Enhancing Efficiency of Government Budget and Fiscal Policy

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ABSTRACT

When one thinks of efficiency in connection with government budget and fiscal policy, the first thought is usually how to find ways to make the budget and fiscal process work more efficiently. How can the funds needed to pay for government be collected and disbursed with minimum cost? A corollary to this mindset is that taxpayers are entitled to have their public servants spend their tax dollars, yen, won or euros wisely and efficiently. There is some validity to this viewpoint, since it seems irrational to advocate less efficiency rather than more.

However, there are two sides to this coin. Those who think efficiency should be the goal are thinking like a businessman. Businesses should be run efficiently and so should governments, according to this mindset. But there are other ways to view this issue. It should be kept in mind that government has no resources of its own. Whatever resources it has, it must first take from someone. That being the case, is it really a good idea to try to find ways to make it easier for government to take assets from private individuals and businesses?

This article explores this question from both perspectives. It begins by looking at the methods that have been found over the years to make the budget and fiscal process work more efficiently. It then looks at the other side of the issue and discusses instances when less efficiency might be better.

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INTRODUCTION

The usual way to look at efficiency in connection with government budget and fiscal policy is that more is better. It is better to be efficient than inefficient and the goal should be to find ways to improve efficiency with each passing year. That is the mindset of businessmen and it is a good way to look at things – if you are running a business. But government is not quite like a business. Businesses provide goods and services that consumers want. If they don't do a good job of it, they go bankrupt. Consumers have choices and they vote with their dollars, Euros or won to purchase goods and services of whoever will give them the quality they want at the lowest price.

But government does not run that way. Governments, although they can become temporarily bankrupt, never go away if they provide services that no one wants. If anything, such governments just raise taxes to cover their cost of operations. Government is more like a monopoly than a competitive business. Although there is some competition between governments, the basic structure of government is monopoly. Taxpayers have little choice but to pay for the services of whatever government they live under. If particular taxpayers do not like the services their government provides, the most they can do is move to another jurisdiction. If they cannot or will not move, they must be content with the services of the government they have. They cannot hire a different government that provides better services.

THE CASE FOR EFFICIENCY

Since governments possess most of the attributes of monopoly – lack of competition, higher cost and lower quality than would exist under competitive conditions – one of the few options that government bureaucrats and policy makers have is to try to make their government work more efficiently. Several techniques have been tried in the past, some more successful than others. The next few pages will explore some of these options.

Efficiency in government can be classified into several categories. On the budget side, governments can find ways to spend money more efficiently. From the perspective of political philosophy, the threshold question to ask is – What should government do? We will not address that question in this paper, since it would take us too far afield of the main topic, which is efficiency in budget and fiscal policy. But it is an important question to ask, because one must determine which services governments should provide before determining the size and content of the budget. Once the proper functions of government have been decided, the next step is to determine the best and least expensive way to provide those services.

The other way to look at efficiency is to examine fiscal policy with the goal of making the collection of taxes more efficient. Some taxes have historically proven to be more efficient than others. Some taxes are easier to collect than others. Some taxes result in less distortion to the economy than others. Some taxes have proven to be counterproductive. Governments should examine their fiscal policy, taking these factors into account. There is no need to continue to make the mistakes that governments in the past have made in this regard. Past experience should be the guide when it comes to formulating fiscal policy. Unfortunately, many governments continue to make the same mistakes because they fail to learn from the mistakes of the past.

To summarize, there are two basic avenues that can be taken to increase efficiency in budget and fiscal policy, the spending side and the revenue-raising side. These two approaches are not mutually exclusive. They can be, and should be used in tandem. Both are important.

