

# BUDGETARY REFERENDA: AN EFFICIENT ALTERNATIVE TO REPRESENTATIVE DEMOCRACY

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## Introduction

In any complex environment, it is often difficult to determine whether policy failures are caused by *incompetent decision makers* or by the institutional setting in which those individuals must operate. The issue is an important one, for it is doubtful that failed organizations will recover unless the *appropriate* changes are made, be they in personnel, or institutions, or both.

This is an important distinction, even if it is seldom made. The view taken here is that as a group, elected officials probably arrive at about the same policy decisions that a random sample of "reasonable men" in similar circumstances would. Thus, selecting new officials is probably not an effective way to alter the nature of government over the long run. Institutional reforms may be required to accomplish this goal. To put this in better perspective, consider the fact that modern-day presidents from both political parties have so far failed to eliminate either the budget deficits or the accompanying inflation that most Americans say are unacceptable.

It is probably in the nature of man to hope that "better" people will make for "better" outcomes, and occasionally they do, given the individual nature of value judgments. But just as often they do not. Socialism is not made appreciably better by better socialists, and for the purposes of this paper, representative democracy is not made appreciably better by better politicians. Unfortunately, even politi-

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cians that most of us judge to be better than their predecessors are likely to sense a deep degree of frustration when trying to make fundamental changes. Good intentions do not always meet with desired outcomes.

In the latter half of the 20th century, many Americans have developed a deep concern about losing control of their lives and property to politicians, bureaucrats, special interest groups, and federal judges. One may argue that to contain government within proper boundaries it is necessary only to vote out of office the politicians who support the present trend and to replace them with others who would reverse it. But what then? The opportunity for abuse would still exist and history rejects the view that profitable opportunities remain unexploited for an indefinite period of time. We conclude that, at best, a change of personnel is only a short-run solution to our problems.

The discussion that follows examines these issues and more. It will describe the present political situation in more detail, note many of the outcomes it produces, and then offer a proposal for institutional reform. Finally, it will show how things might change given the implementation of the proposal.

## Representative Democracy

In a representative democracy qualified persons are free to select a relatively small number of individuals to represent them in matters that concern the governance of the nation.

In this setting, when an individual votes for one candidate over his opponents, the voter is not endorsing the candidate's positions on all issues, but rather has selected the candidate over his rivals on an *overall* basis. Alternatively, one might say that a candidate represents a "bundle" of policies, and even though some of the policies in that bundle fall short of perfection, the bundle is nevertheless chosen as long as it provides greater benefits than other possible bundles.

Offsetting these inefficiencies, representative democracy substantially reduces the cost of gathering information about what are often quite complicated issues and eliminates the need for citizens to cast hundreds of votes annually.

Over all, then, citizens elect representatives to lower the cost of governance (to themselves), and as a result, representatives cannot present the point of view of every citizen. As economists are fond of saying, there are tradeoffs: One purchases an automobile that is not entirely to his liking, but gains from the economies achieved when thousands of buyers "agree" on the same model; a wife suffers with

the bothersome habits of her husband, and he with hers, because of other compensating aspects of their marriage; citizens prefer to vote on a bundle of policies rather than on particular ones because decision-making costs are reduced by more than the costs incurred when each citizen gives up the right to represent his own interests.

However, a desire to lower the cost of achieving some ultimate goal is only one reason that issues or policies may be grouped into an indivisible bundle. To again use the jargon of economists, bundling may also occur when the only supplier of a product (a monopolist) seeks to exploit his position by "forcing" customers to purchase other products from him that they otherwise could, and would, obtain elsewhere.<sup>1</sup> The gains to the supplier from this type of activity may be substantial since it is possible for him to profit in some endeavor for which he has no particular talent or expertise. The customer, of course, is the loser and for this reason legislation exists to limit bundling in economic markets.<sup>2</sup>

It is not difficult to see that many of the same techniques used by suppliers in economic markets are also available to public officials. What distinguishes the two cases, however, is the fact that in the private sector there are very few pure monopolies (and those which do exist are regulated by the government) so that the opportunity for monopoly bundling is limited; but the government has extensive monopoly control in several vital areas: justice, defense, macroeconomic policy, regulation of markets, etc. Thus, the opportunity for monopoly bundling by public officials exists. The expectation is that they – like private monopolists – will act on the opportunity. If they do, then one should observe behavior along the following lines: After the "basic" government services have been provided, government employees will begin to supply goods and services that can be supplied more efficiently by the private sector. Since both categories of goods are offered in a single bundle, citizens cannot refuse to "purchase," say, postal service and mass transit, without also refusing justice and defense. So the entire package is purchased from government. This bundling increases the "profits" of government in its role

