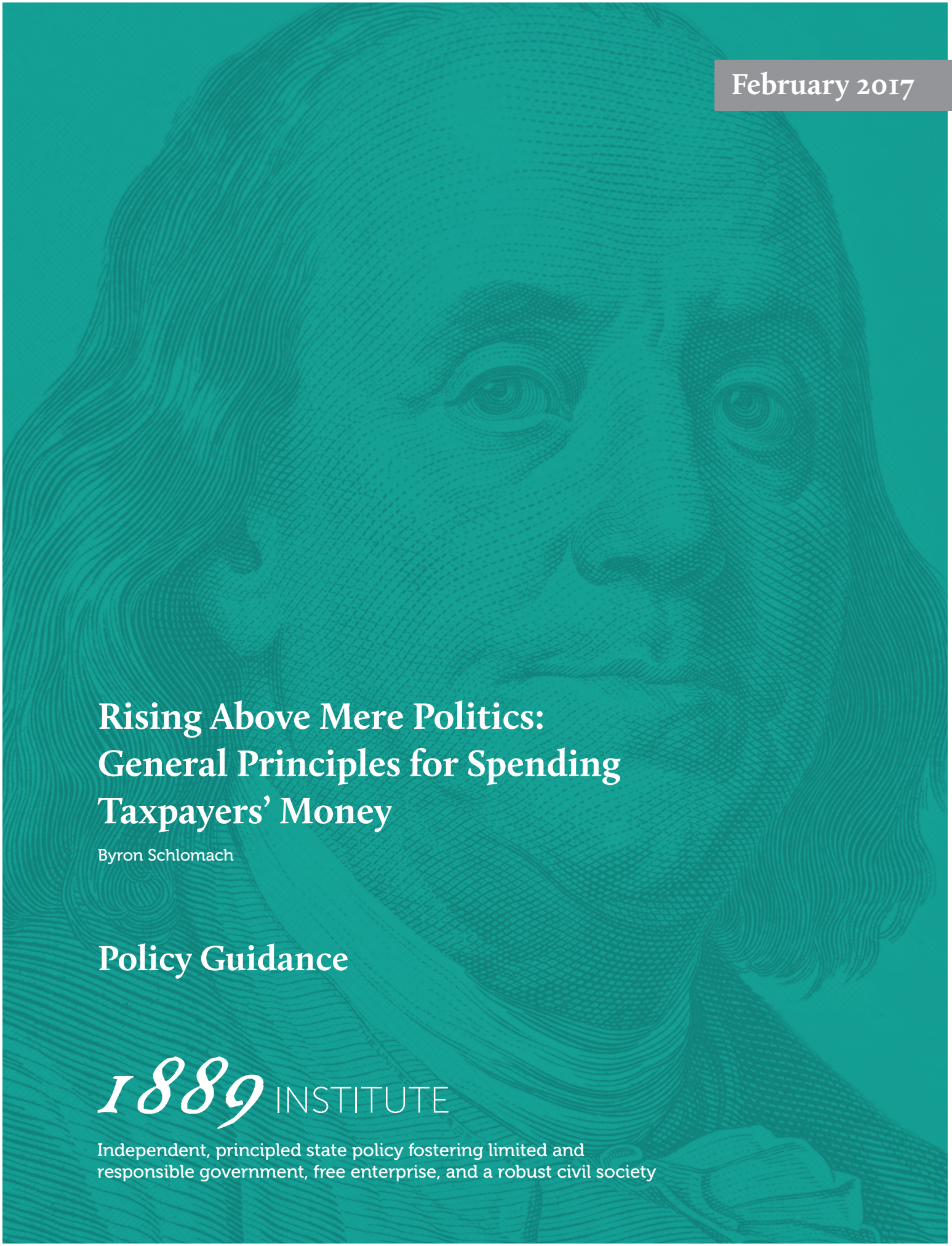

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Rising Above Mere Politics: General Principles for Spending Taxpayers' Money

Byron Schlomach

Policy Guidance

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> I conceive that the great part of the miseries of mankind are brought upon them by false estimates they have made of the value of things.

- Benjamin Franklin[1]

> Those who govern, having much business on their hands, do not generally like to take the trouble of considering and carrying into execution new projects. The best public measures are therefore seldom adopted from previous wisdom, but forced by the occasion.

- Benjamin Franklin[1]

This paper, in its entirety, can be found at
http://www.1889institute.org/fiscal-policy.html.

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Abstract

Policymakers budgeting taxpayers' money in a government whose primary duty is to ensure liberty must determine, first, if programs or agencies should even exist. They should ask these five basic questions: Is a program or agency consistent with the mission of Oklahoma's state government? Are the benefits from a program or agency unambiguous and universal? Do the benefits of a program or agency indisputably outweigh the costs? Is the program or agency fulfilling a need only government can effectively fill? Does the existing program or agency show evidence of past success? They must also recognize that pursuing federal funding can often be counterproductive and that, too often, spending reflects the victory of political symbolism over the substance of actual accomplishment.

Introduction

The primary task of the Oklahoma Legislature, when it meets in a regular session, is to pass the state's budget for the next fiscal year. Without an appropriations act, funds cannot be legally spent. Most state government activity would come to an abrupt halt on the July 1st following a regular session in which no budget was enacted.

With only months to write the state's budget, it is understandable that simply getting it written becomes of paramount importance. Deliberate and careful consideration of each budget item takes on less significance than just getting the job done. Nevertheless, there is a duty to taxpayers for lawmakers to ensure tax funds are spent as effectively as possible. This can only be accomplished if decisions are made according to conceptual criteria designed to make sure taxes purchase the maximum actual net benefits for taxpayers, rather than just being spent because the resources happen to be available and somebody came up with something that sounds like it might be a good idea in the past or present.

Budget writers must ask the right questions—critical questions—questions that taxpayers who would like to keep their own hard-earned money would ask if they had the time. Checking to see if state employees are following accounting rules or if they are trying to keep costs low, while desirable and necessary, is not enough. Good intentions are also just not good enough when it comes to taking money by force (taxation) from citizens to be spent by government. Legislators must ask fundamental questions whose answers the legislators themselves might not like. For instance, should every program or agency even exist?

