Non-territorially unbundling the fiscal commons

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Abstract

This paper conceptualises polities as commons and describes how changes to access rules and boundary rules serve to reallocate property rights within and across political commons. Fiscal processes typically transform private property into common property, with the state becoming the forum where rules for governing the commons are decided. In a political commons the fiscal capacity of the whole economy is the analogous exploitable resource. I outline how polities are constituted as fiscal commons, and describe how this often portends to exploitation and inefficiency. Next I present an analysis of political-jurisdictional systems as complex institutional structures of access rules and boundary rules, which either sustain or deplete social value. Citizens differentially contribute to and draw from political commons according to these rules, and as a result, changing access to and boundaries of political commons modifies the allocation of property rights in a polity. I argue that by generating viable exit options and membership externalities in multiple, overlapping majorities, non-territorial unbundling tempers the tragedy of the fiscal commons.

Keywords: non-territorial, unbundling, fiscal commons, decentralisation, exit.

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1. Introduction

This paper conceptualises polities as commons and describes how changes to access rules and boundary rules serve to reallocate property rights within and across political commons. Fiscal processes typically transform private property into common property, with the state becoming the forum where rules for governing the commons are decided. In a political commons the fiscal capacity of the whole economy is the analogous exploitable resource.

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2. Polities as commons

People in positions of political authority often extend the gamut of political governance beyond what might be otherwise agreeable dimensions. Economists generally agree on the minimal functions of the state as comprising provision of protective services (such as military, police, and courts) and certain collective productive services (as defined by 'publicness'). But modern states do much more on top of this—providing a wide range of goods and services such as social security, education, health, and economic infrastructure such as energy, road, rail, and port facilities. Governments also execute various regulatory interventions, with the purpose of managing the economy for growth and stability, handling risk in society, determining the size and composition of migration, and more.

James M. Buchanan (1975) makes the conceptual distinction between the protective and the productive states. The protective state maintains the framework of private property and freedom of contract that governs the interactions of individuals in a market economy. The productive state is an active participant in the organisation of economic activity, via the formation of state enterprises (akin to private enterprises) such as schools, hospitals, and transport systems. Political authorities meet with incentives to push beyond the minimally protective state and basic productive state, effectuating a redistributive state. They can use their position to extract surplus resources from the productive capacity of the economy in the form of fiscal transfers to themselves and favoured groups. These may take the form of money or other benefits in kind, or they may use government to produce non-public goods for their own consumption, or for the entire population but according to their own political preferences.

If this is the case it is unlikely that the provision of collective goods and services in the public sector—and the performance of the polity-economy as a whole—will be efficient. Misdirected application of political authority can lead to inefficiency but it can also be characterised as exploitative. Political economists often invoke the metaphor of the 'tragedy of the commons' to describe this outcome (Wagner 1992, 2012a,b; Yoon 2000; Buchanan & Yoon 2001, 2004; Jakee & Turner 2002; Buchanan 2003a; Raudla 2010). The familiar tragedy involves the overexploitation of a common resource as many users are given open access rights (Gordon 1954; Scott 1955; Hardin 1968). Yet Elinor Ostrom (1990; 2010) has shown that in many cases commons users are capable of developing methods, institutions, and practices of governance that manage to avert overdepletion.

In the political setting, the fiscal capacity of the whole economy becomes the analogous exploitable resource. State fiscal processes typically transform private property into common property, with the state becoming the forum where rules for governing the commons are decided (Wagner 1992, 2012a,b). Common property follows from collective ownership, where some collective body holds property jointly but ownership shares (i.e., access rights) are not distributed evenly among members of that body. When private property is converted into common, as per political action, the value consequences of the use of that property are diffused throughout society, and thus the owners (controllers) can offload negative externalities on outsiders with impunity.

