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Majoritarian exploitation of the fiscal commons: general taxes–differential transfers

James M. Buchanan[a], Yong J. Yoon[b,*]

[a] *Buchanan House, MSN-1E6, George Mason University, 4400 University Drive, Fairfax, VA 22030, USA*
[b] *Center for Study of Public Choice, George Mason University, 4400 University Drive, Fairfax, VA 22030, USA*

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Abstract

Do majoritarian democracies overexploit the general tax base, akin to the tragedy of the commons? Or, apart from any consideration of efficiency norms, are there "natural" forces in majoritarian politics that keep tax rates below revenue-maximizing limits? This paper formulates the fiscal process through the metaphor of the commons and analyzes the equilibrium that emerges in settings where differing majority coalitions may operate simultaneously to place charges on the general taxable capacity of the economy. The presence of a "membership externality," emergent from the necessary intersections of members among separate majority coalitions, acts to limit fiscal exploitation, even in the pure transfer settings.

JEL classification: D72; H3
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1. Introduction

Standard analyses of fiscal politics have traditionally embodied the implicit presumption that taxing-spending results emerge from a decision structure that may be modeled as a monolithic collective, at least on some "as if" basis. Such a presumption becomes vulnerable when it is recognized that fiscal outcomes may be generated by the actions of separate but interdependent authorized decision makers. If the productive capacity of the economy is subject to simultaneous exploitation by multiple decision makers, the

* Corresponding author. Tel.: +1-703-993-2332; fax: +1-703-993-2334.
E-mail address: yyoon@gmu.edu (Y.J. Yoon).

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metaphor of "the commons," with the accompanying "tragedy" measured by loss of potential value, is immediately suggested.[1]

Some economists have made reference to the commons analogy, first, in general terms (Lee and McKenzie, 1987; Wagner, 1992); second, in specific application to federal structures (Flowers, 1988; Wrede, 1999; Berkowitz and Li, 2000) and, somewhat more formally, in analyses of the competition among separate interest or pressure groups for political authority (see especially Velasco, 1997). To our knowledge, however, there has been no specific linkage between the "tragedy of the *fiscal* commons" and the majoritarian political institutions, as such.

In an earlier paper (Buchanan and Yoon, 2001), we analyzed the operation of a stylized common-usage resource or facility under collectivized management, and specifically under majoritarian decision structures—analysis that included the effects of possible "membership externality". In that paper, however, we did not recognize that the commons metaphor could be usefully applied to the operation of majoritarian decision structures more generally, in the setting where the fiscal capacity of the whole economy becomes the exploitable resource.

Do majoritarian democracies overexploit the general tax base in such a fashion that everyone in the polity could be made better off by some reduction in rates of tax? Or, quite apart from any consideration of efficiency norms, are there "natural" forces in majoritarian politics that keep tax rates below revenue-maximizing limits?

Our specific end objective is to describe the properties of the equilibrium solutions that emerge in settings where differing majority coalitions, within the same political unit, may operate simultaneously to place charges on the fisc, charges that must be residually financed from the general taxable capacity of the whole polity.

A central finding of the analysis is that even if multiple majority coalitions are separately organized, with each authorized to levy charges against the general tax base, the presence of "membership externality," emergent from the necessary intersections of members among separate majority coalitions, acts to limit fiscal exploitation, even in pure transfer settings.

2. Clarifying assumptions

First, it is necessary to set out more specific assumptions. We assume that all the value generated in the economy of the organized political community is produced by persons who directly utilize their own personal capacities or endowments. This value is measured by incomes, attributable separately to persons, which, when aggregated, becomes the general tax base for financing any collective action. We therefore eliminate any consideration of taxes on capital, nonhuman or human, as well as taxes on particular

[1] The familiar tragedy involves the overutilization of a resource as multiple users are allowed open access. See Gordon (1954), Scott (1955) and Hardin (1968) for seminal references. Strictly defined, the fiscal setting is more accurately described as anticommons, where multiple access destroys potential value through under—rather than overutilization. See Buchanan and Yoon (2000b), which formalizes the general discussion initiated by Heller (1998).