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INCENTIVES FOR A BALANCED BUDGET

by

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INTRODUCTION

In every year but one since 1960, the federal government has run a budgetary deficit. The modest surplus of $3.2 billion in 1969 did little to impede the upward movement of the national debt, which now exceeds $1 trillion.

As Table 1 reveals, federal deficits have been especially acute since 1973, averaging nearly $54 billion a year between 1974 and 1981. Even after allowing for the recently passed $99 billion increase in federal taxes for the next three fiscal years (nullifying 25 percent of the Reagan administration's 1981 multi-year tax cut), the annual federal deficit projected by the administration for fiscal years 1983 through 1985 will average almost $94 billion. The Congressional Budget Office, meanwhile, estimates that the average deficit could exceed $140 billion. If projected off-budget outlays were added to budgeted outlays, the future federal deficit picture would appear even more bleak.[1] Recent history only supports this picture, as year after year actual deficits have tended to exceed "estimated" deficits by several billion dollars.

Only the naive expect politicians to live up to their frequent but faint promises to balance the budget, especially when they claim at the same time they can hold down taxes. For, when federal income and social security taxes are combined, the average tax rate paid by most Americans will be higher in 1984 and 1985 than at the start of the decade,[2] just as their average tax rates in 1980 were higher than they were

Table 1. Budget Balance of the Federal Government
1961-1985 (billions of dollars)

Year	Deficit (-) Surplus (+)
1961	-3.4
1962	-7.1
1963	-4.8
1964	-5.9
1965	-1.6
1966	-3.8
1967	-8.7
1968	-25.2
1969	+3.2
1970	-2.8
1971	-23.0
1972	-23.4
1973	-14.5
1974	-45.2
1975	-66.4
1976	-66.4
Transition quarter	-13.0
1977	-44.9
1978	-48.8
1979	-27.7
1980	-59.6
1981	-57.9

<u>Estimates</u>

	Reagan Administration[a]	Congressional Budget Office[a]
1982	-108.9	-116.0
1983	-115.0	-146.0
1984	-92.6	-152.1
1985	-73.6	-150.2

Sources: Actual 1961-1981 figures, Office of the President, <u>Budget of the United States Government: Fiscal Year 1983</u> (Washington: Government Printing Office, 1982), p. 9-62; estimated 1982-1985 figures, Public Affairs Office, Office of Management and Budget (August 25, 1982).

Note: [a]Estimates on budget balances for 1982-1985 by both the Reagan administration and the Congressional Budget Office were made in late July 1982. Congressional budget Office estimates are averages of the limits of forecast range and are based on "pessimistic" assumptions about economic behavior.

in 1970. If raising tax rates were a cure for federal deficits, red ink would have been expunged from federal budgetary records long ago.

The economic harm of routine federal deficits is commonly acknowledged. Government deficits "crowd out" private borrowers from capital markets in the process of driving up interest rates. Employment in the housing, durable, and investment goods industries especially is depressed by high interest rates, and the costs of resulting idle labor include sluggish economic growth and the tens of billions of dollars of goods and services never produced.

Deficits can, albeit indirectly, contribute to inflationary pressures. High interest rates put pressure on the Federal Reserve to increase the rate of growth in the money stock, which as experience has taught leads inexorably to a higher inflation rate. Higher rates of inflation, in turn, can result in even higher interest rates, which further distort the economy's use of resources: more resources are directed into the public sector by private citizens in trying to avoid the adverse consequences of inflation, which may be measured in part by the reduced value of people's monetary wealth and by higher tax rates on income caused by the forces of "bracket creep."

In the final analysis, federal deficits act as a tax on people's incomes. The "deficit tax," however, is indirect in its effects and obscured from full public scrutiny. Because of its obscurity, the deficit tax allows Congress to impose a heavier government burden on the citizenry than it could impose, if Congress had to legislate more visibly overt tax increases to cover the deficits.

