Grazing the Budgetary Commons:

The Elusive Quest for Fiscal Responsibility

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While living within a budget can be difficult, most people manage to do it most of the time. Even elected legislators do this with their personal accounts; however, they typically fail to do so in their legislative activities. The budgets that legislators create seem often to be a mess even though their personal accounts are fine. As a formal matter, budgeting is the same whether it is done by a single person or a group of people. It is a simple arithmetical matter to keep revenues and expenditures more or less in balance, even if doing so might not be pleasant, perhaps because, among other things, it might entail some accumulation of reserves that otherwise could be spent on any number of desired objects. In politics, however, balance now seems nearly impossible to achieve, as expenditures almost invariably exceed revenues. While much attention was given to the sense of crisis within the EU during the spring and summer of 2010 in the presence of Greece’s budget deficit that exceeded ten percent of GDP, the current American deficit is even larger.

Politics, of course, involves groups of people and not individuals. Group budgeting requires the additional step of securing some degree of agreement among the participants which is not necessary for individual budgeting. This group context, however, can’t account for the difference in budgetary outcomes because people generally do a good job in budgeting for a variety of clubs, churches, and other group activities. There would seem to be nothing about participation in group activity per se that creates intractable budgetary problems.
There must be something peculiar to democratic politics that tends to promote budgetary irresponsibility. This book explores this difference with particular reference to the American context. In short, it locates that irresponsibility not in budgetary technology but in the institutional framework that governs political-economic interaction.

While this book is about budgeting, it treats budgeting from within a theory of political economy of interaction among political and economic entities. My use of the plural form of entity is deliberate. I do not treat market as a single entity on which government acts. Nor do I treat government as a single entity. To the contrary, I treat both market and government as referring to multiple entities that comprise a complex ecology of interactions that entail both cooperation and conflict. Hence there are political entities that treat some market entities as allies while treating other market entities antagonistically. Moreover, individual political entities have antagonistic relations with many other political entities. To understand budgeting, is it necessary to recognize first of all that budgeting and its practices are not independent of politics but rather reflect the interplay of politically expressed interests. It is also necessary to recognize that the object that is addressed by a theory of political economy is not some simple object that rests in placid equilibrium until disturbed by exogenous shocks. Rather it is a continually evolving object whose features are continually being fashioned through competitive processes that can only be reasonably described as turbulent and certainly not as placid.
Chapter 1 reviews some of the continuing and unsuccessful efforts to secure fiscal responsibility in the US over the past half-century. There are, of course, different ways of conceptualizing fiscal responsibility, and these different ways are examined because not all of them hold that continuing deficits and expanding debt are signs of fiscal irresponsibility. The budget reforms that have been enacted in recent years have always been presented as improvements and yet the problems they were designed to correct persist. This persistence suggests that what we observe is not some broken process that participants are seeking genuinely to fix but is a process that is pretty much working as we should expect it to work under present institutional arrangements that constitute the process of political-economic interaction.

To understand why present institutional arrangements might promote a continuing parade of crises requires a reasonable theory of political economy. That theory cannot be grounded in such familiar constructs as systemic equilibrium and median-voter optimization, both of which effectively convert a society into a parade. Chapter 2 sketches an alternative theory of political economy grounded in emergent interaction among entangled political and economic entities. Within this theory, a society and its enterprises resembles a jumble of pedestrians rushing through a piazza, in contrast to the image of the placid parade that dominates standard political economy.

Chapter 3 explores the analytical construction of an entangled political economy which replaces the orthodox distinction between markets and polities as distinct spheres of activity with one of commingling among activities and
entities. This analytical move brings politics and budgetary processes within the ambit of common property and management of the fiscal commons, which in turn brings the tragedy of the commons into play. How fully this tragedy comes into play depends on the institutional framework within which the fiscal commons is established and governed. Polity and economy are both constituted through multiple entities that engage in interactions that involve both cooperative and competitive relationships. This treatment brings to mind Jane Jacobs’s treatment of commercial and guardian syndromes, and what she described as monstrous hybrids, in her *Systems of Survival*.

Chapter 4 explores democratic legislatures as peculiar forms of investment banks that operate within an evolving ecology of enterprises as against operating on some equilibrated economy. Legislatures are a form of intermediary that brings together people who are seeking support for enterprises they are sponsoring and people who have the means to provide such support, even if many of them would rather not supply such support. The budgetary process can thus be assimilated to a particular instance of a market bazaar, one that bears a peculiar relationship to the shops that operate in ordinary market bazaars.

Chapter 5 recognizes that budgeting supervenes on some political framework and does not exist independently of that framework. Recognition of this relationship of supervenience counsels one to be skeptical about budgetary reform without complementary political reform. Budgetary outcomes reflect tendencies and pressures within a system of political-economic relationships, so
budgetary reforms that don’t address those systemic tendencies will induce various actions to evade what on surface examination those reforms would seem to require. For instance, most American states presently operate both with budget deficits and with requirements that their budgets must be either in balance or in surplus.

Chapter 6 explains how budget deficits illustrate the operation of tectonic politics and parasitical political pricing. The arithmetic of Ricardian equivalence is not denied by this treatment, but rather is shown to be irrelevant to the explanation of actual budgetary conduct as against providing a condition under which such conduct occurs. What accounts for that irrelevance is a bi-planar model of political economy: there is a micro level where actions are taken and interactions unfold and there is a macro level which is populated by statistics that in various ways might inform subsequent actions. The key point, however, is that those macro-level variables never act directly upon one another, for they are always but traces of micro-level actions and interactions. What results from this formulation is the continual generation of macro-level turbulence as an emergent property of parasitical political pricing and the tectonic politics that arises from such pricing.

Where budgeting deals with taxing and spending, and with borrowing being deferred taxation and with inflation being the taxation of money balances, regulation is also an instrument of public finance even if it customarily is not treated in this manner. The simple fact is that nearly everything that can be accomplished through budgetary operations can also be accomplished through
regulations. Chapter 7 explores the relation between regulation and budgeting within a framework of tectonic politics. Theories of politics grounded in median voter notions operate with a subtext that treats politics as smooth and concordant. The alternative explored here treats societies as encasing multiple systems of relationships rather than a single, concordant system. Similar to plate tectonics in geology, there are areas of turbulence where plates collide, and with the collisions arising at points where discontinuities are injected into society through political processes. For instance, the increasing frequency of financial crises and related events are more often products of democratic policy than they are objects at which policy is aimed in an effort to control turbulence that is exogenous to the political process. Furthermore, the ability to substitute regulations for budgets renders problematic any effort to control budgets independently of efforts to control politics.

Chapter 8 shifts to an expressly normative orientation. It explores principles of a political and fiscal constitution for a free republic based upon a constitution of liberty. Such a constitution necessarily involves several dynamic tensions. While there is a basic default presumption in favor of individual liberty, along with the associated responsibilities that such liberty entails, there is also recognition that flourishing is a social and not an individual quality. In any case, this book seeks to contribute to what might be called a public finance of liberty, in contrast to most treatments of public finance that are contributions to a public finance of control.
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