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WHY THE GOVERNMENT BUDGET IS TOO SMALL IN A DEMOCRACY

By ANTHONY DOWNS

IN a democratic society, the division of resources between the public and private sectors is roughly determined by the desires of the electorate. But because it is such a complex and time-consuming task to acquire adequate political information, the electorate is chronically ignorant of the costs and benefits of many actual and potential government policies. It is my belief that this ignorance causes governments to enact budgets smaller than the ones they would enact if the electorate possessed complete information. Yet these undersized budgets stem from rational behavior by both the government and the electorate; hence they are extremely difficult to remedy. Furthermore, the resulting misallocation of resources becomes more and more serious as the economy grows more complex.

As proof of these assertions, I shall present a model of a democratic society based upon the principles set forth in *An Economic Theory of Democracy*.[1] The basic rules for government and voter decision-making in this model are hypotheses, but the environment in which they are set resembles the real world as closely as possible. Furthermore, I believe the hypotheses themselves are accurate representations of what happens in the real world most of the time. My belief is based upon a comparison of the deductions made from these hypotheses in *An Economic Theory of Democracy* with the actual behavior of political parties in various democracies. However, the deductions made from the same hypotheses in this article are harder to compare directly with reality. Nevertheless, if the reader agrees with me that the basic hypotheses are realistic, it should follow that he will find the conclusions of this model meaningful in real-world politics as well as in the theoretical world of my argument.

This argument consists of the following topics: (1) how the budget is determined in a democracy, (2) the nature of rational political ignorance, (3) the definition of "correct" and "incorrect" budgets, (4) how an "incorrect" budget might arise, (5) significant differences between transactions in the public and private sectors, (6) distortions in budget evaluation arising from these differences, (7) a countertendency

[1] Anthony Downs, *An Economic Theory of Democracy*, New York, 1957.

toward overexpenditure, (8) the net results, and (9) the increasing importance of the problem.

I. How the Budget Is Determined in a Democracy

According to the economic theory of democracy, each government sets both expenditures and revenue collection so as to maximize its chances of winning the next election.[2] This follows from the axiom that political parties are primarily motivated by the desire to enjoy the income, prestige, and power of being in office. Each party regards government policies as means to these ends; hence it pursues whatever policies it believes will gain it the political support necessary to defeat its opponents. Since expenditures and taxes are two of the principal policies of government, they are set so as to maximize political support. Out of this rational calculation by the governing party comes the budget.

Rationality likewise prevails among voters. They vote for the party whose policies they believe will benefit them more than those of any other party.[3] These "benefits" need not be conceived in a narrowly selfish sense, but consist of any utility they derive from government acts, including acts which penalize them economically in order to help others.

The budget itself is not arrived at by considering over-all spending versus over-all taxation, but is the sum of a series of separate policy decisions. The governing party looks at every possible expenditure and tries to decide whether making it would gain more votes than financing it would lose. This does not mean that each spending bill is tied to a particular revenue bill. Instead all proposed expenditures are arranged in descending order of their vote-gain potential, and all proposed revenue collections arranged in ascending order of their vote-loss potential. Wherever these two marginal vote curves cross, a line is drawn that determines the over-all budget. Expenditures with a higher vote-gain potential than the marginal one are included in the budget, which is financed by revenue collection methods with lower vote-loss potentials than the marginal one.[4]

[2] For a complete explanation of this theory, see *ibid.* The government budget is discussed in chap. 4.

[3] The remainder of this article assumes a two-party system. Its conclusions are also applicable to multi-party systems, but the corresponding proofs are too complicated to be presented in an article of this length.

[4] This explanation of the budget process ignores the effect of government administrative bureaus upon the budget's final size. If self-aggrandizing bureaus were included in the model, each would try to maximize its own income, power, and prestige within the government. Hence it would submit a maximum estimate of its needs to the central budgeting agency (i.e., the directors of the governing party). The bureau might even

Because of the myriad expenditures made by modern governments, this rule may seem impractical. In the real world, it is true, the governing party does not weigh the vote impact of every single expenditure, but groups them into large categories like national defense. It then balances the marginal vote-gain of spending for each such category against its marginal vote-cost and against the marginal vote-gains of spending for other large categories, such as farm subsidies, education, and social security. Thus, in the real world, the aggregate budget for each category is decided in a manner similar to that described above, even though details of spending within the category may be left to nonpolitical administrators.[5]

It should be noted that the government in our model never asks itself whether the over-all budget is "too large" or "too small" in relation to the views of the electorate. In fact, it never makes any explicit decision about what the over-all budget size should be, but determines that size merely by adding up all the items that more than pay for themselves

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enlarge this estimate beyond its real needs in anticipation of the budgeting agency's desire to minimize expenditures. Its inflated requests would be bolstered by assertions that all of its spending would pay off well in votes. Since this process would distort the budgeting agency's information about what expenditures would in fact gain votes, the actual budget would tend to be larger than if bureaus were not self-aggrandizing. However, the central budgeting agency would be aware of the bureaus' inflationary tendencies and would develop outside checks against each bureau's vote-gain estimates. If the governing party failed to make such direct checks with the voters, it would be vulnerable to defeat by more alert opponents. Therefore, the information distortion caused by government bureaus could not be expected to offset the basic tendency for government budgets to be too small.

Another possible impact of administrative bureaus upon the model is their tendency to create situations in which their services are needed; e.g., by building missiles, the defense establishment of country A causes rival country B to counter with better missiles, thereby increasing the need for country A to spend even more money on missiles, etc. Robert K. Merton describes this process in "The Self-Fulfilling Prophecy" (chap. 7 of *Social Theory and Social Structure*, Glencoe, Ill., 1949). Since this characteristic of bureaus raises a whole set of fundamental problems beyond the scope of my model, I have made no attempt to account for it in this study. However, a model is under development which contains government administrative bureaus as a set of actors in addition to parties and voters. It is hoped that this model will shed further light on the effects of government bureaucracy.