The fiscal commons are stocked through taxation, and different people within society have differential obligations to contribute to them. They are depleted through spending, and again citizens have differential rights of access. Contribution and access to the fiscal commons are obtained through a competitive process, whereby more effective political agents (i.e., individuals, interests groups, coalitions) gain larger shares of the fiscal commons. At the end of this, citizens differ in net positions vis-à-vis the fiscal commons; in their obligations to stock the commons and in the amount of access they have secured. Those who are politically favoured accept lower tax prices and receive greater spending provisions, while political outsiders compensate for the budgetary shortfall with higher tax prices and lower spending provisions.

More generally, social surplus—whether in the form of individual income or utility or some measure of aggregate value or welfare—can be styled as a common pool resource. Different political-jurisdictional frameworks generate different distributions of people, property, and policies, and thus attain different levels of social welfare. The differentials therein are a measure of social surplus, which is an exploitable and potentially depletable resource. Maximum social surplus corresponds to a condition of optimal efficiency in the Coasean sense and can only be secured if exploitative usage of the political commons is somehow restricted.

Like the overexploited natural resource commons, the tragedy of the fiscal commons occurs when access is left too open or when users are given differential access rights. At the individual level, this can be a source of inframarginal rents to politically expedient agents and citizens. At the systemic level, in the very least this portends to political and economic inefficiency. In the extreme the counterpart of natural resource depletion is political-economic collapse or regress to a kind of Hobbesian anarchy. Citizens treat the value of each other as their own, and the common resource of social surplus is fully depleted. In the limit is the worst of all political-economic orders; and at other gradations of unrestrained access, we arrive at other variously inefficient allocations of people, property, and policies.

Within fiscal commons, like in common property arrangements more generally, the self-interest of fiscal participants alone does not guarantee sustainable fiscal management. A good fiscal order, and thus a good economic order, requires constraints on fiscal authorities. Economists have recommended the assignment of separate and transferable property rights to overcome problems of overexploitation of common property resources. Property rights realign incentives for owners to maximise rents and thus tend towards efficiency in resource use. For political commons, this means that common property should be converted into private property, to the extent that is possible, which corresponds to a minimal protective and perhaps basic productive state. This solution is however often problematic in the political domain. How can we think of privatising the functions of governments?

For one, a single person or entity (i.e., a dictator or an elite group) could be assigned exclusive governance rights in a polity. As the theory goes, the 'owners' of the polity would then implement a political-jurisdictional order that maximises social surplus in the productive potential of the polity. While tending toward an efficient outcome this would surely prove a politically infeasible distributional outcome—the authority receives all social surplus and the subjects are no better off than in the overexploited alternative.

Moreover, even discounting the distributional problem, a single authority may not be able to secure full social surplus even if its incentives are appropriately aligned through private ownership of the former fiscal commons. If the authority faces knowledge limitations or can only imperfectly discriminate among its subjects, then its actions are likely to induce distortive behavioural responses, and thus fail to maximise the productive potential of the polity (Buchanan & Yoon 2001, 2004; Buchanan 2003a). Despite the assignment of property rights, there is a value shortfall from the excess burden of taxation that is symptomatic of both a tragedy of political commons and Coasean inefficiency.

In any event, a model of singular authority hardly comports to political-jurisdictional systems as we observe them in the real world. More often, political systems are compounds of multiple authorities—sitting somewhere along the spectrum from monocentrism towards polycentrism. In this setting collective political actions emerge from multiple simultaneously acting political enterprises, but the metaphor of the fiscal commons still applies (perhaps even more aptly). Under a polycentric political-jurisdictional order, as previously, the common resource is social surplus over the fiscal capacity of the polity-economy. And the fiscal commons is accessible by several independent users much like the classic commons example—each political authority can withdraw from the fiscal commons by imposing taxes on the entirety of the population, and spending as they so determine.

The distinction between the single authority and multiple authority fiscal commons is analogous to that of monopoly and oligopoly. Aggregate taxes will be higher than under a single authority, and so will be the excess burden of taxation (Buchanan & Yoon 2001, 2004). Quite apart from knowledge or competence limitations, the tragedy of the political commons is accentuated. As the number of political units increases, more and more of social surplus is extracted from the polity-economy until, in the limit, the outcome for citizens likens to a fully depleted commons.

