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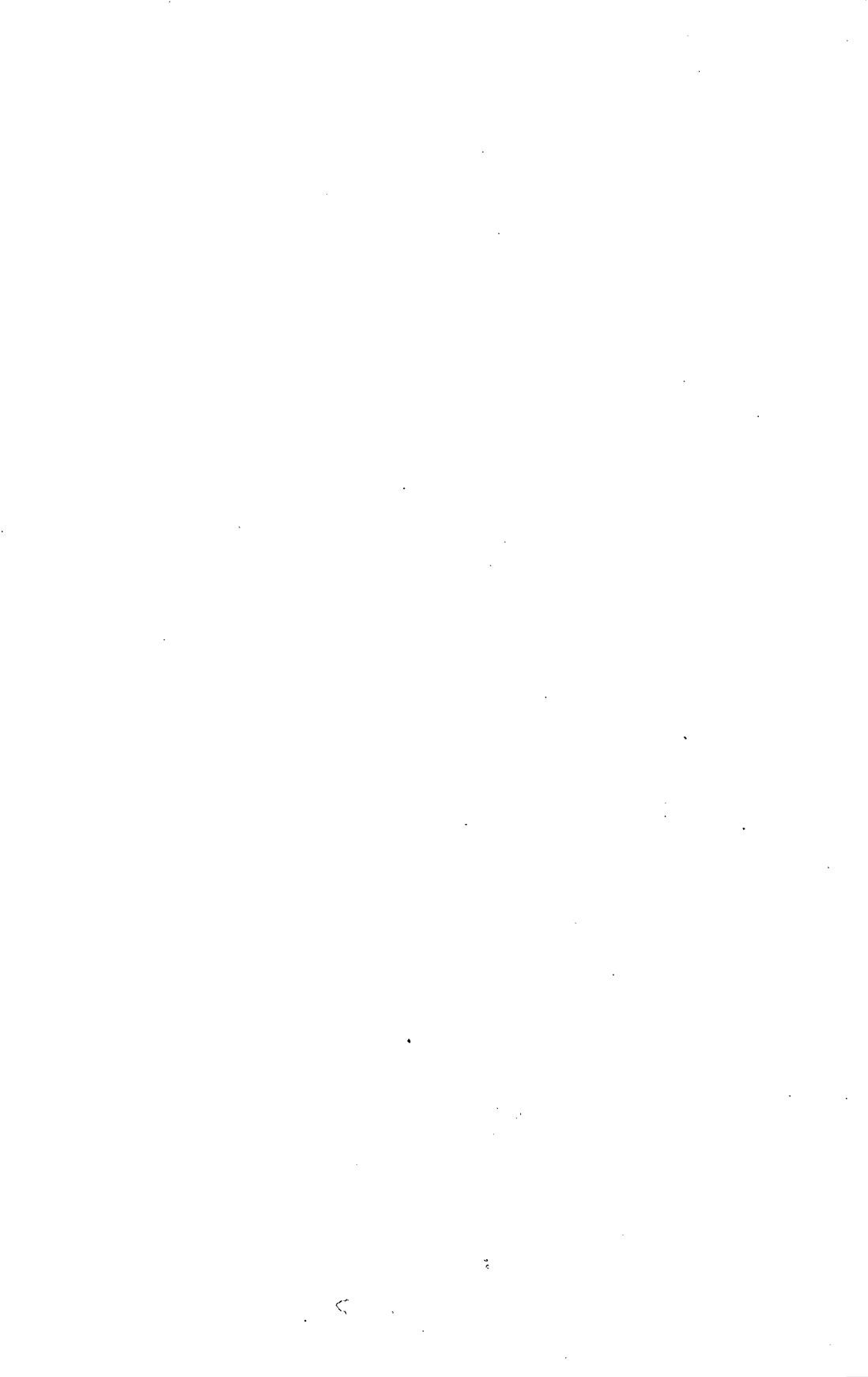
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**PUBLIC FINANCES: NEEDS, SOURCES,
AND UTILIZATION**