[5] Some readers of this argument may object that spending for such categories as national defense cannot be evaluated in terms of votes but must be decided largely on technical grounds. I do not agree. For example, the United States government chose to abandon maintenance of strong conventional forces and stake the nation's entire defense upon the use of nuclear weapons. This decision was made against the technical advice of Army planners. From statements made by leading government officials at the time, it is clear that the decision was designed primarily to avoid asking the electorate to pay for both nuclear and conventional forces. In spite of the fact that every subsequent Army Chief of Staff has bitterly opposed this policy, the governing party has maintained it because the cost of its alternative is politically unpalatable. Thus in the real world, even regarding national defense, major budgetary questions are usually decided by vote possibilities.

in votes. Similarly, the voters do not evaluate a budget on the basis of its total size but by the particular benefits and costs it passes on to them.

The absence of any specific evaluation of over-all budget size appears to make our original assertion meaningless. How can we say the government budgets are too small when no one ever considers their size in judging them? The answer is that ignorance produces biases in the electorate that cause the government to exclude certain acts from the budget, thus reducing its size from what it "should be." Our original thesis can be more accurately stated as follows: rational ignorance among the citizenry leads governments to omit certain specific types of expenditures from their budgets which would be there if citizens were not ignorant. The fact that this results in budgets that are too small is simply a dramatic way of stressing the outcome.

II. Rational Political Ignorance

In this model, information is a crucial factor. In order to form policies, each party must know what the citizenry wants; and in order to vote rationally, each voter must know what policies the government and its opponents espouse. But in the real world, information is costly—if not in money, at least in time. It takes time to inform yourself about government policy. Furthermore, the number of policies that a modern government has to carry out is vast and their nature astoundingly complex. Even if the world's most brilliant man spent twenty-four hours a day reading newspapers and journals, he would be unable to keep himself well-informed about all aspects of these policies.

In addition to facing this problem, the average voter knows that no matter how he votes, there are so many other voters that his decision is unlikely to affect the outcome. This does not always prevent him from voting, because he realizes voting is essential to democracy and because it costs so little. But it usually does prevent him from becoming well-informed. Beyond the free information he picks up just by being alive in our media-saturated world, he does not see how acquiring detailed political data will make him better off. Thus a rationally calculating attitude about the use of time leads him to political ignorance. This conclusion is borne out by countless polls that show just how ignorant the average citizen is about major political questions of the day.

In this article we discuss three specific states of rational ignorance. The first is *zero ignorance*—i.e., perfect knowledge. In this state, citizens know (1) all actual or potential items in the budget of each party and (2) the full benefits and costs of each item. The second state is *partial ignorance*, in which voters know all the actual or potential items

in the budget, but not all the benefits and costs attached to each item. Their political perception threshold has been raised so that remote or extremely complex events do not cross it, though the budget itself still does. The third state is *preponderant ignorance*, in which citizens are ignorant of both the items in the budget and their benefits and costs. In this state, citizens' perception thresholds are so high that they are aware of only the individual policies or items in the budget that vitally affect them.

III. "Correct" and "Incorrect" Budgets

My contention is that rational ignorance acts so as to produce an "incorrect" government budget. But what is meant by the term "incorrect" when the government does not seek to maximize welfare? Since I posit no social utility function, how can I say that one budget is "better" or "worse" than another except in terms of its vote-getting power? My answer is that the "correct" budget is the one which would emerge from the democratic process if both citizens and parties had perfect information about both actual and potential government policies. Insofar as an actual budget deviates from the "correct" budget, it is "incorrect." Admittedly, no one has perfect information; hence no one can say what budget would exist if there were no rational ignorance in politics. This fact prohibits use of the "correct" budget for detailed criticism of actual budgets, but it does not prevent generalizations about the tendency of actual budgets to deviate from "correct" budgets because of broad social factors like rational ignorance.

There is no point in denying that the terms "correct" and "incorrect" are ethical judgments. They presuppose that it is good for the citizens in a democracy to get what they want, and to base their wants on as much knowledge as possible. It is not good for them to get something they would not want if they knew more about it. That is the extent of my ethical foundation, and I think it is compatible with almost every normative theory of democracy.

IV. How an "Incorrect" Budget Might Occur

In a two-party democracy like ours, each national election can be considered a contest between two prospective government budgets. These budgets differ from each other in both quality and quantity, but each contains any spending and taxing measures about which there is strong majority consensus. In reality, many factors besides budgets influence people's political choices. However, most of these factors are in some way reflected in the budget, and in the rational world of economic

theory we can assume that proposed budgets have a decisive role in determining how people vote. Knowing this, each party carefully plans its budget so as to maximize the support it gets, following the procedure described in Section I.

A key feature of this procedure is that the government gives voters what they want, not necessarily what benefits them. As long as citizens know what benefits them, there should be no difference between the actual budget and the "correct" budget. But if there are benefits which government spending would produce that people are not aware of, the government will not spend money to produce them unless it believes it can make them well-known before the next election. For the government is primarily interested in people's votes, not their welfare, and will not increase their welfare if doing so would cost it votes. And it would lose votes if it increased taxes or inflation—which people are aware of—in order to produce benefits which people are not aware of. Many citizens would shift their votes to some other party that produced only more tangible benefits at less total cost—even if they would in fact be worse off under this party.

Thus if voters are unaware of the potential benefits of certain types of government spending, party competition may force the actual budget to become smaller than the "correct" budget. This outcome may result even if voters merely discount certain classes of government benefits more heavily than comparable private benefits when in reality they are equal. Thus complete ignorance of benefits is not necessary to cause a "too small" budget—only relative unawareness of certain government benefits in relation to their cost, which under full employment consists of sacrificed private benefits.