THE PRIVATIZATION OPTION

Once it has been decided which services government should provide, the next step is to determine how those services should be provided. When making this decision, it is important not to fall prey to perhaps the most popular *non sequitur* of all – something needs to be done, therefore the government needs to do it. Just because it appears that something needs to be done, it does not follow logically that government should do it. There are at least four options from which to choose when it has been determined that there is a need for some service. Government provision of the service is only one option. Another option is to have the function performed by the private, profit-making sector. The third option is to have the nonprofit sector do it. The last option is to do nothing at all. This option may not seem like a very desirable option, but it is an option nonetheless. Not everything that needs to be done should be done. Since the amount of resources available is insufficient to allocate to meet all the needs of every individual and group, some things that need to be done must remain undone.

The point is that government is not the only solution. However, once it is decided that government involvement is necessary in a particular case, it does not follow that some government must actually provide the service. Government can hire someone in the private sector – either profit or nonprofit – to perform the task.

The evidence is clear that the private sector can provide just about any service more efficiently and at a lower cost than government. One reason for this structural advantage is because of the profit motive. If a business does not cut costs ruthlessly and focus its attention on consumer wants, it will soon go out of business. Governments do not work under those constraints. If some government does not provide quality service at a reasonable price, there is nowhere its constituents can go. There is no alternative service provider because government, practically by definition, is a monopolist. Where there is little or no incentive to increase quality or reduce cost, quality will tend not to be improved and costs will tend not to be reduced.

There are ample real world examples to prove this point. The collapse of the Soviet Union in the late 1980s is partly attributable to the massive misallocation of resources that necessarily results when there is no price system to make allocations efficient. Ludwig von Mises (1881-1973), an Austrian economist, predicted as far back as the 1920s that the Soviet Union would collapse because of this inefficiency (1923, 1928, 1935).

But the collapse of the Soviet Union is not the only example that could be given to illustrate what can happen when budget allocations are not made efficiently. The privatization movement, which started in the 1970s in the UK and the USA, provides hundreds, if not thousands of examples to illustrate the benefits of privatization, if it is done transparently without collusion. The Privatization Center [www.rppi.org/privatization/index.shtml and www.privatization.org] has a rich trove of publications to document how costs can be cut for practically any services provided by government.

By hiring private sector firms to perform tasks that would otherwise be provided by government it is possible to inject competition and the profit motive into areas where this incentive structure would otherwise be absent. Hiring private firms to provide government services allows the price system to operate to allocate resources in the most efficient manner. In the absence of the price system it is impossible to rationally and efficiently allocate resources. Thus, it is necessary to find a way to create an environment in which the price system can be allowed to function. Privatization does exactly that.

One of the classic books on privatization was written by Bennett and Johnson (1981). Their book, titled *Better Government at Half the Price: Private Production of Public Services*, documents hundreds of cases where government services can be provided by the private sector at greatly reduced cost, often with remarkable increases in efficiency as well. Robert Poole (1980) and Randall Fitzgerald (1988) have also written classic books on the topic of privatization. Here are some examples of the cost and efficiency savings that can be had if government hires private sector firms to perform a service rather than allowing government employees to do it.

Table 1
Cost Reductions and Efficiency Increases as a Result of Privatization

Service Provided	Cost Saving
Asphalt overlay construction (Goodman)	96%
Grass maintenance (Goodman)	40%
Janitorial services (Goodman)	73%
Municipal solid waste disposal (Savas)	61-71%
Prison administration (Segal)	69%
Refuse collection (Goodman)	42%
School food services (Segal)	28%
Street cleaning – 121 cities in Los Angeles county (Goodman)	43%
Street maintenance (Goodman)	37%
Traffic signal maintenance (Goodman)	56%
Waste collection (Stevens)	22-30%
Waste water treatment (Segal)	35%

It takes 68 percent more federal government employees to remove 21 percent as much railroad track as private sector employees over the same period of time and under similar conditions (Fitzgerald). The U.S. Department of Defense has achieved cost savings through outsourcing tasks that were formerly performed by government employees. Table 2 summarizes cost savings in selected areas.

Table 2
Selected Cost Savings from Outsourcing
U.S. Department of Defense

Service Provided	Cost Savings
Supply / logistics	15-38%
Housing maintenance	17-42%
Visual information services	61%
Base operations support	42-46%
Aircraft maintenance	42-66%
Vehicle ops and maintenance	48%

Source: Segal.

