

Preface

While living within a budget can be difficult, most people manage to do it most of the time. Even elected legislators seem to do this with their personal accounts, as we rarely hear of them having persistent financial difficulties. It is different, however, when it comes to their legislative activities. There, the budgets they create are often in deficit. Yet 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, surpluses seem to be short-lived at best. The USA ran budget surpluses for 1998–2002, and Canada and Sweden have done so recently. Still, deficits are the norm in democratic regimes. When 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 10 percent of GDP, the American deficit was even larger relative to GDP.

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, cannot 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 systematically to promote budget deficits. The American context receives the most attention in this book because it is the context I know best. At the same time, however, the book seeks to convey some general themes about democratic budgeting that might vary in force across places due to institutional differences among democratic forms of government, but which all the same reflect some enduring qualities of democratic budgeting.

In 2007 Edward Elgar published my *Fiscal Sociology and the Theory of Public Finance*. That book sought to present a positive orientation toward

much of the material of public finance, in contrast to the predominantly normative orientation within which that material is commonly presented. I did this by treating some familiar topics from this alternative orientation which, among other things, treated polities as polycentric processes of interaction and not as singular entities that maximize objective functions, with the theoretical effort proceeding in bottom-up rather than top-down fashion, and with that effort centered on emergent dynamics and not on comparative statics. This book carries forward that orientation by giving particular attention to budgetary processes in democratic polities where those polities operate as forms of fiscal commons, thus harkening back to a framework I sketched in Wagner (1992). While the subject of this present book is democratic budgeting and budgetary processes, the point of the book is not to set forth yet another plan for attaining fiscal responsibility. Doing that would be to revert to the normative orientation toward public finance that I tried so hard to move beyond in 2007. My objective in this book is rather to contribute to the creation of a theory of political economy in which societal patterns emerge out of interactions among differently constituted entities, and in which there is no single entity that truly can apprehend the full pattern, let alone control it. This form of political economy thus brings Friedrich Hayek (1937, 1945) to bear on polity-based as well as market-based interaction.

Chapter 1 opens by reviewing some of the continuing and unsuccessful efforts to reduce budget deficits and limit the growth in government spending, mainly in the USA but in other democratic nations as well. The concern with budget deficits and their persistence, as well as the continuing growth of government, has been a live topic for a good half-century. Not everyone, it should be noted, treats persistent deficits as indicating fiscal irresponsibility. Many people regard modest deficits as fine, and possibly even beneficial in some cases, with irresponsibility arising only as deficits cross some boundary. For instance, the Maastricht treaty established two boundaries pertaining to fiscal irresponsibility: One was crossed when public debt exceeded 60 percent of GDP and the other was crossed when the deficit in the annual budget exceeded 3 percent of GDP. After reviewing some of the recent efforts to limit or eliminate budget deficits, the remainder of the chapter explores alternative conceptions of responsible fiscal conduct.

The budget reforms that have been enacted in recent years have always been presented as improvements and yet the problems they apparently 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 a

democratic system of political economy. 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. Chapter 2 sketches an alternative theory of political economy grounded in emergent interaction among political and economic entities. Within this theory, a society and its enterprises resemble an ever-changing jumble of pedestrians rushing through a piazza, in contrast to the image of the placid parade that dominates standard political economy.

Any effort to describe persistent budget deficits as fiscally irresponsible must confront the Ricardian equivalence proposition, which holds that deficits are just taxation that while deferred to the future is equivalent in present value to the taxes that would have been required to eliminate the deficit. Chapter 3 does not deny the simple arithmetic of Ricardian equivalence, but rather shows why that arithmetic is irrelevant to the explanation of actual budgetary conduct. Ricardian equivalence leads thought astray when it is applied inappropriately, as it is in dealing with public debt. The crucial feature of public debt is that the individual members of a nation are on different sides of the transactions through which public debt is created, and this makes all the difference. Ricardian equivalence is a macro-level concept that has formal but not substantive contact with the patterns of micro-level action that generate political-economic outcomes. 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 but do not determine those actions. The key point is that those macro-level variables never act directly upon one another, for they are always but traces of micro-level actions and interactions.

Chapter 4 pursues a theory of political economy in which budgets arise through competition among political entities on a fiscal commons. This analytical framework brings politics and budgetary processes within the ambit of common property, 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 each constituted through multiple entities that engage in interactions that involve both cooperation and competition, and with the two forms of relationship being nonseparable. This treatment brings to mind Jane Jacobs's (1992) treatment of commercial and guardian syndromes, and what she called "monstrous moral hybrids" as possible outcomes in her *Systems of Survival*.

Chapter 5 sets forth a treatment of parliaments as peculiar forms of market bazaar that operate within an evolving ecology of enterprises.

Parliaments are not firms that produce products for customers. They are intermediary types of enterprise that bring together people who are seeking support for enterprises they are sponsoring and people who have the means to provide such support. Unlike an investment bank which receives funds from willing suppliers, a parliament receives much but not all of its funds from people who would rather not supply that support, or at least not supply it in the manner that parliament dispenses it. A parliamentary assembly thus resembles a market bazaar in that it is a place where parliamentary merchants conduct business, only the bazaar is a cousin to and not a direct sibling of an ordinary market bazaar.

Chapter 6 recognizes that budgeting supervenes on some political framework through which the fiscal commons is governed. Budgetary outcomes reflect tendencies and pressures within a system of political-economic interaction, so budgetary reforms that do not address those systemic tendencies will induce various actions to evade what on surface examination those reforms would seem to require. Taxation represents the assignment of obligations to stock the fiscal commons, while also operating as a system of political pricing that can also influence the size of government. The fiscal commons operates inside the same society as do market-based enterprises, and this occupation of the same societal space generates a variety of tectonic relationships as enterprises collide in their fields of activity.

Regulation is also an instrument of public finance even though it customarily is not treated in this manner. The simple fact is that nearly everything that can be accomplished through a budget can also be accomplished through regulation. Chapter 7 explores the relation between regulation and budgeting within a framework of tectonic politics. Similar to plate tectonics in geology, there are areas of turbulence where societal plates collide, and the collisions arise 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. One aim of this book is to explore some of the differences between these two different conceptualizations of what a theory of public finance might seek to accomplish.

This book was written during the fall semesters of 2009 and 2010 while teaching public finance to second-year graduate students. I learned a great deal from those students' both through our classroom discussions and from thinking about the essays they submitted several times during the semester. For their ability continually to offer insightful comments on the topic under examination, I am deeply grateful. I should also like to extend a particular expression of gratitude to Marta Podemka Mikluch, who as my research assistant during 2010–11 offered a variety of thoughtful and often corrective suggestions on the penultimate version of the manuscript.