Conversely, if citizens are less aware of certain private benefits than they are of government benefits, or if they see benefits more clearly than costs, the actual budget may tend to exceed the "correct" budget. In either case, ignorance causes a distorted evaluation of the relative benefits of public and private spending. This distortion is carried over into the budget by interparty competition, which forces each party to give voters what they want—not necessarily what the parties think would benefit them. Thus the ignorance of the voters may cause the actual budget to deviate from the "correct" budget.

Whether the actual budget is too large or too small depends upon the specific forms of ignorance present in the electorate. Since ignorance influences voters' thinking by distorting their evaluation of public vs. private spending, we must study the way citizens view these two types

of spending before analyzing the net impact of ignorance upon the budget.

V. Significant Differences Between Transactions in the Public and Private Sectors

There are two significant differences between transactions in the private sector and in the public sector that are relevant to our analysis. First, in the private sector nearly all transactions are made on a *quid pro quo* basis, whereas in the public sector benefits are usually divorced from the revenues that make them possible. Whenever a citizen receives a private benefit, he pays for it directly and individually. Conversely, whenever he pays someone in the private sector, he receives a corresponding benefit which he has freely chosen because he wants it. No such direct link between costs and benefits exists in the public sector. Taxes are not allocated to individuals on the basis of government benefits received but on some other basis, usually ability to pay. Thus receipt of a given benefit may have no connection whatever with payment for it. And when a man pays his income tax or the sales tax on his new car, he cannot link these acts of sacrifice to specific benefits received. This divorce of benefits from payment for them makes it difficult to weigh the costs and benefits of a given act and decide whether or not it is worthwhile, as can be done regarding almost every private transaction.

There are two reasons why governments do not operate on a *quid pro quo* basis. First, the collective nature of many government benefits makes it technically impossible. For example, take national defense, which is the largest single item of government spending in most democracies.[6] But the benefits of national defense are collective in nature; that is, if they exist for one man, all men enjoy them. This fact makes *quid pro quo* transactions impossible, because once the benefit exists, enjoyment of it cannot be denied to those citizens who have not paid for it. For this reason, voluntary payment cannot be used to finance collective benefits. Since each citizen benefits whether or not he has paid, he maximizes his income by dodging his share of the cost. But *everyone* has this cost-minimizing attitude; so if voluntary payment is relied upon, no one pays. Consequently the resources necessary to provide the collective good are not provided, and no one receives any benefits. To avoid this outcome, individuals agree to coerce each other into payment through a collective agency like the government.

[6] In the United States, defense expenditures by the federal government constitute over 40 per cent of the total spending by all federal, state, county, local, and other government units. This figure applies to 1954 and is taken from U.S. Department of Commerce, *Statistical Abstract of the United States: 1956*, p. 401.

A second reason why governments do not use *quid pro quo* transactions is their desire to redistribute income. In the private sector, benefits are furnished only to those who can pay for them, or through voluntary charitable activities. But most modern democracies have elected to provide their poorest citizens with more benefits than those citizens can afford individually. This goal requires a deliberate violation of the *quid pro quo* relationship; poor citizens get more benefits than they pay for, and their richer brethren are forced to give up more in taxes than is spent on benefits for them. One way to accomplish such redistribution and at the same time allocate the costs of collective goods is to tax on the basis of ability to pay. Thus for both technical and ethical reasons, the benefit principle that prevails in the private sector is largely abandoned in the public sector.

The second major difference between transactions in the private and public sectors is the coercive nature of dealings in the latter. Whereas all private transactions are voluntary, most payments to governments—other than direct sales of services—are enforced by law. Even the receipt of collective benefits is involuntary, since they exist whether a given citizen wants them or not. As noted, coercion is necessary because there is no intrinsic link between benefits and payments as in the private sector. Instead, force supplies this link.

But the use of force makes doing business with the government an all-or-nothing proposition. In the private sector, a citizen can enter into those transactions he desires and refrain from those he does not desire. No such selectivity is possible in his dealings with government. He must pay taxes that are used to pay for many projects he does not want. True, he can avoid taxes to some extent by directing his activities into untaxed areas; e.g., by refusing to buy luxury goods or cutting down the time he works. He can also exercise similar limited selectivity in receiving government benefits. But by and large, since his payments to the government are not related to the benefits he receives from it, he finds himself contributing to things that do not benefit him. The result is that no one ever attains marginal equilibrium in his dealings with the government.

For a citizen, such equilibrium exists when the utility produced by that act of government which is least attractive to him (i.e., the "last" government act on his preference scale) is equal to the utility of the least attractive act he undertakes in the private sector (i.e., the "last" completed private act on his preference scale). Furthermore, there must be no additional government acts that would give him more utility than those now being carried out. Under these circumstances, the individual

cannot be made better off by shifting resources from the private to the public sector or vice versa, or by any reallocation of resources within the public sector. (We assume he has already allocated his resources within the private sector to his maximum benefit.) This situation corresponds to equilibrium within the private sector as portrayed by classical economists—a state attained by utility-maximizers in a world of perfect competition.

However, even if perfect competition exists, the requirements for attaining perfect equilibrium with a democratic government are highly restrictive. If a majority of citizens have identical preference rankings of both public and private acts, then the government's actual policies will be just what those citizens want (assuming the government knows what their preference rankings are). The division of resources between public and private sectors will be precisely that necessary to assure the majority a state of equilibrium between the sectors.