While this model of multiple authorities at first appears more descriptive of political reality than the monopolistic model, there is at least one common political-jurisdictional feature missing from it: majoritarianism. In principle, political units in polycentric democracies must find a majority of supporters before they can affect political actions and draw from fiscal commons. On first consideration, majoritarian democracies seem no less tragic in their proclivity to overexploit the general tax base. However, political economists have found that the equilibrium that emerges in settings where differing majority coalitions operate simultaneously can be efficient under certain conditions.

The function of multiple majorities is to attenuate the tragedy of the political commons. A ‘membership externality’ emerges from the necessarily intersecting membership bases of simultaneous majority coalitions, which acts to limit fiscal exploitation. There must always be some overlap between members in multiple majorities—fully disjoint, mutually exclusive majorities can never exist concurrently. This means that citizens will reflect the prospect of winning multiple majorities in making their demands on the fiscal commons. The upshot is that externalities are at least partially internalised and complete overdepletion is avoided, depending on the structure of overlapping majorities in the multiple authorities (Buchanan & Yoon 2001, 2004; Buchanan 2003a).

3. Solutions to the fiscal tragedy: Access and boundary rules

The challenge of political commons management is to discover political-jurisdictional rules that minimise the distance between actual and potential social value—rules that cultivate efficient allocations of people, property, and policies. It is therefore useful to view political systems as a commons—as complex institutional structures of *access rules* and *boundary rules* that sustain or deplete social value. The common property character of political action typically dissociates fiscal authorities from the value consequences of their decisions; but the extent of that disconnect depends on the set of rules that govern *access* to the fiscal commons. Further, just as states and political units typically do not operate in isolation, neither do political commons. The ability to exit to other political enterprises (or create them anew) can mitigate over exploitation; but this depends on the set of rules that delimit the *boundaries* of fiscal commons. There are thus two margins along which to seek efficiency enhancing institutional change: access rules and boundary rules.

Access rules stipulating non-discriminatory financing and provision of political goods is one possible avenue to non-exploitative, efficient ends. If individual citizens each have equal access to fiscal commons then they equally bare the value consequences of collective decisions over political actions. There therefore should be no systemic bias in the direction and use of common property, at least with respect to fiscal exploitation or appropriation of social value (knowledge problems and the like could persist, of course). This is reflected in the liberal democratic concepts of the *rule of law* and the constitutional *generality* norm—the requirements that all citizens in a polity be subjected to the same law, and that government programs provide benefits and compel contributions uniformly across the polity, respectively. If political authorities cannot discriminate on imposition of costs and dispensation of benefits, the incentive to exploit potential social surplus disappears.

The extent to which a public budgetary process descends into fiscal tragedy depends on how consistent the process is with the framework of private property and freedom of contract. Another such access rule is Wicksell's (1896) theory of just taxation and of unanimity rules, which was later subsumed into Buchanan and Tullock's (1962) formulation of constitutional political economy. Wicksell believed if a parliament is selected through proportional representation and its members are broadly representative of society, then a unanimity rule within parliament would approximate unanimity within society at large. Then there would exist no conflict between private property of the citizenry and the commons of the state.

Whether government acts consistent with the rules of property and contract and manages to resolve this basic conflict is an empirical question. There are likely many more access rules that restrict exploitation of the fiscal commons without fully coupling political choice to value consequences in the way private property does. While these rules might variously restrict access to the commons, the principle of common property still operates to some extent. Overall fiscal overexploitation in the polity-at-large will depend on the underlying complex constellation of rules and interactions on the fiscal commons.