Quality also tends to improve when government tasks are turned over to the private sector. In the case of emergency medical and fire services, for example, private providers react faster and are better equipped. Such increased efficiencies save lives.

Some defense functions have been privatized. Some of the governmental functions that have been successfully privatized include:

Airplane maintenance

Bill collection

City management

Criminal justice

Data processing

Day care

Delivery services

Education

Electricity

Emergency ambulance service

Fire protection

Garbage and solid waste

Groundskeeping

Health care

Leisure and recreational services

Mental health services

Payroll accounting

Pension management

Police

Prisons

Public works

Road construction and maintenance

Sewage treatment

Ship maintenance

Social security

Social services

Toll collection

Transit systems

Weather forecasting

PRIVATIZING SOCIAL SECURITY

Social security is an excellent example of a governmental function that can benefit by being privatized. Many governments in developed countries as well as countries in Eastern Europe and the former Soviet Union are facing a crisis in their government pension system. The birth rate has declined, so fewer people are putting money into the social security system. Medical advances have made it possible for people to live longer, which places a further strain on the system, since people will be drawing money out of the system for more years. Also, in some countries, people have been retiring earlier. As a result, fewer people are putting money into the system and more people are taking money out of the system for a longer period of time. This phenomenon has been described as a demographic nightmare (Ferrara and Tanner 1998: 129).

Numerous studies have discussed the benefits of privatizing social security (Aaron et al., 1989; Crane 1997; Ferrara 1980, 1985; Ferrara and Tanner, 1998a). Rather than paying into some government's dubious trust fund (not all governments have a trust fund set up for social security. Some use a pay-as-you-go method), workers would pay into a private investment trust that they would actually be able to claim as property when they retire. Since it is their property, their heirs would be able to inherit.

Such is not the case with social security in the United States and in many other countries. When someone dies, there is no asset to inherit. Payments stop when the recipient is no longer living. Thus, one of the benefits of a privatized system is that a massive pool of funds would accumulate. This fund would be available for investment, thus leading to a stock market boom. Interest rates would drop, making it easier to finance a home. Those who placed money into the system for a number of years would be able to retire as millionaires (Tanner, 1996a). According to Martin Feldstein of Harvard University, "the combination of the improved labor market incentives and the higher real return on savings has a net present value gain of more than $15 trillion, an amount equivalent to 3 percent for each future year's GDP forever." (cited in Tanner, 1979).

Rather than being mere transfer payments, as they are today, a privatized system would result in a ready pool of wealth that people can draw on when they retire. Monthly retirement checks could be two or three times more than what would be paid under a governmentally run system. Such a reform would be of special benefit to the poor, since poor people receive a higher percentage of their total income from social security than do middle class and rich people (Gokhale 2001; Tanner 1996).

Women would stand to benefit disproportionately from social security privatization. Under present U.S. rules, benefits are cut by as much as half when the spouse (usually the husband) dies. One study found that this partial cut-off throws one widow out of five into poverty (Shirley and Spiegler, 1998). This would change under a privatized system, since the widow would retain the assets that were placed into the fund.

Some countries have started to privatize their social security systems, with some success. As the pool of capital builds, it is invested in projects, leading to economic growth. Poor countries that previously could not attract sufficient foreign capital are now exporting capital to other countries. The prospects for continued capital growth and the expansion of employment and a higher standard of living are very real prospects.

Chile was the first country to privatize its social security system, in 1981. Ninety-five percent of all workers are now covered under the private system (Pinera, 1996). The compound annual rate of return has been more than 11 percent (Rodriguez 1999). Pension benefits in the private system are now 50 to 100 percent higher, adjusted for inflation, than they were in the state-run system. Chile's growth rate jumped from its historic 3 percent annual rate to a rate that has averaged 7 percent over the 12 years prior to the Rodriguez study. The savings rate jumped to 25 percent of GDP and the unemployment rate dropped to about 5 percent (Pinera, 1998). Argentina, Peru, Colombia, Bolivia, Mexico and El Salvador have also privatized their social security systems (Ferrara, 1997).