But, in the real world, people's preference rankings are not identical, so we shall not assume them identical in our model. While almost every man agrees with a majority of his fellows in regard to some policies, he also finds himself in a minority regarding others. It is the presence of these "revolving majorities" that prevents men from attaining equilibrium with governments. The government must carry out a complex mixture of many policies, some pleasing to one majority, some pleasing to another majority, and some pleasing only to a minority with intensive feelings concerning them. It can afford to undertake policies favored only by a minority because it does not stand or fall on any one issue but on the mixture as a whole.[7] If society is at all complex, the government's gigantic policy mix is bound to contain at least one act which any given voter opposes. It is either positively repugnant to him (i.e., it produces negative utility apart from its resource-cost), or else he knows of better uses to which the resources it absorbs could be put. As long as only one such act exists for him, he is out of equilibrium with government. Even if we assume declining marginal utility of income in both private and public sectors, there is always some additional private use of resources (including charity) which would yield him positive utility. There may also be other government acts, not now being performed, which would yield him even more utility than the best private act he can think of. Hence his disequilibrium does not necessarily imply a desire to shift resources from the public to the private sector. It may

[7] Where the government does stand or fall on every issue, as in the French Fourth Republic, it can function successfully only if strong consensus exists among the majority. Otherwise it is continually defeated by "Arrow problems." See Downs, *op.cit.*, chap. 4.

also imply desire for reallocation within the public sector or even for moving more resources into that sector. But, in any case, there is always some change in government policy that would benefit him. Furthermore, the government is always spending money on projects he dislikes; hence his welfare would be improved if those projects were eliminated and his taxes reduced. *Therefore every citizen believes that the actual government budget is too large in relation to the benefits he himself is deriving from it.* Even if he feels the optimum budget would be much larger than the actual one, he believes the actual one could be profitably reduced "through greater economy"—i.e., elimination of projects from which he does not benefit.[8]

But if everyone feels the government is spending too much money for the benefits produced, why don't political parties propose smaller budgets? How can budgets which everyone regards as too large keep winning elections? The answer lies in the nature of the "revolving majorities" discussed previously. According to the economic theory of democracy, governments never undertake any policies unless they expect to win votes (or at least not lose votes) by doing so. Hence for every citizen opposed to a given act, there are other citizens in favor of it. Elimination of that act would please the former but alienate the latter. Looking at the whole complex of its acts between elections, the governing party feels that including this act gains more votes than excluding it. The party can afford to offend some voters with this act because they are in the minority regarding it, their feelings against it are not as intensive as the feelings of those for it, some other acts will placate them, or for some combination of these reasons. Since citizens' preferences are diverse, every man finds himself thus ignored by the government on some policy or other. Hence everyone believes the government is carrying out some unnecessary acts. But the government is still maximizing political support for itself, for what one man believes unnecessary is to someone else necessary enough to cause him to thank the government with his vote.

[8] This sentence appears to contradict the one preceding it, but in reality they are perfectly consistent. To illustrate, assume that an urban citizen pays $500 per year in taxes toward a government budget which is spent entirely for farm subsidies. Because he has no interest in farm subsidies, he thinks the budget is too large in relation to what he is getting out of it. However, he strongly desires urban renewal, and would be happy to pay $1,000 per year in taxes if the government budget were spent entirely on urban renewal. Thus, in his eyes, the actual budget is simultaneously too large and too small, depending on what alternative it is compared with. It is too large compared with a budget in which those expenditures he dislikes have been eliminated and all others remain the same. Yet it is too small in comparison with a budget in which the expenditure pattern has been changed to what he regards as optimum.

However, the resulting disequilibrium puts tremendous pressure on the government to reduce the budget wherever it can. This means it will make only those expenditures which produce benefits that voters are aware of, for hidden benefits cannot influence votes. Thus the threat of competing parties prevents the government from giving citizens what is good for them unless they can be made aware of the benefits involved before the next election. Only if a party has immense confidence in its ability to win the next election anyway is it free to produce such hidden benefits, no matter how important they are in the lives of the voters. The more "perfect" the competition between parties, the more closely must the government follow popular opinion, and the more likely it is to include in its policies any errors in that opinion caused by ignorance.

VI. Distortions in Budget Evaluation Arising from These Differences

Having analyzed the relevant differences between transactions in the public and private sectors, we now turn to the distortions they produce in benefit-appraisal. Such distortions are of two main types: underevaluation of government benefits in comparison with private benefits, and underevaluation of government cost in comparison with private cost. In both cases, the distortion occurs in estimating the government's contribution or cost rather than that of the private sector. This is true because the *quid pro quo* relationship in the private sector makes accurate estimation of both costs and benefits almost universal. Of course, some private spending is speculative in nature; e.g., people may attend a play not knowing beforehand whether it will be worth the price of admission. But because each private transaction is voluntary, purely individual in nature, and based on *quid pro quo* relations, the persons making it usually know its benefits and costs in advance (except in cases of financial speculation). The absence of these qualities in public transactions gives rise to two major sources of error.

(1) remoteness

Benefits from many government actions are remote from those who receive them, either in time, space, or comprehensibility. Economic aid to a distant nation may prevent a hostile revolution there and save millions of dollars and even the lives of American troops, but because the situation is so remote, the average citizen—living in rational political ignorance—will not realize he is benefiting at all. Almost every type of preventive action, by its nature, produces such hidden benefits. People

are not impressed with their gains from water purification, regulation of food and drugs, safety control of airways, or the regulation of utility and transport prices, unless these actions fail to accomplish their ends. Then, perhaps for the first time, the absence of effective protection makes them aware of the benefits they were receiving when it was present.

In contrast, the immediate benefits of almost all private goods are heavily emphasized. In order to sell these goods on a voluntary basis, their producers must convince the public of their virtues. Thus consumers are subject to a continuous advertising barrage stressing the joys of private goods, whereas no comparable effort dramatizes the benefits they receive from government action. Even private goods with benefits of a remote nature, such as cemetery lots, are advertised in such a way as to make awareness of these benefits immediate.