<sup>1</sup>Economists and antitrust lawyers refer to such arrangements as "tying contracts." Tying contracts do not actually force anyone to buy anything, but require the purchase of some product(s) as a precondition for the purchase of others and by so doing confront the buyer with an all-or-nothing decision. For a discussion on tying contracts, see F. M. Scherer, *Industrial Market Structure and Economic Performance*, 2nd ed. (Chicago: Rand McNally & Co., 1980), pp. 582–84.

<sup>2</sup>In a well-known antitrust case, International Business Machines (IBM) was barred from requiring customers who leased mechanical data processing equipment to purchase unpatented tabulating cards from the company. See *ibid.*, pp. 584.

as a supplier of services, just as it would increase the profits of a private monopolist in identical circumstances. Unlike profits in the private sector, however, public-sector profits cannot be claimed as the *personal* property of any government official. Therefore, these profits are disbursed as salaries, programs, contracts, and transfer payments among the populace in approximate proportion to the political goodwill (i.e., votes) that is engendered by them. (In addition to postal service and mass transit, other “tied goods” might include retirement programs, health maintenance and insurance, higher education, and passenger railways.)

Citizens may object to this trend and try to reverse it by voting for a different set of officials, but several obstacles reduce their ability to accomplish this goal under normal circumstances. First, the replacement of one official by another does nothing to change the *incentive* of *all* officeholders to act as a monopolist. Second, the most basic option available to the customers of a private monopolist – refusing to transact with him – is illegal for the “customers” of government under a system of compulsory taxation. Third, deficit finance, money creation, and regulation are methods of concealing from voters the inefficiencies resulting from monopoly bundling, none of which, we might remind ourselves, are available to private monopolies. Fourth, to the extent that individual government officials are able to place the responsibility for inefficiencies on other officials (one often hears politicians complain about bureaucrats), voters will ignore the monopoly aspects of government and concentrate on electing a candidate who can “bring home the bacon” from Washington. Finally, in the event that a specific group of citizens becomes overly dissatisfied with the results of monopoly bundling, government officials can add new policies to the bundle to benefit individuals in this group, and by so doing, increase their stake in the status quo.

If these conclusions are substantially correct, then citizens have only three options:

1. Accept the institutional setting that already exists and hope that voting for the right candidates can reverse or halt the process described above.
2. Revolt and try to replace the present system with one that is more responsive to the populace. The problem with this option is that revolutions are normally undertaken by minorities and the political systems which emerge are seldom designed to benefit those who were neutral during the revolution.
3. Promote institutional reforms that would limit the ability of government officials to define the scope and dimension of govern-

ment activities. The outright prohibition of bundling – the power of government officials to decide on a wide range of public policy issues – would, of course, be harmful since one result of bundling is to lower the cost of collective decision making. But in matters that do not require considerable specific information, and when the cost of voting is low, the harmful effects can be reduced by allowing citizens to play a more direct role in deciding what government should or should not do.

### Winner-Take-All Elections

Even with constitutional limits in place, majority rule does not always produce desirable results as measured by the preferences of individuals within the majority. As we have seen, this result is, to a large degree, caused by the bundling that is implicit within representative democracy. It also arises because decisions are most commonly made in a representative democracy on a winner-take-all basis.

Such a mechanism places many individuals in something of a dilemma as to whom to vote for. Consider, for example, the presidential election of 1980. Voters were given the choice among three major candidates – Carter (C), Reagan (R), and Anderson (A). It is important to note that Anderson was generally believed to have almost no chance of winning.

For citizens who ranked the three major candidates (in order of preference) A, C, R, there was something other than one's true preferences to consider. Most understood that voting for A could not elect him, but by diverting votes from C, would increase the probability that R – their third choice – could win the election. To them, voting for A might turn out to be the same thing as voting for R. Given this situation it might seem more sensible to vote for one's second choice so that one's third choice would not be the winner. And, of course, the same dilemma was present for those individuals who ranked the candidates A, R, C.