The Cato Institute [www.cato.org] has published a number of studies that investigate various aspects of social security privatization in the United States and other countries. It has a Social Security Benefit Calculator on its website. Table 3 compares the benefits that would be received under a private system to the benefits projected to be received under the present government system. The results are eye-opening.

Table 3
Comparison of Social Security Benefits
Private System vs. Government System
in the United States

		Estimated Annual Benefits			Estimated Asset Accumulation	
Recipient	Annual Salary $	Private System $	Govt. System $	Ratio of Pvt/Govt System	Private System $	Govt. System $
Male, age 25	35,000	52,236	19,794	2.64	548,546	0
Female, age 25	35,000	50,021	19,794	2.53	600,746	0
Male, age 25	40,000	59,011	21,816	2.70	619,694	0
Female, age 25	40,000	56,389	21,816	2.58	677,229	0
Male, age 25	60,000	83,596	26,963	3.10	877,872	0
Female, age 25	60,000	79,015	26,963	2.93	948,979	0
Male, age 25	100,000	116,320	32,182	3.61	1,221,518	0
Female, age 25	100,000	108,775	32,182	3.38	1,306,388	0

Source: www.socialsecurity.org

Table 3 makes a number of assumptions. Retirement age is assumed to be 67, which is the projected retirement age for most people presently paying into the U.S. government plan. Dollar amounts are in constant 2004 dollars.

Contributions into the private plan are estimated to be 6.2 percent of earnings, up to the Social Security limit, which changes every year. Under present rules, employees and employers each pay more than 7 percent of salary into the social security system. Thus, the private plan would be less costly, since less than half as much money is put into the private plan (6.2% vs. 14+%). Additional assumptions are explained by Tanner (2004).

Women in the United States live an average of 7 years longer than men. This difference is reflected in the privatized system but not in the government system. For example, a male who starts contributing into the private or government social security system at age 25 and who earns $35,000 a year, with annual cost of living increases can expect to receive $19,794 under the government program or $52,236 under a privatized system. In other words, the private system will pay $2.64 for every $1 paid by the government program. A woman who is the same age and who earns the same salary can expect to receive the same $19,794 annually under the government system. Also, and what the figures in Table 3 do not show, is that she will receive this amount for 7 years longer than the male, which means she will receive an additional $138,558 over her lifetime. Under a privatized plan she would receive $50,021 a year for the rest of her life, which means she would receive

$2,215 less per year than her male counterpart, but she would be receiving her $50,021 for an additional 7 years, which amounts to an extra $350,147.

Another point to be made is the difference in asset accumulation that would occur in a privatized system. Under the government system, no assets would accumulate, so if a worker dies before retirement, the heirs get nothing, whereas under a privatized system, the heirs of the male worker discussed above would receive $548,548. The heirs of the female worker discussed above would receive $600,746.

These numbers jump dramatically for individuals who start putting money into the system at an earlier age or who earn more than the $35,000 given in the first case. For example, if the annual salary were $40,000, a male retiring at age 67 would receive $59,011 annually under a privatized system, compared to $21,816 under the government system, or $2.70 under the private system for each $1 under the government system. A female would receive the same $21,816 under the government system, compared to $56,389 under a privatized system. So she would receive $2622 a year less than her male counterpart, but she would receive the $56,389 for an average of 7 years longer than a male, or an extra $394,723. Thus, it can be concluded that a privatized system would benefit both males and females, but would benefit females more than men, since females would receive more in total benefits.

As can be seen from Table 3, it is quite possible that employees can retire as millionaires under the private system. A male who starts contributing into the private system at age 25 and who earns $70,000 can expect to retire at 67 with $1,000,893 in asset accumulation. A female who earns the same amount can expect her assets to be worth $1,077, 002 at retirement.