Furthermore, much of the cost of remote government benefits is not equally remote. In the private sector, the *quid pro quo* balancing of costs and benefits is often attenuated by time-payment plans which magnify benefits in relation to costs. But in the public sector the opposite is true. The major source of federal government revenue—personal and corporate income taxes—must be computed by taxpayers on an annual basis. Even if these taxes are paid by installments, the fact that each taxpayer must sit down and figure out exactly how much he has to pay each year makes this cost very real to him. His rational political ignorance does not insulate him equally from knowledge of government benefits and their costs, but it tends to emphasize the latter.

In some cases, this asymmetry is reversed. Sales taxes which are passed on to consumers are not strongly felt by them because they are spread over time in a series of relatively small payments, and each consumer does not annually add up his total payments. But the intermediate agent—e.g., the retailer who collects the sales tax—does compute the total amount paid. True, he realizes that this cost is borne by his customers in the long run.[9] Nevertheless, both his short-run interests and his ignorance tend to emphasize the government's acquisition of these resources rather than the benefits they eventually provide; hence this acquisition takes on the elements of confiscation.

The confiscatory cast of taxation is an inevitable result of the divorce of costs from benefits and the remoteness of the latter. Whereas in *quid pro quo* transactions each yielding of resources is justified by immediate receipt of benefits, taxation appears to be outright seizure of privately

[9] If competition is not perfect, he bears some of the cost himself. This fact strengthens the argument that citizens are relatively aware of the sacrifices imposed upon them by taxes, even indirect ones.

produced resources. It thus seems parasitic, rather than self-supporting like other costs of production or consumption. True, a rational taxpayer knows that he receives benefits in return for his taxes, but the remoteness of many such benefits removes the appearance of tit-for-tat balance that is present in private transactions.

In summary, a major portion of government benefits is remote in character compared with either taxes or private benefits. Since citizens are rationally ignorant of remote political events, they fail to realize all the government benefits they are receiving. However, they are well aware of a greater percentage of the taxes they pay and of the private benefits they are sacrificing to pay them. Because of this imbalance, the governing party cannot spend as much money on producing remote benefits as their real value to the citizenry warrants. Every dollar raised by taxation (or inflation) costs votes which must be compensated for by votes won through spending. But when the spending produces benefits that are not appreciated by voters, no compensating votes are forthcoming. Hence such spending must be restricted, or else the competing party will gain an advantage by cutting its own (proposed) spending and charging the incumbents with "waste." True, if the incumbents can demonstrate to the voters that this spending actually produces valid benefits, such charges will be harmless. But such demonstrations absorb resources themselves, especially since the nature of remote benefits makes them hard to document. And since the government is under constant pressure to cut expenditures, it cannot afford to use resources advertising the benefits of its policies. In this respect, it differs from private concerns, which must advertise in order to encourage voluntary purchase of their products. A striking example of this advertising asymmetry is in the field of electric power. Whereas private power corporations advertise both the virtues of their own product and the evils of public power, government utilities cannot even advertise their existence for fear of being accused of wasting public funds.

The outcome is a tendency toward elimination from the budget of all expenditures that produce hidden benefits. Only if the benefits involved are necessary for the survival of democracy itself will the governing party risk losing votes by producing them and spending resources to justify its actions. Even in this case, it tends to get by with the minimum possible amount because it fears charges of "waste" from its opponents.[10] Clearly, this situation causes government budgets to be

[10] This is not to deny that there is a great deal of actual waste in government which justly deserves censure. However, many political charges of "waste" are really attacks on production of genuine—but remote—benefits. These attacks are designed to capitalize

smaller than they would be if voters were perfectly informed about all benefits and costs, however remote.

(2) UNCERTAIN NATURE OF GOVERNMENT BENEFITS

Closely akin to remoteness is the uncertain nature of many government benefits compared with private ones. Since government must deal with factors affecting society as a whole, the problems it faces are much more complex than the problems facing individuals in their private lives. Many policies undertaken by governments are launched without either control or knowledge of exactly what their outcomes will be. This is particularly true in international relations or fields of rapid obsolescence, such as national defense. Here the future is so beset by unknowns that whether a given policy will produce benefits or penalties is often problematical, and appraisal of the expected value of benefits forthcoming is extremely difficult. In contrast, each citizen in his private life knows of many ways to invest resources which will give him immediate benefits. True, life is full of risks, and the future is unknown to individuals as well as governments. Nevertheless, each person faces a much simpler set of choices in his own life, with many fewer parameters, than does even a local government. Hence the returns from investing resources privately must be discounted much less than those from investing resources publicly.

This situation is not a result of rational political ignorance, but of the uncertainty inherent in any complex situation involving human action. Even the best-informed government experts cannot predict the outcome of many of their policies. They have plenty of current information, but do not understand all the basic forces at work, and cannot predict the free choices of the men involved. This kind of ignorance cannot be removed by greater personal investment in political information.

Again, the outcome is a budget smaller than the "correct" one. Because voters are led by rational ignorance to undervalue benefits from policies with uncertain outcomes, the government cannot count on gaining political support by spending money on these policies. But since it can count on losing support by raising the money, it tends to eschew such policies altogether.

Throughout the preceding argument, it is assumed that citizens' ignorance conceals benefits lost through failure to spend, but does not conceal losses of utility through excessive spending. Perhaps if citizens be-

on rational ignorance for political gain at the expense of the actual benefit of the citizenry.

came better informed about government policy, they would discover that present policies produce fewer benefits than they had supposed. In that case, increased information might increase their reluctance to transfer resources into the public sector. In other words, they would discover that the actual budget was larger than the "correct" budget instead of smaller.