Money and bad intentions will likely lead to bad outcomes. Bad intentions are sometimes sold as good intentions. Crony tax incentives and subsidies for large corporations come to mind. Presented as ways to help the economy, environment, or public health, tax incentives for sports, high tech, wind and health care industries, to name a few examples, are often just ways for big players in these industries to gain wealth by effectively getting their hands on taxpayers' funds. Appearances make these measures look successful, but always lost in the conversation is the fact that the funds could have been put to better use by the taxpayers whose pockets got picked, uses whose absence make it difficult to make comparisons.

Government, undisciplined by the need to earn revenue by satisfying customers, needs vigorous oversight to make sure taxpayer money is used to good benefit.

Money and good intentions will hopefully yield good outcomes, but this is not always true, and frequently is not. Government, undisciplined by the need to earn revenue by satisfying customers, needs vigorous oversight to make sure taxpayer money is used to good benefit. In addition, there is always the "law of unintended consequences" that can substantially, if not entirely, negate good intentions. The federal government's income tax policy of not taxing employer-paid benefits comes to mind. In so doing, it has encouraged employers to provide pre-paid health care benefits, called "insurance," that have directly contributed to the health care cost spiral.[2]

What follows is a discussion of proposed principles for determining budget priorities, stated as a series of questions, designed to thwart bad intentions and unintended consequences. This is not a detailed ranking

of agencies or programs in order of their importance. Instead, it is intended to propose some conceptual criteria for legislators to use in thinking critically about each of the programs and agencies the state's budget funds. This guide can be useful for the legislature in creating its importance-ranking of agencies and programs, more objectively determined than by the decibel level and pocketbooks of advocates in the halls of the capitol building.

Very often, the first criterion advocates for limited government will cite for determining priorities is that "core" programs, agencies, or functions should be prioritized and all other functions potentially sacrificed; however, there is rarely anything provided that establishes principles for determining which functions or programs constitute government's core. The criteria below, in the form of questions, are designed to focus government on core, or truly necessary, functions that carry with them a high likelihood that benefits will far and away outweigh the costs.

Separating wheat from chaff is not an easy task, especially when the chaff has powerful, rich and noisy advocates, but hard decisions must be made in the face of limited funds—and funds are always limited, even when oil prices are running high. Recent history also shows that failing to be critical in times of plenty only sets everyone up for greater difficulties later.

There are five basic criteria for determining whether a program is worthy of taxpayer funding. These might only be a starting point, so other appropriate criteria might be added. Nevertheless, these are the big questions

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that must be asked of every program or purpose for which taxpayer funds are, or might be, expended. These questions include: 1) Is a program or agency consistent with the mission of Oklahoma's state government? 2) Is the program or agency fulfilling a need only government can effectively fill? 3) Are the benefits from a program or agency unambiguous and universal? 4) Do the benefits of a program or agency indisputably outweigh the costs? 5) Does the existing program or agency show evidence of past success?

If the answer to any one of these questions is "no," the program being evaluated should not be funded. The only exception would be if the Oklahoma Constitution mandates a program or function that, nonetheless, receives a "no" answer to one or more questions, 2) through 5). In that case, the legislature should provide leadership by opening a discussion about whether or not Oklahoma's constitution should be amended.

Asking the Right Questions

Is a program or agency consistent with the mission of Oklahoma's state government?

This begs the question: What is the mission of Oklahoma's state government?

There is no explicit state mission statement that has been promulgated by the legislature or by the governor. The closest thing to a mission statement in Oklahoma's constitution is its preamble, which states:

> "Invoking the guidance of Almighty God, in order to secure and perpetuate the blessing of liberty; to secure just and rightful government; to promote our mutual welfare and happiness, we, the people of the State of Oklahoma, do ordain and establish this Constitution."[3]

The state's constitution is the document that establishes state government and is a logical place to go to discover state government's mission, which, logically, must be related to the reasons for the government's creation. These reasons include:

1. To secure and perpetuate the blessing of liberty,
2. To secure just and rightful government, and
3. To promote our mutual welfare and happiness.

These statements are very broad. Oklahoma's state government is "to secure" as well as "to perpetuate" the "blessing of liberty." This is as much a constraint as a call to positive action on the part of state government, given that, historically, government has done much more to destroy liberty than to protect it. The State of Oklahoma is also "to secure just and rightful government." In our system of government, states establish local governments. This part of the state's mission appears aimed at establishing local governments as well as state agencies that comport with the overall state mission.

Giving government the job of promoting "our mutual welfare and happiness" appears to open the door for government to do just about anything anybody considers to be a good thing. However, the action, "to promote," does not mean the same thing as "to establish" or "to

provide." Clearly, the state's founders realized the state could not be all things to all people. Instead, its job is to create an environment in which people can act in non-violent cooperation outside government to constantly improve their own situations without being threatened by violence and a lack of cooperation in providing mutually beneficial services. Taken in their totality, the three statements that constitute the state's mission clearly describe a government that is to do only what is necessary to allow people to otherwise thrive for themselves, thereby maximizing freedom.

Government officials are in no position to fully understand all the effects of government interventions in private (market) action, especially the lost private opportunities for taxpayers represented by the dollars spent on government programs. The government's role, where its first purpose is "to secure and perpetuate the blessings of liberty" is to facilitate individuals' free activities and exchange of ideas, labor, and products. In so doing, government also fulfills its duty to "promote our mutual welfare and happiness" since well-functioning markets enhance overall welfare. Recent history, where billions have been lifted out of poverty in China, India, Vietnam, and the former Soviet Union through the implementation of free market reforms bears eloquent testimony to this fact.

Given the traditions and history of American government, the primary mission of any government of a free people is to ensure individual liberty.[4] The state must therefore: 1) protect individuals' ability to own their own labor and property and employ these resources to their own benefit; 2) support the operation and efficiency of free enterprise activity (voluntary work and trade); 3) provide a framework for efficient (i.e., effective and low-cost) local government; and 4) provide for efficient and just civil and criminal justice systems.