In game theory, such behavior is known as a minimax strategy – minimizing the maximum dissatisfaction that can occur. Whether strategic or nonstrategic (“truthful”) votes, winner-take-all elections may provide false or misleading signals to policymakers, and they may implement programs that are neither intended nor desired by the citizenry. (Switching one's vote from Anderson to Reagan may be interpreted as support for a stronger national defense even if that is not the intent.) The institutional reform discussed later in this paper provides a means to reduce strategic voting and improve the efficiency of elections for signaling voter preferences.

Another factor that will be shown to alter appreciably with our institutional reform is the degree of political participation by citizens in representative democracy. A citizen generally has more of an incentive to vote the greater the probability that his vote affects the outcome.<sup>3</sup>

There are a number of factors that can (and do) mitigate the relationship between one's vote and the desired outcome, but one of the more important factors is the winner-take-all election itself. The citizen is aware that his vote will not affect the final outcome unless the election would end in a "tie" if his vote is not cast. Since this is unlikely in a large election, the benefits from voting consist mainly of a feeling that a "civic duty" has been fulfilled – a benefit apparently not great enough to motivate most citizens. The alternative is a system in which each vote has a positive impact on public policy. Then individuals would gather information and vote to compel government to pursue goals consistent with their own.

These undesirable results of winner-take-all elections – a tendency for some citizens to opt out of the political process, and for many of those who do participate to conceal their true preferences – could be reduced by making the connection between one's vote and public policy more direct. In the private sector, one's decisions are informed and, presumably, unbiased for the simple reason that they are decisive: If one wishes to allocate more of his budget to food and less to shelter, then he will. It seems only reasonable, then, that the quality and degree of political participation would increase if votes were more decisive. The proposal outlined below has this result.

### Point Voting and Winner-Take-All Elections

In most elections, each voter casts a single vote for the policy or candidate he prefers, but is not allowed to "split" his vote among two or more options. This makes it impossible for the voter to express the intensity of his preferences for different policies and programs beyond an expression of absolute support or absolute disapproval.<sup>4</sup>

<sup>3</sup>Similarly, the incentive to gather information relevant to voting increases as one's vote becomes more decisive. On this and other related issues see Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957) and Gordon Tullock, *Toward a Mathematics of Politics* (Ann Arbor: University of Michigan Press, 1967).

<sup>4</sup>It is possible for those with strong preferences to devote resources to convincing others that a particular policy is desirable. However, even after these lobbying efforts, voters will still prefer some aspects of more than one option. Therefore, the problems described here cannot be eliminated through political contributions and similar efforts.

The undesirable aspects of this arrangement have been widely discussed by political scientists and economists, who have offered "point voting" as a possible solution. Here, each voter would be given several (say five) votes which he could distribute among options according to the intensity of his preferences. But even with "point voting" there is the winner-take-all dilemma. When elections are decided on a winner-take-all basis, a voter who tries to maximize his personal gain from voting will not necessarily express his true preferences for policies and candidates, *whether or not he can split his vote between two or more options*. Point voting coupled with winner-take-all elections often prompts individuals to cast all their votes for a single option. Once again, there is no gain (other than, we would assume, a negligible psychological one) from voting for an option that is sure to be defeated, even if it happens to be one's favorite. Instead, voters "guess" which two or three options stand the greatest chance of winning and cast all of their votes on the one among these that is preferred. Fortunately, this problem disappears with the elimination of winner-take-all elections; so the reform that will be proposed includes a form of point voting so that voters may more accurately express the intensity of their feelings for various policies.

### The Bridge Between Taxes and Expenditures

It is a simple point, but unfortunately one that is often forgotten: Every decision to spend public funds requires government officials to acquire resources from the private sector, either through taxation, borrowing, or money creation. As a result, the quantity of government goods and services increases and the quantity of private goods and services decreases – the latter being the opportunity cost of the former.

Under ideal circumstances, only those government projects that provide positive net benefits would be undertaken. But decisions cannot always be postponed until ideal conditions exist. It is inevitable, then, that government policies which provide negative net benefits will gain approval from time to time. Our objective is to design a process that achieves tolerable efficiency in less than ideal circumstances.