NATIONAL BUREAU OF ECONOMIC RESEARCH

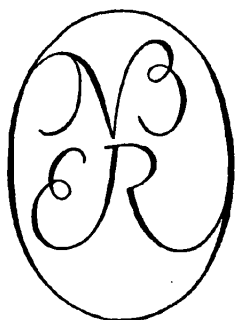
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Public Finances: Needs, Sources, and Utilization

A CONFERENCE OF THE
UNIVERSITIES-NATIONAL BUREAU
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(Resolution adopted July 6, 1948 and revised November 21, 1949)

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Contents

INTRODUCTION	xi
James M. Buchanan	
FINANCIAL NEEDS AND RESOURCES OVER THE NEXT DECADE: AT ALL LEVELS OF GOVERNMENT	3
Gerhard Colm and Manuel Helzner	
FINANCIAL NEEDS AND RESOURCES OVER THE NEXT DECADE: STATE AND LOCAL GOVERNMENTS	23
Dick Netzer	
COMMENTS	
Allen Manvel, I. M. Labovitz, C. Harry Kahn, Selma J. Mushkin	
AN ECONOMIC THEORY OF FISCAL DECENTRALIZATION	79
Charles M. Tiebout	
APPROACHES TO FISCAL THEORY OF POLITICAL FEDERALISM	97
Richard A. Musgrave	
COMMENTS	
James M. Buchanan, C. Lowell Harriss, Burton A. Weisbrod	
Reply by Mr. Musgrave	
PRACTICAL SOLUTIONS TO FINANCIAL PROBLEMS CREATED BY THE MULTILEVEL POLITICAL STRUCTURE	135
L. L. Ecker-Racz and I. M. Labovitz	
COMMENTS	
Harold M. Groves, C. Lowell Harriss	
METROPOLITAN FINANCE PROBLEMS: TERRITORIES, FUNCTIONS, AND GROWTH	229
Julius Margolis	
COMMENTS	
Lyle Fitch, William Hellmuth, Werner Z. Hirsch, Morris Beck	
DECISION-MAKING IN TAXATION AND EXPENDITURES	295
Charles E. Lindblom	
COMMENTS	
Abram Bergson, Gerhard Colm	
EVALUATING ALTERNATIVE EXPENDITURE PROGRAMS	337
Roland N. McKean	
COMMENT	
Jesse Burkhead	

CONTENTS

DEFENSE PLANNING AND ORGANIZATION	365
Alain C. Enthoven and Harry S. Rowen	
COMMENT	
Arthur Smithies	
USER PRICES VS. TAXES	421
O. H. Brownlee	
COMMENTS	
E. Cary Brown, C. Harry Kahn	
A SURVEY OF THE THEORY OF PUBLIC EXPENDITURE CRITERIA	439
Otto Eckstein	
COMMENTS	
Jack Hirshleifer, Benjamin Toren	
Reply by Mr. Eckstein	
AUTHOR INDEX	505
SUBJECT INDEX	507

Introduction

CONSENSUS among scholars has never been attained concerning the appropriate definition of the subject matter of Public Finance. International as well as intranational differences of opinion on the proper limits of the field have existed for many years. Scholarship on the European continent has, by and large, approached the discipline in terms of the institution under scrutiny, the fiscal system. In the English-speaking world, Public Finance has been more limited in that it has been confined within the methods and procedures of traditional economic analysis. As a result of this orientation, English and American works have, until quite recently, tended to concentrate attention on the impact of the fiscal system on the private market economy. Decisions made by governments have been assumed to be exogenous to the private economic calculus of individuals and firms.

This is not to suggest that English-language scholars have been uninterested in the choice of that set of legislative enactments constituting what may be called "the fiscal system" of a political entity. The study of the effects of alternative tax schemes on private behavior assumes a purpose only in the potential assistance to individuals confronted with some freedom of choice among the alternatives considered. But implicit in this traditional approach has been the assumption that criteria for judging alternative systems, or portions thereof, are to be located independently of the fiscal decision itself.

There is a rather subtle difference between this approach, which has, broadly speaking, characterized English-language work, and that which looks on the fiscal system as the means through which individuals make decisions concerning the appropriate amount of resources to be devoted to public rather than to private uses. The difference is sufficient to explain, at least in part, the relative neglect of the expenditure side and, perhaps more importantly, the failure of scholars in this country to devote much attention to the fiscal decision-making process as such.