Those in government must always be cognizant that everything government does is funded by denying property and wealth to private individuals, whether funding through taxes or borrowing.[5] Economic liberty is just as fundamental as political liberty.[6] Government spending must therefore be measured against the very real fact that while, on the one hand, there are benefits from government action, on the other hand there are also costs, especially to liberty, and potentially to economic wealth and well-being.

By denying property and wealth to individuals through taxation, their freedom of action is necessarily limited more than otherwise. By the same token, were there rampant lawlessness in the form of theft, fraud, and violence for lack of government, freedom of action is also limited more than otherwise. For instance, the right to travel is meaningless if government confiscates the means necessary for an individual's travel to take place or renders it difficult to travel where one wants due to an inflexible, government-provided transportation system. On the other hand, if moving goods is highly risky due to crime that a government could prevent, the right to travel might be equally meaningless.

The mission suggested by the Oklahoma state constitution's preamble leaves out some unproductive functions that are emphasized in state government today.

Government does not, in itself, create wealth. It can promote wealth's creation, sometimes by confiscating some wealth in order to create an environment that allows for low-cost enterprise. When government builds roads, for example, it is only by means of first confiscating resources, but those roads are very important for the economy and the net result is generally highly positive.

The mission suggested by the Oklahoma state constitution's preamble leaves out some unproductive functions that are emphasized in state government today. For example, there is no implication that the legislature should maximize the state's flow of federal funds to state and/or local governments. There is not a direct role for government in job creation, or in direct and purposeful competition with other states to attract industry, or in the protection of individuals from their own irresponsible behavior, or in relieving individuals of the necessity of holding others accountable through the legal system. Put in historical context, there is nothing that implies government's role is redistribution, either.

Is the program or agency fulfilling a need only government can effectively fill?

Often, people justify government action by arguing that certain government-provided amenities they favor are public goods – that is, what they want government to produce ought to be government produced. Economists use the term, public good, in a very technical way. The term does not mean just anything produced by government. A public good (or service) is something that, once produced, benefits everybody equally and no one can be easily prevented from benefiting. National defense is the best example of a public good. Everyone within a nation's borders benefits and cannot be kept from

benefiting. In more technical terms, a true public good, as economists define it, is something that is *nonrival* and *nonexcludable*.[7]

Nonrival means one person's use of the good does not diminish the amount available to someone else. National defense is nonrival. Anyone living within a defended nation consumes the entirety of its national defense without reducing the amount of defense available to anyone else. *Nonexcludable* means it's impossible to prevent someone from consuming the good. National defense also meets this definition; anyone within a defended nation enjoys its national defense and cannot be denied that protection (outside of deportation).

People cite other reasons for government intervention and provision of goods in the economy. *Externalities*, wherein third parties are negatively or positively affected by others' activities, are often mentioned, such as pollution, for example. Another very large area of intervention today is the provision of a safety net for the less fortunate. However, there are reasons more fundamental for government's involvement in our daily lives. Fuller consideration of the public good argument can help to better understand why government is important and likely indispensable to the smooth functioning of even free markets.

Just because something is technically a public good does not mean it must be financed through taxation by government. TV broadcasts are financed through advertising. TV broadcasting, a desirable public good (anyone can intercept a signal without diminishing others doing so and such interception is nearly impossible to prevent) that provides entertainment and news, has always been privately provided. But what about national defense? How could that be privately provided? The answer is that while it might be possible to privately finance a military for the United States through some kind of subscription scheme, it is likely that the military would be small and inadequate, at best. This is because subscribers and non-subscribers alike would benefit from national defense and many would choose not to subscribe in order to get something for nothing. This might be a problem for television and open wireless internet connections, but these are not goods fundamentally necessary for establishing a stable world in which investment can confidently occur.

Free riding – i.e. not contributing to the cost of something from which one is benefiting – is an especially big potential problem with public goods and helps to justify government taxation in providing such goods as national defense, police, courts, and record keeping. We all benefit from these services indirectly, in that they protect our property rights, prevent fraud, and generally provide for a stable environment that allows us to flourish economically. Without that stability (recognizing that government can easily be a source of instability, depending on how government power is used), it is well known that poverty results. Thus, it is arguable that government should use its monopoly power in the legitimate use of force to compel us all to contribute to our common benefit and protection through taxation.

This is the crux of what makes government truly unique. It alone has a monopoly over the legitimate, and hopefully just, use of force. Simple observation makes it plain that government uses this monopoly for purposes far beyond simply providing public goods. In fact, there are not many true public goods. Many government-provided goods that some would argue are public goods exhibit only partial characteristics of public goods. Local roads come close, where we want to allow for low-cost common access to private property, although it is possible for users to reduce the benefits of roads for others by merely crowding onto the roads.[8] Roads are rivalrous, and limited-access highways are fairly easily excludable.

So, using its monopoly of force, what is government uniquely positioned to accomplish through the expenditure of forcibly confiscated tax money collected by virtue of that monopoly? Oklahoma's preamble provides the guide we need. Government can secure liberty by providing public goods and institutions that protect private property and persons to otherwise pursue their own ends as freely as possible. Through federalism and a system of checks and balances, it can be just and

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rightful in equally applying its monopoly force to all, for all. Finally, government can act for our mutual welfare by providing only those goods and services necessary to facilitate what comes so naturally to human beings – trade and the accompanying progress in our standard of living that comes from growing knowledge and innovation.[9] In these ways, government critically aids in allowing us all to rise above mere subsistence.

Government can uniquely provide protection goods

and infrastructure goods that protect private property and materially facilitate exchange. *Protection goods* such as national defense, police and courts are, indeed, public goods. But, as necessary as these are to secure property rights and, in turn, to create a fertile ground for the flourishing of investment and innovation, they also present risk. These powers, combined with government's monopoly over force, must be controlled, and consistently and predictably applied within the legal principles that they embody, with liberty paramount. Otherwise, they become a source of instability and uncertainty, and have a negative impact on prosperity.

