convinces policymakers to rein in the over-expansion.

Our conclusion is that, while germane product users are concerned with some standard of performance, they are not particularly concerned with per-unit costs. Unlike private markets, where shoppers are researching per-unit prices, they have little incentive to expend the time and energy researching per-unit prices of the goods provided by government. The incentive structure associated with the fiscal institutions is tilted toward rational ignorance in this regard since the inability to egress means a nil payoff to consumer research; i.e., you cannot take your money and exit.

An interesting question is: would pursuit of performance standards by germane consumer-voters compress per-unit costs through political competition? Its answer will bring the

process of consumer research into focus. As we have argued, no one forces the great multitude of consumers in private markets to perform their daily task of researching goods and services. Directed by some 'invisible hand,' millions of consumers independently and willingly perform this vital task in pursuit of self-interest. The ability to egress and the absence of co-financing assure this result. This process summed over all consumers represents a huge volume of effort; for example as much as $122 billion per year in the United States—if one assumes an hourly wage of $10, 10 minutes research per day, and 200 million consumers. Everyone from a child allocating his allowance for toys to his parents searching for a new house is enlisted in this effort. The external benefits of this search are very large since research efforts ensure lower prices and higher qualities, the benefits of which are enjoyed by all consumers. Moreover, private firms are enlisted in this process by the very act of posting prices, advertising, and being rated and therefore unwittingly make the consumer research process more effective. Contrast this, for example, with a Medicare patient and his doctor where performance only matters—cost simply is not a factor since the bulk of the cost is tax financed in such a way that draws funding from all those included in the tax base.

Our cursory description of this remarkable process that takes place in private markets suggests why competition in the political sphere (within the world of divorce) could not possibly duplicate or match the prodigious research effort of private consumers. The monitoring process in place for government supply could not possibly match the efficiency generating aspects of the consumer research process in market systems. Government may then be characterized as a place where "consumer failure" is rampant since, in comparison to the private market, the supply of consumer-voter research is deficient by market standards.[8]

## 7. Implications of "Consumer Failure"

Our model of the consumer-voter under divorce leads us to the concept of "consumer failure", whereby consumer-voters of non-germane programs are rationally ignorant and therefore perform little consumer research even though they co-finance such programs, and this allows sizable transfers to take place. Users become rational advocates, and at the same time, are "poor" shoppers since they ignore per-unit prices and have little interest in seeking and minimizing per-unit costs. Neither users nor non-users can egress and, in effect, take their money and run. In this sense, the consumer failure we have uncovered in public supply is like a commons problem.

The notion of rational advocacy is consistent with Buchanan's (1967) argument that, under our fiscal process, demanders choose quantities consistent with maximum total benefits, unconstrained by costs—i.e., they consume until marginal benefits are zero. Buchanan (1967: 91) predicted that this fiscal process fosters public discussion dominated by the "needs" for various programs when he argued: "Almost universally, these 'needs' are measured or estimated independently of costs." Extending the analysis to deficit-spending, Buchanan argued that decisions are made in a budgetary world where there are really two separate, and unrelated, choices: spending and taxation. Spending yields benefits that are maximized when marginal benefits are driven to zero and taxation yields costs, which are

minimized by voters. This separation creates a tendency toward deficit-finance, or the choice to spend more than tax.

In a similar vein, Richard Wagner (1992: 114) refers to a fiscal process where choice is divorced from liability, taxes or public debt, as one of "fiscal irresponsibility" that creates a "commons" institutional setting. Wagner also argues that tax and debt policies of local governments are constrained to the extent that property owners bear burdens of funded programs. This mirrors private property budgeting in the sense that liabilities show up in property values and leads to incentives for property owners to connect taxing with spending. A similar connection, however, is argued to be mostly absent in state and federal decisions.

## 8. The Constitutional Perspective

Our paper argues that the "linchpin" underlying the political *status quo* is a fiscal process where payment is divorced from use. Voters have incentives to demand tax relief at the same time they demand higher spending on programs that they directly benefit from. To change this *status quo*, the divorce must go through a successful reconciliation, or, for that matter, successful marriage counseling that brings *payment and use closer together*.

How do we get there from here? One approach follows the Marlow and Orzechowski (1988) and Orzechowski (1991) argument that political viability requires that tax reduction take place in a policy setting of *quid pro quo*. That is, in order to make voters accept spending reduction, they must be offered tax reduction in return. Under current fiscal processes, this exchange is problematic since, from the perspective of individual taxpayers, spending reduction has never been tied to equal tax relief. The current fiscal process simply does not require that voters engage in an exchange whereby they must give up benefits in return for lower tax assignments. How does one get decisive voters to approve such fundamental change in the fiscal process that ultimately lowers their welfare? Moreover, could this be approved through a current political system whereby decisive voter(s) and special interests have little to gain, but much to lose, from a new fiscal process that will likely lower their well-being? This point has been made before when Milton Friedman and Rose Friedman (1983) argued that it is the tyranny of the *status quo* that resists changes in public policy. An interesting side issue is whether the public would ever believe claims of a real *quid pro quo* when they have never had an incentive to think in terms of a marriage between use and payment. Historical norms of the fiscal process have a way of closing our minds to various alternative processes.[9]

Another approach separates tax payments into several partitions: payments for defense, education, highways, transfers, etc. In other words, on April 15, each taxpayer must send five separate checks to five separate government agencies. This argument appears in Tullock (1989: 87),

> We can easily imagine this situation under present circumstances. Taxes could be allocated to individual bureaus, with the very large tax sources being broken up. The Department of Defense, to take an example at random, might receive 75

> percent of the personal income taxes, or possibly all of the income taxes collected from people whose income is in the top fifth of the distribution pyramid.