The abovementioned model of multiple majorities is an example of a *boundary rule* that limits the tragedy of political commons. It should be noted that such a jurisdictional rule resembles to political unbundling. In a system of *unbundled governance*, independent single-purpose governments or public enterprises are functionally specialised and provide collective goods and services separately. In principle, each function of government could be provided by a unique political enterprise under a majoritarian decision making rule. Each unbundled political unit would then entail their own majority, with the ability to place charges on the general fiscal capacity of the whole polity (and provide the political good in return). Multiple majority coalitions in the unbundled political units are thus authorised to impose taxes separately and simultaneously within the same encompassing political unit. As above, the necessary membership externalities among citizens in the various prospective majorities serve to limit fiscal exploitation and stave off the tragedy of political commons.

Political commons typically do not operate in isolation. Polycentric governance systems (whether bundled or unbundled, territorially decentralised or non-territorial) play an important role in moderating the tragedy of the fiscal commons. First, the multiple majorities model can be applied to polycentric systems, in which citizens are members of several nested political units at different scales (e.g. local, state, and federal), each with the authority to draw from the fiscal capacity of the polity-economy. Here, as above, the prospects for individual membership in more than one decisive authority ('membership externalities') will temper majoritarian exploitation.

Another feature of polycentric systems is exit. When citizens come together to form an enterprise over some common pool, their options are not only to contribute or free ride, but also include the possibility of simply not taking part or exiting the arrangement. Elinor Ostrom (1990; 2010) found that in many cases of successful commons management the ability of participants to choose *not* to participate supported the governance solution. Yet, she does not explicitly model common resources problems as including exit options. Vincent Ostrom (1971; 1972; 1991), however, did emphasise how the ability to opt in or out of collectivised interactions impacts the dynamics of polycentric arrangements.

Since political commons are not natural objects (like a vital local water resource) but are artificial creations, it is possible to imbed exit options in the set of boundary rules constituting a political unit. Then people will participate in the commons only if they believed it to be well managed, putting incentives before commons managers to find and implement sustainable, efficient access rules. Conversely, when citizens do not possess exit options and are forced to participate in political commons the fiscal budgetary process is likely to be irresponsible and replete with opportunities for exploitation.

Shifting the boundaries that delimit fiscal commons also affects the prevalence of access rules, and thus efficiency versus overexploitation, in a polycentric polity-at-large. Consider a polity that is constituted by two sub-units with different access rules (i.e., one is well managed, the other is not); a change of the internal boundary to subsume the underperforming political commons may prove an efficiency enhancing institutional change. This will depend on the new structure of rules and interactions on the successive fiscal commons, but suffice to say the change in boundary rules is what will precipitate any changed outcome.

Private property and commons property are indeed opposing systems of ordering societies, and the choice between the two generate clashes and conflicts between individuals and enterprises within each regime. For instance, the comparative inefficiency of political enterprises on the fiscal commons creates potential profit opportunities for competitive private enterprises. Political discrimination generates incentives to serve the citizen-consumers who lose from the political process, either by providing the same product at lower price, or different, more preferred products. The same conflict, and resulting drive to efficient, sustainable governance also applies among competing political commons. In a polycentric setting, the inefficiency of political enterprises on *one* fiscal commons creates potential profit opportunities for competitive political enterprises on *other* fiscal commons (i.e., in other states). This is the rationale of political sorting and jurisdictional change in the context of fiscal commons.

4. Conclusion

We began this paper by outlining how polities are constituted as fiscal commons, and describing how this often portends to exploitation and inefficiency. Governance rules that constrain appropriation of social value (access rules) and delimit authorities in a way that internalises overexploitation (boundary rules) temper the tragedy of the fiscal commons. The objective is to discover access rules and boundary rules for the political commons that enable an efficient, non-exploitative political-jurisdictional order. In terms of access, the rule of law, a generality norm, or proportional representation and a unanimity rule may form such a rule set, but there are potentially many others. Boundary rules should include viable exit options and generate membership externalities in multiple, overlapping majorities, but again there are potentially many variations thereon that produce the desired effect.

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