BOOKS

A Will to Spend, A Way to Spend

Underground Government: The Off-Budget Public Sector
By James Bennett and Thomas DiLorenzo
Washington, D.C.: Cato Institute.
184 pp. $8.95 paper.

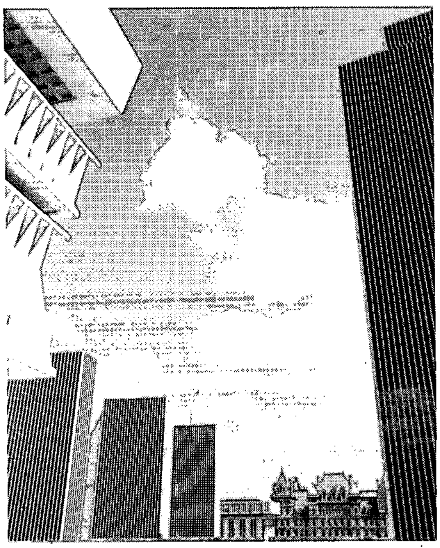
Reviewed by Jennifer Roback

You may have noticed a series of articles by James Bennett and Thomas DiLorenzo appearing recently in prominent newspapers like the *Wall Street Journal*. These articles have addressed a variety of topics, ranging from the failure of the New York City bailout to the fiasco of the Washington Public Power System (WPPS). What all these works by Bennett and DiLorenzo have in common is the focus on off-budget government spending. The growth of off-budget government activity has come to public attention more and more in recent years. Bennett and DiLorenzo, economists at George Mason University, have contributed to this public awareness with their new book, *Underground Government: The Off-Budget Public Sector*. The book collects a large body of material not widely available, and the author's numerous other articles draw heavily on that material.

Perhaps the most interesting chapter in the book is "Empire Building in the Empire State: The Political Legacy of Nelson Rockefeller." The authors detail case after case in which a miffed Nelson Rockefeller created an off-budget enterprise (OBE) to circumvent voter defeat of his spending plans. By the time Rockefeller resigned from office in 1973, the debt accumulated by the various state OBEs was nearly four times the amount of voter-approved borrowing!

One of the political tricks that made this possible was an invention by John (Watergate) Mitchell called the "moral obligation bond." These bonds were issued by state agencies but were not legally guaranteed by the legislature; instead, they were "morally" guaranteed. What this rather Orwellian term means is that it is "incumbent on the Legislature to consider the apportionment and payment of amounts of money. . . ." to prevent the agency from defaulting. Since the legislature is not *required* to appropriate the funds, the debt so issued does not have to be approved by voter referendum. Very convenient; New York voters rejected bond proposals for the Housing Finance Authority, the State University Construction Fund, and the Urban Development Corporation. Rockefeller funded each one of them with moral obligation bonds, issued by OBEs.

Underground Government is more than an exposé, however. The authors attempt to explain the incentives that propel the government toward ever greater spending. The unifying theme of the book is this examination of incentives in the congressional appropriations process and in state and local spending procedures.



The Empire State Plaza in Albany, New York, constructed during the governorship of Nelson Rockefeller and dubbed Rocky's "edifice complex" by critics, was financed with government "off-budget" money.

The authors have two insights that constitute the major contribution of *Underground Government*. The first is that a balanced-budget amendment or even a spending-limitation amendment is not likely to be effective, because much government spending can simply be moved off budget. The second is that the size of the government's budget is a large understatement of the pervasiveness of government. The incentive structure confronting the individuals in the government is crucial to both of these arguments.

Bennett and DiLorenzo make a persuasive case that constitutional amendments will not inhibit the growth of government spending. The exploits of Nelson, the Empire Erector—already recounted—certainly support this contention. The authors present data from several other states to show that "tax revolt" spending limitations are often accompanied by an increased number of OBEs. At the federal level, off-budget outlays seemed to expand rapidly in 1975. The Congressional Budget Impoundment Control Act of 1974 required congressional reporting of revenue and expenditure projections. Bennett and DiLorenzo suggest a causal connection between the budget act and the growth of off-budget federal spending. All of this evidence suggests that Congress would find ways to circumvent the spirit of any constitutional amendments designed to limit spending, as long as political constituencies can be built at taxpayers' expense.

Underground Government also demonstrates that the size of the budget is not a good measure of the pervasiveness of government. When governments routinely hide their activities in off-budget categories, the size of the budget is obviously a gross understatement of the government's impact. The authors make some less-obvious points as well. Government can substantially redirect the community's investment decisions by granting certain companies the right to issue tax-exempt industrial revenue bonds. The subtle effects of this will never show up on any government's balance sheet. Indeed, the subtlety of this policy is the very thing that makes it so appealing to vote-seeking politicians.