Infrastructure goods such as roads, sewer, and water services are all almost always provided by government or quasi-government entities, even though they are not true public goods. There are three reasons for these goods being government provided. First, there are social reasons such as the notion that individuals should have low-cost access to private property in the case of roads, and health reasons with respect to sewer and water. Second, the nature of infrastructure lends itself to natural monopoly, which can be provided by heavily regulated private companies, as is often the case with electricity. Most commonly with sewer and water, the government itself is the monopolist. Third, given how the resources must be assembled for these goods, it is most just to have them owned in common. This is especially the case for roads, whose ribbons of land must often be forcibly assembled through eminent domain.

Thus, government has no real role to play in providing for private goods, and is more likely to be a hindrance, even when it is trying to help.

Public education, and especially higher education are not public goods. A lecture is only nonrival as long as there are empty seats in a room. Excludability, though, is easy. Publicly funded education is an effort to provide equalized opportunity, something many suppose only government can provide. The evidence is that the bulk of the benefits of an individual's education accrue to that individual, making the claimed public benefits of education less than many suppose. Yet, we choose to provide education through taxation and every state's constitution includes a mandate to do so for public education, apparently to provide for greater equality of opportunity. So obviously, we have come to accept government financing *opportunity goods*, goods that, we hope, provide for equalized opportunity.

The vast majority of the goods and services people enjoy, including many of those provided or financed by government, are *private goods*. These are goods and services that have little or no impact on opportunity and that are excludable and rival in consumption. The use and enjoyment of these goods, like food and clothing, by one person prevents use and enjoyment by someone else. Some goods we consider private can be shared, like movies and concerts and durable goods, but the ease with which people can be denied access and lack of necessity for survival of many of these goods makes it difficult to justify their provision by government.

Private goods do not present a free-rider problem in a nation with well-established institutions that enforce property rights and protect free exchange. Incentives are such that private goods are provided aplenty by producers who can make a ready profit providing for the wants and needs of their fellow man, even for those with low incomes. It is precisely the qualities of excludability and rivalry that help create these private incentives to provide goods plentifully, given that property rights can be established. Thus, government has no real role to play in providing for private goods, and is more likely to be a hindrance, even when it is trying to help.[10]

Through a variety of social and economic programs, government finances the purchase of many private goods. Individuals are subsidized to purchase health care services, drugs, and food. The government subsidizes ethanol (corn), solar and wind power, and various foodstuffs. Local governments have made a habit of subsidizing real estate development through various tax and spending schemes. There have been recent proposals to provide smart phones with access to broadband internet to the poor.[11] Cell phones are already being provided by the federal government.

Some might argue that many of these private goods are actually opportunity goods, at least when they are provided to the very poor. Perhaps this is true, and if it is, some sort of objective criteria for delineating such a departure point should be identified, but there is no denying that there are many unintended consequences of private good provision by government. Where the provision of protection, infrastructure, and perhaps even opportunity goods undoubtedly adds value for everyone, the unintended consequences of government providing private goods makes it questionable whether value is added even for the intended recipients of government's largesse.

The federal welfare system was reformed in 1996 partly in response to the demonstrated deleterious effects of an open-ended welfare system for its recipients.[12] Recycling, alternative energy, and other efforts to allegedly protect the environment that, at the same time, prop up industries that would be small or nonexistent often have negative environmental effects.[13] Medicare and Medicaid, along with federal tax policy, have driven up the cost of health care.[14] Similarly, government largesse in higher education has fueled the rise in tuition.[15] Economic development policies have, at least in some cases, actually thwarted growth.[16]

In addition to unintended consequences, there is the more basic question of the morality of using force to take from some and give to others in a zero-sum transaction. As noted above, government provision of protection, infrastructure and opportunity goods can have a positive-sum (value-adding) impact. Forced transfers, at best, are zero-sum and do not benefit the forced contributors. Where there are unintended consequences, these government-forced transfers can even present a net negative for society as a whole.

Government has a further unique role to play in establishing and enforcing property rights and in regulating activity that impacts others (externalities), especially that which impacts others negatively. This activity is a type of protection good. The regulation of pollution, noise, obnoxious odors, and lewd public acts, often called negative externalities, is arguably justified. Such regulation adds value by helping to keep people healthy and by keeping the peace. Also, only government can provide a criminal justice system if we are to prevent anarchy in its worst sense, with everyone taking the law into their own hands. An orderly system of justice wherein an entity has a right to incarcerate wrongdoers against their will is probably best monopolized by a system with many checks and balances. Such a system really only exists in a context of open collective action – i.e. through government.

Except where government subsidizes or taxes specific activities (generally resulting in market distortions), markets most effectively take account of true costs and true benefits. Private producers with a profit motive are in the best position to know true costs. Consumers spending their own money are in the best position to know true benefits. Government should not be thought of as a panacea for all alleged "market failures" for three reasons: 1) Government has its own failures,[17] 2) "market failure" is ubiquitous in the real world given that no market, being a human institution, can or ever has lived up to the perfect market ideal that economists have mathematically derived, and there is no proven better alternative to imperfect, real-world markets, and 3) "market failures," like an unequal distribution of knowledge about products offered for sale, are often actually market opportunities to create value by offering information for sale, meaning markets often self-correct, as in the case of the public good "market failure" that is TV broadcasting.

So, another way to ask the question of whether only government can effectively fill a particular need is to ask: *Is a program or agency usurping the role of markets or other private action for reasons that fail to expand opportunity and individuals' freedom of action?* It should be understood that philanthropy is as much a market as going to the mall. A market is any circumstance in which private, voluntary, mutually agreeable exchange takes place. Markets increase value for both participants in an exchange. Too often, government action is justified in some individuals' minds because they consider certain activities (usually philanthropic) to be under-provided, claiming that too many people free ride on the generosity of others, but with little other than personal concerns as proof.