The big question is how do we get from here (the present system) to there (a private system)? What would happen to those who now (or soon to be) on the system if the system went private? Various proposals have been made. For example, young people could elect to set aside a portion of their present social security payments in a private fund and the remainder of their social security taxes could continue to be used by those presently (or soon to be) drawing benefits. That way, those presently (or soon to be) drawing benefits would continue to do so.

One rather alarming proposal would be for the government to invest the funds in the capital markets. If this were done, the government would become the largest shareholder in most American businesses, and would be able to influence corporate policy. In all likelihood, corporate decisions would be made for political rather than economic reasons (Ostaszewski 1997). Perhaps there would be restrictions on the types of company that the funds could be invested in. Such a possibility is not far-fetched, judging from what has taken place in the state public employee pension funds (Tanner, 1996b). Of course one could also point out that if the government were the largest shareholder in all or most American corporations, it would, in effect, own or at least control the means of production, which means the American economy would become socialist, an economic system that has proven to be structurally inferior to the market system.

One problem with partial privatization is that young workers would still be forced to pay for other peoples' benefits. Thus, it is unfair to young workers who have to pay into a system that they cannot draw from. Another solution that has been proposed is to sell federal land and use the proceeds to fully fund the present system. The federal government owns more than 50 percent of some western states, and owns substantial assets in every state. If these assets were sold, some estimates conclude that there would be enough money to fully fund the system for those who are presently on the system and for those who will retire within a few years.

THE CASE AGAINST EFFICIENCY

> "…government has proved incompetent at solving social problems. Virtually every success we have scored has been achieved by nonprofits." (Drucker)

The evidence that the private sector can perform many functions better and cheaper than government is overwhelming. Thus, it does not make sense, from an economic point of view, to allow government to do much of anything directly. It is almost always better to have the service performed by the private sector. If government involvement is deemed to be necessary, for some reason, the more efficient approach is for the service to be contracted out to the private sector and paid for by government. One cannot make a case against efficiency if one is discussing the spending side of government.

However, a case can be made for creating inefficiencies on the tax collection side of government. As was previously mentioned, government has no resources of its own. Whatever resources it has it must first take from someone in the private sector. Since the private sector has proven to be more efficient than the government sector, the more resources that are shifted from the private sector to the government sector, the more overall welfare declines.

If one is interested in increasing total utility, the way to go about achieving the goal is not to give government more resources but rather to give it less.

Governments have a tendency to expand over time. If one looks at the relative and absolute size of most governments today and compares them to the relative and absolute size they had a few decades ago, one would find that government has increased in size, regardless of the measurement technique used. One study points out that government spending in the United States relative to Gross National Product (GNP) has risen from 10 percent during World War I to nearly 40 percent during the 1990s. At the federal level, the government went from taking $1 out of every $12 earned in 1890 to $1 out of every $3 earned in 1990 (Perry).

If the transfer of resources from the more productive private sector to the less efficient government sector is to be minimized, methods must be found to make the transfers more difficult. Several techniques have been advocated over the years.

One approach that has been advocated is to require the government to balance its budget. This approach would prohibit government from borrowing money for current spending. The problem with this proposal is that it does not guarantee that government expenditures will be restrained. There are two ways to balance the budget. One may either reduce spending or increase taxes. Having a balanced budget requirement without a rule that would make it difficult to increase taxes would not be a very effective restraint on government spending.

The argument could be made that balancing the budget over the business cycle would be better than balancing it annually, the reasoning being that fiscal policy should be used as a tool to stimulate economic growth. Keynes (1936) and various Keynesians (Hansen 1953) and post-Keynesians have advocated this approach. There are several problems with this view. For one, fiscal policy has been historically ineffective, at best, and counterproductive at worst in smoothing out the business cycle.

It takes the legislature many months to agree that spending should be increased or decreased and many more months before their decision has any effect on the economy. By the time the new government spending pattern injects itself into the economy, the economy is in a different phase of the business cycle. If the legislature starts debating how spending should be increased to stimulate a weak economy, for example, it will take several months to agree on the specifics and another several months before the increased spending has the desired effect. By the time the new spending permeates the economy, it could be out of the recession and moving toward a boom. Having government artificially stimulate spending could cause the boom to expand even further, which causes the business cycle to fluctuate more than would be the case if the government did nothing.