At one level, this entails bridging the existing "gap" in the minds of citizens and public officials between expenditures and taxes, or in a more general sense, between government policies to spend and the opportunity costs of doing so. For example, established procedures allow, and even encourage, *separate consideration* of the ben-

efits and the costs of a program.<sup>5</sup> During election campaigns, especially, citizens are asked to support the creation or extension of some “public service”; then, perhaps months after the election, they are told that higher taxes are required to finance an expanded public sector. Much the same takes place between elections when elected representatives enact laws that require the expenditure of funds in future years; but how these expenditures are to be financed is not established at the outset, so the actual costs of these “uncontrollable” outlays only become apparent later.<sup>6</sup> It is difficult, if not impossible, to distinguish between efficient and inefficient policies when decisions are taken before a thorough examination of costs has been made. Both for citizens and their representatives, then, the artificial separation of benefits and costs impairs careful decision making. If these procedures cause the costs of programs to be understated relative to the benefits, as is likely since about two-thirds of current government expenditures are required by laws made in past years, then the political process may create or continue policies that do more harm than good.<sup>7</sup>

The obvious solution to this problem is to consider benefits and costs simultaneously; however, this option already exists, and elected representatives appear to have rejected it. Institutional reforms are probably necessary, then, to construct a “bridge” between benefits and costs in the minds of decision makers. Reforms of this nature are hardly a new idea,<sup>8</sup> but because inefficiencies resulting from the separation of benefits and costs were of a relatively small magnitude until the last few years, there has never been sufficient public support to translate these ideas into reality.

The institutional reform suggested below is designed so that citizens, as policymakers, will be forced to recognize that expanding

<sup>5</sup>On this topic, see James Buchanan, *Public Finance in Democratic Process* (Chapel Hill: University of North Carolina Press, 1967), chap. 7.

<sup>6</sup>This process is discussed in more detail by George P. Schultz and Kenneth W. Dam, *Economic Policy Beyond the Headlines* (New York: W. W. Norton & Co., 1977).

<sup>7</sup>A similar, but conceptually distinct, problem may arise when deficit financing is allowed. Then legislators are able to expend funds by borrowing in credit markets, and by doing so, postpone the day that taxes must be increased. To deal with this possibility, it has been proposed that the U.S. Constitution be amended to require a balanced budget except in times of emergency. On this, see Buchanan and Wagner, *Democracy in Deficit* (New York: Academic Press, 1977).

<sup>8</sup>In 1896, for example, Wicksell suggested that a “decision concerning the allocation of . . . costs . . . be made a necessary condition for the approval of any public expenditures.” For a complete statement of this proposal, see Knut Wicksell, “A New Principle of Just Taxation,” reprinted in Richard A. Musgrave and Alan T. Peacock, *Classics in the Theory of Public Finance* (London: Macmillan, 1958), pp. 72–118.



specific government programs requires either a reduction of other government activities or less private-sector production.

### Suggestions for Reform

We have demonstrated how existing rules and procedures in the United States reduce the ability of citizens to direct the policies of their government. This section outlines a proposal that is designed to reverse this process – to increase the efficiency of the *public sector* at satisfying the desires of the *public*. Before proceeding, however, it is helpful to summarize the ideas for reform that were suggested above:

- a. In cases that do not require a considerable amount of specific information, citizens should play a more direct role in defining the types of activities that government is allowed to undertake. The purpose of this proposal is to limit the ability of government officials to institute policies that benefit small groups who support the political ambitions of incumbents but which are harmful to the general public.
- b. When appropriate, winner-take-all elections should be abolished in favor of a system where each vote affects which policies are ultimately adopted. This would increase the incentive to gather information and vote and would reduce the likelihood that voting behavior will be biased by strategic considerations.
- c. Some form of point voting should be adopted. Then citizens could divide their support among competing options in proportion to the intensity of their preferences.
- d. A decision to increase government spending in one area should indicate the source of funds required to finance that expenditure – whether it is a reduction in government spending in other areas or a reduction in private-sector spending. This would result in the rejection of programs which utilize resources less efficiently than they can be used elsewhere.

We propose a decision-making mechanism which incorporates all of these suggestions: the *National Annual Budget Referendum* (NABR). Under the NABR citizens would allocate resources among executive branch departments and agencies of the U.S. government, and could elect to return resources to the private sector in the event it is decided that the public sector is too large. The following is a formal statement of our NABR proposal:

No later than June 1 of each year, the United States Government shall distribute or otherwise make available to all eligible voters a

report, not to exceed twenty (20) pages in length, on matters relevant to the operations of the U.S. Government. Included in the report shall be: a statement of current year expenditures, including the distribution of expenditures among the various functional categories of government activity (e.g., science and technology, health, income maintenance, national defense, etc.); the total amount of spending by all Executive Branch Departments and Agencies authorized by law for the fiscal year that begins on October 1; the distribution of expenditures among functional categories of Government activity recommended by the President and by the Congress for the fiscal year that begins on October 1; and a brief summary of Government operations in each functional category that shall include a general statement of purpose and responsibility, a listing of the major programs administered, new programs to be initiated in the upcoming fiscal year, and the approximate share of expenditures in the functional category used to finance each major program.