Markets work best, and spontaneously arise most readily, when individuals are free to pursue their own best interest. Because individuals' interests aggregate to become the general interest, markets promote the well-being of everyone in society. Thus, liberty of action is absolutely essential. This means government's role is critical and value-adding. It is well-known that markets break down when people start acting outside the framework of voluntary exchange—either through violence or fraud. Government has the often boring and seemingly pedestrian, but extremely important role of making general rules (laws—the purview of the legislative branch) and acting as referee (the purview of the courts as arbiters and the executive as enforcer), but it must not be the determining factor in deciding winners and losers.

Too often, government action is justified in some individuals' minds because they consider certain activities (usually philanthropic) to be under-provided, claiming that too many people free ride on the generosity of others, but with little other than personal concerns as proof.

Are the benefits from a program or agency unambiguous, obvious, and universal?

This question leaves aside, for the moment, the issue of costs, which are addressed in the next section. Instead, this looks at the simpler question only of benefits. Benefits have to be unambiguously present for a program to be considered legitimate. But, almost any program or department that spends the public's money is going to have benefits for someone. For a program to be legitimate, it must do more than just benefit someone; it has to at least come close to benefiting everybody (universal benefits). Even more stringently though, if everyone benefits, but those benefits are extraordinarily small, remote, and easily disputed (are ambiguous and not obvious) for most, government is not acting legitimately.

Benefits must be universal. That is, it must be clear that everyone benefits from a given government endeavor. Benefits for some individuals from a specific expenditure might be small and indirect but if it is clear that there are general benefits to everyone, the expenditure might be justified. However, it is the height of tyranny to exact tribute from an individual for a purpose that accrues no benefit at all, or even harm, to that individual. Financing an individual's eighth grade education at least benefits everyone because nearly everyone attends eighth grade, but financing a master's in fine arts or dance clearly only benefits a few.

All too often, government action has been justified on the basis of uncertain benefits to taxpayers in general, when the real motivation is to benefit very few. Economic development schemes serve as an example. Government financing of entertainment venues are obviously designed to benefit the well-connected rather than everyone in general. After all, not everyone enjoys an NFL football game or a rock concert or the symphony.[18]

Preferably, the benefits from a government program or function would be measurable. Absent measurability, the benefits should be very large and obvious. The benefits of a court system, police and fire protection, and sewer systems are obvious, though virtually impossible to measure. These benefits accrue to everyone, too. The benefits from having government produce and provide clothing are nonexistent given that private enterprise performs this function well. Such a role for government would also tend to benefit only a few. In fact, the socialist experiments in the former Soviet Union and China provide plenty of evidence that if the government took on a significant role in the manufacture of most necessities or even in financially providing them, it would be detrimental to health and welfare.[19]

Good intentions behind government action are simply not good enough, because government action always involves some level of force in extracting resources from individuals to make the action possible. It was the incongruity of good intentions and actual outcomes that led to the welfare reform of 1996.

Policymakers must be skeptical and hard-nosed in evaluating proposed and existing public spending. Increasingly, in recent decades, the benefits of government programs have been concentrated on certain politically-favored groups. Instead of promoting a healthy society of individuals interacting for mutual betterment through markets and other private action, the result has been to variably create pockets of privilege and resentment. For example, various business subsidies in a variety of schemes sold to the public as economic development are motivated by good intentions and often appear to be beneficial, but are really just corporate welfare. The benefits are not unambiguous even though they appear to be obvious, and they are certainly not universal. There is no better example than renewable energy, where the supposed general benefits are highly debatable, but specific industries and investors undoubtedly benefit at the expense of everyone else.

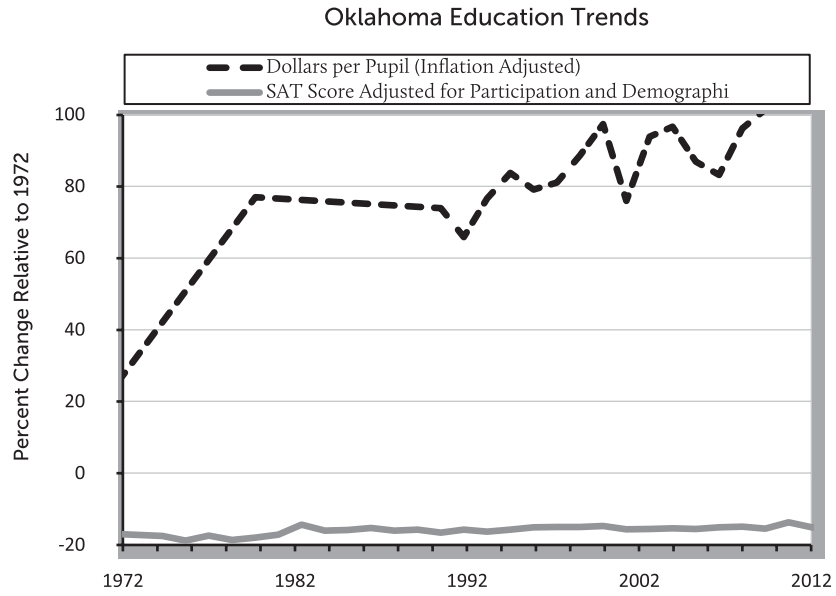
It was the incongruity of good intentions and actual outcomes that led to the welfare reform of 1996.

When businesses such as Cabela's, Olive Garden, and Aldi's, to name a few, are given government largesse through Tax Increment Finance programs, unavailable to others that sell the same merchandise there is no doubt such businesses benefit, but it is at the expense of others. The benefits to Cabela's, Olive Garden, and Aldi's are obvious because they are concentrated but the losses to others are spread throughout a community, meaning that net benefits for the community as a whole are not unambiguous, certainly not universal, and likely even negative.[20]

Do the benefits of a program or agency indisputably outweigh the costs?

Policymakers must be clear-headed and insistent that the benefits of government programs and endeavors be greater than the costs. Otherwise, government is a drain on the economy, and government loses its effectiveness. It is certainly the case that when overall costs outweigh

Figure 1: Reinforcing Failure



Sources: derived using data provided by The College Board, www.collegeboard.org; the National Center for Education Statistics; and Andrew J. Coulson, "Drawing Meaningful Trends from the SAT," Cato Institute Working Paper no. 16, March 10, 2014, http://www.cato.org/publications/working-paper/drawing-meaningful-trends-sat.

the general benefit, a policy is being funded for something other than the general interest. This could be the result of honest error, but could also be indicative of an intentional abuse of taxpayer resources. If a program or project can only vaguely be described as benefiting everyone who must contribute to it, it is unlikely the overall benefits outweigh the overall costs.