President Reagan entered office dedicated to supply-side economic principles, through which he believed a universally held goal could be achieved: higher economic growth with lower unemployment and inflation rates. The alleged failures of the supply-side policies have been attributed to federal deficits and to the higher interest rates they have spawned. Such a conclusion is much like blaming inflation on higher prices: it describes what has happened, but offers little insight for developing politically palatable remedies.

Perhaps one problem with supply-side principles is that they have not been applied to supply-side policymakers, specifically, Members of Congress, the President, and the Board of Governors of the Federal Reserve System. One means of doing this would be to provide incentives for Congress to balance its budget. Regardless of whether the balanced budget/tax limitation amendment now pending in the Senate

(S.J. Res. 58) is passed, Members of Congress must be given pay inducements to restore a balanced budget. The same general solution, however, could be applied, with adjustment in the pay objective, to the President and the Board of Governors. While suggestive of what needs to be done to achieve balanced budgets, this proposal revives a central political dilemma in a democracy: how can we get those who govern to regulate themselves?

In developing the argument for what is called a "deficit pay schedule" for Members of Congress, a parallel is drawn between the incentives polluters have to "overuse" environmental resources when property rights are undefined and and the incentives Members have to "overuse" the budget process by way of expanded government programs. A correction in the use of environmental and budgetary resources can be achieved by marginal realignment in incentives people have to produce public and private goods. In the case of environmental economics, the public good is served by cleaner, but not perfectly clean, air and water; in the case of the government budget, the public good is served by a movement toward, but not necessarily completely to, a balanced budget.

THE PROBLEM

The tendency of the federal government to incur additional debt emanates from two primary sources. First, deficits tend to obscure the cost of government programs. Second, individual Members of Congress can blame budget deficits on federal programs promoted by other Members. Overall, they have an inadequate incentive to avoid deficits, that is, deficits of a certain magnitude, though destructive to the economy generally, possess elements of political rationality.

Maximizing Reelection Chances

Members of Congress, ever mindful of reelection, have a built-in incentive to vote for federal programs that benefit their constituencies and against tax increases imposed on these same constituencies. Special interest groups have undue political power because the benefits of the programs designed with their welfare in mind are concentrated on a relatively small number of people who have a strong interest in enlisting congressional support. Federal programs in a representative's district tend to earn him supporters, whereas federal taxes tend to lose him votes. The politician interested in maximizing his chances of being reelected will, in the absence of budget deficits, vote for additional government expenditures as long as the additional dollars spent earn more votes than are lost by the accompanying additional taxes. On the margin, the additional votes gained by the last $1 million in expenditures might be expected to exactly match the additional votes lost because of an additional $1 million in taxes.

For several reasons, voters will perceive a $1 million government expenditure financed by overt taxes as being more costly than the same expenditure financed by a debt.[3] Clearly, legislated taxes can be directly observed by workers in terms of reduced take-home pay; and when explicit taxes are used to finance government projects, the personal cost of the additional government expenditures can be measured by the worker in terms of lowered purchasing power.

Most Americans probably have never thought through the complicated logical sequence by which deficits impinge on the use of the nation's resources -- and are tantamount to legislated taxes. For these Americans, the fewer goods and services that are the indirect result of deficits may not be fully attributed to the deficits but to, for example, the profit-maximizing efforts of firms that actually raise their prices, including interest rates.