This objection to our previous conclusion ignores the motivation of the government in regard to expending resources. Essentially, the argument implies that government conceals a great deal of "waste" spending under the cloak of citizens' ignorance; therefore if citizens had perfect information, they would want the government to eliminate this waste. Naturally, in a world of imperfect knowledge, every government makes mistakes, and undoubtedly perfect information would reveal such errors and cause the electorate to desire corrective reallocations. But, aside from this failing, the government has no motive to spend resources without producing tangible benefits. As we have seen, government policies are designed to gain votes by producing definite benefits known to voters. Furthermore, because voters are aware of the costs imposed upon them by government action, government is always under pressure to eliminate policies that do not justify their costs by producing tangible benefits. Hence it is irrational for government to "waste" resources on non-benefit-producing policies, since they lose votes through adding to taxation but do not gain votes by adding to benefits. Such "waste" expenditures would be rational only if (1) the government had a secondary motive of maximizing expenditures *per se* in addition to maximizing its chances for election, or (2) in the process of winning votes, the government spent money to benefit minorities in hidden ways which the majority would repudiate if they had perfect knowledge. The first case posits a government markedly different from the one in our model. Exploration of the behavior of such a government might be very interesting, but it cannot be undertaken in this article.[11] The second case will be dealt with in the next section.

[11] In my opinion, the elected officials of a democratic government are not significantly motivated to maximize expenditures. Their primary rewards are the perquisites of holding an elective office, and their attention and energies are focused upon overcoming the difficulty of remaining in that office in spite of challenges in every election. However, permanent bureaucratic functionaries in large governments do not have their energies absorbed by the problem of retaining their jobs. Hence they can concentrate on increasing their significance through expanding the size and influence of the departments under them, which usually involves increasing the amount of resources they control. Thus whether the expenditure-maximizing assumption enters a model of democratic government depends upon whether government in the model is simply a team of elected officials, or is a team of elected officials *plus* a set of permanent bureaucrats. The impact of the latter assumption has already been discussed in footnote 4.

VII. The Tendency Toward Excessive Spending

Up to this point we have discussed two states of information in the electorate: perfect knowledge and partial ignorance. We have shown that when the latter prevails, costs of government action will appear more significant than benefits; so the actual budget will be smaller than the "correct" budget. However, there is also a third state of information: preponderant ignorance. In this state, citizens are ignorant of both the items in the budget and their benefits and costs. The budget that results when such ignorance predominates differs radically from those discussed previously: it tends to be *larger* than the correct size because of voters' ignorance of what items are in the budget.[12]

Government action affects each citizen in many ways, touching nearly all the functional "roles" he plays in society. Two important such roles are those of income-earner and consumer. As an income-earner, each citizen benefits when government spending increases the demand for the service he produces and when his taxes are reduced. He suffers when such spending is diminished or when his taxes increase. As a consumer, he suffers whenever government action increases the prices of the goods and services he buys, and he gains when it causes them to fall relative to his income.

Thus government action influences his welfare in both roles, but the two influences are not equally significant to him. Since almost every citizen receives nearly all his income from one source, any government act pertinent to that source is extremely important to him. In contrast, he spends his income on many products, each one of which absorbs a relatively small part of his total budget. Thus a government act which influences one of the products he consumes is nowhere near as vital to him as an act which influences the product he sells.[13] Under conditions of preponderant ignorance, this asymmetry means he is much more aware of government policies that affect him as an income-earner than he is of policies that affect him as a consumer.[14]

[12] However, this is not the only distortion caused by preponderant ignorance. It also encompasses the previously described tendency to create budgets that are too small because voters are ignorant of remote government benefits. The net effect of these two opposing forces is discussed in Section VIII.

[13] Many citizens sell their time and labor rather than an objective product. They are therefore interested in policies which affect both (1) the sale of their labor and (2) the sale of the particular products their labor is used to create.

[14] The classic example of this asymmetry is the tariff. A few producers manage to get government to set protective tariffs at the expense of millions of consumers, even though politicians seek to maximize votes. This is possible because producers are much more intensely interested in their income than consumers are in the individual prices that face them. See Downs, *op.cit.*, pp. 253-57.

In order to maximize its political support, the government takes account of this situation in planning its budget. It realizes that two excellent ways to gain a citizen's support are to raise his income by giving him something for nothing or to buy what he produces. In some cases, both can be combined in a single act, such as hiring workers to build a public swimming pool which they subsequently use free of charge. But in a society with a complex division of labor, each specific income-earning group is usually a small minority of the population. Therefore government acts designed to please such a group usually distribute benefits to a minority, whereas their costs are added to the general tax burden and spread over the majority. Each recipient of such a boon thus feels he is making a net gain, since his share of the taxes added to pay for this project is much smaller than the benefit he receives. But the government also provides similar projects benefiting other minorities to which he does not belong. The costs of these projects are likewise spread over all citizens—including him—so he winds up paying for other people's special benefits, just as they pay for his. Whether or not he makes a net gain from this process is a moot point.

However, he cannot expect the government to undertake only those special projects which benefit him. Since a majority of citizens would be net losers under such an arrangement, they would vote against it. In order to get them to help pay for acts which benefit him, the government must provide them with benefits for which he helps to pay. Thus the government placates the majority who are exploited by a minority in one field by allowing them to be part of exploiting minorities in other fields.

In this process of "log-rolling," the citizens affected do not enter into direct bargains with each other. The only decision they face is which of the two competing budgets to vote for at each election. All the intervening trading of political support is done within the governing party, which knows that it must present the end result to the voters as a single package in competition with a similar package offered by its opponents. Each voter must then decide which budget provides him with the greatest difference between benefits received and costs imposed. If he receives many benefits from "special-interest" projects, he can expect his taxes to be swelled by the costs of similar projects benefiting other minorities, which the government must undertake to "buy off" the people who paid for his gains. Thus he might be better off if all minority benefits were eliminated and taxes lowered for everyone.