This is far removed from the private sector where consumers may send several hundred or more payments to suppliers, or via credit card companies, but it may promote greater connection between taxes paid and benefits received. One would then be better able to view defense or welfare spending programs as "bargains" or "extortions." This proposal is nothing new, as we have previously mentioned Wicksell's (1896) proposal that voters choose spending programs that are tied to their financing. This approach, however, suffers from the same *status quo* problems as the *quid pro quo* proposition: why would decisive voter(s) or special interests ever approve such changes? Would, for instance, Social Security recipients prefer a fiscal process that places their program under greater public scrutiny?

Yet, this approach has great attractions. As Tullock (1989: 87) notes,

> This would mean that individual bureaucracies and the rent seeking groups would, in essence, be put in a position where their success would depend on dealing with somewhat similar sized opposing groups. . . . The objective would be to set lobbyists and special interest groups against each other.

Under such a fiscal process, spending and tax changes would be better viewed as a zero-sum game, with it being clearer who are winners and losers. It would likely make it much clearer who receives positive transfers, and who receives negative transfers and, in this sense, may offer a second-best solution to marrying benefits and taxation. This fiscal process removes some of the camouflage surrounding the transfers that arise from the old fiscal process. It is an interesting question as to whether such knowledge would change incentives to vote, and therefore change the location of the median voter, or dominant special interest group(s).

Our paper describes the crucial importance of designing an appropriate fiscal constitution in the first place. Today's government programs are a product of the divorce and this fiscal process predictably leads to programs that would not be chosen under a fiscal process that marries payment with use. We have outlined implications of this divorce and have compared this fiscal process with that of the private market where payment and use are married. While, it is unclear how to alter the present fiscal process from the viewpoint of political viability, it does appear that we should stop using the private market analogy as a device for understanding public choices, as this analogy contributes little understanding to the connection between costs and benefits perceived by voter-consumers. But, the private market analogy remains an appropriate framework for redesigning the fiscal constitution, and for those interested in changing the *status quo*, since it provides a framework for predicting how various changes that bring payment and use closer together may influence our future public choices.

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## Notes

1. While the common perception among public choice scholars is that Wicksell's contribution lies mainly in his advocacy of the rule of unanimity, Wagner (1988) explains that Wicksell also provided the practical means of applying the rule of unanimity, with the coupling of spending and tax choices, to the constitution of Sweden's fiscal process. The old Swedish constitution used to have a provision that allowed farmers to reject any new taxes, and although they did not normally have representation in the Parliament, the fiscal process effectively tied spending programs with their financing. Wicksell believed that this historical tradition provided the necessary key for effectively putting his proposal into practice, since its previous position in the constitution opened the door for its re-introduction into a revised constitution.
2. See Buchanan (1963) for the seminal article on earmarking. Goetz (1968) examines earmarking within majority-rule voting rules. See Wagner (1991) for twelve papers that focus on the economics of earmarking and user charges.
3. See Perez and Snell (1995). While the average for state governments is roughly 25 percent, it ranges from four percent in Kentucky to 87 percent in Alabama. Perhaps, because of the divorce between so-called earmarked taxes and benefits received by earmarked-taxpayers, the practice of earmarking appears to have little influence on state expenditures.
4. See Buchanan (1967) and Tullock (1989) for the rather fuzzy linkages between taxes and the public's perception of public-sector output. The same dichotomy exists in the halls of the federal government since revenue and spending committees are separated and neither has to concur with the other.
5. The starting point in the literature is Bowen (1943). The median voter model is also applicable to a committee procedure in which three individuals act as representatives of a larger population of voters; see Black (1958).
6. Marlow (1992) discusses how voice and exit options influence the role that voters-consumers may play in controlling policymakers.
7. Hettich and Winer (1984), Hunter and Nelson (1989), and Frohlich and Oppenheimer (1990) are part of an emerging literature that argues that tax burdens are mostly placed on voters who have little political or economic clout.
8. Critics, at this point, may point out that policymakers may arise to take up the slack by making informed decisions about government spending. This view, however, requires that policymakers have two characteristics. First, they must be able to know what spending should take place, which requires that they have adequate knowledge of the demands of millions of citizens. Of course, these critics may also question whether private consumers make informed judgments—in either the private or public sectors—and may be happy to assert paternalistic policies that over-ride the demands of less-informed voter-consumers. Second, they must not only receive the appropriate signals from voter-consumers, they must somehow provide policies that are consistent with those signals. But, the public choice literature offers rich evidence suggesting that policymaker-actions are partly influenced by their own narrow self-interests.
9. Moreover, the few times during the 1980s when politicians in the United States promised spending reduction in direct exchange for tax hikes, spending reductions never materialized. Although this promise offered pain (spending reduction) coupled with more pain (higher taxes), it is interesting that this promised marriage never materialized.

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