Steeped in Keynesian economic theory, many Americans actually believe that deficits are "good for the economy": "After all, they help balance the economy and maintain employment," or so the argument has been developed. Keynesian economics has led a whole generation of students in economics to believe that in times of economic distress federal deficits are the only way to acquire the fabled economic "free lunch," that is, greater production at zero or almost zero cost. The result of the power of special interests in politics combined with the decline in what James Buchanan and Richard Wagner call the "balanced budget norm," caused by Keynesian economics, has been a form of "budgetary anarchy" in which almost every conceivable special interest seeks to gain from some government program, and a budget process that appears virtually out of control.[4]

Granted, great numbers of Americans do understand the economic consequences of federal deficits and may fully equate them with taxes. For these people, deficits do not understate the cost of government. The people who induce politicians to employ deficits are those who can see clearly the economic consequences of taxes but cannot see with equal clarity the economic impacts of deficits; they shift the distribution of votes toward politicians who offer to expand government programs without raising explicit taxes. To the extent that federal deficits obscure the tax-cost of government expenditures, deficits should lead to an expenditure level greater than would otherwise occur -- greater than the polity would choose in the light of full information concerning the personal cost of government outlays, regardless of how the outlays are financed. This is because, on the margin, when the prospect of a deficit is first introduced, the votes gained from an additional $1 million government expenditure, unaccompanied by offsetting explicit taxes, will then be greater than the votes lost: the perceived tax-cost will be understated, something less than $1 million. How much the cost will be understated and to what extent a deficit is politically practical, we cannot know in the abstract, outside the political process.

On the other hand, we do know that under current political constraints, Members of Congress can be rewarded by running deficits <u>up to a certain point</u>. By spending more than is collected in taxes, they can secure additional votes at the public's expense, and/or they can secure additional votes with fewer expenditures from their own campaign accounts (or more votes with the same campaign expenditures). Beyond a certain point, however, the cost of deficit spending can become so readily apparent that deficits, like taxes, begin to lose votes. The central notion still holds: Because of the relative fiscal illusion of deficits, there is a politically optimum budgetary deficit, established largely independent of economic conditions in the country.

<u>Pollution and Public Outlays</u>

Economists have a relatively straightforward explanation for the existence of a polluted waterway. Property rights to the waterway are nonexistent or have been, in some respects, attenuated. Because no one has property rights to the waterway, no one can be excluded from its use. All can use the waterway at no cost (or at an understated cost) to themselves. Each can reason that the waste water he dumps into the waterway can be carried away to become someone else's problem; the cost of the pollution is, thereby, "externalized." Aside from the very large users of the waterway, each polluter can reason also that the small amount of waste he dumps in the stream has little or inconsequential effect on the overall water quality. For all practical purposes, therefore, an individual's pollution imposes no cost on himself or on others.

The individual polluter can conclude that his own cleanup efforts will result in little or no improvement in the overall water quality. Besides, additional cleanup costs, incurred by one producer but not by others, will reduce that firm's competitiveness and decrease its share of market sales. The reduction in the firm's contribution to pollution can be offset by additional pollution from other firms, reducing their costs and expanding their share of the market. The rational position of each polluter is to use the waterway to the fullest extent necessary. The collective result of rational behavior of all water users is, however, perverse: the waterway is used, abused, and overused, clogged with waste, and can become an environmental mess. At the extreme, the waterway can become the practical equivalent of a cesspool, a result that pleases no one, not even those who are responsible for the pollution.

The general solution economists offer to solve problems of environmental deterioration is to provide individuals with incentives to do what is in their collective interest, i.e., cut back on their individual pollution levels. Such an incentive system can take the form of (1) assignment of property rights (which allows the owners to charge for the use of the assigned property), (2) imposition of government fees for the use of the waterways (which implies that the government has assumed ownership of the environmental resource), or (3) government regulation through pollution standards with fines for noncompliance (which can translate into fees for the use of the environmental resource).[5]

Environmental pollution is another way of saying that too few environmental goods have been produced, while too many other public and private goods and services have been produced. One way to correct the problem is to charge and, thereby, discourage the inefficient use of the environment. A proper balance between the production of environmental and other goods can be achieved, theoretically speaking, by adjusting the charges. If a given schedule results in too much expenditure on cleaning up the environment, then the charge can be lowered.