During the seven-day period commencing on July 4 of each year, all eligible voters shall be allowed to allocate one hundred (100) "expenditure points" among the various functional categories of Government activity, and may at their discretion allocate points to a separate category designated "Refund". The relative distribution of all expenditure points allocated by voters shall establish the relative distribution of expenditures among categories, and the share of expenditure points allocated to the Refund category shall be used by the Congress either to proportionately reduce all rates of taxation on personal income or to retire debt obligations of the United States Treasury.

All expenditures by Departments and Agencies of the United States Government shall be allocated as described above, excepting only those expenditures included in one or more of the following categories: interest payments on the debt obligations of the U.S. Treasury; expenditures financed from official Trust Funds of the U.S. Government; and Special Expenditures authorized by a two-thirds vote of both Houses of the United States Congress.

Table 1 shows the type of ballot that an individual would complete if the NABR proposal became law. The actual ballot could contain much more detail than this sample ballot, but should be kept easily understandable.

### Some Positive Aspects of the Proposal

The NABR proposal provides citizens with a greater opportunity to direct their government than they have now. In effect, *each individual would decide what activities will be undertaken by his share of government*. In this respect the NABR makes public-sector decisions more like those taken in the private sector – not an insignificant

**TABLE I**  
**NATIONAL ANNUAL BUDGET REFERENDUM**  
**(NABR), SAMPLE BALLOT**

Government Activity	Distribution of Current Budget	Distribution of Budget for Next Year		YOUR VOTE
		Recommended by President	Recommended by Congress	
National Defense	22%	27%	23%	—points
Health	12.5%	13%	14%	—points
Education	8%	6%	10%	—points
Energy	3%	1%	2%	—points
Agriculture	1%	1.5%	2%	—points
Administration of Justice	.9%	1.2%	.8%	—points
.	.	.	.	.
.	.	.	.	.
.	.	.	.	.
.	.	.	.	.
Refund	<u>2.9%</u>	<u>0%</u>	<u>0%</u>	—points
<b>TOTALS</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100 points</b>

accomplishment at a time when so many are frustrated by the "usual" methods of collective decision making.

The proposal does raise a number of questions, however. For instance, to what degree would individuals participate in the political process?

We have already noted that in a representative democracy, where most elections are of the "winner-take-all" variety, individuals do not have much incentive to vote. Nor, we might add, do they have much incentive to generate information relating to voting. With our proposal, however, this situation changes.

First, individuals would have a greater incentive to vote because their vote would be more decisive. If \$400 billion in expenditures is allocated by the referendum process and if 100 million citizens choose to participate, each directs \$4,000 worth of government activity. This means that votes would have greater value under the NABR proposal, so there would be greater incentive for citizens to vote and to gather information in order to do so intelligently.<sup>9</sup> It is an interesting side note that even if individuals had no more incentive to generate information under this proposal than before, they would still be more informed than they are now. This is because under the proposal the beneficiaries of government programs would have an increased incentive to lobby individuals.

Under present arrangements, the recipients of government spending lobby politicians since it is they who decide how to spend public funds. Since under this proposal some of the power over the purse is moved toward individuals and away from politicians, recipients of tax dollars would tend to lobby individuals more and politicians less. Organizations concerned with national defense would take to the airwaves and to print to advance their belief in a stronger defense capability. Other organizations hoping to meet other objectives through government would likely do the same.

A dialogue of sorts would have been established between the recipients of tax money and citizens. Furthermore, organizations competing for a finite amount of tax dollars would have an increased incentive to monitor each other. For example, social welfare groups arguing for more money for social welfare programs would try to convince taxpayers not to allocate their tax dollars toward national defense but, instead, toward welfare programs. Since other groups would have a similar incentive, we would be placing these groups

<sup>9</sup>The point here is no more complicated than saying that a person will put more effort into maintaining and protecting a \$4,000 automobile than a \$200 "junker."