However, the question facing us is not whether budgets will include many or few minority-benefiting projects. It is whether the voters'

ignorance of what is in the budget will cause governments to increase or decrease the number of such projects, thereby increasing or decreasing the budget as a whole.

As we have shown, when preponderant ignorance prevails, voters are most likely to be aware of those government policies which directly affect their sources of income. Hence they encourage government policies which raise the relative prices of the products they sell. But since any particular type of producer is in a minority in a complex society, these policies will be minority-benefiting policies. This is also true because such policies injure all buyers of the product, and buyers usually outnumber producers. Thus each citizen's perception threshold is most likely to be crossed by minority-benefiting policies involving government spending that raise (or could raise) his income.

On the other hand, government policies that affect the prices of individual goods he consumes will not be as apparent or as significant to him as policies which affect the price of what he produces. But policies that raise his costs as a consumer also benefit the citizens who produce what he consumes. It therefore appears that government can engage in specialized spending that benefits each type of producer without arousing the antagonism of consumers, especially since each consumer receives such benefits himself in his role as a producer. This situation tends to make the actual budget larger than the "correct" one.

However, this appearance is deceptive, for it ignores the cost side of the budget. When voters are preponderantly ignorant about the budget, they do not realize that special benefits are being provided to minorities to which they do not belong. But these benefits raise the general level of taxation, and voters are quite aware of their taxes, since taxes affect them directly. Thus their knowledge of the budget is narrowed down to two major items: government policies directly affecting their sources of income, and those types of taxes which inherently call themselves to every citizen's attention (e.g., income taxes).

As noted, when any minority gets special benefits from government spending, the minority's taxes are likely to go up much more than just its share of the cost of the benefits it receives. If the taxes that rise cannot be concealed from the citizenry, each minority may prefer to eschew its special benefits and vote for a budget which cuts out such benefits and reduces everyone's taxes. But if the taxes that rise are the type that are less likely to cross the citizens' perception threshold (e.g., sales taxes), then each minority may vote for a budget which provides it with special benefits because its taxes do not appear to go up significantly.

Thus, insofar as taxation can be concealed from the electorate, the government budget will tend to be larger than the "correct" one. Voters will underestimate the costs they are paying for special benefits received, and parties will build this bias into their budgets. However, this tendency does not eliminate the previously discussed tendency toward a too-small budget. Under preponderant ignorance, both forces act simultaneously; so the net outcome in terms of total budget size is ambiguous.

VIII. The Net Results

Nevertheless, I believe the actual budget will still be smaller than the "correct" budget because even indirect taxation is much more apparent than many remote government benefits. As noted previously, whoever collects indirect taxes is aware of their existence even if in the long run he does not bear them himself. He tends to look at them as expropriation by the government of resources he could collect himself, since by raising the price of his product, they reduce his sales and cause him short-run hardships. Furthermore, he attempts to placate his customers for his higher price by identifying that element of it caused by the tax—thus making them aware of it. And if this tax is significant enough to support substantial increases over the "correct" budget, it must irritate many such persons. For these reasons, it is difficult to increase taxation to support "hidden" special projects without arousing opposition. True, policies like tariffs, which raise prices but do not increase taxes, can be used to provide minorities with hidden benefits, especially if the persons whose income-earning suffers are foreign citizens. But when a domestic appropriation of revenues is necessary to support a hidden subsidy, some voters are bound to complain. This fact necessarily limits the tendency for budgets to exceed the "correct" amount.

No such inherent brake limits the tendency for remote government benefits to be ignored. Since most remote benefits stem from preventive action, no one feels any immediate loss when they are not forthcoming. Perhaps particular producers might increase their incomes if government adopted policies that produced remote benefits, but their voices are not as loud as those of the taxpayers injured by indirect taxes. In the first place, they are not suffering "expropriation" of actual private earnings but only loss of potential income, which is rationally less significant because it must be discounted for uncertainty. Second, they are usually few compared with the large number of voters who must be taxed if the budget is to be made larger than the "correct" size. Furthermore, the benefits of preventive action in any field are usually known only to experts in that field, since such knowledge implies the ability

to predict future events, which in turn demands familiarity with causal relations in the field. Whenever these experts are members of the government, they are primarily motivated to produce votes rather than benefits. But remote benefits cannot produce votes unless resources are spent to inform people about them—and voters are notoriously hard to inform about anything remote. Thus the experts who usually know most about such remote benefits are not strongly motivated to produce them—nor is anyone else.

For these reasons, the two opposite tendencies acting on the budget are not of equal strength. The forces which tend to enlarge budgets beyond the "correct" level are inherently limited, whereas those which tend to shrink it are not. Therefore I believe the budget will emerge smaller than its "correct" size.

Even if the net size of the actual budget in relation to its "correct" size is ambiguous, certain specific distortions in it (i.e., variations from the "correct" budget) can be expected to result from the two tendencies described. They are as follows:

(1) Indirect taxes will be too large in relation to direct taxes.

Corollary A: Governments which depend on direct taxation for the bulk of their financing will find it more difficult to balance their budgets than similar governments which depend upon indirect financing.

Corollary B: Since the costs of inflationary finance are not as apparent as those of taxation, this method will be too frequently used to avoid increasing direct taxation.

(2) Projects which benefit minorities will be awarded too large a share of the resources allocated to government.[15]

Corollary A: Costs of projects benefiting all citizens will be distributed with too many loopholes allowing specific minorities to evade their "normal" share.