To individual Members of Congress, the federal government's budget is much the same as the environmental resource is to the individual polluter -- an opportunity to exploit fully in the absence of constraints and incentives to do otherwise. Each Member can reason, for the most part, that any bill he offers in support of his constituency will have an imperceptible impact on the overall budget total, the level of taxes, and the magnitude of the budget deficit. The bills supported by individual Members of Congress are likely to contribute little to the costs that the taxpayers in their districts bear in the form of higher explicit, legislated taxes or higher implicit, deficit induced taxes. Most of the costs of a government program, like the costs of pollution, are externalized to the rest of the citizenry through the federal tax system. As in the case of the polluter, the politician can also reason that any restraint on his part in supporting expensive programs for his constituency is likely to provide representatives from other districts in his state and in other states the opportunity to expand programs favored by their constituencies.

The rational course of behavior of each individual Member of Congress is to "pollute" the halls of Congress with proposed government expenditures that benefit his constituencies differentially and preferentially. Just as in the case of the polluted waterway, the collective outcome can be perverse: a federal budget that is used, abused, and overused -- bloated beyond rational boundaries. In short, the federal budget may become the fiscal equivalent of an "inverted cesspool." As opposed to throwing too much waste into the pool, which is the outcome of environmental pollution, politicians throw in "too many" bills and extract "too much" in the way of resources from the national income pool.

Just as the individual polluter of the waterway can claim, with some justification, that the "pollution" is due to the waste of all the other polluters, the individual Member of Congress can claim that the "bloated" budget is due to the fiscal irresponsibility of most of the other 534 Members of Congress. And at the same time that each individual Member of Congress introduces expansive legislation, creating what may be called "bill pollution," he can call for fiscal restraint and fiscal responsibility through reduced deficit spending, blaming all the other Members for the deficits that are emerging. The conventional wisdom that "when responsibility is shared by all, it is assumed by no one" applies fully to the way Congress views the budget.

As in the case of waterway pollution, the solution to the "inverted budgetary cesspool" must lie in providing Members of Congress with private incentives to do what may, on the margin, be in their acknowledged collective interest -- reduce the deficit. Each representative must be held accountable, in the sense that he incurs a cost, for deficits. Only then will deficits be eliminated or substantially reduced.

THE SOLUTION

Reaganomics is grounded on supply-side principles that, in turn, are based on the simple but general proposition: people respond to incentives and disincentives. The problem with Reaganomics is that its own supply-side principles have not been applied to the development and achievement of supply-side goals. To correct this requires a radical change in the way policymakers are paid.

In their search for an explanation for policy failures, administration supporters have for the past twenty years pointed to the lack of political gumption among policymakers inside and outside the White House and Congress in making "tough" budgetary decisions, in other words, handling the political consequences of balancing the budget by either raising taxes or reducing expenditures. The problem may be more fundamental. It may exist because policymakers -- even those steeped in supply-side principles -- have little or no incentive to do what we <u>and</u> they want to do, that is, reduce budgetary deficits, stimulate growth in jobs and income, lower inflation, and increase the stability of the money stock. These policymakers, like the polluters, may be willing to support politically imposed restrictions, which may come in the form of incentives, on their own behavior to do what is in their common interest.

Members of Congress receive an annual salary of $60,000 a year, no matter if the deficit is $50, $100, or $200 billion. Similarly, the President is paid $200,000 annually, regardless of the state of the economy. Members of the Board of Governors and the Open Market Committee of the Federal Reserve System are paid a fixed amount without regard for the rate of the growth in the money stock directly under their control or the rate of inflation indirectly related to their control of the money stock.