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in competition with each other. We could therefore be more assured of getting the facts out.

There is an added benefit: Individuals would become more aware of the organizations that sought government assistance. In other words, they would have a clearer picture of just what government is about. Most individuals know little about the interest groups that lobby government. *Special interest groups* would be forced to make themselves visible to citizens, for that would be the only way they could generate funding for the programs they favor.

There could be another consequence. Recipient groups of tax money might begin to lobby politicians to do away with government programs other than the ones they benefit from. The reason for this is fairly obvious: With fewer government programs listed on the NABR ballot, the more likely the remaining government programs and their recipients would benefit. Just as producers in the private sector would prefer less competition to more, so would group recipients of tax dollars. If the idea of fewer government programs makes the argument for tax reduction more appealing and practicable, then tax relief advocates should be overjoyed at the prospects of setting up a plan where the State begins to reduce itself.

Finally, a special appeal of the proposal is its ability to give individuals what *they* want through government and not what others think they want or want for them. Also, it provides a fairly quick and efficient means to do this. If, for instance, enough people began to demand more national defense in January 1983, they would not have to wait until the next election to let their demands be known. They could simply "vote" for more national defense when they fill out their NABR ballot.<sup>10</sup>

The proposal also can relieve individuals of voting for a politician who does not fully share their views on all government programs. Say, for example, John Doe is faced with a choice between two politicians, Smith and Jones. Smith wants to increase spending on education and decrease aid to the cities, while Jones wants just the opposite. If John Doe favors increased spending for education and

<sup>10</sup>A point that was not addressed above is that each person's vote is at least partly dependent on the quantities of government goods chosen by others. If Jones, for example, has the power to allocate *all* public funds, he might channel 30 percent to defense; but if others have already voted defense a 40 percent share, and Jones knows this, then he might decide that defense spending is adequate and target the 30 percent (of his share of spending) for refunds or other spending categories.

To provide voters with information about how some are voting, and others are likely to vote, it is suggested that before the vast majority of citizens fill out their NABR ballot, a relatively small cross-section of individuals do so. The results should then be made known to the public at large.

the cities, who does he vote for? Neither candidate is his perfect choice. He must now choose between increased spending on education and increased aid to the cities. Such a choice would not have to be made, however, if he could simply state his preferences on his NABR ballot. He then could decide between the two candidates on other grounds, such as their positions on tax cuts, foreign policy, etc.

It is an added plus when voters can decide between political candidates using as few criteria as possible. If funding for various programs ceased to be a major issue in election campaigns, voters could concentrate more on another issue that is equally important: how a given amount of government resources can be utilized as efficiently as possible.

### Politicians and the Proposal

Perhaps an important consideration here is how politicians would react to the proposal. Initially, we would expect them to be against it. Politicians have never been ones to voluntarily tie their own hands, and this is what they would be doing if they were to turn over to the public the job of deciding how funds are to be spent.

Politicians, however, are extremely flexible individuals. If there were enough public support for the proposal, and this might happen if a politician made it an issue, then other politicians would begin to see its merits. Rarely have we seen the politician who will not accept a limitation on his powers when non-acceptance substantially increases the likelihood that he will lose an election.<sup>11</sup>

If the proposal were implemented, politicians might even begin to feel a sense of relief. With the mechanism in place, part of the pressures politicians now feel from special interest groups would be eliminated. As Professor Hayek has noted: "The only defense that a politician has against such pressure is to point to an established principle which prevents him from complying and which he cannot alter. No system in which those who direct use of resources of government are not bound by unalterable rules can escape becoming an instrument of the organized interests."<sup>12</sup> Simply stated, politicians may be glad to be freed from being an instrument of organized interests.

Some may think that the referendum process will shift the efforts of many special interest groups away from asking politicians for

<sup>11</sup>Recall, for instance, the maneuvering done by California Governor Brown in 1979 during the campaign to reduce property taxes in that state (Proposition 13).

<sup>12</sup>*The Political Order of A Free People*, vol. 3, *Law, Legislation, and Liberty* (Chicago: University of Chicago Press, 1979), pp. 16-17.

money and toward asking them for special privileges. To be more specific, when a private company cannot get a lucrative government contract or subsidy, what it might do instead is ask for some form of legal restriction on its competitors – perhaps through a quota or tariff on imported goods. Politicians would then feel less pressure from special interest groups on one side but more on another.