Not all costs are explicit. That is, costs are not only the monetary costs directly involved and easily seen in providing a program. Costs are also implicit – costs that result from changing incentives and harming economic activity that would have taken place were there not a government program. There is, in other words, a value to lost opportunity. While this is not easy to measure, it is quite real and tangible. For example, when the Arizona state legislature passed a law in an attempt to attract a Disney-like amusement park to the state, it had the perverse effect of frustrating an entrepreneur's plans to build an amusement park in Arizona, plans the legislature knew nothing about. To this day, Arizona has no large amusement park.[21]

What must be considered is that when funds are taken from taxpayers, these individuals presumably would have spent those funds on something that would have yielded them more benefit than the dollars represent in cost. The full cost to a taxpayer of a government program is, therefore, the full value of the lost benefit to all taxpayers of their keeping their money and using it elsewhere. Counting only the dollars directly spent on a program, as many government-financed cost/benefit studies do, undercounts the true cost of that program.

Obviously, implicit costs cannot easily be taken into account. Benefits, too, can be uncertain and remote. But this uncertainty makes it all the more important that policymakers be sure programs' benefits greatly and obviously outweigh programs' costs. In so doing, policymakers must regard the promises of promoters of new spending schemes with a great deal of skepticism, no matter how good advocates' intentions may be.

Government programs that produce the highest net benefits should receive the greatest priority in funding. Unfortunately, and all too often, just the opposite is true in government. Government endeavors are rewarded for failure while success is overlooked. Failure means advocates can continue to point to "need" as a reason that funding should be increased. However, failure is indicative of lost value for taxpayers. Failure should not be rewarded. At the same time, just as investors do not seek to buy high and sell low, policymakers should not overspend on successful programs. Diminishing returns can lead to negative returns, thereby actually reducing value for taxpayers. To a great degree, it can be argued that diminishing returns is the malady most being suffered in public education.

One of the advantages of giving priority to those programs that are most successful, with success being measured according to the value produced for a taxpayer dollar, is that agencies have an incentive to "compete."

Instead of only attempting to prove that they could potentially accomplish more with more resources, agencies will have an incentive to prove that they are the wisest users of taxpayer dollars. Not only will they have an incentive to be effective; they will also have an incentive to be efficient—to keep costs to taxpayers as low as possible, not just accomplishing more, but also more for a given dollar. That is, agencies should be required to demonstrate, and legislators should demand, real, lasting, value to taxpayers.

Does the existing program or agency show evidence of past success?

Every program or agency should have a clearly defined goal or mission that comports with the mission of state government. All of them must constantly be tested to see if they are accomplishing that goal or mission. Therefore, meaningful information and history must be maintained. Curiosity about trivial information on the part of policymakers must be controlled, so that program and agency managers can focus on that which is truly important. How "stakeholders"[22] *feel* about a program is meaningless. If a government endeavor cannot be objectively evaluated for success, while advocates make larger claims based only on a few cases, then the program should be eliminated. Measured against the goal of eliminating poverty or inequality, many current government programs for that purpose are clearly abject failures.[23]

Another abject failure, despite good intentions and evidence regarding brain development, includes early childhood education programs. Oklahoma, through its school funding formula, provides outsized funding to pre-kindergarten and kindergarten programs as compared to how private schools price.[24] West Virginia and Oklahoma are unique among states in the percentage of pre-K children who attend public school and the level of funding they receive.[25] Arizona, during its Great Recession budget crisis, eliminated its state funding of all-day kindergarten and only 80 percent of 4-year-olds attend pre-K there.[26]

Rigorous research evidence of actual benefits from pre-K programs shows no long-term benefit for children at all.[27] This research on actual results should trump the theoretical benefits of pre-K programs that rely on research regarding stages of brain development and short-term impacts. Given the actual facts, it is clear that pre-K programs benefit parents by providing low-cost daycare (from the parents' perspective) and those who are employed for these programs. There is no real general benefit to society as a whole.

A successful program should get a high funding priority. That does not necessarily mean funding should be increased, although that could be the wisest use of limited taxpayer resources. Again, diminishing returns are as much a problem in government as they are in the private sector. Nevertheless, the tendency in government is to neglect success and reward failure.

Success is boring. Look at law enforcement and transportation, two areas that are generally quite successful at the state and local levels. Occasionally, someone is found to be corrupt in law enforcement, but that is usually discovered by some other level of law enforcement. Highways could be better built, better routed, and better maintained, but as long as they meet an ill-defined quality threshold, people take little notice.

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Oversight in both of these areas is not very sexy, and while an issue like civil asset forfeiture (a law enforcement issue) gets a lot of attention, it plays little role in budgetary prioritization.

In any state, the bulk of general fund spending occurs in education, health care, and social services. Every legislative session, in every state, the most forceful and loudest arguments for increased funding are in these three areas. Yet, the arguments put forth for more funding are also arguments that these programs are abject failures. Nothing, it seems, ever improves. Too many children still can't read or are unprepared for college and other training. Oklahoma's poverty rate now is higher than it was in 2000.[28] These facts are not indicators of success.

Plain evidence suggests that those in charge of public education and most health care, and social programs have known far too little about what they are doing for increases in funding to be productive. In fact, it is likely quite possible that a reduction in funding with modestly better methods could result in superior outcomes.

Failure does at least present an opportunity for policymakers to find value for taxpayers, not through increased funding but through restructuring. Failure of a program might not mean that government can or should stop funding that program (although in the case

of pre-K, it should be defunded). What it might mean is that the structure of the program should be scrapped for something different. Retail trade should not cease because a once large and prosperous retailer like Woolworth's has become inefficient and ossified. Instead, Woolworth's is replaced by K-Mart and then K-Mart is replaced by Wal-Mart. Wal-Mart itself may be experiencing its first symptoms of decline, only to be replaced by something else.[29] Policymakers have to be willing to restructure despite sometimes massive disruption and protest.