While attributing blame for the "excessive" government spending to others, Members of Congress claim that achieving a balanced budget is "impossible" or "impractical." The Federal Reserve argues that it does not know how to keep the growth in the money stock within the bounds of its own self-imposed "growth targets." The circularity of blame is complete: The President blames Congress and the Federal Reserve for excessive spending and money growth. The Congress blames the President for lack of effective leadership and for following "voodoo economics" by "drastically" cutting taxes in 1981, and it blames the Federal Reserve for high interest rates that deter growth. The Federal Reserve chairman blames the Congress and the President for the deficits that push up interest rates while they pressure the Fed to expand the money stock. The blame is fully diffused, therefore, nowhere accepted.[6]

Of course, the various claims of Congress, the President, and the Federal Reserve all have an element of truth. The lack of blame is indigenous to the incentive system that has been constructed. If Texas Instruments executives were paid the same way as Members of Congress, the President, and the Board of Governors, one could accurately forecast that Texas Instrument executives would hum a similar chorus. They, too, would complain that juggling their inventories to meet market demands would be a difficult, if not an impossible, undertaking. They also would attempt to shirk responsibility for the financial health of the company.

Given the magnitude of the lost output linked to federal deficits, it is time that the nation seriously rethink the way in which policymakers are paid, recognizing that they are much like the rest of Americans: they too respond to regulation and incentives. We can start by providing representatives and senators with monetary incentives to eliminate deficit spending.

While outright prohibition of deficit spending has definite merit (consider the balanced budget-tax limitation amendment currently before Congress[7]), it could be years before it becomes law. Before then, a new incentive pay system for Congress can be inaugurated. This rightfully can be called a "deficit pay schedule" because it pegs the pay of Members of Congress to the actual budget deficit of the preceding year.[8]

To start, the honor and responsibility of being an elected U.S. representative would be recognized by raising the annual pay to $500,000. But this salary would be trimmed according to a scale linked to budget deficits. For every $20-billion of additional deficit, for example, pay would be cut.[9] The minimum pay would be held at its current level of $60,000.[10] Realizing that each successive $20-billion reduction in the deficit is more difficult to achieve and each increment in congressional pay may be worth less to the Members, especially after progressive income taxes are applied, each successive marginal reduction in the deficit should be accompanied by a progressively greater marginal increase in pay. Using these principles, the following pay schedule could apply:

Table 2. Deficit Pay Scedule

Congressional Annual Pay	Budget Deficit
$500,000	Balanced Budget
$300,000	$20 billion
$175,000	$40 billion
$ 75,000	$60 billion
$ 60,000	$80 billion

We need not make the Members worse off than they are currently. We need only provide them with an incentive to do their job, much as they might provide incentives for welfare recipients to move off public relief.

PROBLEMS WITH THE SOLUTION

Admittedly, the proposed pay system for Congress is not perfect. Problems abound, several of which can be resolved with additional rules for the structure of congressional pay. For example, such a pay schedule provides no incentive for Members of Congress to control inflation and tax rates. The budget could be balanced by legislated tax increases and/or inflation induced tax increases. The inflation problem can be guarded against in two ways. First, "overcompensate" Members of Congress in the sense that their congressional pay exceeds their viable alternative pay in the private sector. A reduction in purchasing power of the Members' pay, brought about by inflation, would then mean a true economic loss to the Members. Second, disconnect, to the extent possible, the pay of Congress from the inflation rate. The Members' pay could be adjusted at the same time congressional seats are reapportioned, meaning the real purchasing power of congressional pay could erode with the forces of inflation for as many as ten years. Granted, at the end of the decade just before the pay schedule were adjusted, Members would lose much of their pay incentive to work toward the control of inflation. Although defective in this regard, the proposed system would be an improvement over the current system, which allows Members of Congress to adjust their pay for inflation whenever they think it is politically expedient to do so.

The problem of balancing budget via tax increases could be partially, but not completely, resolved by imposing a rule on Congress that the tax rate increases imposed on the general public will translate into a more severe penalty on representatives and senators. Currently, the contrary is true. Members of Congress have exempted themselves from social security taxes and have provided themselves with many nontaxable perquisites of office and deductions for living and working in Washington. Special tax privileges for Members should be prohibited. How general tax rate increases are converted into more severe penalties on Congress is largely arbitrary. The important point is that considerable incentive to balance the budget must remain in the deficit pay schedule after taxes and a definite mathematical link must be established and maintained between the tax rates imposed on the public and the tax rates imposed on the Congress.