The book-length collection of valuable and interesting material has one serious shortcoming: the book needed a good editor. Many passages in the book cry out for further documentation and development. For instance, the authors assert that the Budget Act of 1974 "elicited a great deal of 'back-door spending.'" However, the growth in OBEs could have been caused by any number of factors, a possibility that the authors do not even consider. The arguments have intuitive appeal, yet the analytical and evidentiary support is not always all one would hope for. This will be disappointing to scholars trying to use this book for research purposes.

Other sections, such as the chapter "OBE's Overseas," don't seem to contribute much to the overall theme of the book. This lack of focus is sometimes frustrating to the reader. Despite these reservations, *Underground Government* is well worth reading.

Jennifer Roback is a professor of economics at Yale University and a commentator on the nationally syndicated Perspective on the Economy *radio program.*

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ARTS&LETTERS

Beavers and Buffalo—A Lesson from History

Natural Resources: Bureaucratic Myths and Environmental Management
By Richard L. Stroup and John A. Baden
Cambridge, Mass.: Ballinger; San Francisco, Calif.: Pacific Institute for Public Policy Research. 148 pp. $9.95 paper.

Reviewed by Edwin Dolan

How does the institution of property rights in a society affect the use of natural resources therein? It is only in the last few decades that economists have turned to this issue. In *Natural Resources*, the latest of several books by this pair of analysts, Richard Stroup and John Baden summarize the literature of the economics of property rights as applied to environmental issues. The guiding principle of this approach is that people's interactions with their environment are harmonious or destructive according to the structure of incentives built into the property institutions of their society. The first two chapters of the book outline the argument in general terms, and the remaining chapters apply it to specific cases.

One case that aptly illustrates the whole approach concerns management of wildlife resources by two groups of American Indians. The first group, the Plains Indians, had long made use of the buffalo as a source of meat, hides, bone for implements, and so on. Before Europeans reached North America, buffalo were abundant, although hard to kill. The Indians and the buffalo lived in a stable population equilibrium. With the Europeans' introduction of the horse, steel tools, and firearms, it became technologically possible for the first time to kill buffalo at a rate that exceeded the maximum sustainable yield. On top of this, the white settlers' demand for hides gave the Indians a new reason to kill buffalo.

The Plains Indians reacted rationally to the new pattern of costs and incentives: they killed buffalo at an increasing rate. Unfortunately, rational behavior on the part of each tribe did not lead to efficient management of this resource as a whole. The reason, as Stroup and Baden explain, is that no tribe had property rights to the buffalo. The animals moved at will from one hunting ground to another. If one group of hunters "invested" in conservation by cutting back on the number of buffalo taken, this would mostly benefit others who could then take more; so no conservation efforts were undertaken. The buffalo was hunted nearly to extinction.

Stroup and Baden contrast the inefficient exploitation of the buffalo with the situation of the beaver-hunting Montagnais Indians of the Labrador Peninsula. Before the arrival of white settlers, the Montagnais had treated the beaver as a common-property resource, just as the Plains Indians had treated the buffalo. When European demand created a market for beaver pelts, however, the Montagnais reacted by establishing a system of private property rights to hunting territories. This was possible because beaver tend to stay in the same place, rather than roaming widely. Within an exclusive territory, each hunter had incentives to engage in conservation measures, such as ensuring that each beaver house was always left with a breeding pair. A high sustained yield of beaver pelts was thus made possible.

The lesson that Stroup and Baden draw from the two cases is that property rights and incentives matter. In the remainder of the book, this lesson is driven home with a series of more modern cases. For example, the management of private wilderness lands by organizations such as the Audubon Society and the Nature Conservancy is contrasted with bureaucratic management of public wilderness areas. On the private lands, a balance of uses—including income-producing uses—is accommodated with minimal disruption of the environment.

On the public lands, none of the competing users has an incentive to consider trade-offs. Each group, whether cattle grazers or environmentalists, seeks all-or-nothing use. The bureaucratic managers make their decisions according to political trade-offs rather than according to a concept of maximizing social benefits (however much they may invoke the latter). As a result, they err sometimes in one direction and sometimes in another. Stroup and Baden cite examples of wilderness areas that are destroyed in the process of uneconomic grazing and logging activities. At the same time, other public lands are put off-limits to less-disruptive and more economically justified activities such as mineral exploration.

Spurred by white settlers' demand for buffalo hides and aided by their technology, American Plains Indians hunted the buffalo nearly to extinction, because no tribe had property rights to the creatures.

I have only two criticisms of this generally excellent book. First, in emphasizing problems of bureaucratic management (both in the title and in the content of the book), Stroup and Baden do not always distinguish carefully enough between the legislative branch of government and the bureaucracy. Bureaucrats, too, are rational within the rules of the game that legislatures set for them. A complete picture of the problem of public lands management would need, I think, to explore in more detail the