Repeated failure despite restructuring is, though, a reason to stop funding a program and re-direct priorities elsewhere.

Technology is currently moving education in an inevitable direction away from the closed, factory model followed for more than a century, a system that matured and reached its productive limits decades ago. Since then, we have spent large sums of money fruitlessly attempting to reform a system that can only be improved through complete restructuring. Whether entrenched interests like it or not, major positive changes are coming as the education system is pushed toward an open, personalized model. Long-run huge improvements will only occur with parents making meaningful educational choices for their children.[30]

Repeated failure despite restructuring is, though, a reason to stop funding a program and re-direct priorities elsewhere. This is a strong indicator that government cannot be successful in an endeavor. Yet another federally imposed education reform, Race to the Top, was just one more waste of funding attempting to reform factory-inspired public education. Pre-kindergarten programs, many jobs programs, many health programs, and other education programs show repeated failure to improve over a baseline achieved years ago or outcomes achieved before the programs even existed.

Activity often substitutes for outcome. For example, when agencies are restructured, a good deal of emphasis is often placed on government employees potentially losing their jobs. The same sort of discussion often surrounds the big-ticket items in every state's budget—education and health care. Employment is an activity. Employing educators and social workers is not equivalent to producing an educated and healthy populace.[31] As another example, increasing funding for road repair might produce a lot of activity, but it might be detrimental if roads are being improperly constructed, necessitating early and frequent repair in the first place. Increased funding for maintenance instead of reconstruction could only effectively enable continued poor construction choices in such circumstances.[32]

Too often, government activity and reform, especially that concerned with social programs, has resembled building sidewalks just to destroy and rebuild them again. Under the Bush and Perry administrations in Texas, separate reading, math, and science "initiatives" were funded over and above other increases in education funding in order to enhance teaching in those subjects. The very act of the creation of those programs attests to the fact that teachers and schools had apparently simply been going through the motions rather than actually teaching the subjects using effective methods. The reward, rather than punishment, for this type of malpractice was more funding, albeit targeted.

The central issue in the question of whether there is hard evidence that maintenance of or increased funding is necessary to maintain or improve performance is that of oversight. There is no entity in government that systematically takes on the role of evaluating efficiency and, especially, effectiveness of programs and departments on a regular and ongoing basis. State auditors take on this role to some extent, but they are mostly tasked with making sure there is no malfeasance with public funds. Poor performance, even systematically over time, is not a criminal offense, and it cannot be attributed with any specificity anyway. Executive officers, like elected heads of agencies, and governors often practice oversight for real effectiveness, but only within their narrow purview and discretion.

The most logical entity to provide oversight that evaluates and compares policy alternative across a wide array of different areas is the legislature. Yet, the contemporary ethic in legislatures is to pass bills, so legislatures fail in their oversight role. Real oversight is often much more intellectually and labor intensive than passing bills. Oversight requires ongoing efforts beyond legislative sessions and requires legislators to specialize and gain knowledge deeper than most legislators are willing to learn. Short legislative sessions, as practiced by many states, would seem to bode well for oversight, but most legislators turn their attention to bills for the next session or to intervening elections once a session is finished. Oversight is one argument in favor of short biennial sessions as practiced in Texas. There is at least ample time for oversight if legislators choose to exercise it.

Federal Funding as a Budget Distortion

Suppose a proposed new state program has undisputed benefits of $1 million, but it would cost $1.5 million. This program clearly should not be funded because it would cost far more than it is worth. However, suppose that due to political maneuverings and advocacy, the federal government offers to give the state $750,000 if it would implement this very program. Now, the state need only supply $750,000 of its own money to obtain a program that yields $1 million in benefits. Suddenly, the math works. Net benefits for the state are positive to the tune of $250,000. Where the state would not have spent the money before, either not at all or not on that program, now it does because of the federal match.

This hypothetical example perfectly illustrates an economic distortion brought on by a type of fiscal illusion caused by the federal government either bribing or extorting, depending on one's point of view, state and local governments into pursuing policies they otherwise would not pursue. Regardless of any funding considerations, the program in the hypothetical example should not be pursued. It represents an economic loss to society since the costs clearly outweigh the benefits. Yet, from the state's point of view, the benefits that accrue to the state outweigh the state's costs, so it goes forward. The federal government has artificially lowered the apparent costs, and improperly re-ordered priorities as a result.

In addition to artificially lowering the costs of programs like Medicaid, mental health programs, transit transportation, highway transportation, nutrition programs, the arts, and any number of other areas, federal funding impacts priorities by making it appear foolish to turn down federal money. After all, the money is almost like manna from heaven. It's "free" but for the fact that you need only create a new program or grow an existing one. In addition, other states are taking the money and it would be foolish for your state not to grab back some of the money it sends to Washington, D.C. while other states are doing so.

In many states, highway departments were created specifically to take advantage of the Federal Aid Road Act of 1916. That Act required that federal road money only be disbursed to a state department devoted to highways.[33] A state department to oversee the construction and maintenance of roads might meet all of the criteria set out above, but federal money is neither a necessary nor a sufficient condition for the creation of an agency or program.

Many more examples can be mentioned. Light rail intra-city transportation is a popular item for cities to newly install, although light rail is just a modernized version of the trolley from over 100 years ago. Only the Bay Area Rapid Transit system in San Francisco has been adjudged by a Brookings transportation economist as an economically beneficial transit system, yet cities continue to install new systems.[34] The main reason is the diversion of federal fuel tax money into these systems, which helps to pay for their installation, though not their ongoing subsidy. Medicaid expansion has occurred largely for the same reason – to grab the substantial federal matching money for doing so, and despite the fact that the match falls over time.

...federal funding impacts priorities by making it appear foolish to turn down federal money.