Another problem with using fiscal policy as a tool to smooth out the business cycle is that much, if not all of the additional spending is little more than a shifting of existing spending rather than the creation of new spending. If government obtains the extra money by borrowing, it shifts funds from the private sector to the public sector. The gross quantity of funds remains the same. If the government prints money to finance the boom, the increase in the quantity of money dilutes the purchasing power of the money that is in the private sector at the same time it is pumping money into increased government spending. The total value of goods and services remains about the same, so spending is merely shifted, not increased, in terms of purchasing power. If government finances its additional spending by raising taxes, it merely takes money out of private hands and puts it into public hands. The total amount of money in circulation remains the same. There is merely redistribution from the more efficient private sector to the less efficient government sector. Hazlitt (1959, 1960), Hutt (1963) and Terborgh (1968), among others have pointed this out. Yet the perception persists that government stimulation of the economy can smooth out the business cycle.

Of course, one may point out that the whole argument about balancing the budget over the business cycle is a mere theoretical argument anyway, since governments the world over have been unable to balance their budgets. Almost all governments at the national level run continuous budget deficits every year, whether the economy is in a recession or a boom. Government officials seem incapable of balancing their budgets in the absence of constitutional constraints. The fact that most state governments in the United States are able to balance their budgets every year is mostly because their state constitutions have provisions that require a balanced budget. Without such a constitutional rule the legislature is usually incapable of exercising the needed restraint to achieve a balanced budget.

Requiring a balanced budget, coupled with rules that make it more difficult to increase taxes, would be a more effective way to prevent resources from being shifted from the more efficient private sector to the less efficient government sector. One way to make it difficult to raise taxes would be to require more than a simple majority of the legislature to vote in favor of any tax increase. If a 2/3rds or 3/4th requirement were needed to increase taxes it would be more difficult to increase taxes then if a simple majority vote were all that was needed. Having such a supermajority requirement has proven to be somewhat effective in the U.S. states that have adopted this rule.

The evidence is clear that having a supermajority requirement decreases the rate of government growth. Between 1980 and 1996, the state tax burden as a percentage of personal income rose five times as fast in states that did not have a supermajority requirement than in states that did have such a requirement. Between 1990 and early 1998 the top tax rate increased in ten states. In all ten states where the top rate was raised, there was no supermajority requirement. During this same time period, the top tax rate was reduced in three of the 13 states that do have a supermajority requirement (Stansel 1998).

In Arizona, taxes had been raised eight times in the nine years before its supermajority requirement was enacted into law in 1992. Between then and early 1998, Arizona reduced taxes five years in a row (Stansel 1998).

The rate of government growth at the federal level would also likely be reduced if a supermajority requirement were in place. Four out of five federal tax increases would not have passed if a two-thirds vote were needed for passage (Perry, n.d.). The four largest tax increases between 1980 and 1998

[1982, 1983, 1990 and 1993] would not have passed if the two-thirds supermajority requirement would have been in place (Cato 1999).

The argument has been made that occasional tax increases are necessary to reduce the deficit. But a closer analysis shows that such is not the case. The history of the last few decades is that when Congress increases taxes, it increased spending by even more. In recent years, Congress has increased spending by $1.59 for each $1 increase in taxes (Perry, n.d.). The evidence is clear that the way to balance the budget or reduce the deficit is to reduce spending, not increase taxes.

Another technique that could be used to restrain government’s taxing tendencies would be to make taxes more visible. If taxpayers can see what they are actually paying for government services, they will be more sensitive to having a portion of their income taken from them. One way to make taxpayers more aware of the cost of government would be to abolish the rule that allows employers to withhold a portion of an employee’s salary for taxes. Many jurisdictions require employers to withhold a portion of an employee’s salary from the paycheck. Such a policy is good, from a government’s perspective, because it makes it easier to collect larger sums of money than would otherwise be the case. It is an efficient way to collect taxes.