Recent developments represent a belated recognition of this doctrinal gap. Inspired by a wider knowledge of the European tradition in the field and marrying this tradition to an extension of modern welfare economics, scholars are now paying increasing attention to the collective decision-making process. Because of these recent

INTRODUCTION

developments, Public Finance seems to be on the threshold of becoming one of the most stimulating fields of inquiry in all of the social sciences. At such a stage of ferment, any conference set of papers that genuinely represents work in the whole disciplinary field should include widely heterogeneous individual contributions in terms of method, scope, and level of abstraction. The papers included in this volume seem to qualify fully under this norm.

Few of the papers in this volume discuss what might be called "orthodox" topics in Public Finance. At least three of the papers introduce material that might appear to some readers to be more appropriate in modern political science. Two others deal almost exclusively with budgetary and administrative problems. Yet another seems to be welfare economics in disguise. And, finally, one paper seems to introduce elements of location economics into Public Finance. The point to be emphasized is that all of the papers are devoted to separate aspects of the larger problem of collective decision-making. It is, I think, worth observing that not a single paper is either explicitly or primarily devoted to an examination of individual behavior in response to government fiscal action. Instead, the focus is, in almost all cases, on individual behavior in making decisions which constitute fiscal action.

This is, in my opinion, an important sign of progress. For the first time, the empirical-analytical skills of the American economist are being brought to bear on an increasingly important form of human behavior. And, in so doing, the economist is recognizing that he must disregard to a large extent the traditional boundaries among the separate disciplines. There is much to be gained from a continuation, even an acceleration, of such efforts. And, if the conference at which these papers were discussed has served its purpose, work of this general description will become increasingly stimulating to the research scholar.

The fiscal expert, the practical man who is called on to design improvements in legislation, who must provide advice and counsel to the legislator seeking guidance as to modifications in the existing fiscal structure, may quite properly object to the abstract nature of much of the modern work. For rarely has there existed a wider gap between theory and practice than that between the normative theory of the optimal budget and the way in which budgets are actually made. The practitioner, who is constantly under pressure, is appropriately impatient at the seemingly irrelevant attempts of the welfare

INTRODUCTION

economists to develop the models of an ideally neutral fiscal system. Such impatience may be tempered somewhat when it is recognized that the optimality theorists are working over rather new ground. An extension of the conventional welfare analysis to its limits in respect to the public sector of the economy can only be viewed as a healthy development. Only when the analysis is pushed so far can its inherent shortcomings as well as its possible usefulness be revealed.

The broad and uncharted area between the day-to-day problems facing the legislative adviser and the rarified problems discussed by the optimality theorist seems to offer the greatest opportunity for genuine contributions in Public Finance. We need to know much more than we do know about the way in which individuals of a political system organize and finally make collective decisions. The extension of conventional rationality norms to governmental decisions may or may not lead to "improvements." It is in moving in the direction of problems such as these that several of the papers in this volume deserve special mention. These papers embody the recognition that the institutions of collective decision-making are the appropriate variables to be examined in any attempt to "improve" the decision-making process itself. Substantial agreement on criteria for "improvements" in the process represents a plausible objective. Agreement on criteria for objectively measurable "improvements" in the *results* of political action, apart from the process by which decisions are made, seems not only to be impossible but undesirable.

The Program and Planning Committee for the conference at which the papers in this volume were discussed included the following members:

L. L. Ecker-Racz
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The views and interests of this committee were perhaps as heterogeneous as are the papers included in this volume. It seems a real measure of success to be able to report that genuine consensus was reached on all issues involved in the planning of the conference and

INTRODUCTION

the publication of these papers. Especial thanks of the committee must go to Harry Kahn for his patient work as Secretary of the Committee. Mr. Kahn's generous allotment of time to the many tasks of reviewing and assembling this volume has made it possible to bring out the conference report in considerably less months than has hitherto been possible for this series.

JAMES M. BUCHANAN

Charlottesville, Virginia