One possible rule (and the possibilities are numerous): adjust the deficit pay schedule inversely to the percentage of the nation's income going to taxes. An increase in tax rates imposed on the general public would then mean a downward shift in the deficit pay schedule. The details of the pay schedule could be so constructed that Members retain a strong incentive to balance the budget by controlling expenditures rather than by raising taxes. Again, the important point is that a mathematical link must be established between the tax rates imposed on the public and the burden imposed on Members of Congress.

Inherent in any pay schedule that provides incentives for congressmen to balance the federal budget is the risk of too severely tunneling the social vision of policymakers whose goals are necessarily varied. The deficit pay system could be so constructed that Members of Congress allow other social and defense goals to go unattended. The proposal being tendered here is intended not to unbalance budgetary outcomes, but to correct a commonly acknowledged imbalance between the political incentives of Members of Congress to spend and the lack of political incentives of those same Members to raise revenue and balance the budget. The task facing those who actually construct the deficit-pay schedule is to "tilt" the incentive system <u>toward</u>, but not necessarily <u>to</u>, a balanced budget. With the new pay system, Members of Congress still can express their devotion to principles of social welfare and national defense; they still can use the budgetary process to pursue purely political objectives; they still can run budgetary deficits. <u>They will, however, have to bear a personal cost to do those things</u>. To that extent, lower deficits can be expected. As in the example of environmental economics, resulting budget deficits can be adjusted by marginal changes in the incentives built in to the deficit pay schedule.

A pay schedule like the example in Table 2 is clearly expensive. If the annual deficit of the United States were reduced from over $80 billion, where Congress' own budget office projects it to be for the next several years, to zero, the pay of Members of Congress would skyrocket. The <u>additional</u> pay for the 535 senators and representatives would be slightly more than $235 million. Achieving a balanced budget at this expense should, however, be a bargain. If the economic harm of government deficit spending is not greater than a quarter of a billion dollars, all the concern about federal deficits has surely been misplaced.

The deficit pay schedule does not fully correct the problem of "bill pollution," that is, the tendency of individual Members of Congress to propose new government programs. Even with the deficit-pay system in force, individual Members may continue to propose new expenditure programs, hoping that the deficit will be reduced by the defeat of all the other bills introduced by other Members. Yet the deficit pay system will increase the attention Members are likely to give to the costs of legislation introduced by others as well as increases resistance to an expansion of expenditures. To this extent, the deficit-pay system will act as a brake on the growth of government. An increase in the use of taxes and a decrease in the use of deficits to finance government outlays should fortify voter resistance to politicians who favor new and expansive government programs.

Finally, with pay tied to computed deficits, Congress will have an incentive to shift government support of social goals from on-budget expenditures to off-budget programs and loan guarantees and to impose regulations on the private sector that, just like taxes, distort market prices. Such forms of government intrusion in the private sector have become so widespread that the concept of the "government budget" will, sooner or later, have to be broadened to include them. The installation of the deficit-pay system must be predicated on recognizing a more inclusive concept of the federal budget.

CONCLUSION

Economic principles can be used to improve the incentives for policymakers to achieve commonly acknowledged goals. Incentives can be realigned to correct the bias in favor of deficit spending. As economist Morgan Reynolds suggests, the same general pay principles can be applied to Members of the Board of Governors of the Federal Reserve System and to the President.[11] The pay of the Board could start at $750,000 annually and decline with some measure of the growth in the money stock (above or below target growth rates). And the President's annual pay could start at $1 million and be reduced with increases in a composite economic indicator such as the "misery index" (which is the sum of the inflation and unemployment rates). These pay schedules do not have to be so narrowly constructed that the Board would choose to do nothing but hold the money growth rate to the target rate or that the President would seek no other objective than to minimize the "misery index." As noted in the discussion of congressional pay, the schedules need only tilt incentive structure toward, but not necessarily all the way to, the achievement of specified national goals, those deemed worthy of special attention.