However, efficiency may not be a good thing if increased efficiency in collecting taxes results in making it easier to transfer resources from the more efficient private sector to the less efficient government sector. If taxpayers had to write out a check to the government every month instead of having a portion of their income taken from them before they get to see it and touch it, people would have a better feel for what government costs. It would cause them to think harder about how much government really costs and whether they want to continue to maintain that level of government spending (Schmidt 2002).

A similar technique would be to replace the value added tax (VAT) with a retail consumption tax. One criticism that has been made of the VAT is that it can be administratively burdensome. The tax is assessed at each level of production, subject to tax credits (OECD 1988). In some jurisdictions, where the VAT is complicated, it has been jokingly referred to as an accountant's full employment act because it takes so many accountants to administer it. One advantage of replacing the VAT with a retail consumption tax is that it would only need to be collected once, at the end of the process. Another advantage is that the full cost of the tax would become more visible.

One criticism of the VAT is that the people who ultimately pay it cannot always see that they are paying it. It is included in the cost of whatever product they are buying, in many cases. With a retail consumption tax, consumers are better able to see how much the tax is, especially if the tax is added on to the price at the cash register rather than hidden in the price tag. This technique would make the tax more visible, and thus would increase resistance to increasing it.

Taxing sales rather than income may also have a positive effect on the savings rate. If people are not taxed until they buy something, there may be more of a tendency to save rather than consume. If savings increase relative to income, the supply of funds available for investment will increase, which will lead to lower interest rates, lower cost of capital, and more investment, which will increase economic growth and create jobs.

Another suggestion that has been made would be to allow the taxpayers themselves to choose where their tax money is spent. Podolsky (2002), Murray (2004) and McGee (2004) have suggested that taxpayers be given a list of possible destinations for their tax money as part of the tax forms that they must complete every year (in the USA). They could then check off which government functions they want their tax money to support. In the

Podolsky suggestion, taxpayers would insert percentages in the spaces provided, based on the percentage of taxes paid that would be allocated to the various budget items.

Such an option would add a level of administrative burden to the already burdensome tax administration system. However, if one defines efficiency based on the relationship between taxes collected and the destination of the proceeds, implementation of such a proposal would greatly increase the efficiency of the system. Taxpayers in California would no longer be forced to pay to construct a bridge in Florida. Taxpayers in Texas would no longer be forced to pay for a sports stadium in New York. In all likelihood, the most wasteful government programs would no longer be funded because they would no longer have any support.

Such programs currently receive support only because of the special interests that advocate spending for these projects. If taxpayers were allowed to allocate how their tax money is spent, the power of special interests would be greatly reduced, because they would no longer be able to lobby the legislature to fund their pet projects. Another benefit of such an approach would be that politicians would have much less incentive to pander to the various special interests by promising to increase spending for their projects because such decisions would be totally out of their control. Rather than trying to buy off potential voters with their own tax money, politicians would have to find other ways to convince voters to vote for them rather than their opponent. Implementing such a proposal would have far reaching effects on the whole structure of political debate.

CONCLUDING COMMENTS

When one talks about efficiency in government budget and fiscal policy, it is really necessary to talk about two aspects of the issue. From the spending side, one must strive for efficiency. Ways must be found to cut costs so that government revenues can stretch farther. But from the collection side, efficiency should not necessarily be the goal. Collecting taxes should be made more difficult rather than less if the goal is to increase overall economic welfare. The easier it is to transfer resources from the more efficient private sector to the less efficient government sector, the more overall welfare will be decreased. In other words, efficiency and welfare can be increased by making it more difficult to shift resources from the private sector to the government sector. Economic efficiency and overall welfare will be maximized only if the amount of resources that are left in the private sector is maximized. Making it easy to shift resources to the government sector will defeat the goal, not make it easier to achieve, since funds are being transferred from the more efficient private sector to the less efficient government sector.

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