But such action does not discredit the merits of the NABR proposal. After all, the right to lobby for favorable regulations and special treatment already exists; the referendum process amounts to a net reduction in the power of government officials, and a net increase in the power of citizens, to direct government activity. If there is a substantial increase in the amount of “creative legislation” aimed at providing off-budget handouts to interest groups, then it is necessary to limit government in areas not examined here – not grant it even greater responsibility, hoping to dilute the effects of objectionable behavior through a greater volume of resources. Limiting government should not be delayed just because we think that politicians can always find new ways around the constraints we establish.

### NABR as Public Policy

New public policy proposals, whether “good” or “bad,” share one rather burdensome characteristic – newness. Individuals and societies seem inclined to resist change. This partly reflects a skepticism of the new and the untried, and a penchant for maintaining the comfort of the status quo. The NABR proposal has this disadvantage of being new. This would seem to tell us, then, that a phasing-in period might be necessary before the NABR proposal has a significant chance for acceptance and implementation. Overnight changes in public policy are more the exception than the rule. There are two principal ways to proceed: One, the proposal could be debated with the intention of implementing it perhaps three to five years after acceptance. This would allow time to adjust to the new environment. For those individuals who felt they couldn’t do as well under NABR as in the present public policy environment, and for those who believe it is only right to give people time to adjust to changing circumstances, this phasing-in period would be a plus.

The same objective could be met, even if the NABR proposal were immediately implemented upon acceptance, by having a weighting system whereby voters allocated only, say, 50 percent of tax revenues the first year of NABR, 60 percent the second year, and so on until NABR was fully implemented.

## Conclusion

Direct democracy is preferred to representative democracy by most individuals if the costs of each are the same. There is a simple reason for this: Those governed would prefer to have more of a say in their lives.

The proposal outlined here is a fairly costless move in the direction of direct democracy and away from representative democracy, and in an area where reform is most needed. It is difficult to see how this could be detrimental to the health of the nation.

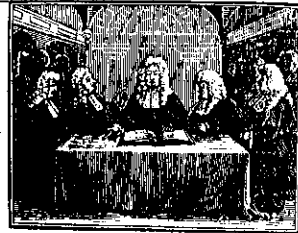
In a less than perfect world this proposal offers a means, perhaps even a politically acceptable means, of reducing the power of the State. Even the modern-day anarcho-libertarians, who eschew all forms of taxation as a form of theft, would have to find the proposal somewhat appealing. If taxation is inevitable, it would seem far better to have some say in how the "thief" spends your money than none at all.

Some individuals may believe that the proposal, while perhaps an efficient alternative to representative democracy with respect to spending matters, is, nonetheless, unlikely to be accepted in today's political atmosphere. They should note, however, that we are moving toward a period of constitutional decision making in this country. As of this writing, we are only three states short of a constitutional convention, where a balanced budget rule is scheduled for debate, but where proposals such as NABR could be discussed and acted upon.

Finally, with the growth in the power of government, individuals have come to believe that too many decisions are made for them. They have become the onlookers in a process they are supposed to direct. Here, then, is a simple proposal that seeks to reverse field.



## SOCIAL SCIENCE CLASSICS FROM TRANSACTION



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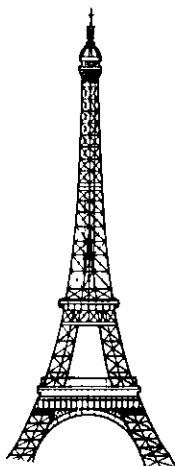


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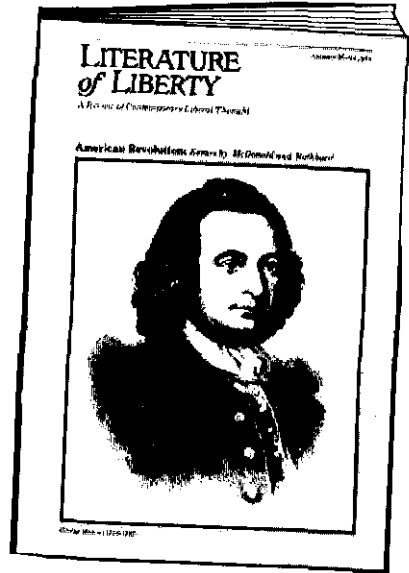
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