Corollary B: Producers as a group will receive a disproportionate share of government spending and policy-protection in comparison with consumers.

(3) In comparison with policies producing immediate and tangible benefits, government policies which produce remote or problematical benefits will not be allocated as many resources as are warranted by their true importance.

[15] This conclusion and many of the ideas in Section VII were developed in discussion with Gordon Tullock, to whom I am much indebted.

All of these tendencies distort the budget that would prevail if people were perfectly informed. Yet being perfectly informed is impossible, and even being well-informed is irrational; hence ignorance is likely to prevail. Therefore these distortions will probably occur even though a majority would be better off if they were eliminated.

IX. The Increasing Importance of the Problem

As society grows more complex, the role of governmental action becomes relatively more significant. This conclusion applies to all levels of government—local, county, state, national, and international. It results from government's function as a preventer and settler of conflicts among men.[16] Increased social complexity means increased interdependence, which in turn creates more conflicts of interest. Hence the need for more and more regulation, control, and intervention by government in all spheres of action, especially economic.

Social complexity is usually the result of an increasingly specialized division of labor, which also causes higher productivity. Thus societies tend to become richer as they grow more complex. In democracies, this increased wealth is usually distributed to all citizens—by no means equally, but in a generally rising living standard. As men become wealthier, their marginal economic desires shift from material necessities to luxuries and services. Freed from the need to direct all resources to private necessities, they can afford many collective benefits heretofore beyond their means. Thus the need for greater government action coincides with greater ability to pay for it.

However, ability to pay and desire to pay are not identical. We have shown that, in our model economic world, the citizens of a democracy are reluctant to yield their private resources to the government if the benefits to be gained thereby are at all remote from their everyday knowledge. This reluctance is not based on stupidity or irrationality, but on the ignorance in which the average citizen of a complex society is forced to live. He simply cannot afford to be well-informed about all the remote benefits of government action that are or might be important to him. And this ignorance influences the government to refrain from providing him with such benefits. The party in power fears losing to its opponents if it invests tangible resources in less tangible projects, even when it realizes that those projects would benefit the citizenry.

Furthermore, as society grows more complex, the remoteness of possible government action increases. This tendency is most obvious in

[16] This is not the sole function of government, but it is one of the most central.

international affairs, where economic and technical progress have spread a web of interdependency over the whole world. It becomes harder and harder for even experts to keep well-informed on possible benefits to be gained from government policies, including those on the local scene. In short, society's complexity demands more government action, but it also makes each field of action more remote from the ken of the average man. Faced with a gigantic maze of government agencies, each grappling with incredibly intricate problems, a normal citizen soon concludes that keeping himself well-informed is hopeless. Therefore he wraps himself in a mantle of rational ignorance, insulated from knowledge of increasingly important remote benefits by the increasingly high cost of finding out about them.

Thus, as remote benefits become more important, they become less likely to be attained. Their greater importance is accompanied by still greater remoteness, and this makes governments more wary of devoting resources to them for fear of competition from opponents who advocate more immediate gains.[17] The actual government budget shrinks to an ever-smaller percentage of the "correct" budget, even if it increases in size absolutely. Yet most people do not realize this increasing distortion because they are blanketed by an ignorance of political realities which becomes deeper and deeper as the realities become more significant. This ignorance is abetted by every citizen's belief that the government budget is too large in relation to the benefits he is getting from it, because so much of it benefits others at his expense.

Conclusion

In a democracy, information costs tend to make governments enact budgets that are smaller than they would be if such costs were absent. This conclusion is true even if both parties and citizens are rational in

[17] During periods of rising national income, government receipts will increase without any change in tax rates. Assuming that such increases are not accompanied by an inflation which destroys their real value, the government will have greater purchasing power available to it. It might therefore appear that government could increase its spending beyond the "correct" amount without the voters knowing about it. However, this argument ignores two facts. First, the opposition party serves as a "watchdog" ready to call voters' attention to such tendencies. If the governing party tried to increase spending covertly with these funds, the opposition might defeat it by uncovering the added receipts and promising to return them to voters via tax cuts. Second, voters will realize that their absolute taxes are rising, even if their incomes are also rising. For both reasons, voters will be aware of rising government receipts. Since the governing party has no vested interest in maximizing its spending anyway, it cannot afford to risk antagonizing voters by trying to hide such increments. Hence it will evaluate them by weighing votes, as with any other receipts, and either return them to voters via tax cuts or spend them so as to gain further support. Thus whether the model is conceived of as static or dynamic is irrelevant to its major conclusions.

their political behavior. It is based on the economic theory of democracy, which treats political parties as part of the division of labor, motivated primarily by self-interest like all other agents in the economy.

Furthermore, if economic growth is injected into the analysis, the tendency for actual budgets to be smaller than "correct" budgets becomes more and more pronounced. As society becomes more complex because of increasing specialization, the governing party is less able to allocate resources to those remote benefits which are of increasing importance to the welfare of the citizenry. It is even conceivable that the growing gap between the actual and the "correct" budgets might precipitate a crisis for democratic government. If the society were suddenly confronted by an external threat heretofore latent, its chronic tendency to underinvest in remote benefits might prove extremely deleterious, if not fatal.

However, such projection goes beyond the limits of my model. I have merely tried to use the economic theory of democracy to draw significant conclusions about democratic governments. This theory has been criticized because it cannot predict the actions of individual men, who play a central role in political events but do not always act selfishly. Therefore, it is said, the theory is useless for political analysis. But if it can reveal underlying tendencies in democracy which operate independently of individuals, then I believe it is a useful theory. In my opinion, it can be used to reach significant, non-obvious conclusions applicable to the real world—especially to the American government. I hope the analysis presented in this article provides an example of such application.