The particulars of the incentive pay solution are less important, however, than the underlying principle that, in every sphere of human endeavor, there is need to convert the public interests into private interests. In private dealings, the market makes that conversion tolerably well. In seeking private profits, entrepreneurs tend to produce what members of the general public want at competitive prices. The general good that is achieved is not, for the most part, created out of love of country or a sense of duty to higher public objectives, but out of self-interest.

In public dealings, we need similar devices to convert public interests into private interests for those who make and conduct policy. Competitive politics helps to hold American elected representatives accountable for what they do. The modern history of escalating government deficits, accompanied by rising unemployment and inflation rates, however, is ample testimony to the need for other devices. The balanced budget-tax limitation amendment will help; it will put pressure on Congress to balance its budgets, and marginally lower deficits (not a balanced budget) can be expected. Yet Members of Congress will need additional incentives to abide by the Constitution. Patriotism, sense of duty to country, and public opinion have proved too weak for the task of making public and private interests compatible and synergetic.

The good news is that mechanisms for altering the congressional incentive system can be conceptualized. The Catch lies in convincing Members of Congress that they should set up an incentive system that will result in a lower deficit than they would otherwise choose.

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Notes

[1]Off-budget outlays averaged nearly $13 billion between 1976 and 1981.

[2]See Richard B. McKenzie, "Supply-Side Economics and the Vanishing Tax Cut," Atlanta Federal Reserve Economic Review (May 1982), pp. 20-24; and U.S. Department of the Treasury, Summary of Staff Papers on Scheduled Tax Changes (June 15, 1982).

[3]For a comparative analysis of the relative fiscal deception of taxes and debt, see James M. Buchanan and Richard E. Wagner, Democracy in Deficit: The Political Legacy of Lord Keynes (New York: Basic Books, 1978); and James M. Buchanan, "Debt, Demos, and the Welfare State," a paper presented at the 1982 annual meeting of the Western Economic Association (July 19, 1982).

[4]Buchanan and Wagner, Democracy in Deficit. The "balanced budget norm" was the commonly held view among politicians through the 1950s that the federal budget must be balanced.

[5]The purpose here is not to debate the relative merits of the alternative solutions; that task has been handled admirably elsewhere. Rather, the purpose is simply to note the general nature of the solution: the institutionalization of private incentives to realign the allocation of resources. For a discussion of the pollution problem as seen from the perspective of a property-rights paradigm, see Hugh H. Macaulay and T. Bruce Yandle, Environmental Economics and the Market (Lexington, Mass.: Lexington Books, 1974).

[6]Apparently, Members of Congress have been reasonably successful in dispersing blame for government deficits. A mid-1982 Gallup Poll found that the public's disapproval rating for Congress as a whole was substantially greater than constituents' disapproval rating of their representative, "The Gallup Poll: Only 46% Can Name Congressional Representative," Washington Post (August 1, 1982), p. A3.

[7]See Alvin Rabushka, A Compelling Case for a Constitutional Amendment to Balance the Budget and Limit Taxes (Washington: National Taxpayers' Foundation, 1982).

[8]The pay of Members is related to the deficit of the preceding year in order to avoid misleading forecasts that would be present if pay were related to projected or estimated deficits.

[9]The pay schedule could, of course, be more detailed than the one suggested, providing for adjustments in

congressional pay for every $1 or $5 billion change in the budget deficit.

[10]We need not penalize representatives by reducing their pay below what it is now. We need only provide them with an incentive to balance the budget.

[11]Morgan Reynolds, "Incentives Vs. Bad Money: Let's Try Indexing Salaries at the Board of Governors," Pathfinder (July/August 1981).