Federal funds are never free. Some sort of state match or administrative cost is always necessary. Oddly enough, this fact is often used to justify the creation of a new program. The argument is variously stated as "otherwise we will leave federal money on the table" or "it's an excellent return on investment with [often some number more than one] federal dollars for each state dollar expended." This is reminiscent of "saving money" by purchasing an item on sale that one might otherwise never have considered buying. Regret is almost always the result.

Federal funds carry strings in terms of how funds can be spent and on what they can be spent. These strings often get longer and more tangled over time. Education funds are a good example. The federal government has had a long history of dabbling in education policy, but federal action has only recently exceeded funding narrowly tailored programs like school lunches and education research.[35] Recent history, with emphases like Goals 2000, No Child Left Behind, and Race to the Top, are all stories of how federal education funding's relatively minor share of funding has been used to "wag the dog," where states acquiesce to federal mandates to keep the funding.[36]

In addition, federal funds have a way of disappearing. Federal funds are just as much taxpayer funds as state funds. Increasing demand for federal funds puts the same taxpayers on the hook as increasing state spending. Again, federal education funding serves as an example, as it has swung wildly in the last two decades.[37]

A program or agency, partly funded by the federal government, should be judged on its merits according to its entire expenditure, not just that funded by the state. If a program otherwise meets prioritization criteria, by all means the state should seek to maximize federal funding. Otherwise, leaving federal money on the table is often a wise course of action.

Guarding Against Symbolism Over Substance

Too often, government is seen as a solution to all ills. Programs are proposed and often enacted without any prior evidence that they will make a difference. Very often, policies are enacted even in the face of credible predictions that they will have negative impacts. The minimum wage, symbolic for its aspiration to increase incomes with the passage of a sentence into law, must cause unemployment, unless legislatures have found a way to repeal the laws of demand and supply, which are every bit as much natural laws as that of gravity. Thus, the minimum wage is an example of passing law more for the sake of symbolism than accomplishing actual substance.

Across-the-board teacher pay raises are supposed to improve the quality of the public education system. Yet, there is a long history of such pay increases and there is not one shred of evidence that they do anything more than temporarily mollify a politically vocal and powerful constituency.

Medicaid expansion in Oregon has been shown to have no impact on health outcomes in that state.[38] Some positive impact was measured in the state of Massachusetts.[39] The Oregon study indicates Medicaid expansion is a pure waste of money. The Massachusetts study indicates there are benefits, but it does not indicate if the costs outweigh the benefits. Nor does the Massachusetts study weigh other policy alternatives, like policies that result in lowered health care prices. Such policies would be in opposition to expanding government-provided health insurance. Again, over and over with respect to health care, policies have been aspirational, stressing hopes rather than actual results.

One economist has likened this kind of policymaking to the belief in unicorns. Most policy must be implemented by bureaucracies and many laws are vague enough to give those bureaucracies wide latitude. Legislators give vague instructions because their laws are purely aspirational and they leave the difficult details, about which they know they are ignorant, to bureaucrats, who are supposed to have the expertise and altruistic motives to make the very best happen. Legislators have little more than an imagined world in their minds, where their aspirations are fulfilled, not unlike imagining unicorns that eat only rainbows, needing to do so rarely, but maintain great strength, and never produce foul-smelling excrement.[40]

Policies must have impacts that actually benefit everyone. And that means everyone, not just a vocal and/or powerful and politically connected subset of the population.

Policymakers whose first mission is to preserve liberty with just and rightful government for our mutual welfare and who are in a position to forcibly confiscate resources in pursuit of such policies, must be much more hardnosed than to make policy so they and others feel better. Policies must have impacts that actually benefit everyone. And that means everyone, not just a vocal and/or powerful and politically connected subset of the population.

Conclusion

Everything proposed in this paper makes one important assumption—that decision makers will have the courage and fortitude to say "no" to advocates of unproductive programs. Some programs that should be expanded might not be popular with vocal advocates. Some that are popular might not meet the criteria for continued existence. Others might not meet the criteria for expansion, or might even need to have their funding reduced.

If the criteria for determining whether or not a program is worthy of taxpayer funds are clear, understandable, and generally accepted, it is seen as less arbitrary should policymakers deny funds to those programs that do not meet the criteria. Policymakers can at least refer to the criteria and ask advocates to justify the expenditure of taxpayer funds for favored programs. In many cases, even advocates will have to admit they cannot justify their proposals. It is also easier for advocates to accept a negative response when they see the same criteria consistently applied to other spending.

The five criteria outlined above are stringent. Even for a state government considered relatively frugal, like that of Oklahoma, an honest and careful evaluation of every state program would result in the discontinuation of some programs, and probably a few agencies. However, even if a program meets all five criteria, choices must still be made.

Advocates of specific government programs are rarely satisfied that the programs are "fully" funded. They always have a compelling story for why more resources are needed in a particular area. There will always be someone ready to demand these resources, too. But a republican form of government, more than anything else, is intended for the protection of the wider taxpaying public who do not have the time or the resources to become fully informed regarding the government's activities.

Compared to true democracy, a republic economizes on the amount of information individuals (citizens or voters) must possess.[41] This assumes, however, that the citizens' representatives are truly representing their interests. Because no single individual bears even a large amount of the cost of a program, net benefits for advocates are large, providing a strong incentive for them to boldly make their case before elected officials. The low cost per individual taxpayer for any one program, however, causes the vast majority of citizens to be inactive in defending themselves against wasteful spending and the taxation that supports it.[42]

Despite their best efforts, elected officials' perspectives can be skewed by the fact that they almost exclusively hear from advocates, and rarely from uninformed and easily exploited taxpayers. While this is understandable, it is not an excuse for ignoring the interests of the general public. It is inexcusable for elected officials to blame taxpayers for not being better informed and ready to constantly defend their pocketbooks. Representatives are elected to be informed where their constituents cannot be, and to rise above mere parochial interests.

Government programs must constantly be reviewed for more than whether there is duplication or whether correct accounting procedures are followed. They must be repeatedly fundamentally evaluated for the value they give to taxpayers—the citizenry in general. This means policymakers must, to a great extent, tune out the din of advocates. Only then can priorities that matter for everyone be established and acted upon.

End Notes

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